



Water.org, Inc.

Consolidated Financial Report

September 30, 2018

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

We want to once again bring to 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. To continue to expand the facilitation of water and sanitation lending, Water.org also created WaterCredit Investment Fund 2, (WCIF 2) and WaterCredit Investment Fund 3 (WCIF 3) in 2015. No capital was contributed to WCIF 2 or WCIF 3 during 2016 or 2017; however, there were certain startup costs allocated to each fund, which were recorded as an expense when the funds were launched. During fiscal year 2017, as part of the legal formation of WaterEquity, Inc., all 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.

Because of this 2017 transfer to WaterEquity, Inc., there is again 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, 2018

Contents

Independent auditor's report	1
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Financial statements	
Consolidated statements of financial position	2
Consolidated statements of activities	3-4
Consolidated statements of functional expenses	5-6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8-18



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 statements of financial position as of September 30, 2018 and 2017, the related consolidated statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
March 7, 2019

Water.org, Inc.

Consolidated Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 21,062,019	\$ 16,143,813
Contributions receivable	2,983,050	460,593
Other receivables	106,703	543,732
Prepaid expenses	307,847	286,609
Investments	1,097,136	971,573
Investment in WaterCredit Fund I	1,120,098	1,223,365
Property and equipment, net of accumulated depreciation, 2018—\$920,146, 2017—\$721,243	495,254	640,767
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Total assets	\$ 27,172,107	\$ 20,270,452
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,056,049	\$ 467,826
Accrued expenses	1,808,302	1,554,601
Refundable advances	500,499	139,981
Total liabilities	3,364,850	2,162,408
Net assets:		
Unrestricted	11,078,365	9,347,534
Temporarily restricted	12,728,892	8,760,510
Total net assets	23,807,257	18,108,044
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Total liabilities and net assets	\$ 27,172,107	\$ 20,270,452

See notes to consolidated financial statements.

Water.org, Inc.

**Consolidated Statement of Activities
Year Ended September 30, 2018**

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundations	\$ 1,280,047	\$ 11,433,767	\$ 12,713,814
Corporations and other organizations	11,322,553	1,828,681	13,151,234
Individuals	3,890,850	75,264	3,966,114
Federated/workplace campaigns	196,198	-	196,198
In-kind contributions	74,897	-	74,897
Investment return	341,664	(103,267)	238,397
Other	292,953	-	292,953
Net assets released from restrictions	9,266,063	(9,266,063)	-
Total revenues, gains and other support	26,665,225	3,968,382	30,633,607
Expenses and losses:			
Program services:			
Water programs	15,719,362	-	15,719,362
Outreach	1,119,671	-	1,119,671
WaterEquity programs	2,023,765	-	2,023,765
Total program services	18,862,798	-	18,862,798
Management and general	4,281,512	-	4,281,512
Fundraising	1,790,084	-	1,790,084
Total expenses and losses	24,934,394	-	24,934,394
Change in net assets	1,730,831	3,968,382	5,699,213
Net assets, beginning of year	9,347,534	8,760,510	18,108,044
Net assets, end of year	\$ 11,078,365	\$ 12,728,892	\$ 23,807,257

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)	-
Total revenues, gains and other support	29,153,815	(1,184,624)	27,969,191
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
Total program services	27,213,411	-	27,213,411
Management and general	3,148,386	-	3,148,386
Fundraising	1,479,573	-	1,479,573
Total expenses and losses	31,841,370	-	31,841,370
Change in net assets before contribution for WaterEquity, Inc. spin-off	(2,687,555)	(1,184,624)	(3,872,179)
Contribution of beginning net assets for WaterEquity, Inc.	6,834,648	-	6,834,648
Change in net assets after contribution for WaterEquity, Inc. spin-off	(9,522,203)	(1,184,624)	(10,706,827)
Net assets, beginning of year	18,869,737	9,945,134	28,814,871
Net assets, end of year	\$ 9,347,534	\$ 8,760,510	\$ 18,108,044

See notes to consolidated financial statements.

Water.org, Inc.

**Consolidated Statement of Functional Expenses
Year Ended September 30, 2018**

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	WaterEquity Programs	Subtotal			
Salaries and wages	\$ 5,360,910	\$ 550,346	\$ 176,111	\$ 6,087,367	\$ 2,407,902	\$ 952,360	\$ 9,447,629
Payroll taxes	275,156	40,443	14,231	329,830	158,617	70,630	559,077
Employee benefits	383,131	51,689	21,450	456,270	303,576	93,281	853,127
Staff training	10,698	410	-	11,108	14,439	573	26,120
Contractors	302,407	296,664	21,613	620,684	846,796	325,089	1,792,569
Occupancy related	571,956	10,673	7,293	589,922	53,779	21,112	664,813
Office supplies	31,154	-	-	31,154	5,330	-	36,484
Postage and shipping	10,246	7,786	7	18,039	-	3,052	21,091
Printing and reproduction	30,708	19,137	27	49,872	2,743	20,370	72,985
Telephone and related communications	85,702	19,770	536	106,008	34,064	3,844	143,916
Office equipment, rental and maintenance	75,083	15,222	178	90,483	79,629	18,198	188,310
Travel	1,027,539	16,709	24,681	1,068,929	141,774	76,435	1,287,138
Grants to other organizations	5,076,415	-	-	5,076,415	-	-	5,076,415
Program fees and supplies	2,098,934	-	1,754,634	3,853,568	38,488	-	3,892,056
Advertising and marketing	-	74,897	-	74,897	-	-	74,897
Directors and officer insurance	35,513	2,858	-	38,371	14,544	5,609	58,524
Bank and credit card fees	12,566	22	-	12,588	269	113,963	126,820
Accounting and legal fees	85,308	2,051	-	87,359	92,498	10,247	190,104
Other professional fees	1,919	-	-	1,919	294	15,218	17,431
Dues and subscriptions	30,761	1,489	375	32,625	15,366	3,791	51,782
Bad-debt expense	-	-	1,854	1,854	2,296	13,641	17,791
Foreign exchange gain	19,131	-	-	19,131	-	21,576	40,707
Other operating expenses	59,651	376	775	60,802	29,725	3,156	93,683
Depreciation	134,474	9,129	-	143,603	39,383	17,939	200,925
	<u>\$ 15,719,362</u>	<u>\$ 1,119,671</u>	<u>\$ 2,023,765</u>	<u>\$ 18,862,798</u>	<u>\$ 4,281,512</u>	<u>\$ 1,790,084</u>	<u>\$ 24,934,394</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 Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets before contribution to WaterEquity, Inc.	\$ 5,699,213	\$ (3,872,179)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	200,925	206,186
Net realized and unrealized gains on investments	(22,296)	(117,839)
Gain on disposition of fixed assets	(2,505)	(429)
Changes in operating assets and liabilities:		
Contributions and other receivables	(2,085,428)	(917,356)
Prepaid expenses	(21,238)	(34,236)
Accounts payable	588,223	(2,702,145)
Accrued expenses	253,701	559,333
Other assets	-	(371,873)
Refundable advances	360,518	139,981
Net cash provided by (used in) operating activities	4,971,113	(7,110,557)
Cash flows from investing activities:		
Purchase of property and equipment	(52,907)	(88,471)
Net cash used in investing activities	(52,907)	(88,471)
Cash flows from financing activities:		
Contributed capital to WaterEquity, Inc.	-	2,172,132
Net cash provided by financing activities	-	2,172,132
Net increase (decrease) in cash and cash equivalents	4,918,206	(5,026,896)
Cash and cash equivalents, beginning of year	16,143,813	21,170,709
Cash and cash equivalents, end of year	\$ 21,062,019	\$ 16,143,813
Supplemental disclosures of cash flow information:		
Contributed property and equipment to WaterEquity, Inc.	\$ -	\$ 31,819
Contributed WCIF 1 loans receivable to WaterEquity, Inc.	\$ -	\$ 9,380,159
Contributed other assets to WaterEquity, Inc.	\$ -	\$ 818,167

See notes to consolidated financial statements.

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 offices in Kenya and India. In 2018 and 2017, Water.org, Inc. has supported projects in Bangladesh, Ethiopia, Ghana, Haiti, Honduras, India, Kenya, Uganda, Peru, Indonesia, Cambodia and the Philippines. In 2014, local offices were established in Peru and Indonesia. In 2015, local offices were established in Bangladesh and the Philippines. In 2016, a local office was established in Ethiopia. Project work was initiated in Brazil and Mexico in 2018.

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 firsthand 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.

WaterCredit Adoption and Enabling Partnerships: In 2018, Water.org formally introduced two new water programs to help increase the amount of capital and affordable financing for water and sanitation improvements. WaterCredit Adoption encourages businesses to find financing solutions through the adoption of Water.org financing models, while Enabling Partnerships contributes to changes in policy and sector systems via partnerships and advocacy to enable a conducive environment for water and sanitation improvements.

Strategic Investment Fund: In 2018, Water.org launched the Strategic Investment Fund (SIF), which directs unrestricted funds to a portfolio of organizational and programmatic initiatives designed to drive achievement of its long-term impact goals.

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 global water and sanitation crisis and Water.org’s solutions through presentations at high-level convenings, Water.org’s own media channels, and earned media coverage.

Notes to Consolidated Financial Statements

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

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

For the purpose of facilitating water and sanitation lending by microfinance 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. 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, 2018 and 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, 2018 and 2017, 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.

Notes to Consolidated Financial Statements

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, 2018 and 2017.

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.

It is the policy of Water.org to only record a promise to give as revenue if it was due in a fiscal year but, due to circumstances outside of Water.org's control, will be received in the subsequent year. All receivables recorded as of September 30, 2018, are expected to be collected.

Notes to Consolidated Financial Statements

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, 2018 or 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 2018 or 2017.

Notes to Consolidated Financial Statements

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-profit entities provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net asset 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 for Water.org's fiscal year ending September 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 \$1,120,098 and \$1,223,365 as of September 30, 2018 and 2017, respectively.

Water.org, Inc.

Notes to Consolidated Financial Statements

Note 3. Investments and Investment Return

Investments at September 30, 2018 and 2017, consisted of the following:

	2018	2017
Mutual funds	\$ 1,097,136	\$ 971,573
Investment in WaterCredit Investment Fund I	1,120,098	1,223,365
	<u>\$ 2,217,234</u>	<u>\$ 2,194,938</u>

Total investment return consisted of the following for the years ended September 30, 2018 and 2017:

	2018	2017
Interest and dividend income	\$ 216,101	\$ 218,211
Net realized and unrealized gains	22,296	117,839
	<u>\$ 238,397</u>	<u>\$ 336,050</u>

Note 4. 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. Water.org accounts for its investments at fair value. In accordance with the guidance, Water.org 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.

Notes to Consolidated Financial Statements

Note 4. 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, 2018 and 2017:

		September 30, 2018			
		Quoted Prices in Active Markets for Identical Assets Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:					
	Mutual funds	\$ 1,097,136	\$ 1,097,136	\$ -	\$ -
		<u>\$ 1,097,136</u>	<u>\$ 1,097,136</u>	<u>\$ -</u>	<u>\$ -</u>
		September 30, 2017			
		Quoted Prices in Active Markets for Identical Assets Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:					
	Mutual funds	\$ 971,573	\$ 971,573	\$ -	\$ -
		<u>\$ 971,573</u>	<u>\$ 971,573</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, 2018.

Mutual funds: These investments are reported at fair value based on quoted market prices obtained from exchanges.

Investment in WCIF 1: This investment is reported at fair value of net asset value (NAV) using the practical expedient, which is \$1,120,098 and \$1,223,365 at September 30, 2018 and 2017, respectively.

There were no changes in securities measured at NAV as of September 30, 2018.

Water.org, Inc.

Notes to Consolidated Financial Statements

Note 5. 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, 2018 and 2017, were for the following purposes:

	2018	2017
India/Indonesia Initiative (through 2019)*	\$ 1,474,262	\$ 5,226,699
India Initiative (through 2021)	2,834,579	4,091,847
Bangladesh Initiative (through 2021)	2,520,371	-
Indonesia Initiative (through 2019)	283,298	849,894
General programs (through 2020)	2,400,000	3,600,000
Uganda Initiative (through 2021)	1,497,000	1,497,000
Bangladesh/Cambodia Initiative (through 2019)	740,778	1,548,292
India/Bangladesh/Indonesia Initiative (through 2019)	2,000,000	-
	<u>\$ 13,750,288</u>	<u>\$ 16,813,732</u>

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

Note 6. 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, 2018 and 2017, are expected to be funded within the next four years and are for the following programs:

	2018	2017
Grant programs	\$ 107,498	\$ 192,935
WaterCredit Initiative®	4,213,935	4,565,609
	<u>\$ 4,321,433</u>	<u>\$ 4,758,544</u>

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

Note 7. Property and Equipment

Property and equipment at September 30, 2018 and 2017, consisted of the following:

	2018	2017
Office equipment	\$ 1,182,881	\$ 1,129,491
Computer software	232,519	232,519
	<u>1,415,400</u>	<u>1,362,010</u>
Less accumulated depreciation	920,146	721,243
	<u>\$ 495,254</u>	<u>\$ 640,767</u>

Note 8. Line of Credit

Water.org has a \$2,000,000 revolving bank line of credit. At September 30, 2018 and 2017, 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 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2018 and 2017, are available for the following purposes:

	2018	2017
Grant and WaterCredit programs' net assets:		
Indonesia	\$ 2,287,127	\$ 1,825,919
India	2,044,943	942,359
Ethiopia	102,173	663,414
Bangladesh	2,193,464	309,254
Philippines	555,637	1,323,038
Peru	880,344	627,097
Honduras	11,466	93,209
Ghana	3,925	68,017
Kenya	-	78,764
Cambodia	36,131	65,986
Brazil	1,025,530	-
Uganda	159,312	-
Global	3,428,840	2,763,453
	<u>\$ 12,728,892</u>	<u>\$ 8,760,510</u>

Water.org, Inc.**Notes to Consolidated Financial Statements****Note 9. Temporarily Restricted Net Assets (Continued)**

During the years ended September 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2018	2017
Grant and WaterCredit programs released:		
Indonesia	\$ 1,690,593	\$ 1,805,870
India	2,404,103	2,275,998
Ethiopia	561,291	1,029,858
Bangladesh	705,693	1,983,456
Philippines	867,401	889,441
Peru	1,053,265	727,199
Honduras	82,243	482,157
Ghana	69,989	564,641
Kenya	63,292	312,409
Cambodia	583,133	621,277
Brazil	94,220	-
Africa	15,807	201
Asia	12,187	26,167
Uganda	343,688	-
Haiti	-	16,713
South America	-	5,750
Global	719,158	1,944,589
	<u>\$ 9,266,063</u>	<u>\$ 12,685,726</u>

Note 10. Operating Leases

Noncancelable operating leases for office space expire in various years through 2026. Rental expense was \$548,807 and \$488,365 in 2018 and 2017, respectively. Future minimum lease payments under operating leases are as follows:

Years ending September 30:	
2019	\$ 467,133
2020	330,262
2021	243,568
2022	241,407
2023	171,441
Thereafter	113,632
Total minimum lease payments	<u>\$ 1,567,443</u>

Note 11. 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 \$240,655 and \$242,364 for 2018 and 2017, respectively. Water.org also contributes to retirement plans for its international offices, and contributions to these plans were \$42,705 and \$36,167 for 2018 and 2017, respectively. Total contributions to all plans were \$283,360 and \$278,531 for 2018 and 2017, 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, 2018 and 2017, Water.org recorded approximately \$1,030,394 and \$683,263, respectively, of accrued incentive compensation expense in accrued expenses on the consolidated statements of financial position.

Note 12. Related-Party Transactions

Water.org, through WCLLC (WaterCredit LLC), funded all of the formation costs for WCIF 1 (WaterCredit Investment Fund 1) in exchange for Class I and Class II positions. Water.org also funded the formation of WCIF 2 (WaterCredit Investment Fund 2) and WCIF 3 (WaterCredit Investment Fund 3), and the associated startup costs 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 \$1,120,098 and \$1,223,365 on September 30, 2018 and 2017, respectively.

Note 13. 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 55 percent and 58 percent of all contributions were received from four donors in 2018 and 2017, respectively.

Conditional gifts: Estimates related to conditional gifts are described in Note 5.

Incentive compensation plan: Estimates related to the incentive compensation plan are described in Note 11.

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

Note 14. Subsequent Events

Subsequent events have been evaluated through March 7, 2019, which is the date the consolidated financial statements were available to be issued.

