

Water.org, Inc.

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2016 and 2015



Water.org, Inc.
September 30, 2016 and 2015

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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, 2016 and 2015, 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
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Water.org, Inc. as of September 30, 2016 and 2015, 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.

BKD, LLP

Kansas City, Missouri
January 25, 2017

Water.org, Inc.
Consolidated Statements of Financial Position
September 30, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 21,170,709	\$ 24,551,865
Contributions receivable	11,656	-
Grants receivable	-	2,533,722
Loans receivable	9,380,159	-
Other receivables	75,313	43,893
Capital contribution receivable - WCIF 1	-	2,150,500
Prepaid expenses	252,373	219,813
Investments	853,734	774,405
Other assets	446,294	241,062
Property and equipment, net of accumulated depreciation; 2016 - \$535,538; 2015 - \$396,143	<u>789,872</u>	<u>145,126</u>
Total assets	<u><u>\$ 32,980,110</u></u>	<u><u>\$ 30,660,386</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 3,169,971	\$ 469,459
Accrued expenses	995,268	761,156
Refundable advances	<u>-</u>	<u>150,906</u>
Total liabilities	<u>4,165,239</u>	<u>1,381,521</u>

Net Assets

Unrestricted	11,698,917	9,387,214
Unrestricted - non-controlling interest	<u>7,170,820</u>	<u>6,066,639</u>
Total unrestricted	18,869,737	15,453,853
Temporarily restricted	<u>9,945,134</u>	<u>13,825,012</u>
Total net assets	<u>28,814,871</u>	<u>29,278,865</u>
Total liabilities and net assets	<u><u>\$ 32,980,110</u></u>	<u><u>\$ 30,660,386</u></u>

Water.org, Inc.
Consolidated Statement of Activities
Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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)	-
	<u>20,077,376</u>	<u>(3,879,878)</u>	<u>16,197,498</u>
Total revenues, gains and other support			
Expenses and Losses			
Program services			
Water programs	11,817,506		11,817,506
Outreach	1,915,381		1,915,381
New ventures	1,161,494		1,161,494
	<u>14,894,381</u>		<u>14,894,381</u>
Total program services			
Management and general	2,005,876		2,005,876
Fundraising	986,235		986,235
	<u>17,886,492</u>	<u>-</u>	<u>17,886,492</u>
Total expenses and losses			
Change in Net Assets before Contributed Capital in WaterCredit Investment Fund 1, LLC, net	2,190,884	(3,879,878)	(1,688,994)
Contributed Capital in WaterCredit Investment Fund 1, LLC, net	<u>1,225,000</u>	<u>-</u>	<u>1,225,000</u>
Change in Net Assets	3,415,884	(3,879,878)	(463,994)
Net Assets, Beginning of Year	<u>15,453,853</u>	<u>13,825,012</u>	<u>29,278,865</u>
Net Assets, End of Year	<u>\$ 18,869,737</u>	<u>\$ 9,945,134</u>	<u>\$ 28,814,871</u>

Water.org, Inc.
Consolidated Statement of Activities
Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions and grants			
Foundations	\$ 798,121	\$ 13,582,660	\$ 14,380,781
Corporations and other organizations	2,233,318	1,079,924	3,313,242
Individuals	2,945,241	398,298	3,343,539
Federated/workplace campaigns	149,035		149,035
In-kind contributions	16,658		16,658
Investment return	4,831		4,831
Net assets released from restrictions	9,369,742	(9,369,742)	-
	<u>15,516,946</u>	<u>5,691,140</u>	<u>21,208,086</u>
Expenses and Losses			
Program services			
Water programs	7,914,426		7,914,426
Outreach	656,781		656,781
New ventures	1,356,688		1,356,688
	<u>9,927,895</u>		<u>9,927,895</u>
Management and general	2,115,341		2,115,341
Fundraising	1,287,718		1,287,718
	<u>13,330,954</u>	<u>-</u>	<u>13,330,954</u>
Change in Net Assets before Contributed Capital in WaterCredit Investment Fund 1, LLC, net	2,185,992	5,691,140	7,877,132
Contributed Capital in WaterCredit Investment Fund 1, LLC, net	6,250,982	-	6,250,982
Change in Net Assets	8,436,974	5,691,140	14,128,114
Net Assets, Beginning of Year	7,016,879	8,133,872	15,150,751
Net Assets, End of Year	<u>\$ 15,453,853</u>	<u>\$ 13,825,012</u>	<u>\$ 29,278,865</u>

Water.org, Inc.
Consolidated Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	New Ventures	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 Statement of Functional Expenses
Year Ended September 30, 2015

	Program Services				Management and General	Fundraising	Total
	Water Programs	Outreach	New Ventures	Subtotal			
Salaries and wages	\$ 1,977,597	\$ 387,128	\$ 378,949	\$ 2,743,674	\$ 1,518,480	\$ 709,912	\$ 4,972,066
Payroll taxes	124,862	27,452	27,655	179,969	76,338	52,433	308,740
Employee benefits	272,231	41,685	33,511	347,427	120,322	75,276	543,025
Staff training	23,361	341	-	23,702	1,431	3,335	28,468
Contractors	473,483	100,944	723,476	1,297,903	118,253	109,234	1,525,390
Occupancy related	140,808	14,647	475	155,930	48,888	82,576	287,394
Office supplies	10,621	1,330	15	11,966	4,831	2,097	18,894
Postage and shipping	8,298	3,121	145	11,564	1,727	5,646	18,937
Printing and reproduction	5,426	4,598	5	10,029	611	5,993	16,633
Telephone and related communications	32,372	23,297	217	55,886	20,780	8,954	85,620
Office equipment, rental and maintenance	33,751	2,787	-	36,538	15,244	35,090	86,872
Travel	493,682	30,969	116,899	641,550	107,377	106,108	855,035
Grants to other organizations	3,696,616	-	-	3,696,616	-	-	3,696,616
Program fees and supplies	486,033	-	40,427	526,460	-	-	526,460
Advertising and marketing	811	5,450	-	6,261	640	65	6,966
Directors and officer insurance	5,486	1,179	-	6,665	4,517	2,168	13,350
Bank and credit card fees	7,056	467	745	8,268	4,714	64,316	77,298
Accounting and legal fees	47,969	1,165	-	49,134	18,939	4,417	72,490
Other professional fees	14,920	1,803	30,898	47,621	7,868	3,879	59,368
Dues and subscriptions	7,237	1,923	1	9,161	13,532	3,389	26,082
Foreign exchange gain	23,748	-	1,429	25,177	-	-	25,177
Other operating expenses	11,065	1,833	1,841	14,739	15,358	4,257	34,354
Depreciation	16,993	4,662	-	21,655	15,491	8,573	45,719
	<u>\$ 7,914,426</u>	<u>\$ 656,781</u>	<u>\$ 1,356,688</u>	<u>\$ 9,927,895</u>	<u>\$ 2,115,341</u>	<u>\$ 1,287,718</u>	<u>\$ 13,330,954</u>

See Notes to Consolidated Financial Statements

Water.org, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ (463,994)	\$ 14,128,114
Items not requiring (providing) operating activities cash flows		
Depreciation	149,358	45,719
Contributed capital to WaterCredit Investment Fund 1, LLC (WCIF 1)	(1,225,000)	(6,500,500)
Net realized and unrealized losses (gains) on investments	(65,451)	18,891
Foreign exchange loss on loan receivable	71,501	-
Changes in		
Grants and other receivables	2,490,646	(1,818,332)
Prepaid expenses	(32,560)	(105,349)
Accounts payable	2,720,845	16,570
Accrued expenses	234,112	167,043
Other assets	(205,232)	80,283
Refundable advances	(150,906)	2,708
	<u>3,523,319</u>	<u>6,035,147</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of property and equipment	(814,437)	(104,362)
Purchase of investments	(13,878)	(15,928)
Issuance of WaterCredit loans	(9,451,660)	-
	<u>(10,279,975)</u>	<u>(120,290)</u>
Net cash used in investing activities		
Financing Activities		
Contributed capital to WCIF 1	3,375,500	4,350,000
	<u>3,375,500</u>	<u>4,350,000</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	(3,381,156)	10,264,857
Cash and Cash Equivalents, Beginning of Year	<u>24,551,865</u>	<u>14,287,008</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,170,709</u>	<u>\$ 24,551,865</u>
Supplemental Cash Flows Information		
Fixed assets included in accounts payable	\$ -	\$ 20,333
Capital contribution receivable - WCIF 1	-	2,150,500

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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 2016 and 2015, Water.org, Inc. has supported projects in Bangladesh, Ethiopia, Ghana, Haiti, Honduras, India, Kenya, Uganda, Peru, Indonesia, Cambodia and Philippines. In 2014, local branch offices were established in Peru and Indonesia. In 2015, local branch offices were established in Bangladesh and Philippines. In 2016, a local branch office was established in Ethiopia.

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.

WaterEquity was launched in 2015 with the purpose of combining catalytic philanthropy and social impact investing to help scale and accelerate a solution that can take down the global water and sanitation crisis.

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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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 (“WCIF 1”) believes 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 3, LLC (“WCIF 3”) and WaterCredit Investment Fund 2, LLC (“WCIF 2”) in 2015. No capital was contributed to WCIF 2 or WCIF 3 during 2016 or 2015; however, there were certain startup costs allocated to each fund which will be recorded as an expense once the funds are launched.

The charitable purpose of WCIF 1 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. WCIF 1 is developing solutions to these problems that fit within the political, legal and socio-cultural frameworks of Indian society.

WCIF 1, with its Manager and Class I Member, WaterCredit, LLC (the “Management Company”), 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, WCIF 1 will target those MFIs in India with successful water and sanitation lending experience at the base of the economic pyramid. Specifically, WCIF 1 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.

WCIF 1 is managed by WaterCredit, LLC, which was registered on January 30, 2014 and wholly owned by Water.org, which will also hold Class I Interests in WCIF 1 and will act as its investment advisor.

WCIF 1’s members are divided into Class I and Class II members. The Management Company is the only allowable entity to hold Class I Interests. Class II members are outside investors to WCIF 1 that cannot be a member of the board of managers at the Management Company or a director or key supplier of the Organization. WCIF 1 is expected to make program related investments with the capital contributions of the Class II members. Members are only liable to make their capital contribution. No members are liable for the debts, liabilities, contracts or any other obligations of the Organization. WCIF 1 income, gain, loss, deductions and credits shall be allocated among the members, at the Management Company’s direction taking account their respective economic interest. WCIF 1 was launched on October 15, 2015 and shall continue to operate until a liquidation event.

WCIF 1 launched in 2015 with capital commitments from outside investors of \$6,500,500 and \$465,310 from WaterCredit, LLC. During 2016, capital contributions from outside investors totaled \$2,429,850 and \$1,535,990 from WaterCredit, LLC. Class I Interests as of September 30, 2016 was \$218,607 and Class II Interests as of September 30, 2016 was \$10,713,043.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Consistent with the charitable purpose of Water.org, WCIF 1 will require that each of the WCIF 1's investments support the provision of access to improved water and sanitation. Since WCIF 1 supports the mission of the Organization and Water.org controls WCIF 1 through the Management Company, WCIF 1 is consolidated in the accompanying financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization, Management Company and WCIF 1. As of September 30, 2015, WCIF 1 and Management Company were created and WaterCredit Investment Fund 1, LLC began receiving capital contributions through its private offering memorandum. During 2016, the funds were deployed to MFIs in India to begin the water sanitation projects and WaterCredit, LLC began receiving management fees from WaterCredit Investment Fund 1, LLC. 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 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

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2016 and 2015, cash equivalents consisted primarily of money market mutual funds with brokers and certificates of deposit.

At September 30, 2016, the Organization's cash accounts exceeded federally insured limits by approximately \$16,924,000.

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 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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

WaterCredit Loans Receivable

WaterCredit loans receivable are stated at their outstanding principal amount, plus accrued interest, net of allowance for uncollectible notes. The Organization provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower. Provisions for credit losses are charged to expense in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing portfolio.

During 2016, the Organization made advances in the amount of \$9,380,159, net of foreign exchange loss of \$71,501 (see *Note 5*).

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

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, 2016 and 2015.

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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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.

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.

Capital Contribution Receivable

Capital contributions receivable are recognized when there is substantial evidence and intent to pay within a reasonably short period of time. Capital contributions receivable totaling \$0 and \$2,150,500 at September 30, 2016 and 2015, respectively, related to the formation of WCIF 1, which was funded subsequent to September 30, 2015, before the 2015 consolidated financial statements were available to be issued.

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 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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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.

The Fund'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 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.

Direct Costs of Equity Offering

The cost directly attributed to equity offering are deferred and charged against the gross proceeds of the offering.

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.

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Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Controlling and Non-controlling Interests

The following depicts the changes in consolidated net assets attributable to the controlling and non-controlling financial interest of the Organization and the non-controlling interest of WaterCredit Investment Fund I, LLC.

	Total	Controlling Interest	Non-Controlling Interest
Unrestricted Net Assets, September 30, 2014	\$ 7,016,879	\$ 7,016,879	\$ -
Change in net assets from operations	2,185,992	2,387,003	(201,011)
Direct costs attributed to equity offering	(249,518)	(16,668)	(232,850)
Contributed Capital in WaterCredit Investment Fund I, LLC, net	6,500,500	-	6,500,500
Change in unrestricted net assets	8,436,974	2,370,335	6,066,639
Unrestricted Net Assets, September 30, 2015	15,453,853	9,387,214	6,066,639
Change in net assets from operations	2,190,884	2,558,406	(367,522)
Transfer of investors Class I equity	-	(246,703)	246,703
Contributed Capital in WaterCredit Investment Fund I, LLC, net	1,225,000	-	1,225,000
Change in net assets from operations	3,415,884	2,311,703	1,104,181
Unrestricted Net Assets, September 30, 2016	\$ 18,869,737	\$ 11,698,917	\$ 7,170,820

Note 3: 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, 2016, have been recorded as receivables.

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The Organization had not been awarded any grants that were earned and had not been received as of September 30, 2016. The Organization had been awarded grants totaling \$3,142,805, in which \$2,533,722 was earned and had not been received as of September 30, 2015.

Note 4: Investments and Investment Return

Investments at September 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 853,734	\$ 774,405

Total investment return is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 85,614	\$ 23,722
Net realized and unrealized gains (losses)	65,451	(18,891)
	<u>\$ 151,065</u>	<u>\$ 4,831</u>

Note 5: WaterCredit Loans Receivable

WaterCredit loans receivable consisted of the following at September 30:

	<u>2016</u>
WaterCredit loans receivable	\$ 9,451,660
Allowance for credit losses	-
Foreign exchange translation adjustment	(71,501)
	<u>\$ 9,380,159</u>

During 2016, WaterCredit loans were made to six partners in India in the amount of \$9,451,660 net of foreign exchange transaction adjustment of \$71,501. The loans are repayable over a three-year period and earned interest rate based off of the three-year Mumbai interbank currency rate. The loans were denominated in India Rupee, and the foreign exchange transaction adjustment result from translating the loans receivable into U.S. Dollars at the September 30 exchange rate. Interest payments are due quarterly.

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The Organization monitors credit risk for each partner on a quarterly and annual basis by obtaining both financial performance and social impact information. Quarterly financial information includes a detail for the number of new loans, outstanding loans and cumulative principal balances issued within each micro-finance organization. Since the WaterCredit loans were funded with the last 45 days of fiscal year 2016, the Organization does not believe there were any changes in credit quality between the origination dates and September 30, 2016. As the loan portfolio matures into 2017, the Organization will continue to monitor credit quality and enhance future disclosures as warranted.

Note 6: 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

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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, 2016 and 2015:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 31, 2016				
Cash and cash equivalents				
Money market fund	\$ 8,036,924	\$ 8,036,924	\$ -	\$ -
Investments				
Mutual funds	853,734	853,734	-	-
	<u>\$ 8,890,658</u>	<u>\$ 8,890,658</u>	<u>\$ -</u>	<u>\$ -</u>
September 31, 2015				
Investments				
Mutual funds	\$ 774,405	\$ 774,405	\$ -	\$ -

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, 2016.

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.

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Note 7: 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 four years. Conditional promises at September 30 were for the following purposes:

	<u>2016</u>	<u>2015</u>
Haiti Initiative (through 2017)	\$ -	\$ 746,000
India Initiative (through 2019)*	5,276,831	5,661,331
Kenya Initiative (through 2016)	-	261,807
Bangladesh Initiative (through 2017)*	1,948,249	2,115,958
Indonesia Initiative (through 2019)*	6,029,121	6,758,112
Philippines Initiative (through 2017)	898,307	1,918,647
Peru Initiative (through 2017)	632,172	1,252,933
New Ventures (through 2017)	533,334	1,683,334
Outreach (through 2017)	-	50,000
Ethiopia Initiative (through 2016)	300,000	950,000
Ghana Initiative (through 2016)	-	347,276
General Programs (through 2015)	500,000	-
Cambodia Initiative (through 2019)	1,222,815	-
	<u>\$ 17,340,828</u>	<u>\$ 21,745,398</u>

*Funds are awarded to the Organization in a foreign currency (Euros). Using the currency exchange rate effective for September 30, 2016, the Euros were converted to U.S. Dollars (USD).

Note 8: 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.

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

	<u>2016</u>	<u>2015</u>
Grant programs	\$ 1,288,955	\$ 1,671,478
WaterCredit	<u>7,263,718</u>	<u>3,281,536</u>
	<u>\$ 8,552,673</u>	<u>\$ 4,953,014</u>

Note 9: Property and Equipment

Property and equipment at September 30 consists of:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 1,092,891	\$ 351,102
Computer software	<u>232,519</u>	<u>190,167</u>
	1,325,410	541,269
Less accumulated depreciation	<u>535,538</u>	<u>396,143</u>
	<u>\$ 789,872</u>	<u>\$ 145,126</u>

Note 10: Line of Credit

The Organization has a \$2,000,000 revolving bank line of credit. At September 30, 2016 and 2015, 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%.

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Note 11: Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Grant and WaterCredit programs		
Indonesia	\$ 1,618,952	\$ 2,297,673
India	1,299,334	2,138,817
Ethiopia	987,707	796,019
Bangladesh	965,959	1,279,730
Philippines	864,172	979,633
Peru	722,124	674,239
Honduras	582,161	694,470
Ghana	130,732	794,638
Kenya	(3,197)	635,067
Cambodia	85,617	-
Haiti	13,463	-
Other	38,177	418,228
Global Advocacy	517,670	1,194,135
WaterCredit WCIF 1	2,004,850	1,804,850
New Ventures	117,413	117,513
	<u>\$ 9,945,134</u>	<u>\$ 13,825,012</u>

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

	<u>2016</u>	<u>2015</u>
Grant and WaterCredit programs		
Indonesia	\$ 1,383,799	\$ 541,969
India	1,553,104	2,199,468
Ethiopia	813,600	372,606
Bangladesh	1,243,696	1,072,763
Philippines	829,230	581,732
Peru	572,876	587,370
Honduras	124,604	18,290
Ghana	675,129	783,669
Kenya	830,533	1,256,655
Cambodia	368,111	-
Africa	-	8,340
Asia	-	13,929
Uganda	-	17,846
Haiti	23,158	329,467
Other	519,927	113,647
Global Advocacy	726,489	3,356
New Ventures	1,483,433	1,468,635
	<u>\$ 11,147,689</u>	<u>\$ 9,369,742</u>

Note 12: Operating Leases

Noncancellable operating leases for office space expire in various years through 2016. Rental expense was \$353,558 and \$173,777 in 2016 and 2015, respectively. Future minimum lease payments under operating leases are:

2017	\$ 355,124
2018	288,054
2019	199,166
2019	200,425
2020	200,425
Thereafter	<u>322,292</u>
Total minimum lease payments	<u>\$ 1,565,486</u>

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Note 13: 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 \$212,862 and \$145,508 for 2016 and 2015, 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, 2016 and 2015, the Organization recorded approximately \$558,000 and \$489,000, respectively, of accrued incentive compensation expense in accrued expenses on the consolidated statements of financial position.

Note 14: Related-Party Transactions

During 2016 and 2015, the Organization transferred \$1,201,300 and \$550,000, respectively, to WaterCredit, LLC (the Management Company), to help fund its investment in WaterCredit, LLC and WaterCredit Investment Fund 1, LLC (WCIF 1). These intercompany transfers were eliminated during consolidation.

The Organization, through the Management Company, funded all of the formation costs for WCIF 1 in exchange for a portion of WCIF 1's Class I and Class II memberships (Class I \$218,607 and Class II \$246,703). The Organization also funded the formation costs of WCIF 2 and WCIF 3 for \$241,062 in 2015 and \$205,232 in 2016. The startup costs associated with WCIF 2 and WCIF 3 are recorded as an other asset on the consolidated statements of financial position and will be reclassified to investments in the respective funds once the funds are launched.

During 2016, WCIF 1 received cash proceeds of \$3,964,540 as capital contributions from investors which included an investment from the Organization of \$1,535,990. WCIF 1 deployed \$9,451,660 in 2016 to establish water assistance in India (see *Note 5*).

Note 15: 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 61% and 30% of all contributions were received from three donors in 2016 and one donor in 2015, respectively.

Conditional Gifts

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

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Incentive Compensation Plan

Estimates related to the incentive compensation plan are described in *Note 13*.

Functional Expense Allocation

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

Note 16: Subsequent Events

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