

Water.org, Inc.

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2015 and 2014



Water.org, Inc.
September 30, 2015 and 2014

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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, 2015 and 2014, 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.

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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, 2015 and 2014, 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
February 12, 2016

Water.org, Inc.
Consolidated Statements of Financial Position
September 30, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 24,551,865	\$ 14,287,008
Grants receivable	2,533,722	745,000
Other receivables	43,893	14,283
Capital contribution receivable - WCIF 1	2,150,500	-
Prepaid expenses	219,813	114,464
Investments	774,405	777,368
Other assets	241,062	321,345
Property and equipment, net of accumulated depreciation; 2015 - \$396,143; 2014 - \$351,679	<u>145,126</u>	<u>75,147</u>
Total assets	<u><u>\$ 30,660,386</u></u>	<u><u>\$ 16,334,615</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 469,459	\$ 441,553
Accrued expenses	761,156	594,113
Refundable advances	<u>150,906</u>	<u>148,198</u>
Total liabilities	<u>1,381,521</u>	<u>1,183,864</u>

Net Assets

Unrestricted	9,387,214	7,016,879
Unrestricted - non-controlling interest	6,066,639	-
Total unrestricted	<u>15,453,853</u>	<u>7,016,879</u>
Temporarily restricted	<u>13,825,012</u>	<u>8,133,872</u>
Total net assets	<u>29,278,865</u>	<u>15,150,751</u>
Total liabilities and net assets	<u><u>\$ 30,660,386</u></u>	<u><u>\$ 16,334,615</u></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 Non-Controlling Interest in WaterCredit, LLC	2,185,992	5,691,140	7,877,132
Contributed Capital in WaterCredit Investment Fund 1, LLC, net	<u>6,250,982</u>	<u>-</u>	<u>6,250,982</u>
Change in Net Assets	8,436,974	5,691,140	14,128,114
Net Assets, Beginning of Year	<u>7,016,879</u>	<u>8,133,872</u>	<u>15,150,751</u>
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 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>-</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 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 loss	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>

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 gain (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 Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Change in net assets	\$ 14,128,114	\$ 4,230,684
Items not requiring (providing) operating activities cash flows		
Depreciation	45,719	47,470
Contributed capital to WaterCredit Investment Fund 1, LLC (WCIF 1)	(6,500,500)	-
Net realized and unrealized losses (gains) on investments	18,891	(89,785)
Changes in		
Grants and other receivables	(1,818,332)	(472,808)
Prepaid expenses	(105,349)	(27,542)
Accounts payable	16,570	204,971
Accrued expenses	167,043	112,004
Other assets	80,283	-
Refundable advances	2,708	(527,155)
	<u>6,035,147</u>	<u>3,477,839</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of property and equipment	(104,362)	(34,233)
Purchase of investments	(15,928)	(332,860)
	<u>(120,290)</u>	<u>(367,093)</u>
Net cash used in investing activities		
Financing Activities		
Contributed capital to WCIF 1	4,350,000	-
	<u>4,350,000</u>	<u>-</u>
Net cash provided by financing activities		
Increase in Cash and Cash Equivalents	10,264,857	3,110,746
Cash and Cash Equivalents, Beginning of Year	<u>14,287,008</u>	<u>11,176,262</u>
Cash and Cash Equivalents, End of Year	<u>\$ 24,551,865</u>	<u>\$ 14,287,008</u>
Supplemental Cash Flows Information		
Fixed assets included in accounts payable	\$ 20,333	\$ 8,997
Capital contribution receivable - WCIF 1	2,150,500	-

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

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 2015 and 2014, 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 established in Peru and Indonesia. In 2015, local branch offices were also established in Bangladesh and Philippines.

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” or “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. 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. For the purpose of continuing to expand the facilitation of

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

water and sanitation lending, Water.org created WaterCredit Investment Fund 3, LLC in 2015. No capital was contributed to WaterCredit Investment Fund 3, LLC during 2015.

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.

The Fund launched in 2015 with capital commitments of \$6,500,500 and grew to \$10,930,350 during 2016. Capital contributions of \$4,350,000 were received in 2015. The Fund received subscription agreements for capital commitments of \$2,150,500 during 2015 that were collected after year end resulting in a capital contributions receivable on the statement of financial position. During 2016, the Fund received capital contributions of \$4,429,850 to close the Fund with total capital raised of \$10,930,350.

The Fund 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 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. Since the Fund supports the mission of the Organization and Water.org controls the Fund through the Management Company, the Fund is consolidated in the accompanying financial statements.

The Fund'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 the Fund that cannot be a member of the board of managers at the Management Company or a director or key supplier of the Organization. The Fund 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 Company. All Fund income, gain, loss, deductions and credits shall be allocated among the members, at the Management Company's direction taking account their respective economic interest. The Fund was launched on October 15, 2015 and shall continue to operate until a liquidation event.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization, Management Company and the Fund. As of January 30, 2014, the Fund and Management Company were created and all activities were fully consolidated with the Organization. During 2015, the WaterCredit Investment Fund 1, LLC began receiving capital contributions through its private offering memorandum. 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, 2015 and 2014, cash equivalents consisted primarily of certificates of deposit.

At September 30, 2015, the Organization's cash accounts exceeded federally insured limits by approximately \$19,859,000.

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 consolidated 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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

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, 2015 and 2014.

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.

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 \$2,150,500 at September 30, 2015 related to the formation of WCIF 1, which was funded subsequent to year end before the consolidated financial statements were available to be issued.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

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 2012.

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.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Direct Costs of Equity Offering

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

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, 2013	\$ 4,236,516	\$ 4,236,516	\$ -
Change in unrestricted net assets	2,780,363	2,780,363	-
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 1, 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

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, 2015, have been recorded as receivables.

The Organization had been awarded grants totaling \$3,142,805, in which \$2,533,721 was earned and had not been received as of September 30, 2015. The Organization had been awarded a grant totaling \$1,225,000, in which \$745,000 was earned and had not been received as of September 30, 2014.

Water.org, Inc.
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 4: Investments and Investment Return

Investments at September 30 consisted of the following:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 774,405	\$ 777,368

Total investment return is comprised of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 23,722	\$ 13,745
Net realized and unrealized gains (losses)	<u>(18,891)</u>	<u>89,785</u>
	<u>\$ 4,831</u>	<u>\$ 103,530</u>

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, 2015 and 2014:

	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, 2015	\$ 774,405	\$ 774,405	\$ -	\$ -
September 30, 2014	777,368	777,368	-	-

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, 2015.

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 5: 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>2015</u>	<u>2014</u>
Haiti Initiative (through 2017)	\$ 746,000	\$ -
India Initiative (through 2019)*	5,661,331	1,357,500
Kenya Initiative (through 2016)	261,807	1,607,956
Bangladesh Initiative (through 2017)*	2,115,958	3,518,985
Indonesia Initiative (through 2019)*	6,758,112	1,817,085
Philippines Initiative (through 2017)	1,918,647	2,749,526
Peru Initiative (through 2017)	1,252,933	1,904,938
New Ventures (through 2017)	1,683,334	500,000
Outreach (through 2017)	50,000	50,000
Ethiopia Initiative (through 2016)	950,000	950,000
Ghana Initiative (through 2016)	347,276	1,050,132
General Programs (through 2015)	-	480,000
	<u>\$ 21,745,398</u>	<u>\$ 15,986,122</u>

*Funds are awarded to the Organization in a foreign currency (Euros). Using the currency exchange rate effective for September 30, 2015, the Euros were converted to U.S. Dollars (USD).

Note 6: 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>2015</u>	<u>2014</u>
Grant programs	\$ 1,671,478	\$ 395,528
WaterCredit	<u>3,281,536</u>	<u>4,738,442</u>
	<u>\$ 4,953,014</u>	<u>\$ 5,133,970</u>

Note 7: Property and Equipment

Property and equipment at September 30 consists of:

	<u>2015</u>	<u>2014</u>
Office equipment	\$ 351,102	\$ 243,159
Computer software	<u>190,167</u>	<u>183,667</u>
	541,269	426,826
Less accumulated depreciation	<u>396,143</u>	<u>351,679</u>
	<u>\$ 145,126</u>	<u>\$ 75,147</u>

Note 8: Line of Credit

The Organization has a \$2,000,000 revolving bank line of credit. At September 30, 2015 and 2014, 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 9: Temporarily Restricted Net Assets

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

	2015	2014
Grant and WaterCredit programs		
Indonesia	\$ 2,297,673	\$ 474,960
India	2,138,817	1,268,645
Bangladesh	1,279,730	1,308,519
Philippines	979,633	693,651
Ethiopia	796,019	515,563
Ghana	794,638	765,063
Honduras	694,470	-
Peru	674,239	572,769
Kenya	635,067	474,690
Asia	-	249,925
Uganda	-	9,741
Haiti	-	218,904
Other	418,228	42,919
Global Advocacy	1,194,135	-
WaterCredit WCIF 1	1,804,850	-
New Ventures	117,513	1,538,523
	<u>\$ 13,825,012</u>	<u>\$ 8,133,872</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>2015</u>	<u>2014</u>
Grant and WaterCredit programs		
Indonesia	\$ 541,969	\$ 343,573
India	2,199,468	2,255,009
Bangladesh	1,072,763	509,482
Philippines	581,732	288,262
Ethiopia	372,606	21,228
Ghana	783,669	283,539
Honduras	18,290	-
Peru	587,370	353,960
Kenya	1,256,655	1,058,786
Africa	8,340	-
Asia	13,929	836,792
Uganda	17,846	130,144
Haiti	329,467	893,278
Other	113,647	182,877
Global Advocacy	3,356	-
New Ventures	<u>1,468,635</u>	<u>1,472,120</u>
	<u>\$ 9,369,742</u>	<u>\$ 8,629,050</u>

Note 10: Operating Leases

Noncancellable operating leases for office space expire in various years through 2016. Rental expense was \$173,777 and \$143,836 in 2015 and 2014, respectively. Future minimum lease payments under operating leases are:

2016	\$ 124,827
2017	214,767
2018	207,828
2019	197,418
2020	197,418
Thereafter	<u>526,447</u>
Total minimum lease payments	<u>\$ 1,468,705</u>

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Note 11: 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 \$145,508 and \$115,904 for 2015 and 2014, 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, 2015 and 2014, the Organization recorded approximately \$489,000 and \$364,000, respectively, of accrued incentive compensation expense in accrued expenses on the consolidated statements of financial position.

Note 12: Related-Party Transactions

During 2015 and 2014, the Organization transferred \$550,000 and \$250,000, respectively, to WaterCredit, LLC (the Management Company), to help fund the startup costs for WaterCredit, LLC and WaterCredit Investment Fund 1, LLC (WCIF 1). These intercompany transfers were eliminated during consolidation.

In addition, while the Fund did not have the funds to pay its startup costs, the Management Company funded all of the startup costs for WCIF 1. The Management Company will forgo repayment of the startup costs in exchange for a portion of its Class I membership interest in WCIF 1. As of September 30, 2015 and 2014, the Management Company paid startup costs of \$706,372 and \$321,345, respectively. During 2015, the Management Company allocated \$465,310 of the startup costs for the formation of WCIF 1 as contributed capital in its Class I membership interest. The remaining startup costs will be allocated to WaterCredit Investment Fund 3, LLC after funds are expected to be raised during 2016. No additional investment has been made by the Management Company as of September 30, 2015.

During 2015, WCIF 1 received cash proceeds of \$4,350,000 for capital contributions from outside investors. WCIF 1 also received commitments from outside investors to contribute \$2,150,500, proceeds of which were received subsequent to year end. The Fund intends to deploy this capital in 2016 to establish water assistance in India.

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Note 13: Significant Estimates and Concentrations

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

Contributions

Approximately 30% and 15% of all contributions were received from one donor in 2015 and 2014, respectively.

Conditional Gifts

Estimates related to conditional gifts are described in *Note 5*.

Incentive Compensation Plan

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

Functional Expense Allocation

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

Note 14: Subsequent Events

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