

Water.org, Inc.

Financial Report
September 30, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
Water.org, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Water.org, Inc., which comprise the statements of financial position as of September 30, 2019 and 2018, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to 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, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, Water.org, Inc. adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. The adoption was retrospectively applied to September 30, 2018, the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

Kansas City, Missouri
March 13, 2020

Water.org, Inc.

Statements of Financial Position
September 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 17,351,890	\$ 21,062,019
Contributions receivable	3,519,386	2,983,050
Other receivables	61,645	106,703
Prepaid expenses	373,667	307,847
Investments	1,111,754	1,097,136
Investment in WaterCredit Fund I	1,179,291	1,120,098
Property and equipment, net of accumulated depreciation, 2019—\$757,764, 2018—\$920,146	424,238	495,254
Total assets	\$ 24,021,871	\$ 27,172,107
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,066,064	\$ 1,056,049
Accrued expenses	2,279,536	1,808,302
Refundable advances	390,242	500,499
Total liabilities	3,735,842	3,364,850
Net assets:		
Without donor restrictions	6,739,719	11,078,365
With donor restrictions	13,546,310	12,728,892
Total net assets	20,286,029	23,807,257
Total liabilities and net assets	\$ 24,021,871	\$ 27,172,107

See notes to financial statements.

Water.org, Inc.

**Statement of Activities
Year Ended September 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundations	\$ 2,428,244	\$ 7,072,960	\$ 9,501,204
Corporations and other organizations	4,205,835	2,362,098	6,567,933
Individuals	7,639,686	680	7,640,366
Federated/workplace campaigns	250,988	-	250,988
In-kind contributions	21,484	-	21,484
Investment return	437,129	59,814	496,943
Other	139,416	-	139,416
Net assets released from restrictions	8,678,134	(8,678,134)	-
Total revenues, gains and other support	23,800,916	817,418	24,618,334
Expenses and losses:			
Program services:			
Water programs	19,008,834	-	19,008,834
Outreach	1,579,724	-	1,579,724
Total program services	20,588,558	-	20,588,558
Management and general	4,728,376	-	4,728,376
Fundraising	2,822,628	-	2,822,628
Total expenses and losses	28,139,562	-	28,139,562
Change in net assets	(4,338,646)	817,418	(3,521,228)
Net assets, beginning of year	11,078,365	12,728,892	23,807,257
Net assets, end of year	\$ 6,739,719	\$ 13,546,310	\$ 20,286,029

See notes to financial statements.

Water.org, Inc.

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

	Without Donor Restrictions	With Donor Restrictions	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	17,743,127	-	17,743,127
Outreach	1,119,671	-	1,119,671
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 financial statements.

Water.org, Inc.

**Statement of Functional Expenses
Year Ended September 30, 2019**

	Program Services			Management and General	Fundraising	Total
	Water Programs	Outreach	Subtotal			
Salaries and wages	\$ 5,682,624	\$ 958,708	\$ 6,641,332	\$ 2,868,350	\$ 993,032	\$ 10,502,714
Payroll taxes	348,612	66,839	415,451	198,897	76,292	690,640
Employee benefits	415,396	86,580	501,976	257,445	88,408	847,829
Staff training	11,589	1,255	12,844	19,932	-	32,776
Contractors	363,037	277,979	641,016	703,200	1,049,410	2,393,626
Occupancy-related	568,072	139	568,211	117,083	32,025	717,319
Office supplies	24,851	315	25,166	23,585	288	49,039
Postage and shipping	2,676	12,549	15,225	4,077	10,774	30,076
Printing and reproduction	32,825	22,800	55,625	1,383	17,990	74,998
Telephone and related communications	66,053	17,207	83,260	31,963	30,163	145,386
Office equipment, rental and maintenance	120,518	11,968	132,486	88,180	71,864	292,530
Travel	1,000,622	93,634	1,094,256	144,443	113,201	1,351,900
Grants to other organizations	5,446,358	-	5,446,358	-	-	5,446,358
Program fees and supplies	4,352,191	3,143	4,355,334	-	-	4,355,334
Advertising and marketing	-	23,598	23,598	-	52,500	76,098
Directors and officer insurance	50,288	-	50,288	19,725	6,640	76,653
Bank and credit card fees	20,756	-	20,756	4,479	99,542	124,777
Accounting and legal fees	227,842	435	228,277	152,195	26,880	407,352
Other professional fees	295	-	295	216	6,719	7,230
Dues and subscriptions	26,058	1,206	27,264	12,891	3,817	43,972
Bad-debt expense	-	-	-	1,624	121,445	123,069
Foreign exchange gain	38,689	-	38,689	277	-	38,966
Other operating expenses	88,550	1,369	89,919	34,023	6,677	130,619
Depreciation	120,932	-	120,932	44,408	14,961	180,301
	<u>\$ 19,008,834</u>	<u>\$ 1,579,724</u>	<u>\$ 20,588,558</u>	<u>\$ 4,728,376</u>	<u>\$ 2,822,628</u>	<u>\$ 28,139,562</u>

See notes to financial statements.

Water.org, Inc.

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

	Program Services			Management and General	Fundraising	Total
	Water Programs	Outreach	Subtotal			
Salaries and wages	\$ 5,537,021	\$ 550,346	\$ 6,087,367	\$ 2,407,902	\$ 952,360	\$ 9,447,629
Payroll taxes	289,387	40,443	329,830	158,617	70,630	559,077
Employee benefits	404,581	51,689	456,270	303,576	93,281	853,127
Staff training	10,698	410	11,108	14,439	573	26,120
Contractors	324,020	296,664	620,684	846,796	325,089	1,792,569
Occupancy-related	579,249	10,673	589,922	53,779	21,112	664,813
Office supplies	31,154	-	31,154	5,330	-	36,484
Postage and shipping	10,253	7,786	18,039	-	3,052	21,091
Printing and reproduction	30,735	19,137	49,872	2,743	20,370	72,985
Telephone and related communications	86,238	19,770	106,008	34,064	3,844	143,916
Office equipment, rental and maintenance	75,261	15,222	90,483	79,629	18,198	188,310
Travel	1,052,220	16,709	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	3,853,568	-	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	31,136	1,489	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	60,426	376	60,802	29,725	3,156	93,683
Depreciation	134,474	9,129	143,603	39,383	17,939	200,925
	<u>\$ 17,743,127</u>	<u>\$ 1,119,671</u>	<u>\$ 18,862,798</u>	<u>\$ 4,281,512</u>	<u>\$ 1,790,084</u>	<u>\$ 24,934,394</u>

See notes to financial statements.

Water.org, Inc.

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (3,521,228)	\$ 5,699,213
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	180,301	200,925
Net realized and unrealized gains on investments	(73,811)	(22,296)
Gain on disposition of fixed assets	-	(2,505)
Changes in operating assets and liabilities:		
Contributions and other receivables	(491,278)	(2,085,428)
Prepaid expenses	(65,820)	(21,238)
Accounts payable	10,015	588,223
Accrued expenses	471,234	253,701
Refundable advances	(110,257)	360,518
Net cash provided by (used in) operating activities	<u>(3,600,844)</u>	<u>4,971,113</u>
Cash flows from investing activities:		
Purchase of property and equipment	(109,285)	(52,907)
Net cash used in investing activities	<u>(109,285)</u>	<u>(52,907)</u>
Net increase (decrease) in cash and cash equivalents	(3,710,129)	4,918,206
Cash and cash equivalents, beginning of year	21,062,019	16,143,813
Cash and cash equivalents, end of year	<u>\$ 17,351,890</u>	<u>\$ 21,062,019</u>

See notes to financial statements.

Notes to 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 is headquartered in Kansas City, Missouri, with offices in San Francisco, California; Kenya; India; Indonesia; Peru; Bangladesh; the Philippines; and Ethiopia. Besides work in these locations, Water.org has supported projects in Ghana, Haiti, Honduras, Uganda, Cambodia, Brazil and Mexico.

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.

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.

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 financial statements of Water.org.

Notes to Financial Statements

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

Basis of presentation: In 2019, Water.org adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 985): Presentation of Financial Statements of Not-for-Profit Entities*. The new standards changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreased the number of net asset classes from three to two. The new classes are net assets without donor restrictions and net assets with donor restrictions. The changes in this standard have been reflected in the financial statements for all years presented.

Reclassifications: Certain items for the year ended September 30, 2018, have been reclassified with no effect on changes in net assets, to be consistent with the classifications adopted for the year ended September 30, 2019.

Use of estimates: The preparation of 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 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 three months or less to be cash equivalents. At September 30, 2019 and 2018, 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 net assets without donor restrictions. Other investment return is reflected in the statements of activities as net assets without or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and equipment: Property and equipment is 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

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

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, 2019 and 2018.

Net assets with donor restrictions: Net assets with donor restrictions 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 revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the 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 net assets with donor restrictions and then released from restriction.

Gifts of equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restriction. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets with donor restrictions 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, 2019, are expected to be collected.

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 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.

Notes to Financial Statements

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

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, 2019 or 2018.

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 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 statements of activities. Certain costs have been allocated among the program, management and general, and fundraising categories based on actual time expended.

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 2019 or 2018.

Recent accounting pronouncements: Financial Accounting Standards Board (FASB) 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 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 financial statements.

Water.org, Inc.

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources

Water.org receives donor restricted contributions with donor time and/or purpose restrictions. In addition, Water.org receives support without donor restrictions.

Investment income without donor restrictions, contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are available to meet general expenditure requirements. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year.

Water.org manages its available cash to meet general expenditures adhering to three guiding principles:

- Operate within a prudent range of financial soundness and stability;
- Maintain a sufficient level of asset liquidity; and
- Maintain and monitor reserves to provide reasonable assurance that long-term grant commitments and obligations will continue to be met.

Water.org follows a liquidity policy mandating the maintenance of financial assets to meet general expenditures at a level that equals six months of administrative, general and fundraising expenses. To achieve this, Water.org forecasts its future cash flows and monitors its liquidity monthly.

The table below represents financial assets available for general expenditures within one year of December 31, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 17,351,890
Pledge receivables	3,519,386
Other receivables	61,645
Investments	<u>2,291,045</u>
Total financial assets	<u>23,223,966</u>
Less amounts not available to be used within one year:	
Investments in nonliquid securities	(1,179,291)
Cash and cash equivalents for IDR Loan Guarantees	(50,395)
Pledge receivables with donor restrictions	<u>(1,134,405)</u>
Financial assets not available to be used within one year	<u>(2,364,091)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 20,859,875</u>

Water.org has various sources of liquidity at its disposal, including cash and cash equivalents, and a line of credit with Bank of America totaling \$4,000,000. See Note 9 for information about Water.org's line of credit.

Note 3. Investments

Investments at September 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 1,111,754	\$ 1,097,136
Investment in WaterCredit Investment Fund I	<u>1,179,291</u>	<u>1,120,098</u>
	<u>\$ 2,291,045</u>	<u>\$ 2,217,234</u>

Notes to Financial Statements

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.

Recurring measurements: The following tables present the fair value measurements recognized in the accompanying 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, 2019 and 2018:

		September 30, 2019		
		Quoted Prices in Active Markets for Identical Assets Fair Value (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
	Mutual funds	\$ 1,111,754	\$ -	\$ -
		<u>\$ 1,111,754</u>	<u>\$ -</u>	<u>\$ -</u>

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

Water.org, Inc.

Notes to Financial Statements

Note 4. Fair Value of Assets and Liabilities (Continued)

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 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, 2019.

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 \$1,179,291 and \$1,120,098 at September 30, 2019 and 2018, respectively.

There were no changes in securities measured at NAV as of September 30, 2019.

Note 5. Conditional Gifts

Water.org has received conditional promises to give that are not recognized in the financial statements. Water.org must meet certain milestones as defined in the related grant agreements in order to recognize these grants as revenue. Management expects the conditions to be met over the next four years. Conditional promises at September 30, 2019 and 2018, were for the following purposes:

	2019	2018
India/Indonesia Initiative (through 2019)*	\$ -	\$ 1,474,262
Bangladesh/Cambodia Initiative (through 2019)	-	740,778
India/Bangladesh/Indonesia Initiative (through 2019)	-	2,000,000
Indonesia Initiative (through 2019)	-	283,298
India/Indonesia Initiative (through 2020)	1,000,000	-
Brazil & India Initiative (through 2020)	1,000,000	-
India Initiative (through 2021)	1,747,661	2,834,579
Bangladesh Initiative (through 2021)	2,520,371	2,520,371
Brazil Initiative (through 2021)	325,000	-
Global Insights & Innovation Initiative (through 2021)	251,898	-
Uganda Initiative (through 2021)	1,055,000	1,497,000
Ghana Initiative (through 2021)	307,323	-
	<u>\$ 8,207,253</u>	<u>\$ 11,350,288</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.

Water.org, Inc.**Notes to Financial Statements****Note 6. Grants Commitments (Continued)**

Outstanding conditional commitments as of September 30, 2019 and 2018, are expected to be funded within the next four years and are for the following programs:

	2019	2018
Grant programs	\$ 43,498	\$ 107,498
WaterCredit Initiative®	3,377,879	4,213,935
	<u>\$ 3,421,377</u>	<u>\$ 4,321,433</u>

Note 7. Property and Equipment

Property and equipment at September 30, 2019 and 2018, consisted of the following:

	2019	2018
Office equipment	\$ 1,129,145	\$ 1,182,881
Computer software	52,857	232,519
	<u>1,182,002</u>	<u>1,415,400</u>
Less accumulated depreciation	757,764	920,146
	<u>\$ 424,238</u>	<u>\$ 495,254</u>

Note 8. Line of Credit

Water.org has a \$4,000,000 revolving bank line of credit. At September 30, 2019 and 2018, there were no borrowings against this line. The interest rate is variable based on the current LIBOR daily floating rate plus 2.00%.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions as of September 30, 2019 and 2018, are available for the following purposes:

	2019	2018
Grant and WaterCredit programs' net assets:		
Indonesia	\$ 3,154,684	\$ 2,287,127
India	2,627,501	2,044,943
Ethiopia	-	102,173
Bangladesh	1,432,503	2,193,464
Philippines	368,690	555,637
Peru	77,009	880,344
Honduras	10,293	11,466
Ghana	3,925	3,925
Cambodia	101,156	36,131
Brazil	1,869,602	1,025,530
Uganda	83,887	159,312
Global	3,817,060	3,428,840
	<u>\$ 13,546,310</u>	<u>\$ 12,728,892</u>

Water.org, Inc.**Notes to Financial Statements****Note 9. Net Assets with Donor Restrictions (Continued)**

During the years ended September 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2019	2018
Grant and WaterCredit programs released:		
Indonesia	\$ 1,447,265	\$ 1,690,593
India	2,393,452	2,404,103
Ethiopia	102,173	561,291
Bangladesh	1,609,451	705,693
Philippines	186,946	867,401
Peru	803,335	1,053,265
Honduras	1,673	82,243
Ghana	-	69,989
Kenya	-	63,292
Cambodia	444,186	583,133
Brazil	450,563	94,220
Africa	5,393	15,807
Asia	183	12,187
Uganda	517,425	343,688
Global	716,089	719,158
	<u>\$ 8,678,134</u>	<u>\$ 9,266,063</u>

Note 10. Operating Leases

Noncancelable operating leases for office space expire in various years through 2026. Rental expense was \$563,233 and \$548,807 in 2019 and 2018, respectively. Future minimum lease payments under operating leases are as follows:

Years ending September 30:	
2020	\$ 551,281
2021	457,429
2022	335,793
2023	250,336
2024	74,534
Thereafter	78,670
Total minimum lease payments	<u>\$ 1,748,043</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% of the employee's compensation. Contributions to the U.S. plan were \$264,281 and \$240,655 for 2019 and 2018, respectively. Water.org also contributes to retirement plans for its international offices, and contributions to these plans were \$80,842 and \$42,705 for 2019 and 2018, respectively. Total contributions to all plans were \$345,123 and \$283,360 for 2019 and 2018, respectively.

Note 11. Employee Benefit Plan (Continued)

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, 2019 and 2018, Water.org recorded approximately \$1,017,708 and \$1,030,394, respectively, of accrued incentive compensation expense in accrued expenses on the 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 43% and 55% of all contributions were received from four donors in 2019 and 2018, 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 12.

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

Note 13. Subsequent Events

Subsequent events have been evaluated through March 13, 2020, which is the date the financial statements were available to be issued.

