

THE WATER PROJECT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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HESSION & PARE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Water Project, Inc.
Concord, New Hampshire

We have audited the accompanying financial statements of The Water Project, Inc., (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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.

Board of Directors
The Water Project, Inc.

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 The Water Project, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Water Project, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Manchester, New Hampshire
May 2, 2019

HESSION ; PA 2A, P.C.

THE WATER PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 3,116,855	\$ 3,461,507
Contributions receivable	70,415	468,354
Deposit	1,771	3,471
Prepaid expense	14,081	7,754
	<hr/>	<hr/>
Total current assets	3,203,122	3,941,086
Property and equipment		
Building	285,000	-
Furniture and equipment	37,688	30,321
Software	6,425	6,425
	<hr/>	<hr/>
	329,113	36,746
Less accumulated depreciation	(35,618)	(24,061)
	<hr/>	<hr/>
Property and equipment, net	293,495	12,685
	<hr/>	<hr/>
Total assets	<u>\$ 3,496,617</u>	<u>\$ 3,953,771</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 4,350	\$ 10,533
Accrued expenses	58,026	36,289
	<hr/>	<hr/>
Total current liabilities	62,376	46,822
Net assets		
Without donor restrictions	3,170,699	3,433,128
With donor restrictions	263,542	473,821
	<hr/>	<hr/>
Total net assets	3,434,241	3,906,949
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 3,496,617</u>	<u>\$ 3,953,771</u>

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2018 and 2017

	Without Donor Restrictions	With Donor Restrictions	<u>2018</u>	<u>2017</u>
Support and revenues				
Contributions	\$ 2,649,710	\$ 248,000	\$ 2,897,710	\$ 5,852,500
Interest income	22,996	-	22,996	103
In-kind contributions	2,011	-	2,011	120,000
Net assets released from restrictions	<u>458,279</u>	<u>(458,279)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>\$ 3,132,996</u>	<u>\$ (210,279)</u>	<u>\$ 2,922,717</u>	<u>\$ 5,972,603</u>
Expenses				
Program	2,724,467	-	2,724,467	2,272,725
Development and public relations	406,213	-	406,213	335,870
Management and general	<u>264,745</u>	<u>-</u>	<u>264,745</u>	<u>198,162</u>
Total expenses	<u>3,395,425</u>	<u>-</u>	<u>3,395,425</u>	<u>2,806,757</u>
(Decrease) increase in net assets	(262,429)	(210,279)	(472,708)	3,165,846
Net assets, beginning of year	<u>3,433,128</u>	<u>473,821</u>	<u>3,906,949</u>	<u>741,103</u>
Net assets, end of year	<u>\$ 3,170,699</u>	<u>\$ 263,542</u>	<u>\$ 3,434,241</u>	<u>\$ 3,906,949</u>

See notes to financial statements.

THE WATER PROJECT, INC.
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (472,708)	\$ 3,165,846
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	11,557	5,110
Decrease (increase) in contributions receivable	397,939	(387,206)
Decrease (increase) in deposit	1,700	(271)
(Increase) in prepaid expenses	(6,327)	(857)
(Decrease) increase in accounts payable	(6,183)	4,022
Increase in accrued expenses	21,737	8,072
	<u>(52,285)</u>	<u>2,794,716</u>
Net cash (used in) provided by operating activities		
Cash flows (used in) investing activities		
Purchase of property and equipment	<u>(292,367)</u>	<u>(4,287)</u>
Net (decrease) increase in cash and cash equivalents	(344,652)	2,790,429
Cash and cash equivalents, beginning of year	<u>3,461,507</u>	<u>671,078</u>
Cash and cash equivalents, end of year	<u>\$ 3,116,855</u>	<u>\$ 3,461,507</u>

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018
(with comparative totals for 2017)

	Program by Region							Development & Public Relations	Management & General	2018	2017
	Kenya	Sierra Leone	Uganda	Burkina Faso	Middle East	Total Program					
Salaries and wages	\$ 283,028	\$ 66,338	\$ 51,672	\$ 9,638	\$ 54,130	\$ 464,806	\$ 234,085	\$ 140,361	\$ 839,252	\$ 622,712	
Employee benefits	68,041	17,387	12,968	1,839	3,679	103,914	43,025	32,114	179,053	134,630	
Payroll taxes	21,419	5,020	3,910	729	4,096	35,174	17,715	10,622	63,511	48,001	
Total salaries and related expenses	372,488	88,745	68,550	12,206	61,905	603,894	294,825	183,097	1,081,816	805,343	
Partner program support	1,539,827	307,419	126,414	-	-	1,973,660	-	-	1,973,660	1,655,632	
Travel	23,271	6,058	4,989	606	4,276	39,200	11,469	418	51,087	42,428	
Facilities and equipment	21,391	5,569	4,586	557	3,931	36,034	9,091	4,954	50,079	64,888	
Bank fees	1,443	288	119	-	2	1,852	136	45,407	47,395	45,514	
Contract services	1,900	-	-	-	-	1,900	31,004	266	33,170	35,304	
Website services	17,033	2,480	914	-	-	20,427	7,768	90	28,285	36,251	
Legal and professional	1,837	478	394	48	338	3,095	2,418	22,141	27,654	22,568	
Software and cloud services	6,479	943	348	-	-	7,770	6,747	1,783	16,300	11,065	
Telephone and internet	5,952	1,549	1,276	155	1,094	10,026	4,108	1,847	15,981	14,014	
Printing	276	55	23	-	-	354	14,473	-	14,827	13,346	
Other expenses	7,395	1,925	1,584	193	1,359	12,456	1,087	353	13,896	15,030	
Postage and shipping	481	96	40	-	1	618	10,976	96	11,690	11,196	
Licenses and permits	-	-	-	-	2,206	2,206	4,410	-	6,616	12,678	
Supplies	1,533	399	329	40	282	2,583	382	185	3,150	1,165	
Public relations and development	-	-	-	-	-	-	2,664	-	2,664	7,538	
Insurance	-	-	-	-	-	-	-	2,173	2,173	2,173	
Worker's comp insurance	644	168	138	17	118	1,085	546	328	1,959	1,593	
Subscriptions and publications	65	17	14	2	12	110	1,024	125	1,259	1,386	
Staff development	60	16	13	2	11	102	78	27	207	2,535	
Expenses before depreciation	2,002,075	416,205	209,731	13,826	75,535	2,717,372	403,206	263,290	3,383,868	2,801,647	
Depreciation	4,212	1,096	903	110	774	7,095	3,007	1,455	11,557	5,110	
Total expenses	\$ 2,006,287	\$ 417,301	\$ 210,634	\$ 13,936	\$ 76,309	\$ 2,724,467	\$ 406,213	\$ 264,745	\$ 3,395,425	\$ 2,806,757	

See auditor's report on supplementary information.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. NATURE OF OPERATIONS

The Water Project, Inc. (the “Organization”) is a not-for-profit corporation, incorporated on December 5, 2007. The Organization is an independent organization based in Concord, New Hampshire that unlocks human potential by building and connecting global networks of local leaders, communities of generous supporters and an informed public to provide sustainable water and sanitation programs to needlessly suffering communities in developing countries. The Organization develops like-minded local leadership and organizations (Partners) within countries of operation – providing training, program auditing, strategic direction and access to tools, equipment, technology and organizational, financial and human resources. Water programs are focused on the implementation of new water, sanitation and health projects, as well as the monitoring, maintenance and repair of existing water projects. The Organization raises public awareness and support of each program, and, through transparent reporting, links donors to the specific projects/programs they are supporting.

The Organization’s major sources of support and revenue are contributions from the general public.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Net assets

The financial statements report net assets and changes in net assets that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor’s restrictions.

Use of estimates

The Organization uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative totals

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Concentration of credit risk

The Organization maintains cash balances at certain financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts. The Organization monitors the financial stability of financial institutions regularly and management does not believe there is significant credit risk associated with deposits in excess of federally insured amounts. At December 31, 2018, the Organization’s uninsured cash balance totaled \$2,622,496.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments and money market accounts purchased with remaining maturities of three months or less.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost, or in the case of donated assets, at fair market value. Depreciation is provided on the straight-line method by charging to expense amounts to recover the cost of these assets over their estimated useful lives as follows:

Furniture and equipment	3 - 7 years
Building	39 years

Expenditures for maintenance and repairs are charged to expense as incurred and purchases in excess of \$500 are capitalized as additions to property and equipment.

Contributions

Contributions receivable are recognized upon notification of a donor's unconditional promise to give to the Organization. Unconditional promises to give that are expected to be collected in less than one year are measured at net realizable value because that amount results in a reasonable estimate of fair value in accordance with the *Contributions Received* section of the FASB ASC. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions assets are reclassified to net assets without donor restrictions and are reported in the statement of activities and changes in net assets as assets released from restrictions.

The Organization provides an allowance for doubtful collections when deemed necessary, which is based upon a review of prior collection history, type of contribution, and the nature of the fundraising activity. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the allowance for doubtful accounts. At December 31, 2018 and 2017, the Organization did not record an allowance for doubtful accounts.

Functional allocation of expenses

Functional expenses have been allocated between program services, administrative costs and fundraising expenses based on an analysis of personnel time and space utilized for the related activities.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Water Project, Inc. is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law as a charitable organization, whereby only unrelated business income as defined by Section 509(a)(1) of the Code is subject to federal income taxes. The Water Project, Inc. currently has unrelated business income from employee fringe benefits relating to parking subject to income taxes of \$524.

The income tax filings for the tax years before 2015 are no longer subject to examination by federal and state taxing authorities.

Reclassification

Certain 2017 amounts have been reclassified to conform to 2018 classification. These reclassifications had no effect on the increase in net assets for 2017.

Change in accounting principles

The Organization implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily restricted and permanently restricted net assets have been combined into a single net asset class called net assets with donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note 3).

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

The changes had the following effect on net assets at January 1, 2018:

<u>Net asset class</u>	<u>As originally presented</u>	<u>After adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 3,433,128	
Temporarily restricted net assets	473,821	
Net assets without donor restrictions		\$ 3,433,128
Net assets with donor restrictions	<u> </u>	<u>473,821</u>
Total net assets	<u>\$ 3,906,949</u>	<u>\$ 3,906,949</u>

Note 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018 are:

Financial assets:	
Cash and cash equivalents	\$ 3,116,855
Contributions receivable	<u>70,415</u>
Total financial assets	3,187,270
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets (Note 8)	<u>(15,542)</u>
Amount available for general expenditures within one year	<u>\$ 3,171,728</u>

As part of their liquidity management plan, the Organization maintains a revolving line of credit of \$200,000 to cover short-term cash needs.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.

Level 2 inputs consist of quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or observable inputs other than quoted market prices.

Level 3 inputs consist of inputs that are unobservable and significant to the fair value measurement and have the lowest priority.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its unconditional promises to give. An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are reported at their fair value, which is estimated as the present value of expected future cash inflows on a non-recurring basis. There was no discount rate considered whereby all outstanding contributions receivable are due within one year. As discussed in Note 3, the valuation technique used by the Organization is a Level 3 measure because there are no observable market transactions.

Note 6. LINE OF CREDIT

The Organization entered into a \$200,000 line of credit with a bank. The line of credit carries interest at the Wall Street Journal Prime Rate plus 1%, currently 6.50%. The line of credit is unsecured. At December 31, 2018, there was no outstanding borrowing on the line of credit.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. BOARD DESIGNATED NET ASSETS

At the end of 2018 and 2017, the Organization held approximately \$1,462,454 and \$1,393,210, respectively, in restricted reserves, in addition to normal operating reserves. The Board designated funds are intended for the funding of “The Water Promise,” the Organization’s initiative to provide ongoing service and support to past projects to ensure safe, reliable water access over time. In 2018, this initiative provided ongoing service and support to 1,208 communities/schools through regular monitoring, maintenance and repair programs.
(<https://thewaterproject.org/waterpromise>)

Note 8. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018, net assets with donor restrictions were available for the following purposes or periods:

Purpose restrictions, available for spending:	
Purchase, modify and use of office space	\$ 15,542
Time restrictions:	
Contribution received in 2018 restricted for 2019	<u>248,000</u>
Total net assets with donor restrictions	<u>\$ 263,542</u>

At December 31, 2017, net assets with donor restrictions were available for the following purposes or periods:

Purpose restrictions, available for spending:	
Purchase, modify and use of office space	\$ 305,821
Time restrictions:	
Contribution received in 2017 restricted for 2018	<u>168,000</u>
Total net assets with donor restrictions	<u>\$ 473,821</u>

Note 9. PENSION PLAN

The Organization established a 401(k) pension plan that covers all eligible employees. The Organization’s plan contributions are up to 5% of the employees’ salary. For the years ended December 31, 2018 and 2017, the Organization contributed \$28,518 and \$21,718 to the plan, respectively.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 10. LEASE COMMITMENT

During 2015, the Organization entered into an agreement to lease office space in Concord, New Hampshire under a noncancelable agreement, with the option to purchase at \$285,000. In February 2018 upon receipt of a restricted gift for this specific purpose, the Organization exercised the option to purchase their office space. Total rent expense for the years ended December 31, 2018 and 2017 amounted to \$0 and \$47,872, respectively.

Note 11. MAJOR PARTNERS

For the years ended December 31, 2018 and 2017, the Organization awarded grants to two major partners, representing 72% and 68%, respectively, of total partner program support. At December 31, 2018 and 2017, there was no amount due to these major partners.

Note 12. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 2, 2019, the date which the financial statements were available to be issued, and has not evaluated subsequent events after that date. No subsequent events were identified that would require disclosure in the financial statements for the year ended December 31, 2018.