

Water.org, Inc.

Financial Report
September 30, 2022

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Independent Auditor's Report

RSM US LLP

Board of Directors
Water.org, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Water.org, Inc. (the Organization), which comprise the statements of financial position as of September 30, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2023, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Kansas City, Missouri
April 12, 2023

Water.org, Inc.

**Statements of Financial Position
September 30, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 41,631,265	\$ 33,604,384
Contributions receivable	1,546,557	1,871,065
Other receivables	8,185	43,297
Prepaid expenses	265,838	341,282
Investments	1,406,842	1,404,601
Investment in WaterCredit Fund 3	1,284,458	1,284,458
Property and equipment, net of accumulated depreciation, 2022—\$1,038,165, 2021—\$922,579	57,504	171,292
Total assets	\$ 46,200,649	\$ 38,720,379
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 28,519	\$ 223,070
Accrued expenses	3,259,591	3,095,426
Paycheck Protection Program loan	-	1,425,377
Refundable advances	4,800,820	6,095,534
Total liabilities	8,088,930	10,839,407
Net assets:		
Without donor restrictions	23,372,492	13,158,939
With donor restrictions	14,739,227	14,722,033
Total net assets	38,111,719	27,880,972
Total liabilities and net assets	\$ 46,200,649	\$ 38,720,379

See notes to financial statements.

Water.org, Inc.

**Statement of Activities
Year Ended September 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundations, corporations and other organizations	\$ 16,182,699	\$ 11,716,567	\$ 27,899,266
Individuals	9,487,746	6,878	9,494,624
Investment return	254,643	-	254,643
Forgiveness of Paycheck Protection Program	1,425,377	-	1,425,377
Net assets released from restrictions	11,706,251	(11,706,251)	-
Total revenues, gains and other support	39,056,716	17,194	39,073,910
Expenses and losses:			
Program services:			
Water programs	17,782,542	-	17,782,542
Outreach	2,281,872	-	2,281,872
Total program services	20,064,414	-	20,064,414
Management and general	5,551,473	-	5,551,473
Fundraising	3,227,276	-	3,227,276
Total expenses and losses	28,843,163	-	28,843,163
Change in net assets	10,213,553	17,194	10,230,747
Net assets, beginning of year	13,158,939	14,722,033	27,880,972
Net assets, end of year	\$ 23,372,492	\$ 14,739,227	\$ 38,111,719

See notes to financial statements.

Water.org, Inc.

**Statement of Activities
Year Ended September 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and grants:			
Foundation, corporations and other organizations	\$ 15,407,024	\$ 16,667,236	\$ 32,074,260
Individuals	3,413,405	1,000	3,414,405
In-kind contributions	2,940	-	2,940
Investment return	251,791	158,754	410,545
Forgiveness of Paycheck Protection Program	1,425,382	-	1,425,382
Other	172,673	-	172,673
Net assets released from restrictions	9,442,052	(9,442,052)	-
Total revenues, gains and other support	30,115,267	7,384,938	37,500,205
Expenses and losses:			
Program services:			
Water programs	13,345,163	-	13,345,163
Outreach	860,679	-	860,679
Total program services	14,205,842	-	14,205,842
Management and general	7,760,063	-	7,760,063
Fundraising	1,776,042	-	1,776,042
Total expenses and losses	23,741,947	-	23,741,947
Change in net assets	6,373,320	7,384,938	13,758,258
Net assets, beginning of year	6,785,619	7,337,095	14,122,714
Net assets, end of year	<u>\$ 13,158,939</u>	<u>\$ 14,722,033</u>	<u>\$ 27,880,972</u>

See notes to financial statements.

Water.org, Inc.

**Statement of Functional Expenses
Year Ended September 30, 2022**

	Program Services			Management and General	Fundraising	Total
	Water Programs	Outreach	Subtotal			
Salaries and wages	\$ 7,410,920	\$ 133,496	\$ 7,544,416	\$ 3,139,023	\$ 1,907,335	\$ 12,590,774
Payroll taxes	382,939	10,076	393,015	211,948	121,125	726,088
Employee benefits	616,884	12,367	629,251	371,645	172,454	1,173,350
Contractors	942,238	56,540	998,778	895,915	577,357	2,472,050
Occupancy-related	401,478	-	401,478	109,529	49,670	560,677
Office supplies	13,753	-	13,753	8,711	379	22,843
Postage and shipping	57,084	-	57,084	8,514	11,044	76,642
Printing and reproduction	43,308	64	43,372	526	16,782	60,680
Telephone and related communications	60,592	420	61,012	31,470	12,623	105,105
Office equipment, rental and maintenance	145,950	135	146,085	349,042	72,996	568,123
Travel	509,779	8,446	518,225	89,326	63,211	670,762
Grants to other organizations	2,838,988	-	2,838,988	-	-	2,838,988
Program fees and supplies	3,630,580	2,060,204	5,690,784	-	-	5,690,784
Advertising and marketing	48,279	-	48,279	-	32,186	80,465
Directors and officer insurance	81,716	-	81,716	30,426	15,169	127,311
Bank and credit card fees	96,686	-	96,686	11,798	50,223	158,707
Accounting and legal fees	371,044	-	371,044	170,226	70,257	611,527
Dues and subscriptions	38,032	-	38,032	44,084	36,435	118,551
Bad-debt expense	-	-	-	601	-	601
Foreign exchange (gain) loss	862	-	862	(5)	-	857
Other operating expenses	20,286	124	20,410	38,261	1,451	60,122
Depreciation	71,144	-	71,144	40,433	16,579	128,156
	\$ 17,782,542	\$ 2,281,872	\$ 20,064,414	\$ 5,551,473	\$ 3,227,276	\$ 28,843,163

See notes to financial statements.

Water.org, Inc.

**Statement of Functional Expenses
Year Ended September 30, 2021**

	Program Services			Management and General	Fundraising	Total
	Water Programs	Outreach	Subtotal			
Salaries and wages	\$ 5,517,094	\$ 88,743	\$ 5,605,837	\$ 4,551,976	\$ 895,463	\$ 11,053,276
Payroll taxes	249,645	4,142	253,787	262,948	58,192	574,927
Employee benefits	429,471	6,316	435,787	496,992	88,181	1,020,960
Contractors	523,593	-	523,593	1,110,412	291,326	1,925,331
Occupancy-related	298,530	9,226	307,756	254,245	54,797	616,798
Office supplies	171	-	171	5,227	-	5,398
Postage and shipping	2,127	-	2,127	11,124	8,336	21,587
Printing and reproduction	7,086	-	7,086	35,561	33,205	75,852
Telephone and related communications	44,276	6	44,282	69,483	9,035	122,800
Office equipment, rental and maintenance	102,490	-	102,490	273,285	94,453	470,228
Travel	25,483	1,946	27,429	73,396	3,217	104,042
Grants to other organizations	4,650,934	-	4,650,934	189,166	-	4,840,100
Program fees and supplies	1,235,361	750,000	1,985,361	120,235	967	2,106,563
Advertising and marketing	44,000	-	44,000	17,075	64,440	125,515
Directors and officer insurance	50,312	-	50,312	49,132	9,528	108,972
Bank and credit card fees	8,699	-	8,699	18,230	115,394	142,323
Accounting and legal fees	65,503	-	65,503	108,278	5,554	179,335
Dues and subscriptions	630	-	630	25,943	27,232	53,805
Bad-debt expense	388	-	388	-	-	388
Foreign exchange loss	-	-	-	5,478	-	5,478
Other operating expenses	1,627	300	1,927	7,940	88	9,955
Depreciation	87,743	-	87,743	73,937	16,634	178,314
	<u>\$ 13,345,163</u>	<u>\$ 860,679</u>	<u>\$ 14,205,842</u>	<u>\$ 7,760,063</u>	<u>\$ 1,776,042</u>	<u>\$ 23,741,947</u>

See notes to financial statements.

Water.org, Inc.

Statements of Cash Flows
Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 10,230,747	\$ 13,758,258
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	128,156	178,314
Net unrealized (gains) loss on investments	(2,241)	45,611
Loss on disposition of property and equipment	6,131	4,778
Gain on extinguishment of Paycheck Protection loan	(1,425,377)	(1,425,382)
Changes in operating assets and liabilities:		
Contributions and other receivables	359,620	(356,732)
Prepaid expenses	75,444	(10,807)
Accounts payable	(194,551)	(393,880)
Accrued expenses	164,165	1,741,379
Refundable advances	(1,294,714)	1,194,458
Net cash provided by operating activities	8,047,380	14,735,997
Cash flows from investing activities:		
Purchase of property and equipment	(20,499)	(33,405)
Purchase of investments	-	(4,722,968)
Proceeds from sale of investments	-	4,436,931
Net cash used in investing activities	(20,499)	(319,442)
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan	-	1,425,377
Net cash provided by financing activities	-	1,425,377
Net increase in cash and cash equivalents	8,026,881	15,841,932
Cash and cash equivalents, beginning of year	33,604,384	17,762,452
Cash and cash equivalents, end of year	\$ 41,631,265	\$ 33,604,384
Supplemental disclosures of noncash information:		
Forgiveness of PPP Loan	\$ 1,425,377	\$ 1,425,382

See notes to financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Water.org, Inc. (Water.org) is a nonprofit corporation whose primary purpose is to provide technical and financial support for implementing water supply and sanitation projects in developing countries, and to raise awareness of the drinking water and sanitation crisis in developing countries. Water.org is headquartered in Kansas City, Missouri, with offices in California, Kenya, India, Indonesia, Peru, Bangladesh and the Philippines. Besides work in these locations, Water.org has supported projects in Ghana, Uganda, Cambodia, Kenya, Brazil and Mexico.

Water programs: Water programs consist of the following programs:

Grant program: Water.org identifies and evaluates partner organizations in developing countries which implement sustainable water supply and sanitation projects, and then Water.org provides technical and financial support to these partner organizations. Community grant recipients must agree to contribute in-kind labor to construct the water system, which provides the community with the firsthand knowledge required to maintain the system over the long term.

WaterCredit Initiative®: WaterCredit Initiative® was launched in 2005 and seeks to establish a revolving loan fund to provide credit to poor communities and individuals to construct water systems and sanitation facilities. Repayments are reinvested in new projects.

WaterCredit Adoption and Enabling Partnerships: In 2018, Water.org formally introduced two new water programs to help increase the amount of capital and affordable financing for water and sanitation improvements. WaterCredit Adoption encourages businesses to find financing solutions through the adoption of Water.org financing models, while Enabling Partnerships contributes to changes in policy and sector systems via partnerships and advocacy to enable a conducive environment for water and sanitation improvements.

Strategic Investment Fund: In 2018, Water.org launched the Strategic Investment Fund (SIF), which directs unrestricted funds to a portfolio of organizational and programmatic initiatives designed to drive achievement of its long-term impact goals.

Outreach: Water.org seeks to raise awareness of the global water and sanitation crisis and Water.org's solutions through presentations at high-level convenings, Water.org's own media channels and earned media coverage.

Management and general and fundraising: Management and general and fundraising provides oversight of programs and business management, record keeping, budgeting, financing and other administrative and fundraising activities for Water.org.

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

Net assets without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to designation by the Board for Water.org's mission. Water.org had no board designated net assets as of September 30, 2022 and 2021.

Notes to Financial Statements

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

Net assets with donor restrictions: Net assets with donor restrictions are those whose use by Water.org has been limited by donors to a specific time period or purpose.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Water.org considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2022 and 2021, cash equivalents consisted primarily of money market mutual funds with brokers and certificates of deposit. Water.org maintains deposits with money-center banks in excess of the insured limits and works to reduce exposure, and has not experienced any losses in such accounts.

Investments and investment return: Investments in equity securities having a readily determinable fair value, and in all debt securities, are carried at fair value. Other investments are valued using the practical expedient. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized and unrealized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as net assets without or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and equipment: Property and equipment is stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

Office equipment	10 years
Computer software	3-5 years

Long-lived asset impairment: Water.org evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2022 and 2021.

Notes to Financial Statements

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

Contributions and contributions receivable: Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as net assets with donor restrictions and then released from restriction.

Gifts of equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restriction. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets with donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts are expected to be collected within one year and are reported at their net realizable value and are recognized as revenue in the period when the promise is received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized when the barriers on which they depend are substantially overcome and the gift becomes unconditional.

All receivables recorded as of September 30, 2022 and 2021, are expected to be collected.

In-kind contributions: In addition to receiving cash contributions, Water.org receives in-kind contributions of goods and services from various donors. It is the policy of Water.org to record the estimated fair value of certain in-kind donations as an expense in the financial statements, and similarly increase contribution revenue by a like amount. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. In-kind contributions totaled \$0 and \$2,940 in September 30, 2022 and 2021, respectively.

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

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

Functional allocation of expenses: The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs, management and general, and fundraising categories based on actual time expended.

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

Income taxes: Water.org is exempt from income taxes under section 501 of the Internal Revenue Code and a similar provision of state law. However, Water.org is subject to federal income tax on any unrelated business taxable income. Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes, which requires the recognition of a liability for tax positions taken that do not meet the more likely than not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at September 30, 2022 or 2021.

Water.org files tax returns in the U.S. federal jurisdiction.

WaterCredit Investment Fund 3's (WCIF 3) members have elected to have WCIF 3's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns, and no provision for federal and state income taxes is included in these financial statements.

Transfers between fair value hierarchy levels: Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date. There were no such transfers in 2022 or 2021.

Recent accounting pronouncements: In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal year 2023. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Water.org is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 2. Liquidity and Availability of Resources

Water.org receives donor-restricted contributions with donor time and/or purpose restrictions. In addition, Water.org receives support without donor restrictions.

Investment income without donor restrictions, contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are available to meet general expenditure requirements. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during and included in the budget for a fiscal year.

Water.org manages its available cash to meet general expenditures adhering to three guiding principles:

- Operate within a prudent range of financial soundness and stability
- Maintain a sufficient level of asset liquidity
- Maintain and monitor reserves to provide reasonable assurance that long-term grant commitments and obligations will continue to be met

Water.org, Inc.

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources (Continued)

Water.org follows a liquidity policy mandating the maintenance of financial assets to meet general expenditures at a level that equals three months of management and general and fundraising expenses. To achieve this, Water.org forecasts its future cash flows and monitors its liquidity monthly.

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

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 41,631,265	\$ 33,604,384
Contribution receivables	1,546,557	1,871,065
Other receivables	8,185	43,297
Investments	2,691,300	2,689,059
Total financial assets	<u>45,877,307</u>	<u>38,207,805</u>
Less amounts not available to be used within one year:		
Investments in nonliquid securities	(1,284,458)	(1,284,458)
Cash and cash equivalents for IDR Loan Guarantees	(39,553)	(43,545)
Financial assets not available to be used within one year	<u>(1,324,011)</u>	<u>(1,328,003)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 44,553,296</u>	<u>\$ 36,879,802</u>

Water.org has various sources of liquidity at its disposal, including cash and cash equivalents, and a line of credit with Bank of America totaling \$4,000,000. See Note 8 for information about Water.org's line of credit.

Note 3. Investments

Investments at September 30, 2022 and 2021, consisted of the following:

	2022	2021
Mutual funds	\$ 1,406,842	\$ 1,404,601
Investment in WaterCredit Investment Fund 3	1,284,458	1,284,458
	<u>\$ 2,691,300</u>	<u>\$ 2,689,059</u>

Note 4. Fair Value of Assets and Liabilities

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

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

Water.org, Inc.

Notes to Financial Statements

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

Level 2: Inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or derived from inputs that are observable.

Level 3: Inputs are valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker trade transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Recurring measurements: The following tables present the fair value measurements recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2022 and 2021:

	September 30, 2022			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Mutual funds	\$ 1,406,842	\$ 1,406,842	\$ -	\$ -

	September 30, 2021			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Mutual funds	\$ 1,404,601	\$ 1,404,601	\$ -	\$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2022.

Mutual funds: These investments are reported at fair value based on quoted market prices obtained from exchanges.

Investment in WCIF 3: This investment is reported at fair value of net asset value (NAV) using the practical expedient, which is \$1,284,458 at September 30, 2022 and 2021. The investment is a Cayman Islands exempted limited partnership. The fund's purpose is to address the global water crisis by financing improved access to safe water and sanitation for low-income individuals and groups. As described in Article 1.9 of the Limited Partnership Agreement, at all times the Partnership will be operated in a manner that furthers the charitable purposes of its Affiliate, WaterEquity, Inc., consistent with WaterEquity, Inc.'s status as an organization described in Code Section 501(c)(3).

Water.org, Inc.

Notes to Financial Statements

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

There were no changes in securities measured at NAV as of September 30, 2022. Water.org does not have early redemption rights. Investments into the fund (principal) is expected to be returned at the end of the fund's seven-year term in 2027, with the possibility of two one-year extensions. The unfunded commitment is \$0 for both September 30, 2022 and 2021.

Note 5. Conditional Gifts

Water.org has received conditional promises to give that are not recognized in the financial statements. Water.org must meet certain milestones as defined in the related grant agreements in order to recognize these grants as revenue. Management expects the conditions to be met over the next two years. Conditional promises at September 30, 2022 and 2021, were for the following purposes:

	2022	2021
Brazil Initiative (through 2021)	\$ -	\$ 40,000
India/Indonesia Initiative (through 2021)	-	1,332,950
Kenya Initiative (through 2022)	330,203	345,507
Bangladesh Initiative (through 2022)	-	1,218,270
India Initiative (through 2022)	3,716,979	2,909,119
Philippines Initiative (through 2022)	82,872	224,944
Brazil/India Initiative (through 2023)	-	24,743
Mexico Initiative (through 2023)	200,000	-
Brazil Initiative (through 2024)	250,000	-
Indonesia Initiative (through 2024)	220,746	-
	<u>\$ 4,800,800</u>	<u>\$ 6,095,533</u>

Note 6. Grants Commitments

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

Outstanding conditional commitments as of September 30, 2022 and 2021, are expected to be funded within the next four years and are for the following programs:

	2022	2021
WaterCredit Initiative®	<u>\$ 5,479,899</u>	<u>\$ 3,995,654</u>

Water.org, Inc.

Notes to Financial Statements

Note 7. Property and Equipment

Property and equipment at September 30, 2022 and 2021, consisted of the following:

	2022	2021
Office equipment	\$ 1,042,812	\$ 1,041,014
Computer software	52,857	52,857
	<u>1,095,669</u>	<u>1,093,871</u>
Less accumulated depreciation	1,038,165	922,579
	<u>\$ 57,504</u>	<u>\$ 171,292</u>

Note 8. Line of Credit and Paycheck Protection Program Loan

Water.org has a \$4,000,000 revolving bank line of credit. At September 30, 2022 and 2021, there were no borrowings against this line. The interest rate is variable based on the greater of the BSBY Daily Floating Rate or the Index Floor plus 2.00%.

On March 27, 2020, the Coronavirus, Relief and Economic Security Act (CARES Act) was signed into law and is meant to address the economic fallout from the COVID-19 pandemic. In connection with the CARES Act, Water.org received a Small Business Administration Paycheck Protection Program (PPP) loan for \$1,425,382 on April 15, 2020. The loan was unsecured, bore interest at 1.00% and was set to mature on April 15, 2022. On May 6, 2021, Water.org was approved for full forgiveness of the loan and was recognized as loan forgiveness revenue in the statement of activities for the year ended September 30, 2021.

On March 15, 2021, Water.org received a second installment of the PPP loan for \$1,425,377. The loan was unsecured, bore interest at 1.00% and was set to mature on March 15, 2026. The outstanding balance of the note as of September 30, 2021, was \$1,425,377. On May 26, 2022, Water.org was approved for full forgiveness of the loan and was recognized as loan forgiveness revenue in the statement of activities for the year ended September 30, 2022.

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

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions as of September 30, 2022 and 2021, are available for the following purposes:

	2022	2021
Grant and WaterCredit programs' net assets:		
Indonesia	\$ 166,426	\$ 668,263
India	-	345,043
Philippines	194,580	359,383
Peru	676,364	377,044
Honduras	10,293	10,335
Ghana	3,934	3,925
Kenya	-	28,027
Brazil	1,294,757	2,291,404
Asia	536,098	531,695
Uganda	288,944	-
Global	11,567,831	10,106,914
	<u>\$ 14,739,227</u>	<u>\$ 14,722,033</u>

During the years ended September 30, 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2022	2021
Grant and WaterCredit programs released:		
Indonesia	\$ 448,498	\$ 332,436
India	2,376,831	1,997,128
Bangladesh	1,119,011	1,984,566
Philippines	282,400	99,663
Peru	363,440	756,516
Kenya	324,374	389,567
Cambodia	216,557	579,491
Africa	1,366,723	-
Brazil	2,141,578	1,352,553
South America	166,656	-
Asia	-	311,449
Uganda	810,221	258,624
Global	2,089,962	1,380,059
	<u>\$ 11,706,251</u>	<u>\$ 9,442,052</u>

Water.org, Inc.

Notes to Financial Statements

Note 10. Operating Leases

Noncancelable operating leases for office space expire in various years through 2027. Rental expense was \$408,139 and \$528,965 in 2022 and 2021, respectively. Future minimum lease payments under operating leases are as follows:

Years ending September 30:	
2023	\$ 364,141
2024	248,557
2025	199,650
2026	91,058
2027	30,488
Total minimum lease payments	<u>\$ 933,894</u>

Note 11. Employee Benefit Plan

Water.org has a 401(k) retirement plan covering substantially all U.S.-based employees. Water.org matches voluntary contributions to the plan up to 4% of the employees' compensation. Contributions to the U.S. plan were \$335,421 and \$242,353 for 2022 and 2021, respectively. Water.org also contributes to retirement plans for its international offices, and contributions to these plans were \$6,227 and \$25,876 for 2022 and 2021, respectively. Total contributions to all plans were \$341,648 and \$268,229 for 2022 and 2021, respectively.

Water.org has an incentive compensation plan that provides a range of organizational and personal goals to determine incentive compensation per employee. The incentive compensation payment in late December is based upon the finalization of the year's financial results and approval by the Executive Committee of the Board of Directors. As of September 30, 2022 and 2021, Water.org recorded approximately \$1,433,925 and \$1,335,842, respectively, of accrued incentive compensation expense in accrued expenses on the statements of financial position.

Note 12. Concentrations

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

Contributions: During the years ended September 30, 2022 and 2021, approximately 36% and 23%, respectively, of all contributions were received from two donors.

Note 13. Subsequent Events

Subsequent events were evaluated through April 12, 2023, which is the date the financial statements were available to be issued.