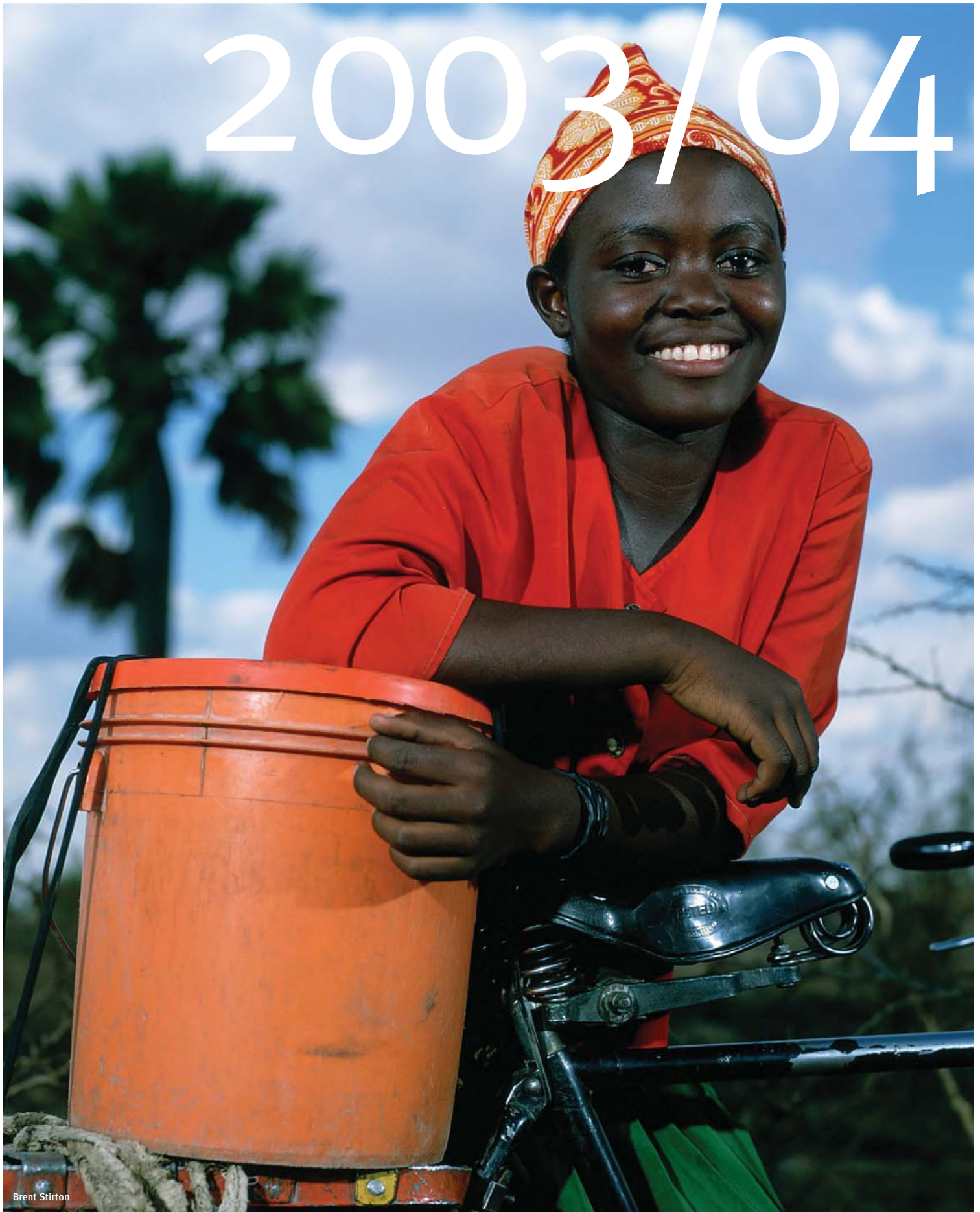


2003/04



Brent Stirton

WaterAid accounts
for the year 2003/04



**WaterAid
(Company Limited by Guarantee)**

**Annual Report and Accounts
for the year ended 31 March 2004**

**Company no: 1787329
Charity no: 288701**

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Council of Management

President

HRH The Prince of Wales

Vice-Presidents

Maurice Lowther
The Rev and Rt Hon Lord Sandford, DSC
The Rt Hon Baroness Chalker of Wallasey

Council Members

Professor Alan Alexander
Ashish Bhatt (appointed 18 September 2003)
^ Martin Bradbury (appointed 18 September 2003)
Dr Alexander Cairncross
^ Gordon Channon
Ashoke Chatterjee
* Victor Cocker, CBE - Chair
Leslie Dawson (resigned 15 April 2003)
Stuart Derwent
Fiona Gilmore (resigned 18 September 2003)
^ David Luffrum (resigned 18 September 2003)
* Dinah Moore (appointed 03 December 2003)
* Karen Morgan, OBE
Roy Pointer (appointed 04 June 2003)
^ Nigel Reader, CBE
Pramilla Senanayake
John Sexton
Colin Skellett (resigned 18 September 2003)
^*Hugh Speed, OBE
Kevin Whiteman (appointed 18 September 2003)
Pamela Taylor (appointed 18 September 2003)

* = Member of the Overseas Committee

^ = Member of the Audit Committee

Chief Executive

Ravi Narayanan

Secretary

Jehangir Gandhi

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY

Bankers

Barclays Bank plc
50 Pall Mall
London SW1A 1QB

Solicitors

Blake Lapthorn Linnell
Seacourt Tower
West Way
Oxford OX2 0FB

Registered Office

Prince Consort House
27 - 29 Albert Embankment
London SE1 7UB

WaterAid

Report of the Council for the year ended 31 March 2004

These are the WaterAid report and accounts for the year ended 31 March 2004 which have been prepared in accordance with the Charity Statement of Recommended Practice - SORP 2000 and the Companies Act 1985.

President and Council

WaterAid is grateful for, and honoured by, the continued involvement of His Royal Highness The Prince of Wales as President of WaterAid. The members of the Council, who are also directors of the Company and trustees of the Charity, together with the President and Vice Presidents, are listed on page 1.

Charitable objectives

The charitable objectives, as stated in the Memorandum and Articles of Association, are to relieve poverty and suffering in any part of the world through the improvement of water supplies, sanitation and advice on related health matters.

Activities

WaterAid's aim is to work with locally based partner organisations to help poor people in developing countries achieve sustainable improvements in their quality of life by improved domestic water supply, sanitation and associated hygiene practices. It achieves this through providing financial, technical and organisational support - where it is requested and where it is likely to be effective - to partner organisations indigenous to the developing countries. A list of the partner organisations receiving significant support from WaterAid, together with the amount of support provided during the current financial year, is detailed in note 6 of the report and accounts.

During this year, WaterAid supported projects have benefited over 660,000 people with the cumulative total assisted exceeding eight million people. Of particular significance is the increase in sanitation beneficiaries to just over 500,000 people. The gap between water and sanitation beneficiaries is closing and this is very much in line with our policy of integrating water, sanitation and hygiene.

WaterAid has helped several of our more mature partners to establish direct funding links with external donors. This income, which we define as "levered income," arises where WaterAid has a significant influence over the funding that goes through the partner organisations it supports and where WaterAid has been able to shape the complete working methodology used. This levered income, which is not reflected in the financial statements, has risen sharply to £3.2 million (2002-03 : £1.6 million).

Programmes currently supported include those in Bangladesh, Burkina Faso, Ethiopia, Ghana, India, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Tanzania, Uganda and Zambia. WaterAid has a small grants programme in Pakistan through which expenditure is also incurred.

This has been an extremely successful year for WaterAid. In 2003-04 income has risen to £18.3 million. This followed an increase in 2002-03 when total income grew by just over 50% helped by £1.65 million of exceptional income from the Guardian Observer Christmas appeal and the BBC Blue Peter appeal.

| | 2001-02 | 2002-03 | 2003-04 |
|------------------|----------------|----------------|----------------|
| Voluntary Income | £ 8.3 million | £ 12.5 million | £ 13.7 million |
| Total Income | £ 11.0 million | £ 17.1 million | £ 18.3 million |

Programme expansion has been rapid, following the increase in our funding base. Our operational programmes have grown by £1.9 million during the year, as detailed in note 6 to the financial statements. The Trustees have approved an ambitious plan to significantly scale up the growth of the international programmes over the next three years. Projected total expenditure is planned to grow from its current level of £16 million to more than £25.3 million in 2006/7. Fundraising expenditure has grown significantly following the Trustees' decision to invest in new marketing activities to ensure the long term growth of programmes.

Reserves, which are within the agreed reserves range approved by the Trustees, have increased from £9.5 million to £11.9 million during the year. This increase will enable the organisation to make longer term commitments to its partners and programmes.

WaterAid has benefited from free fundraising which is primarily in the form of leaflets inserted with customer bills by certain UK water companies. In accordance with the Charity Statement of Recommended Practice (SORP) the value of these benefits has been included in the accounts.

During the year, fixed assets of £ 421,000 were acquired for use in the UK and in our international programmes.

The profit before deed of covenant of the trading subsidiary, WaterAid Trading Ltd, has decreased from £132,000 to £101,000. The decrease is primarily due to a decrease in commercial licensing activities. This decrease is expected to be reversed in 2004-05 as we have new licensing deals to replace those that expired during the year.

As we disclosed at our supporters' meeting in September 2004, since the balance sheet date circumstances have come to light which indicate problems with the management of certain projects being undertaken by some of our partner organisations in southern India. Immediately these issues were identified the Trustees, internal audit and senior management commenced their own internal investigation, and subsequently appointed Price Waterhouse (India) to undertake an independent investigation, in order to establish the extent of the problems and their potential consequences.

We have now received a report from Price Waterhouse (India) summarising their findings. The report highlights that the nature of these issues primarily concerns the completeness and robustness of the management and financial information maintained by partner organisations to demonstrate the activities performed by them on certain projects.

The Trustees take these findings extremely seriously and have put in place a framework for reinforcing reporting and control procedures, wherever funds are being expended through the use of partner organisations. The Trustees are also keeping the contracted donors informed of the issues which have arisen.

It is very difficult to establish what, if any, the financial ramifications might be for WaterAid. However based on the findings of the independent review, the Trustees estimate that in terms of its obligations to contracted donors the amounts involved may be of the order of £250,000. Wherever practicable and cost effective to do so, WaterAid would aim to recover any such costs from the partner organisations involved.

Advocacy

At the international level, our presence as a major contributor to the water sector debates was strengthened with WaterAid continuing to be a major contributor to the steering committee of the Water Supply and Sanitation Collaborative Council (WSSCC).

As part of a bigger role in international initiatives to prioritise water and sanitation (including the Millennium Development Goals), WaterAid initiated or participated in a number of national, regional and international events during the year. We worked closely with UNICEF (with whom we now have a memorandum of understanding), the Water Supply and Sanitation Collaborative Council (WSSCC's WASH campaign) and the Water and Sanitation Programme (WSP) at country and international levels on a number of initiatives including the promotion of community led total sanitation campaigns.

Through the reputation gained by our work in the field in developing community led solutions to water and sanitation coverage and our evidence based research by country programmes on these issues and others related to the priority given to water in aid allocations and national development plans (PRSPs) we were repeatedly asked for contribution to the work of several international panels and meetings. These included the United Nations Water and Sanitation Panel, the World Bank and Asian Development Banks' Water weeks, the Norwegian Government's Water for the Poorest Conference and the UN's Commission for Sustainable Development Conference.

WaterAid involvement at these international panels has helped keep the water and sanitation sector in focus within these institutions and therefore indirectly contributes to their programme priorities. WaterAid has also benefited by maintaining its high profile in the international water and sanitation sector.

WaterAid's interaction with DFID, with the help of the Flush Out Poverty campaign and personal meetings with the Secretary of State for International Development, has resulted in DFID producing a new policy on water which we will continue to monitor.

WaterAid has become better at co-ordinating our public policy work between the Public Policy Department and Country Programme teams. A meeting in Madagascar last November helped to set the agenda for joint work in 2004/05.

Marketing & Alliances

This has been another successful year for WaterAid's marketing teams. Building on the success of the previous year, voluntary income has grown strongly to £13.7 million and total income to £18.3 million.

The number of regular donors, those giving to us by standing order or direct debit, was boosted by a record 15,000 regular donors to the 2003 customer appeal which is an insert that is included within the UK water bills.

WaterAid America, which was registered as a not-for-profit organisation last year, has now obtained a Section 501(c)(3) exemption with the Internal Revenue Service in the USA so that US donors and foundations can make their donations tax effectively. WaterAid America held its first Board meeting during the year and a decision was taken to open a separate WaterAid US office in New York in the autumn of 2004.

WaterAid has agreed to licence the WaterAid name and logo to an Australian organisation called AquaAid. This is an exciting opportunity, as in the longer term it will enable WaterAid to indirectly extend its influence and experience to programmes in South East Asia.

WaterAid's trading subsidiary, WaterAid Trading Ltd, fills two important roles for WaterAid: in fundraising and in publicity. All of its activities are planned on this dual basis. It avoids risky commercial ventures, and consequently returns a profit as well as considerable publicity opportunities that complement those generated by the rest of WaterAid's Marketing Department. The financial results of the operation have shown a downturn during the year, due to a loss of two key licensing agreements. The Directors of the company are forecasting a recovery in 2004-05 following the signing of new licensing deals.

Staff and Volunteers

WaterAid has numerous volunteers who give up their valuable time to assist WaterAid in a number of ways. This voluntary assistance can range from giving WaterAid the benefit of their professional expertise to organising events on behalf of the charity. WaterAid is also privileged to have dedicated and motivated staff, many of whom work in difficult and remote locations around the world.

In recognition of the enormous contribution that staff and volunteers around the world make the Council would like to record its appreciation for their devoted work, which is often beyond the call of duty.

Risk Management

The Council confirms that the major risks to which the charity is exposed, as identified by the Trustees, have been reviewed and systems have been established to mitigate those risks.

The Council has an Audit Committee with the specific responsibilities of making recommendations to the Council on the appointment and remuneration of the external auditors, reviewing the audited accounts and external auditors' report before submission to the Council, reviewing and reporting to Council on the risk management process, reviewing internal controls, reviewing internal audits and discussing how WaterAid is achieving value for money. This Committee underpins our ethos that good financial management is central to our operational activities.

Financial Position and Reserves

At 31 March 2004 WaterAid had total fund balances of £11.9 million. This included £ 1.1 million restricted funds, earmarked for specific projects with the balance in an accumulated general fund. Reserves have grown strongly, reflecting WaterAid's success in fundraising during the year.

The Trustees have approved an ambitious plan to significantly scale up the growth of the international programmes over the next three years. They expect projected programme growth will lead to a growth in total expenditure from £16 million in 2003/4 to more than £25.3 million in 2006/7.

This large projected increase in expenditure led the Trustees to review the reserves policy in 2002-03. The results of the review indicated that WaterAid's total reserves should be based on projected expenditure three years ahead. The Trustees also consider that the funding for certain elements of the expenditure, which are not financed from general funds, is reasonably secure and thus this expenditure will be excluded when calculating the level of reserves. This expenditure is termed restricted expenditure.

The Trustees have decided that it is appropriate to maintain a level of total reserves within a range of plus or minus 25% of six months' projected expenditure three years ahead, excluding restricted expenditure. Based on the projected expenditure for 2006/07 the desired current range is £8 million to £13.3 million. At the year end the total reserves held were £11.9 million. The Trustees have further decided that the reserves range will be reviewed annually to reassess risks and reflect any structural changes in WaterAid's income.

Legal and Administrative information

The name of the charity is WaterAid, registered office address Prince Consort House, 27-29 Albert Embankment, London, SE1 7UB UK. WaterAid is a company limited by guarantee and the governing document is the Memorandum and Articles of Association. Council Members (who are also the Trustees and Directors) are elected by the members, who are the guarantors, at the Annual General Meeting. The charity registration number is 288701 and the company registration number is 1787329.

Organisational structure

WaterAid is a charity registered in the UK with the head office in London and regional offices in Birmingham, Bath, Glasgow and York. It has offices in 14 countries in Africa and Asia where drinking water and sanitation projects are managed and administered. The charity has numerous local partner organisations, the largest of which are detailed in the notes to the accounts, and with which it delivers its programmes around the world.

The Trustees delegate certain functions to committees of Trustees. There are three such committees.

- The Audit Committee encourages and safeguards the highest standards of integrity, financial reporting and internal control. It also oversees the organisation's risk management processes.
- The Overseas Committee reviews the overall strategy for the international programme work, monitors the results of our ongoing programme evaluation and ensures that fieldwork is carried out to the highest standard.
- The Nominations Committee ensures that Trustees of the highest calibre with an appropriate mix of skills and experience are put forward for selection to the Board of Trustees.

WaterAid has a wholly-owned trading subsidiary through which it sells Christmas cards and goods.

Statement of the Council's responsibilities for the financial statements

Company law requires the Council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company and group at the end of the financial year. In preparing those financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed
- and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business

The maintenance and integrity of the WaterAid website is the responsibility of the trustees; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charitable company and group and enable them to ensure that the financial statements comply with the Companies Act 1985 and the Statement of Recommended Practice, 'Accounting and Reporting by Charities' issued in October 2000. They are also responsible for safeguarding the assets of the charitable company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the charitable company will be proposed at the annual general meeting.



Council Member



Council Member

Independent auditors' report to the members of WaterAid

We have audited the consolidated financial statements which comprise the statement of financial activities, the balance sheets, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The council members are also directors of WaterAid for the purpose of Company Law. Their responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of council's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the charitable company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the council is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Report of the Council

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the charitable company and the group at 31 March 2004 and of the net incoming resources, including the income and expenditure, and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

16 November 2004.

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2004
(Including an Income and Expenditure Account)

| | Notes | Unrestricted Funds £000 | Restricted Funds £000 | Totals 31 March 2004 £000 | Totals 31 March 2003 £000 |
|--|-------|-------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Incoming resources | | | | | |
| Donations, legacies and similar incoming resources | 2 | 11,102 | 2,587 | 13,689 | 12,549 |
| Activities in furtherance of the charity's objects: | | | | | |
| Grants for operational programmes | 3 | 1,076 | 3,069 | 4,145 | 4,011 |
| Business Partners for Development (BPD) | | - | - | - | 96 |
| Activities for generating funds: | | | | | |
| Trading company income | | 258 | - | 258 | 267 |
| Investment income and interest | 4 | 229 | - | 229 | 178 |
| Total incoming resources | | 12,665 | 5,656 | 18,321 | 17,101 |
| Less: Cost of generating funds | | | | | |
| Trading company expenses | | 158 | - | 158 | 136 |
| Fundraising costs | | 4,587 | - | 4,587 | 2,979 |
| | | 4,745 | - | 4,745 | 3,115 |
| Net incoming resources available for charitable application | | 7,920 | 5,656 | 13,576 | 13,986 |
| Charitable expenditure | | | | | |
| Costs of activities in furtherance of the objects of the charity: | | | | | |
| Operational programmes | 6 | 3,511 | 5,492 | 9,003 | 7,113 |
| Development Awareness | | 265 | - | 265 | 174 |
| Business Partners for Development (BPD) | | - | - | - | 228 |
| Public Policy and Education | | 568 | 93 | 661 | 608 |
| Support costs | | 930 | - | 930 | 745 |
| Managing and administering the charity | | 374 | - | 374 | 227 |
| Total charitable expenditure | | 5,648 | 5,585 | 11,233 | 9,095 |
| Total resources expended | 5 | 10,393 | 5,585 | 15,978 | 12,210 |
| Net income for the year | 18 | 2,272 | 71 | 2,343 | 4,891 |
| Total funds brought forward | | 8,509 | 1,029 | 9,538 | 4,647 |
| Total funds carried forward | | 10,781 | 1,100 | 11,881 | 9,538 |

The statement of financial activities includes all gains and losses recognised during the year. All incoming resources and resources expended derive from continuing activities. The notes supporting the Financial Statements are on pages 12 to 22.

CONSOLIDATED AND CHARITY BALANCE SHEETS AT 31 MARCH 2004

| | Notes | Group | | Charity | |
|-------------------------------------|-------|--------------|--------------|--------------|--------------|
| | | 2004 £000 | 2003 £000 | 2004 £000 | 2003 £000 |
| Fixed assets | | | | | |
| Tangible assets | 8 | 433 | 330 | 433 | 330 |
| Investments | 9 | - | - | - | - |
| | | 433 | 330 | 433 | 330 |
| Current assets | | | | | |
| Stock | | 5 | 5 | - | - |
| Debtors | 10 | 1,337 | 912 | 1,415 | 986 |
| Short term investments | | 7,529 | 4,895 | 7,529 | 4,895 |
| Cash at bank and in hand | | 3,826 | 3,664 | 3,735 | 3,590 |
| | | 12,697 | 9,476 | 12,679 | 9,471 |
| Creditors | | | | | |
| Amounts falling due within one year | 11 | (1,249) | (268) | (1,231) | (263) |
| Net Current Assets | | 11,448 | 9,208 | 11,448 | 9,208 |
| Net Assets | | 11,881 | 9,538 | 11,881 | 9,538 |
| Funds | | | | | |
| Unrestricted funds | | | | | |
| General reserves | 12 | 10,781 | 8,509 | 10,781 | 8,509 |
| | | 10,781 | 8,509 | 10,781 | 8,509 |
| Restricted funds | | | | | |
| Blue Peter fund | | 591 | 728 | 591 | 728 |
| Other restricted funds | | 509 | 301 | 509 | 301 |
| | 12 | 1,100 | 1,029 | 1,100 | 1,029 |
| TOTAL FUNDS | | 11,881 | 9,538 | 11,881 | 9,538 |

The accounts were approved by the Council on *12th* *NOVEMBER* 2004 and signed on its behalf by:



Council Member



Council Member

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

| | Notes | 2004 £000 | 2003 £000 |
|--|----------|--------------|--------------|
| Net income for the year | | 2,343 | 4,891 |
| Interest receivable | | (214) | (149) |
| Depreciation of tangible fixed assets | | 318 | 266 |
| (Increase) in debtors | | (425) | (309) |
| (Increase) in stock | | - | (3) |
| Increase/(Decrease) in creditors | | 981 | (474) |
| Net cash inflow from operating activities | | 3,003 | 4,222 |
| Return on investment and servicing of finance | | | |
| Interest received | | 214 | 149 |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets | | (421) | (378) |
| Management of liquid resources | | | |
| Purchase and sale of Treasury Deposits | | (2,634) | (2,365) |
| Increase in cash | A | 162 | 1,628 |

A. Analysis of cash as shown in the balance sheet

| | 2004 £000 | 2003 £000 |
|------------------------|--------------|--------------|
| Balance at 1 April 03 | 3,664 | 2,036 |
| Net cash inflow | 162 | 1,628 |
| Balance at 31 March 04 | 3,826 | 3,664 |

This balance can be analysed as follows:

| | | |
|------------------------|-------|-------|
| General – UK | 2,973 | 3,082 |
| General – Overseas | 853 | 582 |
| Balance at 31 March 04 | 3,826 | 3,664 |

NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004**(1) Principal Accounting Policies**

The accounts have been prepared according to the Companies Act 1985 and the Statement of Recommended Practice 'Accounting and Reporting by Charities' (SORP 2000). A summary of the more important accounting policies of the company, which have been applied consistently, unless otherwise stated, is set out below.

(a) Basis of Accounting

The accounts are prepared under the historical cost convention. The Council considers that the descriptions used to analyse total expenditure as shown in the Consolidated Statement of Financial Activities are the most appropriate in order to present a true and fair view of the company's activities.

In accordance with the SORP we are required to include the net assets and results of overseas branches in the accounts. Accordingly, cash at bank and in hand includes overseas bank and cash balances, fixed assets include fixed assets used in the overseas programmes and debtors and creditors include balances in overseas programmes. No value has been attributed to stock held in country programmes for use in long-term development programmes. Foreign currency amounts have been translated into sterling at the year end rate.

(b) Subsidiary Company

The charity has one wholly owned subsidiary WaterAid Trading Limited, which is registered in England. Consolidated accounts have been prepared on a line by line basis. The charity has taken advantage of the exemption set out in FRS8 not to disclose any transactions between the charity and the subsidiary.

(c) Branches and other Activities

The activities of the regional fundraising committees in England and Wales raising funds for WaterAid are deemed to be part of the activities of the charity. As such, they are included in full in the financial statements of the charity.

The activities of the overseas branches have been included in the financial statements, as described in note 1(a) above.

(d) Income

Donations and Legacy income is recognised in the period in which WaterAid is entitled to receipt and where the amount can be measured with reasonable certainty. Donations include Industry fundraising which is all income received from the UK water industry or its employees. Interest receivable is accounted for on an accruals basis.

Details of intangible income have been disclosed in note 1(j) below.

Deferred income represents grant income received before the year end which relates to agreed expenditure to be incurred during the next financial year.

Government grants are credited to incoming resources in the year in which they are receivable.

NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004**(e) Expenditure**

Staff and administrative expenditure is accounted for on an accruals basis. Funds made available for use on overseas projects, to cover expenditure on salaries, subsistence allowances, goods, equipment and services directly relating to these projects, are charged to the Statement of Financial Activities when amounts are expended by the project. Administration costs include administrative salaries, bank charges, depreciation on UK Fixed assets, postage, printing and other support costs. Fundraising costs are those costs, including salaries, associated with building donor relationships. They include the costs of designing and printing appeal leaflets.

The majority of costs are attributable to specific activities. Administration costs are partially allocated across the other departments in proportion to numbers of staff in those departments or direct usage.

Irrecoverable VAT is expensed as it is incurred.

All expenditure is included on an accruals basis and is recognised when there is a legal or constructive obligation to pay.

(f) Fixed Assets

All UK fixed assets costing more than £500 and all international fixed assets costing over £100 are capitalised. The cost of fixed assets which have been acquired and held in the UK and international programmes is their purchase cost, together with any incidental expenses on acquisition. Depreciation on these assets is calculated so as to write off the costs of the assets on a straight-line basis over the expected useful lives of the assets concerned. Leasehold improvements and furniture are depreciated over 5 years and all other assets are depreciated over 3 years.

Assets are verified periodically and written down if applicable.

(g) Investment

The investment represents the shareholding interest in the subsidiary and is valued at cost.

(h) Intangible Income

Goods, facilities and services donated for the charity's use, where the benefit is quantifiable and the goods or services would otherwise have had to be purchased, are recognised in the financial statements, as both income and expenditure, at a reasonable estimate of their value in the period in which they are donated.

(i) Pension Scheme Arrangements

Contributions to pension schemes for employees, all of which are defined contribution pension schemes, are charged to the Statement of Financial Activities as they fall due.

(j) Restricted Funds

These are funds that can only be used for particular restricted purposes within the objectives of the charity. Restrictions arise when specified by the donor or when funds are raised for particular restricted purposes.

NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004

(m) Section 230 Exemption

As permitted by Section 230 of the Companies Act 1985, a separate income and expenditure account dealing with the results of the Company only has not been presented. The parent company's net income for the year was £2,342,819 (2003 net income: £4,890,608).

(n) Operating Leases

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged to the SOFA as they fall due.

(o) Stock

Stock held at the year end is stated in the Balance Sheet at the lower of cost and net realisable value.

(2) Donations, legacies and similar incoming resources

The company has benefited from free fundraising publicity in the form of leaflets inserted with customer bills by certain UK water companies, a reduced audit fee from the external auditors and certain rent free office space. These items have been included in the accounts as intangible income and expenditure, and are detailed below. Other intangible income which has been received has not been included because it is too difficult to value, but we acknowledge with thanks the use of office space by the regional fundraising staff, including office equipment and one leased car.

| | Unrestricted £000 | Restricted £000 | Total 2004 £000 | Total 2003 £000 |
|---|----------------------|--------------------|-----------------------|-----------------------|
| Donations | | | | |
| Committed giving | 3,185 | - | 3,185 | 2,670 |
| Legacies | 1,202 | 83 | 1,285 | 687 |
| Donations, appeals and fundraising events | 6,483 | 2,504 | 8,987 | 9,000 |
| | 10,870 | 2,587 | 13,457 | 12,357 |
| Gifts in kind | | | | |
| Customer Appeal | 140 | - | 140 | 140 |
| Audit fee | 22 | - | 22 | 20 |
| Rent | 70 | - | 70 | 32 |
| | 232 | - | 232 | 192 |
| Total | 11,102 | 2,587 | 13,689 | 12,549 |

(3) Grants Receivable

| | 2004 £000 | 2003 £000 |
|--|--------------|--------------|
| Department for International Development | 1,541 | 1,352 |
| Commission of the European Community | 1,298 | 897 |
| The Community Fund | 361 | 425 |
| Dutch MFA | 349 | 328 |
| Other | 596 | 1,009 |
| Total | 4,145 | 4,011 |

Other grants include income from the British Embassy, JICA, CIDA, DANIDA, International Trachoma Initiative, UNICEF, PDAN, Comic Relief, USAID and Water for People.

WaterAid acknowledges with thanks our three grants for India, Ethiopia and Zambia of £196,584, £114,010 and £49,898 respectively from The Community Fund (formerly the National Lottery Charities Board).

(4) Investment income and interest

| | Unrestricted £000 | Restricted £000 | Total 2004 £000 | Total 2003 £000 |
|---------------|----------------------|--------------------|-----------------------|-----------------------|
| Bank interest | 214 | - | 214 | 149 |
| Rental income | 15 | - | 15 | 29 |
| | 229 | - | 229 | 178 |

(5) Total resources used – other disclosures

| | Note | Staff Costs £000 | Other costs £000 | Deprec- iation £000 | Total 2004 £000 | Total 2003 £000 |
|-----------------------------------|------|------------------------|------------------------|---------------------------|-----------------------|-----------------------|
| Direct charitable expenditure: | | | | | | |
| Overseas programmes | 6 | 1,600 | 7,145 | 258 | 9,003 | 7,113 |
| Overseas support | | 427 | 503 | - | 930 | 745 |
| Public Policy and Education | | 321 | 340 | - | 661 | 608 |
| Development Awareness | | 102 | 163 | - | 265 | 174 |
| Business partners for development | | - | - | - | - | 228 |
| Administration | | 166 | 148 | 60 | 374 | 227 |
| | | 2,616 | 8,299 | 318 | 11,233 | 9,095 |
| Other expenditure: | | | | | | |
| Fundraising | | 1,075 | 3,277 | - | 4,352 | 2,794 |
| Publicity | | 81 | 154 | - | 235 | 185 |
| Trading company expenses | | 30 | 128 | - | 158 | 136 |
| | | 1,186 | 3,559 | - | 4,745 | 3,115 |
| Total | | 3,802 | 11,858 | 318 | 15,978 | 12,210 |

The average number of persons employed by WaterAid in the UK (including overseas staff with employment contracts issued in the UK but excluding Council Members, volunteers and temporary agency staff) during the year was 89 (2003: 81). The number of staff employed overseas was 268 (2003:253). Employment costs of all employees including those in the overseas programmes comprised:

| | 2004 £000 | 2003 £000 |
|-------------------------------|--------------|--------------|
| Staff costs: | | |
| Gross wages and salaries | 3,454 | 2,989 |
| Employer's national insurance | 218 | 170 |
| Other pension costs | 130 | 120 |
| | 3,802 | 3,279 |

One employee earned between £60,000 and £70,000 and 3 employees earned between £50,000 and £60,000 in the year to 31 March 2004. (2003: One between £50,000 and £60,000).

Expenses of £4,985 were reimbursed to two Council Members in the year to 31 March 2004 in respect of travel and accommodation. (2003: £3,323 was paid to two Council Members for travel expenses).

No Council Member received any emoluments in the year to 31 March 2004 (2003: nil).

Trustee Liability insurance at a cost of £10,710 was purchased for the year. This insurance indemnifies the trustees or other officers against the consequences of any neglect or default on their part and protects the charity from loss arising from any neglect or default of its trustees, officers or employees.

(6) Overseas Programme Expenditure

| | Unrestricted | Restricted | Total | Total |
|------------------------|--------------|--------------|--------------|--------------|
| | £000 | £000 | 2004 | 2003 |
| | £000 | £000 | £000 | £000 |
| West Africa | | | | |
| Ghana | 349 | 373 | 722 | 545 |
| Nigeria | 445 | 142 | 587 | 473 |
| Mali | 110 | 43 | 153 | 32 |
| Burkina Faso | 136 | 46 | 182 | 93 |
| | 1,040 | 604 | 1,644 | 1,143 |
| East Africa | | | | |
| Ethiopia | 192 | 564 | 756 | 846 |
| Uganda | 98 | 435 | 533 | 493 |
| Tanzania | 127 | 1,114 | 1,241 | 1,144 |
| Madagascar | 112 | 182 | 294 | 227 |
| | 529 | 2,295 | 2,824 | 2,710 |
| Southern Africa | | | | |
| Zambia | 80 | 417 | 497 | 462 |
| Malawi | 104 | 218 | 322 | 191 |
| Mozambique | 229 | 542 | 771 | 547 |
| | 413 | 1,177 | 1,590 | 1,200 |
| Asia | | | | |
| India | 717 | 619 | 1,336 | 929 |
| Bangladesh | 161 | 705 | 866 | 584 |
| Pakistan | 51 | - | 51 | 44 |
| Nepal | 600 | 92 | 692 | 503 |
| | 1,529 | 1,416 | 2,945 | 2,060 |
| | | | | - |
| Total | 3,511 | 5,492 | 9,003 | 7,113 |

(7) Expenditure by partner organisation

Payments made as part of the overseas programme expenditure are often made via partner organisations for the charitable work. As these are paid under contracts, they are not treated as grants. A list of the 10 major partner organisations and the amounts of WaterAid funds spent through them is given below for information:

| | £000 |
|-------------------------------------|------|
| NEWAH, Nepal | 475 |
| Ethiopian Orthodox Church, Ethiopia | 190 |
| Estamos, Mozambique | 146 |
| VERC, Bangladesh | 117 |
| APDO, Ghana | 115 |
| WaterAction, Ethiopia | 114 |
| New Energy, Ghana | 110 |
| WAMMA, Tanzania | 100 |
| Rural Aid, Ghana | 97 |
| DSK, Bangladesh | 70 |

(8) Tangible Fixed Assets - Group and Charity

| | Motor Vehicles | Leasehold Improvements | Fixtures, Fittings and Equipment | Total |
|---------------------------------|-------------------|---------------------------|--|-------|
| | £000 | £000 | £000 | £000 |
| Cost | | | | |
| At 1 April 2003 | 876 | 72 | 911 | 1,859 |
| Additions | 173 | - | 248 | 421 |
| Disposals | (17) | - | (60) | (77) |
| At 31 March 2004 | 1,032 | 72 | 1,099 | 2,203 |
| Accumulated Depreciation | | | | |
| At 1 April 2003 | 728 | 72 | 729 | 1,529 |
| Charge for the year | 144 | - | 174 | 318 |
| Depreciation on disposals | (17) | - | (60) | (77) |
| At 31 March 2004 | 855 | 72 | 843 | 1,770 |
| Net Book Value at 31 March 2004 | 177 | - | 256 | 433 |
| Net Book Value at 1 April 2003 | 148 | - | 182 | 330 |

(9) Investments

| | 2004 | 2003 |
|-----------------------------------|------|------|
| | £ | £ |
| Unlisted investment in subsidiary | 2 | 2 |

The company's unlisted investment with a historic cost of £2 represents its 100% shareholding in WaterAid Trading Limited. WaterAid Trading Limited is a company registered in England, which sells Christmas cards and other goods and undertakes licensing agreements. A summary of that company's financial position is set out below.

(a) Profit & Loss Account - WaterAid Trading Ltd

| | 2004 | 2003 |
|-----------------------------------|-------|-------|
| | £000 | £000 |
| Turnover | 258 | 267 |
| Cost of Sales | (111) | (70) |
| Gross Profit | 147 | 197 |
| Selling & Administrative expenses | (47) | (65) |
| Operating profit | 100 | 132 |
| Interest receivable | 1 | - |
| Interest payable | - | - |
| Profit before deed of covenant | 101 | 132 |
| Deed of covenant to WaterAid | (101) | (132) |
| Retained Earnings | £nil | £nil |

(b) Balance Sheet - WaterAid Trading Ltd

| | 2004 £000 | 2003 £000 |
|-----------------------------|--------------|--------------|
| Current Assets | | |
| Stocks – goods for resale | 5 | 5 |
| Debtors | 45 | 59 |
| Cash at bank & in hand | 91 | 74 |
| | 141 | 138 |
| Creditors | | |
| Amounts due within one year | (141) | (138) |
| | - | - |
| Represented by: | | |
| Share Capital | - | - |

(10) Debtors

| | Group | | Charity | |
|-----------------------------|--------------|--------------|--------------|--------------|
| | 2004 £000 | 2003 £000 | 2004 £000 | 2003 £000 |
| Amounts due from subsidiary | - | - | 123 | 132 |
| Gift Aid tax recoverable | 102 | 350 | 102 | 350 |
| Accrued income | 1,093 | 392 | 1,093 | 392 |
| Prepayments | 57 | 52 | 57 | 52 |
| Other debtors | 85 | 118 | 40 | 60 |
| | 1,337 | 912 | 1,415 | 986 |

All of the above amounts are due within one year of the balance sheet date.

(11) Creditors: Amounts Falling Due Within One Year

| | Group | | Charity | |
|-----------------|--------------|--------------|--------------|--------------|
| | 2004 £000 | 2003 £000 | 2004 £000 | 2003 £000 |
| Accruals | 38 | 54 | 33 | 49 |
| Deferred income | 221 | 49 | 221 | 49 |
| Other creditors | 990 | 165 | 977 | 165 |
| | 1,249 | 268 | 1,231 | 263 |

Deferred income relates to grants received in the year to 31 March 2004 relating to expenditure for future periods. The movement in deferred income included with creditors relates to £48,600 released from the previous year and £221,418 incoming resources deferred in the year.

(12) Movement on Funds

| | Balance 31 March 2003 £000 | Incoming Resources £000 | Resources Expended £000 | Balance 31 March 2004 £000 |
|---|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Restricted Funds: | | | | |
| Department for International Development | 10 | 783 | 759 | 34 |
| Commission of the European Community | 106 | 1,298 | 1,218 | 186 |
| The Community Fund | 78 | 360 | 351 | 87 |
| Other public funding | 91 | 950 | 846 | 195 |
| Seasonal Appeals | 3 | - | 3 | - |
| Blue Peter Appeal | 727 | 302 | 438 | 591 |
| Other restricted funds | 14 | 1,963 | 1,970 | 7 |
| Total restricted funds | 1,029 | 5,656 | 5,585 | 1,100 |
| Accumulated funds | 8,509 | 12,665 | 10,393 | 10,781 |
| Total | 9,538 | 18,321 | 15,978 | 11,881 |

Restricted funds of £1.1 million represent unspent monies received from donors subject to conditions specified by them. These funds may arise because of restrictions on their use required by the donor at the time of receipt (for example grants from the Department for International Development, Commission of the European Community, Community Fund etc), or because the funds were collected in a public appeal to raise money for a particular purpose (for example funds for the Blue Peter Appeal).

Other restricted funds include grants from other governments and organisations, most of which were received and spent within the year.

(13) Analysis of Net Assets Between Funds

| | Tangible Fixed Assets £000 | Net Current Assets £000 | Total £000 |
|-------------------------------------|----------------------------------|-------------------------------|---------------|
| Restricted Funds | - | 1,100 | 1,100 |
| Unrestricted Funds | 433 | 10,498 | 10,931 |
| Total Funds at 31 March 2004 | 433 | 11,598 | 12,031 |

(14) Pension and Similar Obligations

WaterAid makes contributions to legally approved defined contribution pension schemes of each employee's choice up to a maximum of 10 per cent of the employee's annual salary provided the employee makes a contribution of up to 5 per cent. Expatriate employees working overseas receive an amount equivalent to 10 per cent of their salary for investment in a pension scheme of their choice on their return to the United Kingdom.

The pension cost for the year amounted to £129,920 (2003: £120,231).

(15) Taxation and Charitable Status

WaterAid is registered as a charity under the Charities Act 1960 and claims exemption from direct taxation on its charitable activities.

(16) Company Limited by Guarantee

The liability of the members of the charity is limited by guarantee to £1 each.

(17) Commitments

At 31 March 2004, the group had annual commitments under non-cancellable operating leases as follows:-

| | 2004 Land and Buildings £000 | 2003 Land and Buildings £000 |
|----------------------------------|------------------------------------|------------------------------------|
| Expiring within 2 years | 96 | - |
| Expiring between 2 and 5 years | - | 96 |
| Expiring after more than 5 years | 94 | 94 |
| | <hr/> 190 | <hr/> 190 |

WaterAid is contractually committed to making payments to overseas partner organisations if pre-determined conditions are met. The volume of such commitments has not been quantified because, in the Council's opinion, the time and effort to identify them would exceed the benefits from such disclosure. Budgeted overseas programme expenditure and grants for the financial year 2004/05 amounts to £14,626,000. (2003/04: £10,385,000).

(18) Net Income

Net income is stated after charging:-

| | 2004 £000 | 2003 £000 |
|--|--------------|--------------|
| Depreciation charge for the year: | | |
| Tangible owned fixed assets | 318 | 266 |
| Auditors' remuneration for: | | |
| Audit – company | 15 | 12 |
| Audit – subsidiary company | 5 | 5 |
| Hire of land and buildings - operating leases | 190 | 187 |

The auditors provide their services for the audit of the charity at a significantly discounted rate. Had a commercial audit fee been charged it is estimated that this would have involved an additional amount of £22,000. (2003: £20,000).

(19) Post balance sheet event

Since the balance sheet date circumstances have come to light which indicate problems with the management of certain projects being undertaken by some of our partner organisations in southern India. Immediately these issues were identified the Trustees, internal audit and senior management commenced their own internal investigation, and subsequently appointed Price Waterhouse (India) to undertake an independent investigation, in order to establish the extent of the problems and their potential consequences.

We have now received a report from Price Waterhouse (India) summarising their findings. The report highlights that the nature of these issues primarily concerns the completeness and robustness of the management and financial information maintained by partner organisations to demonstrate the activities performed by them on certain projects.

The Trustees take these findings extremely seriously and have put in place a framework for reinforcing reporting and control procedures, wherever funds are being expensed through the use of partner organisations. The Trustees are also keeping the contracted donors informed of the issues which have arisen.

It is very difficult to establish what, if any, the financial ramifications might be for WaterAid. However based on the findings of the independent review, the Trustees estimate that in terms of its obligations to contracted donors the amounts involved may be of the order of £250,000. Wherever practicable and cost effective to do so, WaterAid would aim to recover any such costs from the partner organisations involved.

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WaterAid – water for life
The international NGO
dedicated exclusively to
the provision of safe
domestic water, sanitation
and hygiene education to
the world's poorest people

Front cover: WaterAid helps set up clean water supplies for people like Katherine John from Tongi Village, Tanzania, who currently cycles to collect water from a muddy hole in the ground.