

**WATER MISSIONS INTERNATIONAL AND AFFILIATES  
(d/b/a WATER MISSION)**

***CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

**SEPTEMBER 30, 2018 AND 2017**

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

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## INDEPENDENT AUDITORS' REPORT

**Board of Trustees**  
**Water Missions International and Affiliates**  
**d/b/a Water Mission**  
**North Charleston, South Carolina**

We have audited the accompanying consolidated financial statements of Water Missions International and Affiliates (d/b/a Water Mission), which comprise the consolidated statement of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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.

### *Auditors' 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 audits 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.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Water Missions International and Affiliates (d/b/a Water Mission) as of September 30, 2018, and 2017, the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

  
TAIT, WELLER & BAKER LLP

**Philadelphia, Pennsylvania**  
**December 13, 2018**

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2018 And 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,640,004	\$ 6,160,222
Service receivables–net	520,100	371,483
Prepaid expenses and other assets	265,122	316,808
Inventory–net	4,298,774	3,428,941
Property and equipment–net	<u>676,546</u>	<u>989,062</u>
Total Assets	<u>\$21,400,546</u>	<u>\$11,266,516</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 201,091	\$ 283,266
Accrued expenses	313,939	222,541
Deferred revenue	<u>375,901</u>	<u>396,483</u>
	<u>890,931</u>	<u>902,290</u>
<b>NET ASSETS</b>		
Unrestricted	6,002,041	4,958,853
Temporarily restricted	<u>14,507,574</u>	<u>5,405,373</u>
	<u>20,509,615</u>	<u>10,364,226</u>
Total Liabilities and Net Assets	<u>\$21,400,546</u>	<u>\$11,266,516</u>

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 5,745,930	\$ 18,323,141	\$ 24,069,071
Gifts-in-kind	4,175,352	-	4,175,352
Service income	4,400,811	-	4,400,811
Special events, net	177,182	-	177,182
Interest income	9,821	-	9,821
Other income	<u>28,812</u>	<u>-</u>	<u>28,812</u>
Total	14,537,908	18,323,141	32,861,049
Net assets released from restriction	<u>9,220,940</u>	<u>(9,220,940)</u>	<u>-</u>
Total support and revenue	<u>23,758,848</u>	<u>9,102,201</u>	<u>32,861,049</u>
<b>EXPENSES</b>			
Program services:			
Community development	19,095,398	-	19,095,398
Research and development	366,522	-	366,522
Advocacy	<u>197,102</u>	<u>-</u>	<u>197,102</u>
	<u>19,659,022</u>	<u>-</u>	<u>19,659,022</u>
Supporting activities:			
Management and general	1,024,207	-	1,024,207
Fund-raising	<u>1,722,777</u>	<u>-</u>	<u>1,722,777</u>
	<u>2,746,984</u>	<u>-</u>	<u>2,746,984</u>
Total expenses	<u>22,406,006</u>	<u>-</u>	<u>22,406,006</u>
Change in net assets before other changes	<u>1,352,842</u>	<u>9,102,201</u>	<u>10,455,043</u>
<b>OTHER CHANGES</b>			
Effect of translation adjustment	(195,185)	-	(195,185)
Loss on disposal of fixed assets	<u>(114,469)</u>	<u>-</u>	<u>(114,469)</u>
Total other changes	<u>(309,654)</u>	<u>-</u>	<u>(309,654)</u>
Change in net assets	1,043,188	9,102,201	10,145,389
<b>NET ASSETS</b>			
Beginning of year	<u>4,958,853</u>	<u>5,405,373</u>	<u>10,364,226</u>
End of year	<u>\$ 6,002,041</u>	<u>\$ 14,507,574</u>	<u>\$ 20,509,615</u>

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 5,658,270	\$ 8,176,812	\$ 13,835,082
Gifts-in-kind	3,223,022	-	3,223,022
Service income	3,210,294	-	3,210,294
Special events, net	252,749	-	252,749
Interest income	7,630	-	7,630
Other income	<u>135,185</u>	<u>-</u>	<u>135,185</u>
Total	12,487,150	8,176,812	20,663,962
Net assets released from restriction	<u>5,348,052</u>	<u>(5,348,052)</u>	<u>-</u>
Total support and revenue	<u>17,835,202</u>	<u>2,828,760</u>	<u>20,663,962</u>
<b>EXPENSES</b>			
Program services:			
Community development	15,624,061	-	15,624,061
Research and development	282,990	-	282,990
Advocacy	<u>153,962</u>	<u>-</u>	<u>153,962</u>
	<u>16,061,013</u>	<u>-</u>	<u>16,061,013</u>
Supporting activities:			
Management and general	963,922	-	963,922
Fund-raising	<u>1,749,580</u>	<u>-</u>	<u>1,749,580</u>
	<u>2,713,502</u>	<u>-</u>	<u>2,713,502</u>
Total expenses	<u>18,774,515</u>	<u>-</u>	<u>18,774,515</u>
Change in net assets before other changes	<u>(939,313)</u>	<u>2,828,760</u>	<u>1,889,447</u>
<b>OTHER CHANGES</b>			
Effect of translation adjustment	(50,163)	-	(50,163)
Loss on disposal of fixed assets	<u>(78,535)</u>	<u>-</u>	<u>(78,535)</u>
Total other changes	<u>(128,698)</u>	<u>2,828,760</u>	<u>(128,698)</u>
Change in net assets	(1,068,011)	2,828,760	1,760,749
<b>NET ASSETS</b>			
Beginning of year	<u>6,026,864</u>	<u>2,576,613</u>	<u>8,603,477</u>
End of year	<u>\$ 4,958,853</u>	<u>\$ 5,405,373</u>	<u>\$ 10,364,226</u>

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2018

	PROGRAM SERVICES			Total Program Services	SUPPORTING ACTIVITIES			Total Expenses
	Community Development	Research And Development	Advocacy		Management And General	Fund- Raising	Total Supporting Activities	
Salaries and benefits	\$ 4,580,548	\$ 246,255	\$ 113,825	\$ 4,940,628	\$ 1,052,512	\$ 873,980	\$ 1,926,492	\$ 6,867,120
Professional services	659,856	1,450	7,979	669,285	427,329	265,810	693,139	1,362,424
Supplies	452,616	8,844	14,698	476,158	405,156	197,698	602,854	1,079,012
Occupancy	847,661	9,608	-	857,269	18,600	27,462	46,062	903,331
Vehicle	278,914	-	284	279,198	-	1,361	1,361	280,559
Depreciation	404,073	1,770	-	405,843	19,065	20,138	39,203	445,046
Travel	1,609,417	43,050	52,594	1,705,061	37,133	98,177	135,310	1,840,371
Product and transport	8,833,759	53,304	4,025	8,891,088	2,848	13,320	16,168	8,907,256
Cost of sales	239,483	-	-	239,483	-	-	-	239,483
Other expenses	<u>350,992</u>	<u>2,241</u>	<u>3,697</u>	<u>356,930</u>	<u>99,918</u>	<u>24,556</u>	<u>124,474</u>	<u>481,404</u>
Total expenses before information technology allocation	18,257,319	366,522	197,102	18,820,943	2,062,561	1,522,502	3,585,063	22,406,006
Information technology allocation	<u>838,079</u>	<u>-</u>	<u>-</u>	<u>838,079</u>	<u>(1,038,354)</u>	<u>200,275</u>	<u>(838,079)</u>	<u>-</u>
Total expenses	<u>\$ 19,095,398</u>	<u>\$ 366,522</u>	<u>\$ 197,102</u>	<u>\$ 19,659,022</u>	<u>\$ 1,024,207</u>	<u>\$ 1,722,777</u>	<u>\$ 2,746,984</u>	<u>\$ 22,406,006</u>

See notes to consolidated financial statements.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

	PROGRAM SERVICES			Total Program Services	SUPPORTING ACTIVITIES			Total Expenses
	Community Development	Research And Development	Advocacy		Management And General	Fund- Raising	Total Supporting Activities	
Salaries and benefits	\$ 3,873,061	\$ 235,570	\$ 87,436	\$ 4,196,067	\$ 1,002,908	\$ 927,095	\$ 1,930,003	\$ 6,126,070
Professional services	493,876	4,772	17,324	515,972	742,093	247,116	989,209	1,505,181
Supplies	411,943	1,486	6,651	420,080	380,732	198,788	579,520	999,600
Occupancy	537,428	2,059	-	539,487	7,118	46,830	53,948	593,435
Vehicle	257,287	-	-	257,287	371	1,387	1,758	259,045
Depreciation	355,483	7,082	-	362,565	46,425	36,357	82,782	445,347
Travel	1,531,316	5,460	30,334	1,567,110	50,410	67,711	118,121	1,685,231
Product and transport	6,521,917	26,118	9,404	6,557,439	5,237	9,655	14,892	6,572,331
Cost of sales	326,510	-	-	326,510	-	-	-	326,510
Other expenses	<u>143,111</u>	<u>443</u>	<u>2,813</u>	<u>146,367</u>	<u>39,598</u>	<u>75,800</u>	<u>115,398</u>	<u>261,765</u>
Total expenses before information technology allocation	14,451,932	282,990	153,962	14,888,884	2,274,892	1,610,739	3,885,631	18,774,515
Information technology allocation	<u>1,172,129</u>	<u>-</u>	<u>-</u>	<u>1,172,129</u>	<u>(1,310,970)</u>	<u>138,841</u>	<u>(1,172,129)</u>	<u>-</u>
Total expenses	<u>\$ 15,624,061</u>	<u>\$ 282,990</u>	<u>\$ 153,962</u>	<u>\$ 16,061,013</u>	<u>\$ 963,922</u>	<u>\$ 1,749,580</u>	<u>\$ 2,713,502</u>	<u>\$ 18,774,515</u>

See notes to consolidated financial statements.



# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2018 And 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$10,145,389	\$ 1,760,749
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	445,046	445,346
Donated securities	(123,842)	(69,009)
Proceeds from sale of donated securities	122,117	69,110
Donated inventory	(2,373,087)	(2,171,526)
Distribution of donated inventory	1,586,114	2,011,080
Loss on disposal of property and equipment and other assets	116,194	44,443
Effect of translation adjustment	170,782	23,986
Changes in operating assets and liabilities:		
Service receivables	(148,617)	3,878
Prepaid expenses	51,686	(47,972)
Inventory	(226,240)	(213,424)
Accounts payable	(82,175)	100,118
Accrued expenses	91,398	(35,597)
Deferred revenue	(20,582)	(8,690)
Net cash provided by operating activities	<u>9,754,183</u>	<u>1,912,492</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(289,765)	(348,123)
Proceeds on disposal of property and equipment	<u>15,364</u>	<u>28,357</u>
Net cash used in investing activities	<u>(274,401)</u>	<u>(319,766)</u>
Net change in cash and cash equivalents	9,479,782	1,592,726
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>6,160,222</u>	<u>4,567,496</u>
End of year	<u>\$15,640,004</u>	<u>\$ 6,160,222</u>

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 And 2017

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### (1) NATURE OF ORGANIZATION

The Water Mission™ organization is a Christian engineering nonprofit that designs, builds, and implements safe water, sanitation, and hygiene (WASH) solutions for people in developing countries and disaster areas. Since 2001, Water Mission has used innovative technology and engineering expertise to provide access to safe water and sanitation for nearly four million people in 55 countries. Based in North Charleston, South Carolina, Water Mission has over 350 staff members working around the world in 10 permanent country programs located in Africa, Asia, Latin America, and the Caribbean. All assets, liabilities, revenues, and expenses for these country programs are included in these financial statements.

Notably, Charity Navigator has awarded Water Mission its top four-star rating 12 years in a row, a distinction shared by less than one percent of the charities rated by the organization.

The following three program areas demonstrate Water Mission's core competencies as an engineering organization.

#### **Community Development**

Water Mission takes a comprehensive approach to combating the global water crisis by providing safe water, sanitation, and hygiene (WASH) solutions for entire communities in need. Water Mission's Living Water Treatment System (LWTS) serves as the micro-municipal water provider for communities that do not have access to safe water and adequate sanitation. In order for WASH projects to have lasting benefits, service must be accessible to all, safe to use, and sustainable in the way they are managed. Water Mission's comprehensive approach to community development builds on local resources and relationships to create a collaborative environment. Water Mission has more than 280 indigenous professionals who work in country program offices and live in the communities the organization serves.

To date Water Mission has implemented over 2,550 safe water and sanitation projects and installed nearly 25,000 Healthy Latrines (pour flush toilets).

Disaster Response: The Living Water Treatment System (LWTS), originally designed in 1998 by Water Mission's co-founder and CEO, George Greene III, PhD, P.E., is a micro-municipal water provider that uses rapid sand filtration and chemical disinfection for the production of safe drinking water at a rate greater than 10 gallons per minute. It is designed for quick deployment in the aftermath of a disaster and has minimal supply chain requirements. Using the LWTS and other related technology, Water Mission has provided over 1.1 million people with access to safe water and sanitation following a disaster or emergency situation.

Water Mission has provided relief following some of the world's most devastating disasters, including the recent crisis in Indonesia caused by multiple earthquakes and an 18-foot tsunami and the extensive damage caused by Hurricane Maria on Puerto Rico and other Caribbean islands.

In addition, Water Mission has responded to numerous disasters since its founding, including: Hurricane Matthew in Haiti in 2016; the earthquake in Nepal in 2015; the massive flooding in Malawi in 2015; the Ebola outbreak in Liberia in 2014; Typhoon Haiyan in the Philippines in 2013; the earthquake in Haiti in 2010; the earthquake in Sichuan China, in 2008; Hurricane Katrina in Louisiana in 2005; the tsunami in Southeast Asia in 2004; and other smaller crises. Additionally, Water Mission has responded to and continues to serve the refugees from South Sudan that have fled to Northern Uganda and the Burundian refugees that have settled in Western Tanzania.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 And 2017

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*Impact Research:* Water Mission takes an innovative approach to conducting research on the effectiveness of WASH interventions. This research includes routine monitoring of field activities, remote monitoring of water supply systems, evaluation of project performance data through an online management platform, and focused impact studies. Researchers carefully analyze how WASH projects are alleviating poverty and contributing to the overall wellbeing of the communities where Water Mission works. This allows the organization to adopt new approaches based on discovered successes and failures.

Water Mission uses remote monitoring systems with up-to-date digital dashboards to track water production on all projects. A number of additional remote monitoring capabilities are in the testing phase, including the ability to measure water quality, water pressure and water levels in wells of installed systems around the world.

### **Engineering Innovation**

Water Mission designs and uses the latest innovative technologies in the WASH sector. Engineers customize solutions to fit the unique circumstances of each community served. From the point of inception, Water Mission teams test the project water source for quality and quantity, identify the required pump and power combination (solar power, if needed), pump the water through a proper treatment into storage, and distribute the safe water to the level of access desired within the community. As a leader in using solar power pumping systems, Water Mission has installed more than 1,200 projects using solar panels.

Water Mission currently has 18 engineers working at its global headquarters and in its country program offices. These professional and staff engineers continually perform research and conduct product and process testing to refine how projects are implemented in the field. The research has resulted in four patents granted to Water Mission on various equipment used in custom WASH solutions.

### **Advocacy**

One of the primary goals of Water Mission is to educate the public about the global water crisis. This goal is accomplished by organizing events and creating educational programs that provide a call to action for financial support. One such event is the annual Charleston Walk for Water as well as other, smaller regional walks in places such as St. Louis, Minneapolis and Silicon Valley.

Water Mission™ is a trademark of Water Missions International, doing business as Water Mission. Water Mission depends on cash contributions and gifts-in-kind offerings primarily received from individuals, churches, foundations, and corporations. It also relies on the time commitment of over 500 volunteers who work approximately 20,000 hours annually. Water Mission is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and is not a private foundation under Section 509(a) of the Code.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2018 And 2017

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### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared on the accrual basis. The following significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

#### ***PRINCIPLES OF CONSOLIDATION***

This report presents the consolidated financial position, changes in net assets and cash flows of Water Mission and its controlled affiliates in Haiti, Peru, Indonesia, Malawi, Kenya, Mexico, Uganda, Tanzania, and Liberia. In addition, the financial statements include the financial position, changes in net assets and cash flows of the branch office of Honduras. Significant transactions and balances between organizations have been eliminated for consolidated financial statement purposes.

#### ***ESTIMATES***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

#### ***CASH AND CASH EQUIVALENTS***

Cash and cash equivalents consist of cash held in checking and savings accounts, and money market accounts. These accounts are located in the United States and in foreign countries. Accounts in the United States may, at times, exceed federally insured limits. Water Mission has not experienced any losses in such accounts.

Cash balances of foreign subsidiaries are under the control of Water Mission. Total cash and cash equivalents held internationally amounted to \$944,103 and \$630,772 as of September 30, 2018 and 2017, respectively.

#### ***SERVICE RECEIVABLES***

Service receivables include amounts due from non-government organizations and other similar organizations who have contracted with Water Mission to provide safe water solutions in specified areas of need. This revenue is recognized when earned. Water Mission evaluates these receivables for collectability and records an allowance when deemed necessary.

#### ***INVENTORY***

Inventory consists of purchased and donated parts used in water and sanitation projects. Inventory purchased by Water Mission is stated at weighted average cost. Inventory includes manufacturing overhead. Donated inventory is recorded at fair market value as gifts-in-kind support and inventory. Shipping costs related to inventory on hand at year-end and transportation costs of finished goods inventory from the assembly facility to overseas warehouse locations are expensed as incurred.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2018 And 2017

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### **PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Property and equipment valued at \$1,000 or more for computer equipment and \$5,000 or more for other property and equipment are capitalized, as well as all land. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	20
Leasehold improvements	4 - 15
Manufacturing equipment	5 - 7
Furniture and equipment	5 - 7
Software	3 - 5
Vehicles	2

### **COMPENSATED ABSENCES**

Employees of Water Mission are entitled to paid time off (PTO). Water Mission's policy allows employees to carry over a portion of unused PTO beyond the end of a calendar year. Accrued PTO as of September 30, 2018 and 2017, is included in accrued liabilities in the consolidated statements of financial position.

### **CLASSES OF NET ASSETS**

The consolidated financial statements report amounts by class of net assets:

Unrestricted net assets are amounts currently available at the direction of the board for use in operations and are not subject to donor-imposed restrictions.

Temporarily restricted net assets are contributions with donor stipulations for specific operating purposes, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

### **SUPPORT AND REVENUE**

Support is recognized when contributions are received, which may be when cash is received, unconditional promises are made, or ownership of assets is transferred. Revenue is recognized when earned.

Contributed services are recognized as support if the services received create or enhance a nonfinancial asset, or require specialized skills, which are provided by individuals possessing those skills, and those services would typically be purchased if not provided by donation. The amounts reflected in the accompanying consolidated financial statements as gifts-in-kind support are offset by like amounts included in inventory, property and equipment, or expenses.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Water Mission reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Water Mission hosts annual events to raise funds and awareness for the global water crisis and the solutions Water Mission provides. Revenue and expenses related to these events are reported in the consolidated statements of activities as special events, net.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2018 And 2017

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### **EXPENSES**

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities are summarized on a functional basis in the consolidated statements of activities. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to program and supporting services based on various factors determined by management. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Research and development costs are expensed as incurred.

### **FOREIGN CURRENCY EXCHANGE RATE**

Water Mission's reporting currency is the U.S. dollar. The affiliates of Water Mission use their local currency as the functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of activities. The consolidated financial statements of the Water Mission affiliates are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates of exchange in the period for revenues and expenses. Translation gains and losses are recorded as effects of translation adjustment on the consolidated statements of activities.

### **INCOME TAXES**

The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of September 30, 2018, Water Mission had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

Water Mission files information tax returns in the U.S. and various states. Water Mission is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2015.

### **RECLASSIFICATIONS**

Certain amounts from the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

### **ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Water Mission's financial statements, it is not expected to alter the reported financial position. Water Mission will adopt this ASU in its 2019 fiscal year.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2018 And 2017

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### (3) INVENTORY – NET

Inventory consists of:

	<u>2018</u>	<u>2017</u>
Raw material, work in progress, and finished goods–U.S.	\$ 2,339,300	\$ 1,465,374
Obsolescence reserve	<u>(20,029)</u>	<u>(17,646)</u>
	<u>2,319,271</u>	<u>1,447,728</u>
Finished goods–International	1,985,698	1,987,511
Obsolescence reserve	<u>(6,195)</u>	<u>(6,298)</u>
	<u>1,979,503</u>	<u>1,981,213</u>
	<u>\$ 4,298,774</u>	<u>\$ 3,428,941</u>

### (4) PROPERTY AND EQUIPMENT – NET

Property and equipment consist of:

	<u>2018</u>	<u>2017</u>
Domestic:		
Leasehold improvements	\$ 354,304	\$ 354,304
Furniture and equipment	385,493	385,493
Vehicles	95,753	23,253
Manufacturing equipment	<u>291,419</u>	<u>291,419</u>
	1,126,969	1,054,469
Less accumulated depreciation	<u>(889,739)</u>	<u>(795,734)</u>
	<u>237,230</u>	<u>258,735</u>
International:		
Land	59,842	77,292
Buildings	99,574	160,982
Leasehold improvements	20,429	2,923
Furniture and equipment	70,072	160,312
Vehicles	<u>1,329,254</u>	<u>1,258,482</u>
	1,579,171	1,659,991
Less accumulated depreciation	<u>(1,139,855)</u>	<u>(929,664)</u>
	<u>439,316</u>	<u>730,327</u>
	<u>\$ 676,546</u>	<u>\$ 989,062</u>

Depreciation expense was approximately \$445,000 for the years ended September 30, 2018 and 2017.

# WATER MISSIONS INTERNATIONAL AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2018 And 2017

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### (5) NET ASSETS

Net assets consist of:

	<u>2018</u>	<u>2017</u>
Unrestricted:		
Undesignated	\$ 1,026,721	\$ 540,850
Net equity in inventory	4,298,774	3,428,941
Net equity in property and equipment	<u>676,546</u>	<u>989,062</u>
	6,002,041	4,958,853
Temporarily restricted:		
Purpose restrictions	<u>14,507,574</u>	<u>5,405,373</u>
Total net assets	<u>\$ 20,509,615</u>	<u>\$ 10,364,226</u>

### (6) DONATED MATERIALS AND SERVICES

Donated materials are reflected as contributions in the accompanying consolidated financial statements at their estimated fair market values at the date of receipt. Donated services include services provided by volunteers to assemble water treatment systems, skilled services provided by professionals, and other specialized services that would typically have to be purchased if not provided by donation. Additionally, upon the expiration of its office space lease in Charleston, South Carolina, on December 31, 2017, the owner of the building has provided the rental of the facility to Water Mission on a month to month basis as an in-kind donation.

Donated services were valued using equivalent compensation amounts for comparable services or published rates based on studies available for type and location of service. The value of donated materials and services received during the years ended September 30, 2018 and 2017, was \$4,175,352 and \$3,223,022, respectively.

### (7) SPECIAL EVENTS

During the years ended September 30, 2018 and 2017, Water Mission hosted special events including the Charleston Walk for Water. These special events are designed to inform supporters about the ministry and to promote the ministry to potential new donors. Support received from these events totaled \$334,971 less \$157,789 in costs for the benefits provided during the year ended September 30, 2018, and \$366,213 less \$113,464 in costs for the benefits provided during the year ended September 30, 2017.

### (8) RETIREMENT PLAN

Water Mission maintains a defined contribution plan for employees. Employees are eligible to make elective deferrals immediately. Water Mission matches employee salary deferrals up to 3%. For the years ended September 30, 2018 and 2017, Water Mission incurred expenses of approximately \$103,000 and \$88,800, respectively.

### (9) SUBSEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.