

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

***CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018, 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, 2019, and 2018, 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

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania
December 30, 2019

WATER MISSIONS INTERNATIONAL AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 10,182,077	\$ 15,640,004
Service receivables–net	307,595	520,100
Prepaid expenses and other assets	548,028	265,122
Inventory–net	3,880,981	4,298,774
Investments	7,843,086	-
Property and equipment–net	<u>697,656</u>	<u>676,546</u>
Total Assets	<u>\$ 23,459,423</u>	<u>\$ 21,400,546</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 511,002	\$ 201,091
Accrued expenses	468,135	313,939
Deferred revenue	<u>273,678</u>	<u>375,901</u>
	<u>1,252,815</u>	<u>890,931</u>
NET ASSETS		
Without donor restrictions	6,430,266	6,002,041
With donor restrictions	<u>15,776,342</u>	<u>14,507,574</u>
	<u>22,206,608</u>	<u>20,509,615</u>
Total Liabilities and Net Assets	<u>\$ 23,459,423</u>	<u>\$ 21,400,546</u>

WATER MISSIONS INTERNATIONAL AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 6,402,387	\$ 11,067,672	\$ 17,470,059
Gifts-in-kind	3,444,012	-	3,444,012
Service income	4,566,690	-	4,566,690
Special events, net	178,843	-	178,843
Interest income	300,624	-	300,624
Other income	<u>61,213</u>	<u>-</u>	<u>61,213</u>
Total	14,953,769	11,067,672	26,021,441
Net assets released from restriction	<u>9,798,904</u>	<u>(9,798,904)</u>	<u>-</u>
Total support and revenue	<u>24,752,673</u>	<u>1,268,768</u>	<u>26,021,441</u>
EXPENSES			
Program services:			
Community development	20,518,817	-	20,518,817
Research and development	347,883	-	347,883
Advocacy	<u>288,311</u>	<u>-</u>	<u>288,311</u>
	<u>21,155,011</u>	<u>-</u>	<u>21,155,011</u>
Supporting activities:			
Management and general	1,423,221	-	1,423,221
Fund-raising	<u>1,705,384</u>	<u>-</u>	<u>1,705,384</u>
	<u>3,128,605</u>	<u>-</u>	<u>3,128,605</u>
Total expenses	<u>24,283,616</u>	<u>-</u>	<u>24,283,616</u>
Change in net assets before other changes	<u>469,057</u>	<u>1,268,768</u>	<u>1,737,825</u>
OTHER CHANGES			
Effect of translation adjustment	(121,830)	-	(121,830)
Realized and unrealized gains	68,941	-	68,941
Gain on disposal of fixed assets	<u>12,057</u>	<u>-</u>	<u>12,057</u>
Total other changes	<u>(40,832)</u>	<u>-</u>	<u>(40,832)</u>
Change in net assets	428,225	1,268,768	1,696,993
NET ASSETS			
Beginning of year	<u>6,002,041</u>	<u>14,507,574</u>	<u>20,509,615</u>
End of year	<u>\$ 6,430,266</u>	<u>\$ 15,776,342</u>	<u>\$ 22,206,608</u>

WATER MISSIONS INTERNATIONAL AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
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>
EXPENSES			
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>
OTHER CHANGES			
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
NET ASSETS			
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 FUNCTIONAL EXPENSES

Year Ended September 30, 2019

	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	\$ 4,855,716	\$ 238,370	\$ 209,532	\$ 5,303,618	\$ 1,329,603	\$ 954,365	\$ 2,283,968	\$ 7,587,586
Professional services	852,953	2,084	31,409	886,446	839,909	206,279	1,046,188	1,932,634
Supplies	460,089	3,071	2,620	465,780	349,181	203,582	552,763	1,018,543
Occupancy	857,534	10,697	-	868,231	19,412	36,329	55,741	923,972
Vehicle	241,455	-	121	241,576	110	1,226	1,336	242,912
Depreciation	274,013	-	-	274,013	14,697	12,306	27,003	301,016
Travel	1,391,849	14,072	29,709	1,435,630	69,911	119,276	189,187	1,624,817
Product and transport	9,950,121	78,532	2,712	10,031,365	12,022	9,636	21,658	10,053,023
Cost of sales	90,322	-	-	90,322	-	-	-	90,322
Other expenses	<u>344,519</u>	<u>1,057</u>	<u>12,208</u>	<u>357,784</u>	<u>113,631</u>	<u>37,376</u>	<u>151,007</u>	<u>508,791</u>
Total expenses before information technology allocation	19,318,571	347,883	288,311	19,954,765	2,748,476	1,580,375	4,328,851	24,283,616
Information technology allocation	<u>1,200,246</u>	<u>-</u>	<u>-</u>	<u>1,200,246</u>	<u>(1,325,255)</u>	<u>125,009</u>	<u>(1,200,246)</u>	<u>-</u>
Total expenses	<u>\$ 20,518,817</u>	<u>\$ 347,883</u>	<u>\$ 288,311</u>	<u>\$ 21,155,011</u>	<u>\$ 1,423,221</u>	<u>\$ 1,705,384</u>	<u>\$ 3,128,605</u>	<u>\$ 24,283,616</u>

See notes to consolidated financial statements.

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 STATEMENTS OF CASH FLOWS

Years Ended September 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,696,993	\$10,145,389
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	301,015	445,046
Realized and unrealized gains	(92,058)	-
Donated securities	(53,165)	(123,842)
Proceeds from sale of donated securities	53,165	122,117
Donated inventory	(2,306,400)	(2,373,087)
Distribution of donated inventory	2,443,406	1,586,114
Loss on disposal of property and equipment and other assets	-	116,194
Effect of translation adjustment	110,620	170,782
Changes in operating assets and liabilities:		
Service receivables	212,505	(148,617)
Prepaid expenses	(282,906)	51,686
Inventory	235,704	(226,240)
Accounts payable	309,911	(82,175)
Accrued expenses	154,196	91,398
Deferred revenue	(102,224)	(20,582)
Net cash provided by operating activities	<u>2,680,762</u>	<u>9,754,183</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(387,661)	(289,765)
Purchase of investments	(9,776,028)	-
Proceeds from sale and maturities of investments	2,025,000	-
Proceeds on disposal of property and equipment	<u>-</u>	<u>15,364</u>
Net cash used in investing activities	<u>(8,138,689)</u>	<u>(274,401)</u>
Net change in cash and cash equivalents	(5,457,927)	9,479,782
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>15,640,004</u>	<u>6,160,222</u>
End of year	<u>\$10,182,077</u>	<u>\$15,640,004</u>

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019 And 2018

(1) NATURE OF ORGANIZATION

Water Mission is a nonprofit Christian engineering organization that designs, builds, and implements safe water, sanitation, and hygiene (WASH) solutions for people in developing countries and disaster areas. Driven by a two-pronged strategy of implementing best-in-class safe water and sanitation projects and serving as a resource to other organizations engaged in this work, Water Mission is committed to bringing an end to the global water crisis.

The implementation of best-in-class WASH solutions is accomplished through the work of more than 350 staff members working around the world in permanent country programs located in Africa, Asia, North, South and Central America, and the Caribbean. All assets, liabilities, revenues, and expenses for these country programs are included in these financial statements. Water Mission has exhibited strong financial stewardship. Notably, Charity Navigator has awarded Water Mission its top four-star rating 13 years in a row, a distinction shared by less than one percent of the charities rated by the organization. Additionally, in 2019, Water Mission was awarded Charity Navigator's Perfect Score certification for Financial Health and Accountability and Transparency.

Water Mission's reputation for high standards and integrity has resulted in numerous partnerships with other highly regarded organizations. Collaboration and partnership among industry leaders, as well as education of the public, are essential in solving the global water crisis. These elements are therefore central to Water Mission's strategy for success.

Water Mission is unique in its comprehensive community development services, innovative engineering practices, and intense focus on education and advocacy, all demonstrated through the work described below.

COMMUNITY DEVELOPMENT

Water Mission's holistic approach to community development through water, sanitation, and hygiene (WASH) is specifically designed to restore health to communities served and eliminate preventable illnesses and death. With more than 258 indigenous professionals, many of whom live in and around the communities receiving services, Water Mission builds on local resources and relationships to create a collaborative environment for WASH projects. This collaboration allows the organization to focus on social, financial, and institutional sustainability initiatives necessary to ensure long-term success. To date, Water Mission has implemented over 2,500 safe water and sanitation projects.

In addition to providing comprehensive WASH solutions for those who live in communities lacking safe water and sanitation, Water Mission provides relief to those suffering as a result of a disaster or emergency situation. 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. Using the LWTS and other related technology, Water Mission has provided over 1.3 million people with access to safe water and sanitation following disasters and emergencies.

With 20 years of disaster response experience, Water Mission is an expert at implementing emergency and long-term safe water solutions following natural disasters and during humanitarian crises.

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019 And 2018

- **Natural Disasters:** Water Mission has provided relief following some of the world's most devastating disasters and stays long after other relief agencies leave, working to build back better through long-term recovery efforts. Most recently, Water Mission responded to immediate needs in the Bahamas following Hurricane Dorian. The organization is assisting in long-term reconstruction, working with the Bahamian government to solarize municipal water systems. Water Mission also continues to assist in long-term recovery in Indonesia, following the devastation caused by the 2018 earthquakes and tsunami, and in Puerto Rico, following the extensive damage caused by Hurricane Maria. Water Mission's work in Puerto Rico is focused on decreasing the island's reliance on electricity for safe water production by implementing power-blending systems that combine AC and solar power.
- **Humanitarian Crises:** Water Mission has responded to two major refugee crises: refugees from South Sudan who have fled to Northern Uganda and Burundian refugees who have settled in Western Tanzania. Water Mission has installed solar-powered water treatment systems in these settlements and provided nearly 350,000 refugees and nearby communities with access to WASH solutions.

ENGINEERING INNOVATION

Water Mission strives to be best-in-class in the WASH sector by constantly developing new technology and upgrading WASH solutions designed to tackle the global water crisis. Since 2001, Water Mission has used innovative technology and engineering expertise to provide access to safe water for more than four million people in 56 countries. Water Mission is committed to developing solutions that meet the same standards for water quality that are used in the United States.

Water Mission currently has 42 engineers working at its global headquarters and in its country program offices. These professional and staff engineers are constantly innovating and refining how projects are implemented in the field. Water Mission's culture of constant innovation has led to four patents on various equipment used to provide custom WASH solutions. These customized solutions are one of Water Mission's differentiators. Water Mission has the skill set to develop context-appropriate solutions that combine expertise in areas like solar pumping, water treatment, and piped water distribution.

Working with UNICEF, Water Mission is currently creating solar-powered water pumping standards and online training sessions that will equip all UNICEF relief and development programs with formalized protocols and governance. This request from UNICEF speaks to the reputation that Water Mission has developed as a best-in-class organization and a leader in using solar-powered pumping systems. To date, Water Mission has installed more than 1,400 projects using solar panels.

Technology is always developed and utilized by Water Mission with sustainability in mind. To optimize the long-term performance of safe water and sanitation projects, Water Mission regularly conducts research on the effectiveness of its 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. In addition, Water Mission recently developed a tool to measure the changes in health and well-being that take place over time in communities that receive safe water and sanitation solutions. The program evaluation and research methods utilized are designed to allow the organization to adopt new approaches based on discovered successes and failures.

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019 And 2018

ADVOCACY

One of the top priorities of Water Mission is to be a resource that helps educate others about the global water crisis. This 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 smaller regional walks that take place internationally as well as in cities across the United States. Additionally, Water Mission provides educational programming for students in fun and interactive ways at schools, educational conferences, and community events, through a group of volunteers called the Educators Think Tank. This group, made up of former educators, helps to make solving the global water crisis a lasting goal for future generations.

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 nearly 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.

(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.

BASIS OF PRESENTATION

Water Mission's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The principles require that resources be classified based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category are as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objective of Water Mission. These net assets may be used at the discretion of Water Mission.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Water Mission and/or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt.

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.

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

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 \$417,871 and \$944,103 as of September 30, 2019 and 2018, 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.

INVESTMENTS

Accounting Standards Codification (“ASC”) 958, “Not-for-profit Entities” establishes standards for accounting for certain investments held by not-for-profit organizations and requires that investments in securities be recorded at fair market value with the resulting gains and losses reported in the statement of activities.

The fair market value of investments traded on a securities exchanges is determined based on quoted market prices for those investments

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

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	3

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, 2019 and 2018, is included in accrued liabilities in the consolidated statements of financial position.

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.

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.

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

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, 2019, 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 2016.

NEW ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, under water endowment funds, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. This ASU was adopted by Water Mission for the year ended September 30, 2019 and did not have a material effect on the statement of financial position or results of operations.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 are as follows:

<u>Net Asset Classifications</u>	<u>Balance At September 30, 2018 As Previously Reported</u>	<u>Adjustments From ASU 2016-14</u>	<u>Balance At October 1, 2018 As adjusted</u>
Unrestricted Net Assets	\$ 6,002,041	\$ (6,002,041)	\$ -
Temporarily Restricted	14,507,574	(14,507,574)	-
Without Donor Restriction	-	6,002,041	6,002,041
With Donor Restriction	-	14,507,574	14,507,574
Net assets previously presented	<u>\$20,509,615</u>	<u>\$ -</u>	<u>\$20,509,615</u>

RECLASSIFICATIONS

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

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied. Water Mission plans to adopt the new ASU at the required implementation date.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. Water Mission plans to adopt the new ASU at the required implementation date.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. Water Mission plans to adopt the new ASU at the required implementation date.

(3) INVENTORY – NET

Inventory consists of:

	<u>2019</u>	<u>2018</u>
Raw material, work in progress, and finished goods–U.S.	\$2,091,977	\$2,339,300
Obsolescence reserve	<u>(5,219)</u>	<u>(20,029)</u>
	<u>2,086,758</u>	<u>2,319,271</u>
Finished goods–International	1,842,411	1,985,698
Obsolescence reserve	<u>(48,188)</u>	<u>(6,195)</u>
	<u>1,794,223</u>	<u>1,979,503</u>
	<u>\$3,880,981</u>	<u>\$4,298,774</u>

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

(4) INVESTMENTS

Investments consist of the following at September 30:

	<u>2019</u> <u>Market Value</u>	<u>2018</u> <u>Market Value</u>
Investments		
United States Government and Federal Agency Bonds	\$5,511,312	\$ -
Corporate Bonds	<u>2,331,774</u>	<u>-</u>
Total Investments	<u>\$7,843,086</u>	<u>\$ -</u>

Investment earnings for the years ended September 30, 2019 and 2018, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends*	\$ 300,624	\$ 9,821
Realized and unrealized gain	<u>68,941</u>	<u>-</u>
	<u>\$ 369,565</u>	<u>\$ 9,821</u>

* Includes interest earned on the operating bank accounts

(5) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following describes the hierarchy of inputs used to measure market value and the primary valuation methodologies used by Water Mission for investments measured at market value on a recurring basis. An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the market value measurement. The three levels of inputs are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that Water Mission has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment schedules, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing Water Mission's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The hierarchy requires the use of observable market data when available. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the measurement. Water Mission's assets that are carried at fair value consists of its investments which are valued using level two inputs.

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

(6) PROPERTY AND EQUIPMENT – NET

Property and equipment consist of:

	<u>2019</u>	<u>2018</u>
Domestic:		
Leasehold improvements	\$ 354,304	\$ 354,304
Furniture and equipment	385,493	385,493
Vehicles	95,753	95,753
Manufacturing equipment	<u>420,920</u>	<u>291,419</u>
	1,256,470	1,126,969
Less accumulated depreciation	<u>(976,158)</u>	<u>(889,739)</u>
	<u>280,312</u>	<u>237,230</u>
International:		
Land	46,014	59,842
Buildings	83,026	99,574
Leasehold improvements	14,816	20,429
Furniture and equipment	71,844	70,072
Vehicles	<u>1,478,653</u>	<u>1,329,254</u>
	1,694,353	1,579,171
Less accumulated depreciation	<u>(1,277,009)</u>	<u>(1,139,855)</u>
	<u>417,344</u>	<u>439,316</u>
	<u>\$ 697,656</u>	<u>\$ 676,546</u>

Depreciation expense was approximately \$301,000 and \$445,000 for the years ended September 30, 2019 and 2018 respectively.

(7) NET ASSETS

Net assets consist of:

	<u>2019</u>	<u>2018</u>
Without donor restriction:		
Undesignated	\$ 2,306,527	\$ 1,438,602
Net equity in inventory	3,426,083	3,886,893
Net equity in property and equipment	<u>697,656</u>	<u>676,546</u>
	<u>6,430,266</u>	<u>6,002,041</u>
With donor restriction:		
Purpose restrictions – non inventory	15,321,444	14,095,693
Purpose restrictions – inventory	<u>454,898</u>	<u>411,881</u>
	<u>15,776,342</u>	<u>14,507,574</u>
Total net assets	<u>\$22,206,608</u>	<u>\$20,509,615</u>

WATER MISSIONS INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

(8) 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, 2019 and 2018, was \$3,444,012 and \$4,175,352, respectively.

(9) SPECIAL EVENTS

During the years ended September 30, 2019 and 2018, 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 \$356,904 less \$178,061 in costs for the benefits provided during the year ended September 30, 2019, and \$334,971 less \$157,789 in costs for the benefits provided during the year ended September 30, 2018.

(10) 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, 2019 and 2018, Water Mission incurred expenses of approximately \$118,000 and \$103,000, respectively.

(11) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

At September 30, 2019 financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<u>Financial Assets</u>	<u>2019</u>
Cash and cash equivalents	\$ 10,182,077
Service receivables	307,595
Investments	<u>7,843,086</u>
Total financial assets available within one year	18,332,758
Less those unavailable for general expenditure within one year, due to:	
Restricted by donor with purpose or time restrictions	<u>(15,776,342)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 2,556,416</u>

As part of Water Mission's liquidity-management plan, it structures its financial assets to be available as its obligations come due.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2019 And 2018

(12) 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.