

Charity Global, Inc. and Affiliate

Consolidated Financial Statements
and
Auditor's Report

Year Ended December 31, 2010

Board of Directors
Charity Global, Inc. and Affiliate
New York, New York

Independent Auditor's Report

We have audited the accompanying consolidated statement of financial position of Charity Global, Inc. and Affiliate as of December 31, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of Charity Global, Inc. and Affiliate. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Charity Global, Inc. and Affiliate's December 31, 2009 consolidated financial statements and, in our report dated July 30, 2010, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Charity Global, Inc. and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charity Global, Inc. and Affiliate as of December 31, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lambrides, Lamos, Taylor LLP

June 20, 2011

Charity Global, Inc. and Affiliate
Consolidated Statement of Financial Position
December 31, 2010
With Comparative Figures at December 31, 2009

| | Unrestricted | Temporarily Restricted | 2010 Totals | 2009 Totals |
|--|-----------------------------|-----------------------------------|--------------------------|-------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 2,075,769 | \$ 8,020,197 | \$ 10,095,966 | \$ 6,297,744 |
| Contributions and pledges receivable (net of discount) | 124,238 | 3,029,214 | 3,153,452 | 1,232,190 |
| Prepays and other current assets | 109,729 | | 109,729 | 108,051 |
| Fixed assets (net of accumulated depreciation) | <u>166,893</u> | <u> </u> | <u>166,893</u> | <u>99,720</u> |
| Total assets | <u>\$ 2,476,629</u> | <u>\$ 11,049,411</u> | <u>\$ 13,526,040</u> | <u>\$ 7,737,705</u> |
| Liabilities and Net Assets: | | | | |
| Liabilities: | | | | |
| Due to water programs | | \$ 5,535,190 | \$ 5,535,190 | \$ 4,277,094 |
| Accounts payable | \$ 82,574 | | 82,574 | 58,967 |
| Accrued expenses | <u>63,562</u> | <u> </u> | <u>63,562</u> | <u>13,975</u> |
| Total liabilities | <u>146,136</u> | <u>5,535,190</u> | <u>5,681,326</u> | <u>4,350,036</u> |
| Net assets: | | | | |
| Unrestricted | 2,330,493 | | 2,330,493 | 1,902,779 |
| Temporarily restricted | <u> </u> | <u>5,514,221</u> | <u>5,514,221</u> | <u>1,484,890</u> |
| Total net assets | <u>2,330,493</u> | <u>5,514,221</u> | <u>7,844,714</u> | <u>3,387,669</u> |
| Total liabilities and net assets | <u>\$ 2,476,629</u> | <u>\$ 11,049,411</u> | <u>\$ 13,526,040</u> | <u>\$ 7,737,705</u> |

See notes to consolidated financial statements.

Charity Global, Inc. and Affiliate
Consolidated Statement of Activities
For the Year Ended December 31, 2010
With Summarized Comparative Figures for the Year Ended December 31, 2009

| | Unrestricted | Temporarily Restricted | 2010 Totals | 2009 Totals |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Public support and revenue: | | | | |
| <i>Public support:</i> | | | | |
| Individuals | \$ 2,385,739 | \$ 8,433,001 | \$ 10,818,740 | \$ 4,909,593 |
| Corporations | 183,441 | 1,568,519 | 1,751,960 | 1,064,073 |
| Foundations and other organizations | 216,128 | 1,995,817 | 2,211,945 | 705,310 |
| <i>Special event revenue:</i> | | | | |
| Contributions | 421,799 | 641,570 | 1,063,369 | 1,839,879 |
| Ticket sales | 76,640 | | 76,640 | 58,108 |
| Net direct benefit to donor | (139,817) | | (139,817) | (64,226) |
| Gifts in-kind | 269,608 | | 269,608 | 223,716 |
| <i>Revenue:</i> | | | | |
| Interest and other income | 33,486 | | 33,486 | 25,617 |
| Foreign currency remeasurement (loss) gain | (2,012) | | (2,012) | 7,857 |
| Net assets released due to satisfaction of restrictions | <u>8,609,576</u> | <u>(8,609,576)</u> | <u> </u> | <u> </u> |
| Total public support and revenue | <u>12,054,588</u> | <u>4,029,331</u> | <u>16,083,919</u> | <u>8,769,927</u> |
| Expenses: | | | | |
| Program services | 9,478,973 | | 9,478,973 | 5,851,668 |
| Management and general | 972,439 | | 972,439 | 404,671 |
| Development | <u>1,175,462</u> | <u> </u> | <u>1,175,462</u> | <u>875,407</u> |
| Total expenses | <u>11,626,874</u> | <u> </u> | <u>11,626,874</u> | <u>7,131,746</u> |
| Change in net assets before the effect of in-kind donations and other items | 427,714 | 4,029,331 | 4,457,045 | 1,638,181 |
| Donated services and use of facilities-revenue | 208,942 | | 208,942 | 155,701 |
| Donated services and use of facilities-expense | (208,942) | | (208,942) | (155,701) |
| Loss on disposal of equipment | <u> </u> | <u> </u> | <u> </u> | <u>(43,074)</u> |
| Change in net assets | 427,714 | 4,029,331 | 4,457,045 | 1,595,107 |
| Net assets at beginning of year | <u>1,902,779</u> | <u>1,484,890</u> | <u>3,387,669</u> | <u>1,792,562</u> |
| Net assets at end of year | <u>\$ 2,330,493</u> | <u>\$ 5,514,221</u> | <u>\$ 7,844,714</u> | <u>\$ 3,387,669</u> |

See notes to consolidated financial statements.

Charity Global, Inc. and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2010
With Summarized Comparative Figures for the Year Ended December 31, 2009

| | Program Services | Supporting Services | | 2010 Totals | 2009 Totals |
|---|--------------------------------|---------------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | | Management and General | Development | | |
| Water program funding | \$ 8,609,576 | | | \$ 8,609,576 | \$ 5,439,218 |
| Salaries, employee benefits and taxes | 522,282 | \$ 461,710 | \$ 706,204 | 1,690,196 | 880,961 |
| Professional fees | 81,602 | 110,096 | 105,176 | 296,874 | 181,384 |
| Travel, meals and meetings | 88,184 | 20,625 | 59,667 | 168,476 | 127,518 |
| Rent, utilities and cleaning | 14,642 | 53,686 | 39,044 | 107,372 | 68,990 |
| Event costs | | | 43,387 | 43,387 | 43,982 |
| Communication, printing and postage | 13,847 | 50,773 | 36,925 | 101,545 | 80,871 |
| Bank charges, merchant and credit card fees | | 157,806 | | 157,806 | 62,061 |
| Branding, education and promotion | 89,830 | | 93,613 | 183,443 | 33,132 |
| Office equipment and supplies | <u>53,207</u> | <u>96,465</u> | <u>75,972</u> | <u>225,644</u> | <u>180,344</u> |
| Total expenses before depreciation | 9,473,170 | 951,161 | 1,159,988 | 11,584,319 | 7,098,461 |
| Depreciation | <u>5,803</u> | <u>21,278</u> | <u>15,474</u> | <u>42,555</u> | <u>33,285</u> |
| Total expenses | <u><u>\$ 9,478,973</u></u> | <u><u>\$ 972,439</u></u> | <u><u>\$ 1,175,462</u></u> | <u><u>\$ 11,626,874</u></u> | <u><u>\$ 7,131,746</u></u> |

See notes to consolidated financial statements.

Charity Global, Inc. and Affiliate
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2010
With Comparative Figures for the Year Ended December 31, 2009

| | 2010 | 2009 |
|--|-----------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 4,457,045 | \$ 1,595,107 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 42,555 | 33,285 |
| Loss on disposal of fixed assets | | 43,074 |
| Donated securities | (66,416) | (430,158) |
| Increase in: | | |
| Contributions and pledges receivable | (1,921,262) | (1,022,881) |
| Prepays and other current assets | (1,678) | (64,058) |
| Increase (decrease) in: | | |
| Due to water programs | 1,258,096 | 2,160,935 |
| Accounts payable | 23,607 | (4,920) |
| Accrued expenses | 49,587 | (7,716) |
| Net cash provided by operating activities | <u>3,841,534</u> | <u>2,302,668</u> |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (109,728) | (26,527) |
| Proceeds from the sale of securities | <u>66,416</u> | <u>430,158</u> |
| Net cash (used in) provided by investing activities | <u>(43,312)</u> | <u>403,631</u> |
| Net increase in cash and cash equivalents | 3,798,222 | 2,706,299 |
| Cash and cash equivalents at beginning of year | <u>6,297,744</u> | <u>3,591,445</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 10,095,966</u></u> | <u><u>\$ 6,297,744</u></u> |

See notes to consolidated financial statements.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

1. Organization and Purpose:

Charity Global, Inc. is a non-profit organization stimulating greater global awareness about extreme poverty issues, educating the public, and provoking compassionate and intelligent giving.

Charity Global, Inc. provides clean, safe drinking water, hygiene and basic sanitation to people in developing nations. Since 2006, Charity Global, Inc. has served more than 1.7 million people in 17 countries through innovative and sustainable programs and technologies that include drilled wells, hand-dug wells, filtration systems, spring protections, rainwater catchments and BioSand filters.

Charity Global, Inc. established Charity Global Limited (“Charity Global Limited UK”) in the United Kingdom, an affiliate organization governed by its own Board of Directors, and financially independent from Charity Global, Inc. Charity Global Limited UK received full charitable status from the UK Charities Commission in September of 2007, and is intended to operate in furtherance of Charity Global, Inc.’s mission in Europe. By virtue of the governing documents of Charity Global Limited UK, Charity Global, Inc. owns all the outstanding shares of, and thereby retains a majority voting interest in, Charity Global Limited UK.

In order to maintain focus on the core US operation, effective December 10, 2010, the Board of Directors of Charity Global Limited UK voted to discontinue operations with the support of the Board of Directors and management of Charity Global, Inc. Formal dissolution papers were filed with the UK Charities Commission in the first quarter of 2011. Following the settlement of all outstanding obligations and liabilities and the lapse of a mandatory holding period during which creditors can bring associated claims, all remaining assets will be transferred to Charity Global, Inc. This process is expected to be completed by August 31, 2011.

2. Summary of Significant Accounting Policies:

a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Charity Global, Inc. and its London affiliate, Charity Global Limited UK (hereinafter together referred to as “**charity: water**”). For the year ended December 31, 2010, there were no intercompany balances or transactions.

b. Accrual Basis Financial Statements

The accompanying consolidated financial statements of charity: water have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities.

c. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

2. Summary of Significant Accounting Policies: (Continued)

d. Allocation of Functional Expenses

The cost of providing charity: water programs, management and general, and development services has been summarized on a functional basis in the accompanying consolidated statement of activities. Directly identifiable expenses are charged to programs, management and general, and development services. Certain indirect costs have been allocated in reasonable ratios as determined by management.

The allocation of indirect costs, as well as directly identifiable expenses charged to programs, management and general, and development services, other than those due to established partner organizations, exclude all funds raised publicly for water programs.

e. Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings and temporary investment accounts. For financial reporting purposes, charity: water considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

f. Concentrations

charity: water places its cash and investments with high-credit-quality financial institutions. At times, such balances may exceed insured limits. Uninsured cash balances at December 31, 2010 approximated \$8,635,624, however, management believes that charity: water does not face a significant risk of loss on these accounts due to the possible failure of these financial institutions.

g. Contributions and Pledges Receivable

Unconditional promises to give are reported at net realizable value if, at the time the promise is made, payment is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in future years are recorded at fair value at the time of the pledge. charity: water measures fair value using the present value of expected future cash flows, and discounts on those amounts are computed using interest rates commensurate with the risks involved. Amortization of discounts is included in contribution revenue.

Management provides for probable uncollectible amounts based on its assessment of collection history and knowledge of donor giving capacity.

Conditional promises to give are not included as support until the conditions are substantially met.

It is also the policy of charity: water to record for the year contributions considered to be in transit at the close of the year, that is, those dated in December and received during January, as contributions receivable.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

2. Summary of Significant Accounting Policies: (Continued)

h. Fixed Assets

Fixed assets consist of furniture, fixtures, software and equipment. Acquisitions are capitalized at cost if purchased and at fair market value at the date of receipt if donated.

charity: water adopted the following policy in 2010: all acquisitions of furniture, fixtures, software and equipment greater than or equal to \$5,000 with a useful life of greater than or equal to 5 years are capitalized. The remaining net book values of fixed assets acquired prior to the adoption of this policy are immaterial as of December 31, 2010.

i. Water Program Funding

charity: water invests 100% of publicly raised funds in water programs through established partner organizations experienced in providing various water solutions. All partner organizations are researched by management, and all funding is carefully considered and approved by the Board of Directors.

Expense is recognized upon Board approval of the partnership agreement. Liabilities are reported at net realizable value at the time the promise is made. All commitments are expected to be paid in one year or less.

j. Net Assets

The net assets of charity: water and changes therein are classified and reported as follows:

- Unrestricted net assets include all resources which are not subject to donor-imposed restrictions.
- Temporarily restricted net assets carry specific, donor-imposed restrictions as to their use. Temporary restrictions may expire either because certain actions are taken by the organization which fulfill the restrictions or because of the passage of time. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as unrestricted.

k. Fair Value Measurements

Fair market value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. charity: water must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs), or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy. charity: water had no assets or liabilities at December 31, 2010 that required valuation under fair value measurement standards.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

2. Summary of Significant Accounting Policies: (Continued)

l. Contributions

Contributions are recorded as revenue upon receipt of cash or unconditional promises to give (pledges). Contributions received are recorded as increases in unrestricted or temporarily restricted net assets, depending on the existence and/or nature of any donor-imposed restrictions. Donated marketable securities and gifts in-kind are recorded as contributions at fair value as of the date of the donation.

m. Donated Services and Use of Facilities

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals who possess those skills, and would otherwise need to be purchased by the organization. These services are valued based on the estimated cost of services that would otherwise have to have been purchased.

charity: water also receives a significant amount of donated services from unpaid volunteers who assist in various program and supporting services. No amounts have been recognized in the consolidated statement of activities for these services because the criteria for recognition under generally accepted accounting principles have not been satisfied.

The value of donated facilities is calculated based on the estimated fair rental value of the space used. The fair rental value is the amount that would be charged for similar space that is rented under similar terms. Since the free use of facilities is not promised for any specified period of time, charity: water recognizes the revenue and related expense for the period it occupies the space.

n. Foreign Currency Translation

The U.S. dollar ("dollars") is the functional currency for charity: water's operations. Transactions in currencies other than dollars are translated into dollars at a weighted average exchange rate for the period in which the transactions occur. Current assets and liabilities denominated in non-U.S. currencies are translated into dollars at the exchange rate in effect as of the date of the consolidated statement of financial position.

o. Accounting for Uncertainty in Income Taxes

charity: water's current accounting policy is to disclose liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor is it aware of any exposure to unrelated business income tax.

p. Prior Year Summarized Comparative Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with charity: water's consolidated financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

3. Contributions and Pledges Receivable:

Contributions and pledges receivable at December 31 are expected to be received as follows:

| | |
|------------------------------------|---------------------------|
| In less than one year | \$1,902,832 |
| In one to five years | <u>1,346,500</u> |
| | 3,249,332 |
| Less discount to net present value | <u>(95,880)</u> |
| | <u><u>\$3,153,452</u></u> |

Of the \$3,153,452 net amounts receivable at December 31, \$2,491,611 are unconditional promises to give unrestricted support through a private membership program called *The Well*. *The Well* is a 3-year commitment to fund charity: water's operating costs.

Unconditional promises to give, where estimated future cash flows are expected, are valued at net present value using a discount rate commensurate with risk. The discount rate used on long-term promises to give was 10% in 2010. Prior to 2010, the discount on amounts receivable in future years was not material and, therefore, not recognized.

4. Fixed Assets:

At December 31, 2010, fixed assets consist of:

| | |
|---|-------------------------|
| Furniture, fixtures, software and equipment | \$252,405 |
| Less: accumulated depreciation | <u>(85,512)</u> |
| | <u><u>\$166,893</u></u> |

5. Due to Water Programs:

Funding authorized but unpaid at year-end totaled \$5,535,190 and is reported as a liability. The entire amount is expected to be paid in the subsequent fiscal year.

As of June 20, 2011, charity: water has entered into multiple arrangements with various partners, committing approximately \$3,085,955 to fund water programs in 9 countries.

6. Contributions:

charity: water's operating costs are underwritten by its Board of Directors, private donors, companies, and foundations that support the organization through unrestricted donations and in-kind gifts. 100% of the money raised through charity: water's public fundraising campaigns is restricted to directly fund water programs in developing nations. In 2010, charity: water funded programs in 10 countries – Cambodia, Central African Republic, Ethiopia, Haiti, India, Liberia, Nepal, Malawi, Rwanda and Uganda. When completed, these programs can serve nearly 700,000 people with clean, safe drinking water.

charity: water received \$66,416 in donated securities in 2010. charity: water's policy is to sell donated securities upon receipt; therefore, such donations are immediately converted to cash and recorded as individual public support in the accompanying consolidated financial statements.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

7. Gifts in-Kind:

charity: water received donated goods of \$269,608. Donations of such items are recorded as gift in-kind support at their estimated fair value at the date of donation. In addition, charity: water received donated food, drink, and event materials and equipment valued at \$53,234 in support of their annual *charity: ball*. These items are recognized as special event contributions and net direct benefit to donor in the accompanying consolidated financial statements.

8. Donated Services and Use of Facilities:

charity: water received donated professional services valued at \$193,930. Donated professional services are recorded as revenue and expense in the accompanying consolidated financial statements at their estimated fair values. Donated professional services consist of: technological, legal, accounting, and media consulting. Donated professional services are allocated on a functional basis as follows: Program Services \$17,042; Management and General \$90,215; Development \$86,673.

charity: water uses storage space, without charge, at a local storage facility. The fair value of this space was estimated at \$15,012 for the year. Donated use of facilities is recorded as revenue and expense in the accompanying consolidated financial statements at its estimated fair rental value.

charity: water also received \$20,070 in professional entertainment services in connection with their annual *charity: ball*. These services are recognized as special event contributions and net direct benefit to donor in the accompanying consolidated financial statements.

9. Lease Commitments:

charity: water leases office space under a 36-month lease which expires in August of 2012.

Estimated lease payments for the succeeding years are as follows:

| Year Ending December 31, | |
|--------------------------|------------------|
| 2011 | \$ 64,050 |
| 2012 | <u>44,100</u> |
| | <u>\$108,150</u> |

Rent expense for the office space amounted to approximately \$63,050 in 2010.

10. Net Assets Released from Restriction:

In 2010, charity: water invested \$8,609,576 in water programs in 10 countries, funding a variety of water solutions and serving almost 700,000 people with clean, safe drinking water.

Charity Global, Inc. and Affiliate
Notes to the Consolidated Financial Statements
December 31, 2010

11. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

| | |
|-----------------------------|--------------------|
| Water programs - general | \$3,010,330 |
| Water programs - Bangladesh | 5,000 |
| Water programs - Tanzania | 7,280 |
| Time-restricted pledges | <u>2,491,611</u> |
| | <u>\$5,514,221</u> |

12. Subsequent Events:

Management of charity: water has evaluated subsequent events through June 20, 2011, which is the date the consolidated financial statements were available to be issued. In the first quarter of 2011, charity: water negotiated a reimbursement of previously-issued funds to an implementing partner working in Kenya for which a portion of the proposed funding remained unspent at program(s) completion. In fulfillment of donor-imposed restrictions, the reimbursement of \$241,100 is scheduled to be reinvested in an alternative Kenyan water program in July 2011.