

# **Water.org, Inc.**

Financial Report  
September 30, 2020

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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, 2020 and 2019, 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, 2020 and 2019, 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. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, during the current year. The adoption was prospectively applied to the year ended September 30, 2020.

*RSM US LLP*

Kansas City, Missouri  
September 9, 2021

Water.org, Inc.

Statements of Financial Position  
September 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 17,762,452	\$ 17,351,890
Contributions receivable	1,500,001	3,519,386
Other receivables	57,629	61,645
Prepaid expenses	330,475	373,667
Investments	1,322,929	1,111,754
Investment in WaterCredit Fund I	1,125,704	1,179,291
Property and equipment, net of accumulated depreciation, 2020—\$822,697, 2019—\$757,764	320,979	424,238
<b>Total assets</b>	<b>\$ 22,420,169</b>	<b>\$ 24,021,871</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 616,950	\$ 1,066,064
Accrued expenses	1,354,047	2,279,536
Paycheck Protection Program loan	1,425,382	-
Refundable advances	4,901,076	390,242
<b>Total liabilities</b>	<b>8,297,455</b>	<b>3,735,842</b>
Net assets:		
Without donor restrictions	6,785,619	6,739,719
With donor restrictions	7,337,095	13,546,310
<b>Total net assets</b>	<b>14,122,714</b>	<b>20,286,029</b>
<b>Total liabilities and net assets</b>	<b>\$ 22,420,169</b>	<b>\$ 24,021,871</b>

See notes to financial statements.

**Water.org, Inc.**

**Statement of Activities  
Year Ended September 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundations, corporations and other organizations	\$ 9,413,008	\$ 2,703,880	\$ 12,116,888
Individuals	6,377,830	43,985	6,421,815
Federated/workplace campaigns	196,304	100	196,404
In-kind contributions	18,468	-	18,468
Investment return	432,209	6,655	438,864
Other	131,793	-	131,793
Net assets released from restrictions	8,963,835	(8,963,835)	-
<b>Total revenues, gains and other support</b>	<b>25,533,447</b>	<b>(6,209,215)</b>	<b>19,324,232</b>
Expenses and losses:			
Program services:			
Water programs	14,789,577	-	14,789,577
Outreach	8,243	-	8,243
<b>Total program services</b>	<b>14,797,820</b>	<b>-</b>	<b>14,797,820</b>
Management and general	7,153,051	-	7,153,051
Fundraising	3,536,676	-	3,536,676
<b>Total expenses and losses</b>	<b>25,487,547</b>	<b>-</b>	<b>25,487,547</b>
<b>Change in net assets</b>	<b>45,900</b>	<b>(6,209,215)</b>	<b>(6,163,315)</b>
Net assets, beginning of year	6,739,719	13,546,310	20,286,029
Net assets, end of year	\$ 6,785,619	\$ 7,337,095	\$ 14,122,714

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:			
Foundation, corporations and other organizations	\$ 6,634,079	\$ 9,435,058	\$ 16,069,137
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)	-
<b>Total revenues, gains and other support</b>	<b>23,800,916</b>	<b>817,418</b>	<b>24,618,334</b>
Expenses and losses:			
Program services:			
Water programs	19,008,834	-	19,008,834
Outreach	1,579,724	-	1,579,724
<b>Total program services</b>	<b>20,588,558</b>	<b>-</b>	<b>20,588,558</b>
Management and general	4,728,376	-	4,728,376
Fundraising	2,822,628	-	2,822,628
<b>Total expenses and losses</b>	<b>28,139,562</b>	<b>-</b>	<b>28,139,562</b>
<b>Change in net assets</b>	<b>(4,338,646)</b>	<b>817,418</b>	<b>(3,521,228)</b>
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 Functional Expenses  
Year Ended September 30, 2020**

	Program Services			Management and General	Fundraising	Total
	Water Programs	Outreach	Subtotal			
Salaries and wages	\$ 5,447,187	\$ 117	\$ 5,447,304	\$ 3,707,853	\$ 964,834	\$ 10,119,991
Payroll taxes	287,070	8	287,078	292,811	81,303	661,192
Employee benefits	435,494	9	435,503	469,788	100,735	1,006,026
Contractors	341,831	6,667	348,498	1,056,005	1,666,603	3,071,106
Occupancy-related	328,317	-	328,317	337,281	72,485	738,083
Office supplies	5,880	-	5,880	17,130	960	23,970
Postage and shipping	1,693	-	1,693	8,471	12,604	22,768
Printing and reproduction	16,270	-	16,270	20,118	27,412	63,800
Telephone and related communications	40,844	-	40,844	69,832	35,058	145,734
Office equipment, rental and maintenance	118,534	293	118,827	216,063	155,158	490,048
Travel	447,833	-	447,833	212,060	44,525	704,418
Grants to other organizations	4,834,337	-	4,834,337	9,739	-	4,844,076
Program fees and supplies	1,997,587	-	1,997,587	119,908	991	2,118,486
Advertising and marketing	-	1,149	1,149	9,500	45,112	55,761
Directors and officer insurance	47,482	-	47,482	47,135	11,249	105,866
Bank and credit card fees	8,597	-	8,597	14,524	104,748	127,869
Accounting and legal fees	243,992	-	243,992	341,842	36,498	622,332
Dues and subscriptions	1,115	-	1,115	22,689	11,074	34,878
Bad-debt expense	1,387	-	1,387	-	143,271	144,658
Foreign exchange gain	9,584	-	9,584	4,399	-	13,983
Other operating expenses	93,573	-	93,573	91,897	1,645	187,115
Depreciation	80,970	-	80,970	84,006	20,411	185,387
	<u>\$ 14,789,577</u>	<u>\$ 8,243</u>	<u>\$ 14,797,820</u>	<u>\$ 7,153,051</u>	<u>\$ 3,536,676</u>	<u>\$ 25,487,547</u>

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.**

**Statements of Cash Flows**  
**Years Ended September 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (6,163,315)	\$ (3,521,228)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	185,387	180,301
Net unrealized gains on investments	(144,174)	(73,811)
Loss on disposition of fixed assets	222	-
Changes in operating assets and liabilities:		
Contributions and other receivables	2,023,401	(491,278)
Prepaid expenses	43,192	(65,820)
Accounts payable	(449,114)	10,015
Accrued expenses	(925,489)	471,234
Refundable advances	4,510,834	(110,257)
<b>Net cash used in operating activities</b>	<b>(919,056)</b>	<b>(3,600,844)</b>
Cash flows from investing activities:		
Purchase of property and equipment	(82,350)	(109,285)
Purchase of investments	(695,553)	-
Proceeds from sale of investments	682,139	-
<b>Net cash used in investing activities</b>	<b>(95,764)</b>	<b>(109,285)</b>
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan	1,425,382	-
<b>Net cash provided by financing activities</b>	<b>1,425,382</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>410,562</b>	<b>(3,710,129)</b>
Cash and cash equivalents, beginning of year	17,351,890	21,062,019
Cash and cash equivalents, end of year	<b>\$ 17,762,452</b>	<b>\$ 17,351,890</b>

See notes to financial statements.

**Notes to Financial Statements**

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**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, Kenya, 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**

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

**Basis of presentation:** The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Financial statement presentation follows the recommendations of the *FASB Accounting Standards Codification (ASC)* Subtopic 958, Presentation of Financial Statements of Not-for-Profit Entities. Under this topic, Water.org is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of Water.org and changes therein are classified and reported as follows:

**Net assets without donor restrictions:** Net assets are not subject to donor-imposed restrictions but may be subject to designation by the Board for Water.org's mission.

**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.

**Use of estimates:** The preparation of financial statements in conformity with 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, 2020 and 2019, 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.

Notes to Financial Statements

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

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	30 years
Equipment	10 years
Computer and software	3-5 years
Furniture and fixtures	10 years

**Long-lived asset impairment:** Water.org evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2020 and 2019.

**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, 2020, are expected to be collected.

**Revenue:** Effective October 1, 2019, Water.org adopted ASC Topic 606, Revenue from Contracts with Customers. The Financial Accounting Standards Board (FASB) has concluded that contributions are not within the scope of ASC 606 because they are nonreciprocal transfers. As a result, contributions should continue to be accounted for in accordance with ASC Subtopic 958-605. As Water.org's revenue streams do not meet the definition of contract with a customer, there was no impact from the adoption of this standard.

**Notes to Financial Statements**

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

**In-kind contributions:** In addition to receiving cash contributions, Water.org receives in-kind contributions of goods and services from various donors. It is the policy of Water.org to record the estimated fair value of certain in-kind donations as an expense in the financial statements, and similarly increase contribution revenue by a like amount. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

**Grant revenues:** Support funded by grants is recognized as Water.org performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant funds received in excess of related program expenses are recorded as refundable advances. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Foreign currency translation and transactions:** Assets recorded in functional currencies other than U.S. dollars are translated into U.S. dollars at the year-end rate of exchange. Revenue and expense transactions are recorded using a contemporaneous rate of exchange. The net currency translation and the gains and losses from foreign currency transactions are recorded in the change in net assets.

**Income taxes:** Water.org is exempt from income taxes under section 501 of the Internal Revenue Code and a similar provision of state law. However, Water.org is subject to federal income tax on any unrelated business taxable income. Uncertain tax positions, if any, are recorded in accordance with 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, 2020 or 2019.

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 2020 or 2019.

**Notes to Financial Statements**

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

**Recent accounting pronouncements:** In February 2016, the FASB issued Accounting Standards Update (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.

**Newly adopted accounting pronouncements:** In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, to clarify the accounting guidance for contributions received and contributions made. The amendments provide assistance to entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Nonprofit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Differences in these conclusions affect the timing of revenue recognized. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. When barriers to entitlement are overcome, conditional contributions are recognized as unconditional and classified as either net assets with restrictions or net assets without restriction. Cash received from a conditional contribution prior to overcoming a barrier is recorded as a refundable advance liability and cash asset.

During the year ended September 30, 2020, Water.org adopted ASU 2018-08. As a result, revenue recognition was changed for agreements not completed or entered into after October 1, 2019. Previously, management determined whether a contribution was conditional based on the likelihood of failing to meet a condition. Water.org considered a promise to give that had right of return of assets clause in the grant agreement as conditional and revenue was recognized when the expenses were incurred. Payments made in advance of the expenses incurred were recorded as unearned revenue. Expenses incurred that were more than the cash payments received from the donor resulted in an accounts receivable. With adoption of this updated standard, a contribution is considered conditional on the basis of whether an agreement includes a barrier that must be overcome and the barrier is linked to either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or a right of release indicates that a recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome the barrier(s) in the agreement. This had a significant effect on the total revenue recognized for the year ended September 30, 2020. Program restricted revenue that would have previously been considered conditional and now does not meet the definition of conditional revenue and is recognized in full.

The following table shows the summary of the effect of the adoption of ASU 2018-08 on the statement of financial position as of September 30, 2020:

	Pre ASU 2018-08	Adoption of ASU 2018-08	As Reported
Refundable advances	\$ 3,901,076	\$ 1,000,000	\$ 4,901,076
Total net assets	15,122,714	(1,000,000)	14,122,714

## Water.org, Inc.

### Notes to Financial Statements

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

The following table shows the effect of the adoption of ASU 2018-08 on the statement of activities for the year ended September 30, 2020:

	Pre ASU 2018-08	Adoption of ASU 2018-08	As Reported	
			Without Donor Restrictions	With Donor Restrictions
Grants	\$ 13,116,888	\$ (1,000,000)	\$ 9,413,008	\$ 2,703,880
Change in net assets	(5,163,315)	(1,000,000)	45,900	(6,209,215)

The following table shows the effect of the adoption of ASU 2018-08 on the statement of cash flows for the year ended September 30, 2020:

	Pre ASU 2018-08	Adoption of ASU 2018-08	As
			Reported
Refundable advance increase		\$ 3,510,834	\$ 4,510,834
Change in net assets		(5,163,315)	(6,163,315)

The modified prospective method was elected for the transitions and therefore, there is no cumulative-effect adjustment to opening net assets at the beginning of the year.

#### 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 three months of administrative, general and fundraising expenses. To achieve this, Water.org forecasts its future cash flows and monitors its liquidity monthly.

## Water.org, Inc.

### Notes to Financial Statements

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#### Note 2. Liquidity and Availability of Resources (Continued)

The table below represents financial assets available for general expenditures within one year of September 30:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 17,762,452	\$ 17,351,890
Contribution receivables	1,500,001	3,519,386
Other receivables	57,629	64,645
Investments	2,448,633	2,291,045
Total financial assets	<u>21,768,715</u>	<u>23,226,966</u>
Less amounts not available to be used within one year:		
Investments in nonliquid securities	(1,125,704)	(1,179,291)
Cash and cash equivalents for IDR Loan Guarantees	(45,734)	(50,395)
Contribution receivables with donor restrictions	(1,000,000)	(1,134,405)
Financial assets not available to be used within one year	<u>(2,171,438)</u>	<u>(2,364,091)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 19,597,277</u>	<u>\$ 20,862,875</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 8 for information about Water.org's line of credit.

#### Note 3. Investments

Investments at September 30, 2020 and 2019, consisted of the following:

	2020	2019
Mutual funds	\$ 1,322,929	\$ 1,111,754
Investment in WaterCredit Investment Fund I	1,125,704	1,179,291
	<u>\$ 2,448,633</u>	<u>\$ 2,291,045</u>

#### Note 4. Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. Water.org accounts for its investments at fair value. In accordance with the guidance, Water.org has categorized its investments based on the priority of the inputs to the valuation technique, which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs are quoted prices for identical instruments traded in active markets.

**Notes to Financial Statements**

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

**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, 2020 and 2019:

		September 30, 2020				
		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	\$ 1,322,929	\$ 1,322,929	\$ -	\$ -	
		<u>\$ 1,322,929</u>	<u>\$ 1,322,929</u>	<u>\$ -</u>	<u>\$ -</u>	
		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	\$ 1,111,754	\$ -	\$ -	
		<u>\$ 1,111,754</u>	<u>\$ 1,111,754</u>	<u>\$ -</u>	<u>\$ -</u>	

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying 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, 2020.

**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 \$1,125,704 and \$1,179,291 at September 30, 2020 and 2019, respectively.

There were no changes in securities measured at NAV as of September 30, 2020.

## Water.org, Inc.

### Notes to Financial Statements

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#### 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 two years. Conditional promises at September 30, 2020 and 2019, were for the following purposes:

	2020	2019
Brazil & India Initiative (through 2021)	\$ -	\$ 1,000,000
India Initiative (through 2021)	775,683	1,747,661
Bangladesh Initiative (through 2021)	1,351,971	2,520,371
Brazil Initiative (through 2021)	98,000	325,000
Global Insights & Innovation Initiative (through 2021)	24,070	251,898
Uganda Initiative (through 2021)	546,000	1,055,000
Ghana Initiative (through 2021)	103,175	307,323
India/Indonesia initiative (through 2021)	400,000	-
India, Bangladesh, & Indonesia initiative (through 2021)	1,000,000	-
Kenya initiative (through 2022)	867,160	-
Indonesia Initiative (through 2022)	75,274	-
India/Indonesia initiative (through 2022)	1,350,000	1,000,000
Bangladesh initiative (through 2022)	1,168,400	-
	<u>\$ 7,759,733</u>	<u>\$ 8,207,253</u>

#### Note 6. Grants Commitments

Water.org has entered into contracts and agreements with partner organizations to implement water projects. Funding for the related projects is generally conditional upon meeting certain milestones and submission of support for related expenditures. The grants will be considered unconditional and expensed when the contingency requirements have been met.

Outstanding conditional commitments as of September 30, 2020 and 2019, are expected to be funded within the next four years and are for the following programs:

	2020	2019
Grant programs	\$ -	\$ 43,498
WaterCredit Initiative®	4,042,299	3,377,879
	<u>\$ 4,042,299</u>	<u>\$ 3,421,377</u>

## Water.org, Inc.

### Notes to Financial Statements

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#### Note 7. Property and Equipment

Property and equipment at September 30, 2020 and 2019, consisted of the following:

	2020	2019
Office equipment	\$ 1,090,819	\$ 1,129,145
Computer software	52,857	52,857
	<u>1,143,676</u>	<u>1,182,002</u>
Less accumulated depreciation	822,697	757,764
	<u>\$ 320,979</u>	<u>\$ 424,238</u>

#### Note 8. Line of Credit and Paycheck Protection Program Loan

Water.org has a \$4,000,000 revolving bank line of credit. At September 30, 2020 and 2019, there were no borrowings against this line. The interest rate is variable based on the current LIBOR daily floating rate plus 2.00%.

On March 27, 2020, the Coronavirus, Relief, and Economic Security Act (CARES Act) was signed into law and is meant to address the economic fallout from the COVID-19 pandemic. In connection with the CARES Act, Water.Org received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan for \$1,425,382 on April 15, 2020. Water.org determined it qualified for the PPP loan because Water.org has less than 500 employees. The loan is unsecured, bears interest at 1.00% and matures on April 15, 2022. Under the provisions of the CARES Act and related loans, this loan will be forgiven if certain conditions are met related to the use of the proceeds and maintenance of employment with Water.org employees. Water.org has elected to account for the loan as a financial liability in accordance with ASC Topic 470, Debt. The outstanding balance of the note as of September 30, 2020, is \$1,425,382. On May 6, 2021, Water.org was approved for full forgiveness of the loan and will be recognized as loan forgiveness revenue in the statement of activities for the year ended September 30, 2021.

#### Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions as of September 30, 2020 and 2019, are available for the following purposes:

	2020	2019
Grant and WaterCredit programs' net assets:		
Indonesia	\$ 1,854,864	\$ 3,154,684
India	369,509	2,627,501
Bangladesh	-	1,432,503
Philippines	58,074	368,690
Peru	160,399	77,009
Honduras	10,293	10,293
Ghana	-	3,925
Cambodia	104,499	101,156
Brazil	1,720,377	1,869,602
Uganda	115,596	83,887
Global	2,943,484	3,817,060
	<u>\$ 7,337,095</u>	<u>\$ 13,546,310</u>

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

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**Note 9. Net Assets With Donor Restrictions (Continued)**

During the years ended September 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2020	2019
Grant and WaterCredit programs released:		
Indonesia	\$ 1,184,067	\$ 1,447,265
India	2,331,066	2,393,452
Ethiopia	16,339	102,173
Bangladesh	1,910,176	1,609,451
Philippines	318,729	186,946
Peru	184,471	803,335
Honduras	-	1,673
Ghana	93,472	-
Kenya	47,047	-
Cambodia	1,794	444,186
Brazil	415,191	450,563
Africa	-	5,393
Asia	114,608	183
Uganda	394,404	517,425
Global	1,952,471	716,089
	<u>\$ 8,963,835</u>	<u>\$ 8,678,134</u>

**Note 10. Operating Leases**

Noncancelable operating leases for office space expire in various years through 2026. Rental expense was \$571,798 and \$563,233 in 2020 and 2019, respectively. Future minimum lease payments under operating leases are as follows:

Years ending September 30:	
2021	\$ 474,163
2022	344,536
2023	246,145
2024	71,352
2025	55,737
Thereafter	18,579
Total minimum lease payments	<u>\$ 1,210,512</u>

**Notes to Financial Statements**

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**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. This match was suspended for the period May 1, 2020 through September 30, 2020. Contributions to the U.S. plan were \$197,102 and \$264,281 for 2020 and 2019, respectively. Water.org also contributes to retirement plans for its international offices, and contributions to these plans were \$116,424 and \$80,842 for 2020 and 2019, respectively. Total contributions to all plans were \$313,526 and \$345,123 for 2020 and 2019, respectively.

Water.org has an incentive compensation plan that provides a range of organizational and personal goals to determine incentive compensation per employee. The incentive compensation payment in late December is based upon the finalization of the year's financial results and approval by the Executive Committee of the Board of Directors. As of September 30, 2020 and 2019, Water.org recorded approximately \$0 and \$1,017,708, 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 23% and 43% of all contributions were received from two and four donors in 2020 and 2019, 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 13. Subsequent Events**

Subsequent events were evaluated through September 9, 2021, which is the date the financial statements were available to be issued.

On March 15, 2021, Water.org received a second installment of the PPP loan for \$1,425,377. The loan is unsecured, bears interest at 1.00% and matures on March 15, 2026. Water.org determined that it qualified for the loan because it has fewer than 300 employees and proved that they had a 25% reduction in gross receipts between comparable quarters in 2019 and 2020. Under the provision of the CARES Act and related loans, this loan will be forgiven if certain conditions are met related to the use of these proceeds. Should Water.org be required to repay some portion of these funds because conditions for loan forgiveness are not met, it is the intent of Water.org leadership to repay any such funds to the lender in accordance with the terms of the agreement.