



## **Water.org, Inc.**

Consolidated Financial Report  
September 30, 2017

To the reader of Water.org's financial reports:

We want to bring your attention that during our fiscal year ending September 30, 2017, we had a significant event occur which is reflected on our Consolidated Financial Report and Form 990 tax return.

In 2014, Water.org created two organizations: WaterCredit, LLC. (WCLLC), the managing company, and WaterCredit Investment Fund 1 (WCIF 1). These organizations were developed on the premise that there are lending opportunities in the water and sanitation arena capable of achieving charitable impact while generating a limited return for investors. WCIF 1 intends to achieve this limited return by making loans to qualified microfinance institutions in India for the express purpose of increasing access to water and sanitation improvements. For the purpose of continuing to expand the facilitation of water and sanitation lending, Water.org created WaterCredit Investment Fund 2, LLC (WCIF 2) and WaterCredit Investment Fund 3 (WCIF 3) in 2015. No capital was contributed to WCIF 2 or WCIF 3 during 2016; however, there were certain startup costs allocated to each fund, which would be recorded as an expense once the funds were launched. During fiscal year 2017, as part of the legal formation of WaterEquity, Inc., all of the organizations (WCLLC, WCIF 1, WCIF 2, and WCIF 3) were transferred to WaterEquity, Inc. and are no longer included in the consolidated financial statements of Water.org.

As a result of this transfer to WaterEquity, Inc., you will see a reduction year-over-year in our net assets. Details are contained in the notes included in our Consolidated Financial Report and in Part III, 4c of our Form 990 tax return, continuing to Schedule O.

# Water.org, Inc.

Consolidated Financial Report  
September 30, 2017

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
Water.org, Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Water.org, Inc., which comprise the consolidated statement of financial position as of September 30, 2017, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water.org, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matter—2016 Financial Statements**

The financial statements of Water.org, Inc. as of and for the year ended September 30, 2016, were audited by other auditors, whose report dated January 25, 2017, expressed an unmodified opinion on those statements.

*RSM US LLP*

Kansas City, Missouri  
February 12, 2018

Water.org, Inc.

Consolidated Statements of Financial Position  
September 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 16,143,813	\$ 21,170,709
Contributions receivable	460,593	11,656
Loans receivable	-	9,380,159
Other receivables	543,732	75,313
Prepaid expenses	286,609	252,373
Investments	971,573	853,734
Investment in WaterCredit Fund I	1,223,365	-
Other assets	-	446,294
Property and equipment, net of accumulated depreciation, 2017—\$721,243, 2016—\$535,538	640,767	789,872
<b>Total assets</b>	<b>\$ 20,270,452</b>	<b>\$ 32,980,110</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 467,826	\$ 3,169,971
Accrued expenses	1,554,601	995,268
Refundable advances	139,981	-
<b>Total liabilities</b>	<b>2,162,408</b>	<b>4,165,239</b>
Net assets:		
Unrestricted	9,347,534	18,869,737
<b>Total unrestricted</b>	<b>9,347,534</b>	<b>18,869,737</b>
Temporarily restricted	8,760,510	9,945,134
<b>Total net assets</b>	<b>18,108,044</b>	<b>28,814,871</b>
<b>Total liabilities and net assets</b>	<b>\$ 20,270,452</b>	<b>\$ 32,980,110</b>

See notes to consolidated financial statements.

**Water.org, Inc.**

**Consolidated Statement of Activities  
Year Ended September 30, 2017**

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundations	\$ 520,122	\$ 9,864,428	\$ 10,384,550
Corporations and other organizations	11,252,721	1,605,248	12,857,969
Individuals	3,214,246	8,779	3,223,025
Federated/workplace campaigns	257,493	170	257,663
In-kind contributions	168,346	-	168,346
Investment return	313,573	22,477	336,050
Other	741,588	-	741,588
Net assets released from restrictions	12,685,726	(12,685,726)	-
<b>Total revenues, gains and other support</b>	<b>29,153,815</b>	<b>(1,184,624)</b>	<b>27,969,191</b>
Expenses and losses:			
Program services:			
Water programs	16,084,775	-	16,084,775
Outreach	975,472	-	975,472
WaterEquity programs	10,153,164	-	10,153,164
<b>Total program services</b>	<b>27,213,411</b>	<b>-</b>	<b>27,213,411</b>
Management and general	3,148,386	-	3,148,386
Fundraising	1,479,573	-	1,479,573
<b>Total expenses and losses</b>	<b>31,841,370</b>	<b>-</b>	<b>31,841,370</b>
<b>Change in net assets before contribution     for WaterEquity, Inc. spin-off</b>	<b>(2,687,555)</b>	<b>(1,184,624)</b>	<b>(3,872,179)</b>
Contribution of beginning net assets for WaterEquity, Inc.	6,834,648	-	6,834,648
<b>Change in net assets after contribution     for WaterEquity, Inc. spin-off</b>	<b>(9,522,203)</b>	<b>(1,184,624)</b>	<b>(10,706,827)</b>
Net assets, beginning of year	18,869,737	9,945,134	28,814,871
Net assets, end of year	<u>\$ 9,347,534</u>	<u>\$ 8,760,510</u>	<u>\$ 18,108,044</u>

See notes to consolidated financial statements.

Water.org, Inc.

**Consolidated Statement of Activities**  
**Year Ended September 30, 2016**

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundations	\$ 483,579	\$ 4,791,533	\$ 5,275,112
Corporations and other organizations	5,372,890	2,398,954	7,771,844
Individuals	2,719,140	72,940	2,792,080
Federated/workplace campaigns	189,882	110	189,992
In-kind contributions	2,952	-	2,952
Investment return	146,791	4,274	151,065
Other	14,453	-	14,453
Net assets released from restrictions	11,147,689	(11,147,689)	-
<b>Total revenues, gains and other support</b>	<b>20,077,376</b>	<b>(3,879,878)</b>	<b>16,197,498</b>
Expenses and losses:			
Program services:			
Water programs	11,817,506	-	11,817,506
Outreach	1,915,381	-	1,915,381
WaterEquity programs	1,161,494	-	1,161,494
<b>Total program services</b>	<b>14,894,381</b>	<b>-</b>	<b>14,894,381</b>
Management and general	2,005,876	-	2,005,876
Fundraising	986,235	-	986,235
<b>Total expenses and losses</b>	<b>17,886,492</b>	<b>-</b>	<b>17,886,492</b>
<b>Change in net assets before contributed capital in WaterCredit Investment Fund 1, LLC, net</b>	<b>2,190,884</b>	<b>(3,879,878)</b>	<b>(1,688,994)</b>
Contributed capital in WaterCredit Investment Fund 1, LLC, net	1,225,000	-	1,225,000
<b>Change in net assets after contributed capital in WaterCredit Investment Fund 1, LLC, net</b>	<b>3,415,884</b>	<b>(3,879,878)</b>	<b>(463,994)</b>
Net assets, beginning of year	15,453,853	13,825,012	29,278,865
Net assets, end of year	<u>\$ 18,869,737</u>	<u>\$ 9,945,134</u>	<u>\$ 28,814,871</u>

See notes to consolidated financial statements.



**Water.org, Inc.**

**Consolidated Statement of Functional Expenses  
Year Ended September 30, 2017**

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	WaterEquity Programs	Subtotal			
Salaries and wages	\$ 4,680,559	\$ 445,718	\$ 1,189,858	\$ 6,316,135	\$ 1,867,901	\$ 804,051	\$ 8,988,087
Payroll taxes	245,330	34,130	70,640	350,100	137,329	63,180	550,609
Employee benefits	391,064	49,471	98,007	538,542	211,486	94,838	844,866
Staff training	17,441	15	420	17,876	1,349	795	20,020
Contractors	442,297	223,592	390,754	1,056,643	585,241	212,369	1,854,253
Occupancy related	579,216	4,912	58,131	642,259	21,830	11,067	675,156
Office supplies	36,659	-	2,240	38,899	2,144	-	41,043
Postage and shipping	13,261	9,192	1,006	23,459	-	3,365	26,824
Printing and reproduction	25,221	3,338	620	29,179	1,493	15,386	46,058
Telephone and related communications	85,176	37,875	5,812	128,863	20,818	6,975	156,656
Office equipment, rental and maintenance	103,327	20,929	12,876	137,132	49,239	36,585	222,956
Travel	994,424	10,932	131,983	1,137,339	153,162	103,740	1,394,241
Grants to other organizations	6,551,543	-	-	6,551,543	-	-	6,551,543
Program fees and supplies	1,562,772	-	8,078,753	9,641,525	516	-	9,642,041
Advertising and marketing	133	118,401	-	118,534	-	-	118,534
Directors and officer insurance	19,239	1,834	31,116	52,189	7,062	3,353	62,604
Bank and credit card fees	18,272	31	61	18,364	391	68,242	86,997
Accounting and legal fees	84,137	2,012	50,701	136,850	20,557	26,755	184,162
Other professional fees	1,604	-	96	1,700	21	1,290	3,011
Dues and subscriptions	30,509	2,677	14,581	47,767	10,380	7,348	65,495
Bad-debt expense	32,195	-	-	32,195	824	-	33,019
Foreign exchange gain	(4,452)	-	-	(4,452)	-	-	(4,452)
Other operating expenses	39,477	1,537	4,281	45,295	22,149	4,017	71,461
Depreciation	135,371	8,876	11,228	155,475	34,494	16,217	206,186
	<u>\$ 16,084,775</u>	<u>\$ 975,472</u>	<u>\$ 10,153,164</u>	<u>\$ 27,213,411</u>	<u>\$ 3,148,386</u>	<u>\$ 1,479,573</u>	<u>\$ 31,841,370</u>

See notes to consolidated financial statements.

**Water.org, Inc.**

**Consolidated Statement of Functional Expenses  
Year Ended September 30, 2016**

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	WaterEquity Programs	Subtotal			
Salaries and wages	\$ 3,509,211	\$ 805,172	\$ 303,809	\$ 4,618,192	\$ 1,178,668	\$ 552,774	\$ 6,349,634
Payroll taxes	213,613	63,204	20,553	297,370	87,712	47,776	432,858
Employee benefits	330,645	84,464	23,448	438,557	130,189	68,722	637,468
Staff training	22,553	405	284	23,242	2,082	-	25,324
Contractors	433,603	704,930	578,622	1,717,155	368,835	96,379	2,182,369
Occupancy related	414,704	7,420	6,960	429,084	11,020	5,641	445,745
Office supplies	54,553	6,783	516	61,852	3,941	1,414	67,207
Postage and shipping	22,790	1,580	213	24,583	(400)	2,111	26,294
Printing and reproduction	12,224	986	141	13,351	41	6,520	19,912
Telephone and related communications	130,895	53,003	4,605	188,503	44,399	35,663	268,565
Office equipment, rental and maintenance	3,609	141	32	3,782	209	118	4,109
Travel	821,151	141,860	57,541	1,020,552	77,629	72,003	1,170,184
Grants to other organizations	4,431,114	-	-	4,431,114	-	-	4,431,114
Program fees and supplies	1,116,191	13,198	-	1,129,389	-	-	1,129,389
Advertising and marketing	244	-	-	244	-	-	244
Directors and officer insurance	12,517	2,128	11,036	25,681	3,215	1,801	30,697
Bank and credit card fees	11,565	548	357	12,470	1,273	55,049	68,792
Accounting and legal fees	84,001	1,814	66,653	152,468	25,748	1,542	179,758
Other professional fees	6,263	94	7,761	14,118	165	5,814	20,097
Dues and subscriptions	13,840	6,552	1,343	21,735	19,831	6,279	47,845
Bad-debt expense	6,352	-	-	6,352	-	10,756	17,108
Foreign exchange gain	36,276	-	71,501	107,777	-	-	107,777
Other operating expenses	29,437	7,362	2,613	39,412	30,846	4,386	74,644
Depreciation	100,155	13,737	3,506	117,398	20,473	11,487	149,358
	<u>\$ 11,817,506</u>	<u>\$ 1,915,381</u>	<u>\$ 1,161,494</u>	<u>\$ 14,894,381</u>	<u>\$ 2,005,876</u>	<u>\$ 986,235</u>	<u>\$ 17,886,492</u>

See notes to consolidated financial statements.

**Water.org, Inc.**

**Consolidated Statements of Cash Flows  
Years Ended September 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Change in net assets before contribution to WaterEquity	\$ (3,872,179)	\$ (463,994)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	206,186	149,358
Contributed capital to WaterCredit Investment Fund 1, LLC (WCIF 1)	-	(1,225,000)
Net realized and unrealized (gains) on investments	(117,839)	(65,451)
(Gain) on disposition of fixed assets	(429)	-
Foreign exchange loss on loan receivable	-	71,501
Changes in operating assets and liabilities:		
Contributions and other receivables	(917,356)	2,490,646
Prepaid expenses	(34,236)	(32,560)
Accounts payable	(2,702,145)	2,720,845
Accrued expenses	559,333	234,112
Other assets	(371,873)	(205,232)
Refundable advances	139,981	(150,906)
<b>Net cash (used in) provided by operating activities</b>	<b>(7,110,557)</b>	<b>3,523,319</b>
Cash flows from investing activities:		
Purchase of property and equipment	(88,471)	(814,437)
Purchase of investments	-	(13,878)
<b>Net cash used in investing activities</b>	<b>(88,471)</b>	<b>(828,315)</b>
Cash flows from financing activities:		
Issuance of WCIF 1 loans	-	(9,451,660)
Contributed capital to WaterEquity, Inc.	2,172,132	-
Contributed capital to WCIF 1	-	3,375,500
<b>Net cash provided by (used in) financing activities</b>	<b>2,172,132</b>	<b>(6,076,160)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,026,896)</b>	<b>(3,381,156)</b>
Cash and cash equivalents, beginning of year	21,170,709	24,551,865
Cash and cash equivalents, end of year	<b>\$ 16,143,813</b>	<b>\$ 21,170,709</b>
Supplemental disclosures of cash flow information:		
Contributed property and equipment to WaterEquity, Inc.	<b>\$ 31,819</b>	<b>\$ -</b>
Contributed WCIF 1 loans receivable to WaterEquity, Inc.	<b>\$ 9,380,159</b>	<b>\$ -</b>
Contributed other assets to WaterEquity, Inc.	<b>\$ 818,167</b>	<b>\$ -</b>
Investment in WCIF 1 retained	<b>\$ 1,223,365</b>	<b>\$ -</b>

See notes to consolidated financial statements.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of operations:** Water.org, Inc. (Water.org) is a nonprofit corporation whose primary purpose is to provide technical and financial support for implementing water supply and sanitation projects in developing countries, and to raise awareness of the drinking water and sanitation crisis in developing countries. Water.org, Inc. maintains its headquarters in Kansas City, Missouri. In 2006, Water.org, Inc. established local branch offices in Kenya and India. In 2017 and 2016, Water.org, Inc. has supported projects in Bangladesh, Ethiopia, Ghana, Haiti, Honduras, India, Kenya, Uganda, Peru, Indonesia, Cambodia and the Philippines. In 2014, local branch offices were established in Peru and Indonesia. In 2015, local branch offices were established in Bangladesh and the Philippines. In 2016, a local branch office was established in Ethiopia.

**Water programs:** Water programs consist of the following programs:

*Grant program:* Water.org, Inc. identifies and evaluates partner organizations in developing countries, which implement sustainable water supply and sanitation projects, and then Water.org, Inc. provides technical and financial support to these partner organizations. Community grant recipients must agree to contribute in-kind labor to construct the water system, which provides the community with the first-hand knowledge required to maintain the system over the long term.

*WaterCredit Initiative®:* WaterCredit Initiative® was launched in 2005 and seeks to establish a revolving loan fund to provide credit to poor communities and individuals to construct water systems and sanitation facilities. Repayments are reinvested in new projects.

**New Ventures:** The New Ventures initiative was launched in 2011 to accelerate the pace in the search for and launch of the next round of big ideas that will change the face of the water crisis. This initiative catalyzed an “Idea Lab” to support Water.org teams and partners to generate new ideas, develop hypotheses, and to pilot, monitor and take solutions to scale. In 2017, New Ventures was Sunset and combined with Water Programs for reporting purposes.

**WaterEquity programs:** The WaterEquity programs were launched in 2015 with the purpose of combining catalytic philanthropy and social impact investing to help scale and accelerate a solution that can eliminate the global water and sanitation crisis. During fiscal year 2017, this program became a legally separate entity and the activity is no longer reported by Water.org after September 30, 2017.

**Outreach:** Water.org seeks to raise awareness of the water supply crisis through presentations to schools and community groups, Water.org’s website ([www.water.org](http://www.water.org)) and media coverage.

**Management and general and fundraising:** Management and general and fundraising provide oversight of programs and business management, record keeping, budgeting, financing, and other administrative and fundraising activities for Water.org.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

For the purpose of facilitating water and sanitation lending by micro-finance institutions (MFIs) in India, Water.org created two organizations in 2014: WaterCredit, LLC (WCLLC), the managing company, and WaterCredit Investment Fund 1 (WCIF 1). These organizations were developed on the premise that there are lending opportunities in the water and sanitation arena capable of achieving charitable impact while generating a limited return for investors. WCIF 1 intends to achieve this limited return by making loans to qualified MFIs in India for the express purpose of increasing access to water and sanitation improvements. For the purpose of continuing to expand the facilitation of water and sanitation lending, Water.org created WaterCredit Investment Fund 2, LLC (WCIF 2) and WaterCredit Investment Fund 3, LLC (WCIF 3) in 2015. No capital was contributed to WCIF 2 or WCIF 3 during 2016; however, there were certain startup costs allocated to each fund, which will be recorded as an expense once the funds are launched. During fiscal year 2017, as part of the legal formation of WaterEquity, Inc., all of the organizations (WCLLC, WCIF 1, WCIF 2 and WCIF 3) were transferred to WaterEquity, Inc. and are no longer included in the consolidated financial statements of Water.org.

**Principles of consolidation:** The consolidated financial statements include the accounts of Water.org, WCLLC and WCIF 1. WCIF 1 began receiving capital contributions through its private placement memorandum in 2015. In 2016, the funds were deployed to MFIs in India for water sanitation projects, and WCLLC began receiving management fees from WCIF 1. All material intercompany accounts and transactions were eliminated in consolidation. As of July 1, 2017, Water.org's Board of Directors approved a spin-off of WaterEquity programs, which include WCLLC, WCIF 1, WCIF 2 and WCIF 3. As of September 30, 2017, these entities are legally separate and not included in Water.org's consolidated financial statements.

**Use of estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents:** Water.org considers all liquid investments with original maturities of 12 months or less to be cash equivalents. At September 30, 2017 and 2016, cash equivalents consisted primarily of money market mutual funds with brokers and certificates of deposit. Water.org maintains deposits with money-center banks in excess of the insured limits and works to reduce exposure, and has not experienced any losses in such accounts.

**Investments and investment return:** Investments in equity securities having a readily determinable fair value, and in all debt securities, are carried at fair value. Other investments are valued at the lower of cost (or fair value at the time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

**WCIF 1 loans receivable:** During 2016, WCIF 1 made advances in the amount of \$9,380,159, net of foreign exchange loss of \$71,501 (see Note 4). In 2017, the balance of these WCIF 1 loans was included in the transfer of assets from Water.org to the new legally separate entity, WaterEquity, Inc.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Property and equipment:** Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	30 years
Equipment	10 years
Computer and software	3-5 years
Furniture and fixtures	10 years

**Long-lived asset impairment:** Water.org evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2017 and 2016.

**Temporarily restricted net assets:** Temporarily restricted net assets are those whose use by Water.org has been limited by donors to a specific time period or purpose.

**Contributions and contributions receivable:** Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held; expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts are expected to be collected within one year and are reported at their net realizable value.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**In-kind contributions:** In addition to receiving cash contributions, Water.org receives in-kind contributions of goods and services from various donors. It is the policy of Water.org to record the estimated fair value of certain in-kind donations as an expense in the consolidated financial statements, and similarly increase contribution revenue by a like amount. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

**Grant revenues:** Support funded by grants is recognized as Water.org performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant funds received in excess of related program expenses are recorded as refundable advances. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Foreign currency translation and transactions:** Assets recorded in functional currencies other than U.S. dollars are translated into U.S. dollars at the year-end rate of exchange. Revenue and expense transactions are recorded using a contemporaneous rate of exchange. The net currency translation and the gains and losses from foreign currency transactions are recorded in the change in net assets.

**Income taxes:** Water.org is exempt from income taxes under section 501 of the Internal Revenue Code and a similar provision of state law. However, Water.org is subject to federal income tax on any unrelated business taxable income. Uncertain tax positions, if any, are recorded in accordance with *FASB Accounting Standards Codification (ASC) Topic 740, Income Taxes*, which requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at September 30, 2017.

Water.org files tax returns in the U.S. federal jurisdiction.

WCIF 1's members have elected to have WCIF 1's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns, and no provision for federal and state income taxes is included in these consolidated financial statements.

**Functional allocation of expenses:** The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program, management and general, and fundraising categories based on actual time expended and other methods.

**Transfers between fair value hierarchy levels:** Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date. There were no such transfers in 2017 or 2016.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Recent accounting pronouncements:** Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. Water.org is evaluating the effect the standard will have on its consolidated financial statements and related disclosures. Water.org has not yet selected a transition method and has not determined the effect of the standard on ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Water.org is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be *net assets with donor restrictions* and *net assets without donor restrictions*. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Therefore, this ASU will be effective Water.org's fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

**Note 2. WaterEquity, Inc. Spin-Off**

As of September 30, 2016, Water.org reported \$6,834,648 in consolidated net assets attributable to WCLLC and WCIF 1. In 2017, the Board of Directors voted to spin-off WCLLC and WCIF 1, as well as WCIF 2 and WCIF 3, and together they became a legally separate entity known as WaterEquity, Inc., with a separate controlling Board of Directors. Water.org did retain an investment in WCIF 1, which totaled \$1,223,365 as of September 30, 2017.

**Note 3. Investments and Investment Return**

Investments at September 30, 2017 and 2016, consisted of the following:

	2017	2016
Mutual funds	\$ 971,573	\$ 853,734
Investment in WaterCredit Fund I	1,223,365	1,204,850
	<u>\$ 2,194,938</u>	<u>\$ 2,058,584</u>



**Water.org, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 3. Investments and Investment Return (Continued)**

Total investment return consisted of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 106,782	\$ 85,614
Net realized and unrealized gains	229,268	65,451
	<u>\$ 336,050</u>	<u>\$ 151,065</u>

**Note 4. WCIF 1 Loans Receivable**

WCIF 1 loans receivable consisted of the following at September 30, 2016:

	2016
WCIF 1 loans receivable	\$ 9,451,660
Foreign exchange translation adjustment	(71,501)
	<u>\$ 9,380,159</u>

During fiscal year 2017, the balance of these loans was contributed to WaterEquity, Inc. in a spin-off transaction.

**Note 5. Fair Value of Assets and Liabilities**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The National Association of Insurance Commissioners (NAIC) accounts for its investments at fair value. In accordance with the guidance, the NAIC has categorized its investments based on the priority of the inputs to the valuation technique, which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs are quoted prices for identical instruments traded in active markets.

**Level 2:** Inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or derived from inputs that are observable.

**Level 3:** Inputs are valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker trade transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

**Water.org, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 5. Fair Value of Assets and Liabilities (Continued)**

**Recurring measurements:** The following tables present the fair value measurements recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017 and 2016:

	September 30, 2017			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds	\$ 971,573	\$ 971,573	\$ -	\$ -
Investment in WCIF 1	1,223,365	-	-	1,223,365
	<u>\$ 2,194,938</u>	<u>\$ 971,573</u>	<u>\$ -</u>	<u>\$ 1,223,365</u>

  

	September 30, 2016			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds	\$ 853,734	\$ 853,734	\$ -	\$ -
	<u>\$ 853,734</u>	<u>\$ 853,734</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2017.

**Investments:** Water.org's investments consist of mutual funds, which are valued using quoted prices in an active market and are, therefore, classified within Level 1 of the valuation hierarchy.

## Water.org, Inc.

### Notes to Consolidated Financial Statements

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#### Note 6. Conditional Gifts

Water.org has received conditional promises to give that are not recognized in the consolidated financial statements. Water.org must meet certain milestones as defined in the related grant agreements in order to recognize these grants as revenue. These conditions are expected to be met over the next four years. Conditional promises at September 30, 2017 and 2016, were for the following purposes:

	2017	2016
India/Indonesia Initiative (through 2018)*	\$ 5,226,699	\$ 5,276,831
India Initiative (through 2023)	4,091,847	-
Bangladesh Initiative (through 2017)*	-	1,948,249
Indonesia Initiative (through 2020)	849,894	6,029,121
Philippines Initiative (through 2017)	-	898,307
Peru Initiative (through 2017)	-	632,172
New Ventures (through 2017)	-	533,334
Ethiopia Initiative (through 2017)	-	300,000
General Programs (through 2020)	3,600,000	500,000
Cambodia Initiative (through 2019)	-	1,222,815
Uganda Initiative (through 2020)	1,497,000	-
Bangladesh/Cambodia Initiative (through 2019)	1,548,292	-
	<u>\$ 16,813,732</u>	<u>\$ 17,340,829</u>

\*Funds are awarded to Water.org in a foreign currency (euros). The euros were converted to U.S. dollars (USD) using the forecasted currency exchange rate for the expected date of receipt.

#### Note 7. Grants Commitments

Water.org has entered into contracts and agreements with partner organizations to implement water projects. Funding for the related projects is generally conditional upon meeting certain milestones and submission of support for related expenditures. The grants will be considered unconditional and expensed when the contingency requirements have been met.

Outstanding conditional commitments as of September 30, 2017 and 2016, are expected to be funded within the next four years and are for the following programs:

	2017	2016
Grant programs	\$ 192,935	\$ 1,288,955
WaterCredit Initiative®	4,565,609	7,263,718
	<u>\$ 4,758,544</u>	<u>\$ 8,552,673</u>

**Water.org, Inc.****Notes to Consolidated Financial Statements**

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**Note 8. Property and Equipment**

Property and equipment at September 30, 2017 and 2016, consisted of:

	2017	2016
Office equipment	\$ 1,129,491	\$ 1,092,891
Computer software	232,519	232,519
	<u>1,362,010</u>	<u>1,325,410</u>
Less accumulated depreciation	721,243	535,538
	<u>\$ 640,767</u>	<u>\$ 789,872</u>

**Note 9. Line of Credit**

Water.org has a \$2,000,000 revolving bank line of credit. At September 30, 2017 and 2016, there were no borrowings against this line. The interest rate is variable based on the current British Bankers Association LIBOR daily floating rate plus 2.75 percent.

**Note 10. Temporarily Restricted Net Assets**

Temporarily restricted net assets at September 30, 2017 and 2016, are available for the following purposes:

	2017	2016
Grant and WaterCredit programs' net assets:		
Indonesia	\$ 1,825,919	\$ 1,618,952
India	942,359	1,299,334
Ethiopia	663,414	987,707
Bangladesh	309,254	965,959
Philippines	1,323,038	864,172
Peru	627,097	722,124
Honduras	93,209	582,161
Ghana	68,017	130,732
Kenya	78,764	(3,197)
Cambodia	65,986	85,617
Haiti	-	13,463
Other	20,288	38,177
Global advocacy	397,488	517,670
WaterCredit WCIF 1	2,345,677	2,004,850
New Ventures	-	117,413
	<u>\$ 8,760,510</u>	<u>\$ 9,945,134</u>

**Water.org, Inc.****Notes to Consolidated Financial Statements**

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**Note 10. Temporarily Restricted Net Assets (Continued)**

During the years ended September 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Grant and WaterCredit programs released:		
Indonesia	\$ 1,805,870	\$ 1,383,799
India	2,275,998	1,553,104
Ethiopia	1,029,858	813,600
Bangladesh	1,983,456	1,243,696
Philippines	889,441	829,230
Peru	727,199	572,876
Honduras	482,157	124,604
Ghana	564,641	675,129
Kenya	312,409	830,533
Cambodia	621,277	368,111
Africa	201	-
Asia	26,167	-
Haiti	16,713	23,158
South America	5,750	-
Other	498,131	519,927
Global advocacy	795,692	726,489
New Ventures	650,766	1,483,433
	<u>\$ 12,685,726</u>	<u>\$ 11,147,689</u>

**Note 11. Operating Leases**

Noncancelable operating leases for office space expire in various years through 2026. Rental expense was \$488,365 and \$353,558 in 2017 and 2016, respectively. Future minimum lease payments under operating leases are as follows:

Years ending September 30:	
2018	\$ 421,342
2019	244,163
2020	248,430
2021	249,921
2022	247,519
Thereafter	302,925
Total minimum lease payments	<u>\$ 1,714,300</u>

**Notes to Consolidated Financial Statements**

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**Note 12. Employee Benefit Plan**

Water.org has a 401(k) retirement plan covering substantially all U.S.-based employees. Water.org matches voluntary contributions to the plan up to 4 percent of the employee's compensation. Contributions to the U.S. plan were \$242,364 and \$178,518 for 2017 and 2016, respectively. Water.org also contributes to retirement plans for its international offices, and contributions to these plans were \$36,167 and \$34,344 for 2017 and 2016, respectively. Total contributions to all plans were \$278,531 and \$212,862 for 2017 and 2016, respectively.

Water.org has an incentive compensation plan that provides a range of organizational and personal goals to determine incentive compensation per employee. The incentive compensation payment in late December is based upon the finalization of the year's financial results and approval by the Executive Committee of the Board of Directors. As of September 30, 2017 and 2016, Water.org recorded approximately \$683,263 and \$558,000, respectively, of accrued incentive compensation expense in accrued expenses on the consolidated statements of financial position.

**Note 13. Related-Party Transactions**

During 2016, Water.org transferred \$1,201,300 to WCLLC to help fund its investment in WaterCredit, LLC and WCIF 1. These intercompany transfers were eliminated during consolidation.

Water.org, through WCLLC, funded all of the formation costs for WCIF 1 in exchange for Class I and Class II positions. Water.org also funded the formation of WCIF 2 and WCIF 3 and the startup costs associated were recorded in 2016 as other assets on the consolidated financial statements. In 2017, these assets were contributed to WaterEquity, Inc. as part of the spin-off transaction. Water.org retains an investment in WCIF 1, which totaled \$1,223,365 on September 30, 2017.

During 2016, WCIF 1 received cash proceeds of \$3,964,540 as capital contributions from investors. Water.org invested \$1,535,990 in WCLLC, who further invested these funds in WCIF 1. WCIF 1 deployed \$9,451,660 in 2016 to establish water assistance in India (see Note 4). During fiscal year 2017, WCIF 1 was spun off into a legally separate entity. Water.org maintains an investment in WCIF 1 which totaled \$1,223,365 at September 30, 2017.

**Note 14. Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

**Contributions:** Approximately 58 percent and 61 percent of all contributions were received from four donors in 2017 and three donors in 2016, respectively.

**Conditional gifts:** Estimates related to conditional gifts are described in Note 7.

**Incentive compensation plan:** Estimates related to the incentive compensation plan are described in Note 12.

**Functional expense allocation:** Estimates related to the allocation of functional expenses are described in Note 1.

**Water.org, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 15. Subsequent Events**

Subsequent events have been evaluated through February 12, 2018, which is the date the consolidated financial statements were available to be issued.

