

Water.org, Inc.

Auditor's Report and Consolidated Financial Statements

September 30, 2014 and 2013



Water.org, Inc.
September 30, 2014 and 2013

Contents

Independent Auditor’s Report..... 1

Consolidated Financial Statements

Statements of Financial Position 3
Statements of Activities..... 4
Statements of Functional Expenses 6
Statements of Cash Flows 8
Notes to Financial Statements 9

Independent Auditor's Report

Board of Directors
Water.org, Inc.
Kansas City, Missouri

We have audited the accompanying consolidated financial statements of Water.org, Inc., which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Directors
Water.org, Inc.
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of Water.org, Inc. as of September 30, 2014 and 2013, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The condensed financial statements and selected ratios included in the Report to the Audit Committee are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
February 2, 2015

Water.org, Inc.
Consolidated Statements of Financial Position
September 30, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 14,287,008	\$ 11,176,262
Grants receivable	745,000	250,000
Other receivables	14,283	36,475
Prepaid expenses	114,464	86,922
Investments	777,368	676,068
Other assets	321,345	-
Property and equipment, net of accumulated depreciation; 2014 - \$351,679; 2013 - \$309,111	<u>75,147</u>	<u>79,387</u>
Total assets	<u><u>\$ 16,334,615</u></u>	<u><u>\$ 12,305,114</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 441,553	\$ 227,585
Accrued expenses	594,113	482,109
Refundable advances	<u>148,198</u>	<u>675,353</u>
Total liabilities	<u>1,183,864</u>	<u>1,385,047</u>

Net Assets

Unrestricted	7,016,879	4,236,516
Temporarily restricted	<u>8,133,872</u>	<u>6,683,551</u>
Total net assets	<u>15,150,751</u>	<u>10,920,067</u>
Total liabilities and net assets	<u><u>\$ 16,334,615</u></u>	<u><u>\$ 12,305,114</u></u>

Water.org, Inc.
Consolidated Statement of Activities
Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support			
Contributions and grants			
Foundations	\$ 616,508	\$ 8,393,437	\$ 9,009,945
Corporations and other organizations	2,704,480	515,065	3,219,545
Individuals	2,166,959	952,869	3,119,828
Federated/workplace campaigns	121,157		121,157
In-kind contributions	16,216	218,000	234,216
Investment return	103,530		103,530
Other	1,058		1,058
Net assets released from restrictions	<u>8,629,050</u>	<u>(8,629,050)</u>	<u>-</u>
Total revenues, gains and other support	<u>14,358,958</u>	<u>1,450,321</u>	<u>15,809,279</u>
Expenses and Losses			
Program services			
Water programs	6,679,444		6,679,444
Outreach	888,191		888,191
New ventures	<u>992,247</u>		<u>992,247</u>
Total program services	8,559,882		8,559,882
Management and general	1,690,224		1,690,224
Fundraising	<u>1,328,489</u>		<u>1,328,489</u>
Total expenses and losses	<u>11,578,595</u>		<u>11,578,595</u>
Change in Net Assets	2,780,363	1,450,321	4,230,684
Net Assets, Beginning of Year	<u>4,236,516</u>	<u>6,683,551</u>	<u>10,920,067</u>
Net Assets, End of Year	<u>\$ 7,016,879</u>	<u>\$ 8,133,872</u>	<u>\$ 15,150,751</u>

Water.org, Inc.
Consolidated Statement of Activities
Year Ended September 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support			
Contributions and grants			
Foundations	\$ 293,064	\$ 6,536,765	\$ 6,829,829
Corporations and other organizations	467,157	2,271,464	2,738,621
Individuals	1,752,289	763,450	2,515,739
Federated/workplace campaigns	110,167		110,167
In-kind contributions	83,200		83,200
Investment return	77,460		77,460
Other	1,304		1,304
Net assets released from restrictions	<u>6,059,987</u>	<u>(6,059,987)</u>	<u>-</u>
Total revenues, gains and other support	<u>8,844,628</u>	<u>3,511,692</u>	<u>12,356,320</u>
Expenses and Losses			
Program services			
Water programs	5,388,674		5,388,674
Outreach	1,252,057		1,252,057
New ventures	<u>199,769</u>		<u>199,769</u>
Total program services	6,840,500		6,840,500
Management and general	1,316,710		1,316,710
Fundraising	<u>1,216,619</u>		<u>1,216,619</u>
Total expenses and losses	<u>9,373,829</u>		<u>9,373,829</u>
Change in Net Assets	(529,201)	3,511,692	2,982,491
Net Assets, Beginning of Year	<u>4,765,717</u>	<u>3,171,859</u>	<u>7,937,576</u>
Net Assets, End of Year	<u>\$ 4,236,516</u>	<u>\$ 6,683,551</u>	<u>\$ 10,920,067</u>

Water.org, Inc.
Consolidated Statement of Functional Expenses
Year Ended September 30, 2014

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	New Ventures	Subtotal			
Salaries and wages	\$ 1,450,141	\$ 471,636	\$ 217,355	\$ 2,139,132	\$ 1,075,373	\$ 787,934	\$ 4,002,439
Payroll taxes	87,500	33,826	14,241	135,567	72,867	55,536	263,970
Employee benefits	155,136	35,887	17,112	208,135	113,110	65,989	387,234
Staff training	21,808	1,240	-	23,048	3,338	2,527	28,913
Contractors	470,523	188,845	648,462	1,307,830	89,134	95,597	1,492,561
Occupancy related	124,790	20,722	-	145,512	37,364	35,288	218,164
Office supplies	11,466	2,004	-	13,470	2,940	2,328	18,738
Postage and shipping	9,226	2,758	-	11,984	1,939	8,142	22,065
Printing and reproduction	8,073	1,374	102	9,549	724	12,327	22,600
Telephone and related communications	21,753	19,737	425	41,915	21,189	9,086	72,190
Office equipment, rental and maintenance	30,341	6,772	-	37,113	17,955	40,433	95,501
Travel	481,692	67,544	49,469	598,705	147,644	102,185	848,534
Grants to other organizations	3,286,803	-	34,717	3,321,520	-	-	3,321,520
Program fees and supplies	409,711	-	4,702	414,413	-	-	414,413
Advertising and marketing	-	8,626	-	8,626	-	3,027	11,653
Directors and officer insurance	4,254	1,573	-	5,827	2,764	2,624	11,215
Bank and credit card fees	8,347	1,553	1,750	11,650	2,729	58,404	72,783
Accounting and legal fees	28,316	2,376	1,187	31,879	26,386	12,363	70,628
Other professional fees	11,343	9,608	2,000	22,951	22,498	1,333	46,782
Dues and subscriptions	6,727	1,721	-	8,448	25,353	3,557	37,358
Foreign exchange loss	23,207	-	-	23,207	-	-	23,207
Other operating expenses	13,558	3,527	725	17,810	14,857	15,990	48,657
Depreciation	14,729	6,862	-	21,591	12,060	13,819	47,470
	<u>\$ 6,679,444</u>	<u>\$ 888,191</u>	<u>\$ 992,247</u>	<u>\$ 8,559,882</u>	<u>\$ 1,690,224</u>	<u>\$ 1,328,489</u>	<u>\$ 11,578,595</u>

Water.org, Inc.
Consolidated Statement of Functional Expenses
Year Ended September 30, 2013

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	New Ventures	Subtotal			
Salaries and wages	\$ 978,773	\$ 674,342	\$ 103,514	\$ 1,756,629	\$ 782,188	\$ 725,623	\$ 3,264,440
Payroll taxes	45,890	48,070	7,075	101,035	50,697	49,554	201,286
Employee benefits	102,099	45,646	7,997	155,742	62,236	62,398	280,376
Staff training	5,628	2,640	-	8,268	2,437	3,398	14,103
Contractors	314,987	254,935	53,681	623,603	145,888	97,459	866,950
Occupancy related	48,535	23,825	-	72,360	24,871	27,706	124,937
Office supplies	4,308	2,546	15	6,869	2,231	3,261	12,361
Postage and shipping	1,723	3,452	220	5,395	1,970	9,186	16,551
Printing and reproduction	1,503	169	-	1,672	2,365	12,209	16,246
Telephone and related communications	17,214	20,878	377	38,469	14,764	9,958	63,191
Office equipment, rental and maintenance	16,197	4,497	-	20,694	11,462	27,125	59,281
Travel	304,111	96,284	20,414	420,809	132,797	94,192	647,798
Grants to other organizations	3,416,301	-	-	3,416,301	-	-	3,416,301
Program fees and supplies	60,377	-	-	60,377	-	-	60,377
Special event supplies	343	356	-	699	268	383	1,350
Advertising and marketing	-	5,249	-	5,249	-	1,091	6,340
Directors and officer insurance	3,513	3,224	-	6,737	2,421	3,460	12,618
Bank and credit card fees	4,255	2,226	175	6,656	1,638	48,340	56,634
Accounting and legal fees	5,074	2,197	6,301	13,572	23,435	7,684	44,691
Other professional fees	7,994	38,870	-	46,864	6,572	6,012	59,448
Dues and subscriptions	3,496	2,732	-	6,228	25,054	3,272	34,554
Foreign exchange gain	27,266	-	-	27,266	-	-	27,266
Other operating expenses	7,029	7,396	-	14,425	14,011	8,284	36,720
Depreciation	12,058	12,523	-	24,581	9,405	16,024	50,010
	<u>\$ 5,388,674</u>	<u>\$ 1,252,057</u>	<u>\$ 199,769</u>	<u>\$ 6,840,500</u>	<u>\$ 1,316,710</u>	<u>\$ 1,216,619</u>	<u>\$ 9,373,829</u>

See Notes to Consolidated Financial Statements

Water.org, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 4,230,684	\$ 2,982,491
Items not requiring (providing) operating activities cash flows		
Depreciation	47,470	50,010
Net realized and unrealized gains on investments	(89,785)	(65,081)
Changes in		
Grants and other receivables	(472,808)	(284,242)
Prepaid expenses	(27,542)	(32,231)
Accounts payable	204,971	107,688
Accrued expenses	112,004	245,540
Refundable advances	(527,155)	(223,841)
	<u>3,477,839</u>	<u>2,780,334</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of property and equipment	(34,233)	(30,005)
Purchase of investments	(332,860)	(10,514)
	<u>(367,093)</u>	<u>(40,519)</u>
Net cash used in investing activities		
Increase in Cash and Cash Equivalents	3,110,746	2,739,815
Cash and Cash Equivalents, Beginning of Year	<u>11,176,262</u>	<u>8,436,447</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,287,008</u>	<u>\$ 11,176,262</u>
Supplemental Cash Flows Information		
Fixed assets included in accounts payable	\$ 8,997	\$ -

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Water.org, Inc. is a non-profit 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. (the Organization) maintains its headquarters in Kansas City, Missouri. In 2006, Water.org, Inc. established local branch offices in Kenya and India. In 2014 and 2013, Water.org, Inc. has supported projects in Bangladesh, Ethiopia, Ghana, Haiti, Honduras, India, Kenya, Uganda, Peru, Indonesia and Philippines. In 2014, local branch offices were also established in Peru and Indonesia.

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. Grant community 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 InitiativeTM – WaterCredit 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 catalyzes an "Idea Lab" to support Water.org teams and partners to generate new ideas, develop hypothesis, and to pilot, monitor, and take solutions to scale. In addition, it will support a portfolio of innovations experimental in nature creating things like mobile apps, financing mechanisms and citizen engagement tools.

Outreach and Advocacy – Water.org, Inc. seeks to raise awareness of the water supply crisis through presentations to schools and community groups, the Water.org, Inc. website (www.water.org) and media coverage.

Management and General and Fundraising – Provides oversight of programs and business management, record keeping, budgeting, financing and other administrative and fundraising activities for the Organization.

For the purpose of facilitating water and sanitation lending by micro-finance institutions (“MFIs”) in India, Water.org created two organizations in 2014: WaterCredit Investment Fund 1, LLC and WaterCredit, LLC. WaterCredit Investment Fund 1, LLC (the “Fund”) believes that there are lending opportunities in the water and sanitation arena capable of achieving charitable impact while generating a limited return for investors. The Fund 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.

Water.org, Inc.

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

The charitable purpose of the Fund is to address two related issues: (i) lack of access to improved water and sanitation, and (ii) lack of access to finance to secure these necessities among those living in poverty throughout the developing world with specific and exclusive focus on India. The Fund is developing solutions to these problems that fit within the political, legal and socio-cultural frameworks of Indian society.

The Fund, with its Manager and Class I Member, WaterCredit, LLC, starts from the premise that there are many people at the base of the economic pyramid who can, and want to, finance their access to improved water and sanitation solutions if they can pay for these services over time, and have a voice in their development and operation. To satisfy unfilled client demand among those at the base of the economic pyramid, the Fund will target those MFIs in India with successful water and sanitation lending experience at the base of the economic pyramid. Specifically, the Fund endeavors to ensure that these MFIs can accelerate the pace and reach of their lending efforts through access to more affordable and reliable flows of social impact investment capital for water and sanitation lending.

WaterCredit, LLC is a Management Company that was registered on January 30, 2014. The Organization is the sole member of the Management Company. The Fund is expected to be launched during 2015 and will be managed by WaterCredit, LLC, wholly owned by Water.org, which will also hold Class I Interests in the Fund and will act as its investment advisor. Consistent with the charitable purpose of Water.org, the Fund will require that each of the Fund's investments support the provision of access to improved water and sanitation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and the Management Company. As of January 30, 2014, the Fund and Management Company were created and all activities are fully consolidated with the Organization. The WaterCredit Investment Fund 1, LLC has not finalized its private offering memorandum as of September 30, 2014. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2014, cash equivalents consisted primarily of certificates of deposit. At September 30, 2013, the Organization did not have any cash equivalents.

At September 30, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$12,046,000.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Investments and Investment Return

Investments are carried at fair value. Investment return includes dividend, interest and realized and unrealized gains and losses.

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 statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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. The estimated useful lives for all property and equipment range from 3 – 5 years.

Long-lived Asset Impairment

The Organization 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, 2014 and 2013.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization 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 statement 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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

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.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of goods and services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in the 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 the Organization 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 monthly 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

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the 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.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Grant Receivable

The Organization receives its grant support through periodic reports filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the consolidated financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of September 30, 2014, have been recorded as receivables.

The Organization had been awarded grants totaling \$1,225,000, in which \$745,000 was earned and had not been received as of September 30, 2014. The Organization had been awarded a grant totaling \$500,000, in which \$250,000 was earned and had not been received as of September 30, 2013.

Note 3: Investments and Investment Return

Investments at September 30 consisted of the following:

	2014	2013
Mutual funds	\$ 777,368	\$ 676,068

Total investment return is comprised of the following:

	2014	2013
Interest and dividend income	\$ 13,745	\$ 12,379
Net realized and unrealized gains	89,785	65,081
	<u>\$ 103,530</u>	<u>\$ 77,460</u>

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities 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, 2014 and 2013:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds				
September 30, 2014	\$ 777,368	\$ 777,368	\$ -	\$ -
September 30, 2013	676,068	676,068	-	-

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, 2014.

Investments

The Organization'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
September 30, 2014 and 2013

Note 4: Conditional Gifts

The Organization has received conditional promises to give that are not recognized in the consolidated financial statements. The Organization 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 three years. Conditional promises at September 30 were for the following purposes:

	2014	2013
Southeast Asia Initiative (through 2014)	\$ -	\$ 820,240
Haiti Initiative (through 2014)	-	400,000
India Initiative (through 2016)	1,357,500	2,400,000
Kenya Initiative (through 2016)	1,607,956	1,142,395
Bangladesh Initiative (through 2017)*	3,518,985	3,773,553
Indonesia Initiative (through 2017)	1,817,085	2,313,933
Philippines Initiative (through 2017)	2,749,526	2,488,967
Peru Initiative (through 2017)	1,904,938	2,441,043
New Ventures (through 2017)	500,000	-
Outreach (through 2017)	50,000	-
Ethiopia Initiative (through 2016)	950,000	-
Ghana Initiative (through 2016)	1,050,132	-
General Programs (through 2015)	480,000	-
	<u>\$ 15,986,122</u>	<u>\$ 15,780,131</u>

*Funds are awarded to the Organization in a foreign currency (Euros). Using the currency exchange rate effective for September 30, 2014, the Euros were converted to U.S. Dollars (USD).

Note 5: Grants Commitments

The Organization 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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Grant programs	\$ 395,528	\$ 388,599
WaterCredit	<u>4,738,442</u>	<u>3,344,207</u>
	<u>\$ 5,133,970</u>	<u>\$ 3,732,806</u>

Note 6: Property and Equipment

Property and equipment at September 30 consists of:

	<u>2014</u>	<u>2013</u>
Office equipment	\$ 243,159	\$ 210,441
Computer software	<u>183,667</u>	<u>178,057</u>
	426,826	388,498
Less accumulated depreciation	<u>351,679</u>	<u>309,111</u>
	<u>\$ 75,147</u>	<u>\$ 79,387</u>

Note 7: Line of Credit

The Organization has a \$2,000,000 revolving bank line of credit. At September 30, 2014 and 2013, 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%.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Note 8: Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Grant and WaterCredit programs		
India	\$ 1,268,645	\$ 2,221,163
Bangladesh	1,308,519	1,592,309
Kenya	474,690	273,161
Ethiopia	515,563	-
Uganda	9,741	139,886
Ghana	765,063	273,798
Haiti	218,904	309,465
Peru	572,769	390,625
Asia	249,925	264,977
Indonesia	474,960	321,685
Philippines	693,651	207,471
Other	42,919	19,633
WASH Advocacy	-	65,064
New Ventures	1,538,523	604,314
	<u>\$ 8,133,872</u>	<u>\$ 6,683,551</u>

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2014</u>	<u>2013</u>
Grant and WaterCredit programs		
India	\$ 2,255,009	\$ 1,954,400
Bangladesh	509,482	198,534
Kenya	1,058,786	760,018
Ethiopia	21,228	85,590
Uganda	130,144	60,414
Ghana	283,539	1,827
Haiti	893,278	1,412,740
Peru	353,960	69,395
Asia	836,792	1,072,129
Indonesia	343,573	45,016
Philippines	288,262	35,612
Other	182,877	22,391
New Ventures	<u>1,472,120</u>	<u>341,921</u>
	<u>\$ 8,629,050</u>	<u>\$ 6,059,987</u>

Note 9: Operating Leases

Noncancellable operating leases for office space expire in various years through 2016. Rental expense was \$143,836 and \$83,079 in 2014 and 2013, respectively. Future minimum lease payments under operating leases are:

2015	\$ 118,452
2016	<u>31,459</u>
Total minimum lease payments	<u>\$ 149,911</u>

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Note 10: Employee Benefit Plan

The Organization has a 401(k) retirement plan covering substantially all employees. The Organization matches voluntary contributions to the plan up to 4% of the employee's compensation. Contributions to the plan were \$115,904 and \$94,654 for 2014 and 2013, respectively.

The Organization has an incentive compensation plan that provides a range of organizational and personal goals to determine incentive compensation per employee. The incentive compensation payment is expected in late December upon the finalization of the year's financial results and completion of the annual audit. As of September 30, 2014 and 2013, the Organization recorded approximately \$364,000 and \$375,000, respectively, of accrued incentive compensation expense in accrued expenses on the consolidated statements of financial position.

Note 11: Related Party Transactions

During 2014, the Organization transferred \$250,000 to WaterCredit, LLC (the Management Company), to help fund the startups costs for WaterCredit LLC and WaterCredit Investment Fund 1, LLC. This intercompany transfer was eliminated during consolidation. In addition, the Management Company incurred costs totaling \$326,205 for the purpose of establishing WaterCredit Investment Fund 1, LLC (the Fund), which is included in other assets in the consolidated statements of financial position.

Note 12: 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 15% and 42% of all contributions were received from one donor in 2014 and three donors in 2013, respectively.

Conditional Gifts

Estimates related to conditional gifts are described in *Note 4*.

Incentive Compensation Plan

Estimates related to the incentive compensation plan are described in *Note 10*.

Functional Expense Allocation

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