



WATER4, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

WITH

INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Water4, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Water4, Inc. (Water4), which comprise the statement of financial position as of December 31, 2018, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriated in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water4 as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Water4 adopted Financial Accounting Standards Board Accounting Standard Updated No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result, Water4 changed its presentation of its net asset classes and expanded the footnote disclosures as required by the standard. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Hogan Taylor LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 2, 2019

WATER4, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

Assets	
Cash and cash equivalents	\$ 2,697,345
Contributions receivable	499,277
Other receivables	2,765
Prepaid expenses	17,873
Inventory	217,499
Note receivable	210,792
Property and equipment, net	<u>662,559</u>
Total assets	<u>\$ 4,308,110</u>
Liabilities and Net Assets	
Accounts payable	\$ 100,587
Payroll related liabilities	<u>18,604</u>
Total liabilities	119,191
Net assets:	
Without donor restrictions	3,491,646
With donor restrictions	<u>697,273</u>
Total net assets	<u>4,188,919</u>
Total liabilities and net assets	<u>\$ 4,308,110</u>

WATER4, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	\$ 5,575,850	\$ 687,858	\$ 6,263,708
Fundraising events, net of direct costs of \$308,207	170,497	-	170,497
Interest income	20,644	-	20,644
Other income	7,719	-	7,719
Net assets released from restrictions	266,838	(266,838)	-
Total revenues, gains and other support	6,041,548	421,020	6,462,568
Expenses			
Program	4,712,822	-	4,712,822
Management and general	400,756	-	400,756
Fundraising	1,021,240	-	1,021,240
Total expenses	6,134,818	-	6,134,818
Change in net assets	(93,270)	421,020	327,750
Net assets, beginning of year	3,584,916	276,253	3,861,169
Net assets, end of year	\$ 3,491,646	\$ 697,273	\$ 4,188,919

WATER4, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018

	Program	Management and General	Fundraising	Total
Salaries, payroll taxes and benefits	\$ 685,878	\$ 235,947	\$ 755,693	\$ 1,677,518
Water well cost of supplies, support and training	3,388,092	-	-	3,388,092
Water well research and development	240,273	-	-	240,273
Production management fee	111,193	-	-	111,193
Memberships and subscriptions	275	5,379	1,653	7,307
Continuing education	10,488	9,720	10,333	30,541
Office	22,215	5,554	-	27,769
Postage, shipping and freight	7,337	610	10,103	18,050
Insurance	14,649	3,662	-	18,311
Professional and other fees	8,210	69,834	489	78,533
Maintenance	34,725	8,681	-	43,406
Marketing and advertising	16,765	-	102,626	119,391
Supplies	13,080	18,635	10,562	42,277
Software	6,967	4,443	7,023	18,433
Telephone	4,993	6,814	3,585	15,392
Travel	110,216	22,608	53,688	186,512
Utilities	15,033	3,758	-	18,791
Vehicle	768	535	675	1,978
Website	5,957	-	46,103	52,060
Depreciation	13,928	3,482	-	17,410
Other	1,780	1,094	18,707	21,581
Total expenses	\$ 4,712,822	\$ 400,756	\$ 1,021,240	\$ 6,134,818

WATER4, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ 327,750
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	17,410
Change in operating assets and liabilities:	
Increase in contributions receivable	(276,877)
Increase in other receivables	(731)
Decrease in prepaid expenses	98,298
Decrease in inventory	162,564
Decrease in accounts payable	(503,090)
Decrease in payroll related liabilities	(135,308)
	<hr/>
Net cash used in operating activities	(309,984)
Cash Flows from Investing Activities	
Purchases of property and equipment	(57,460)
Payments received on note receivable	41,124
	<hr/>
Net cash used in investing activities	(16,336)
	<hr/>
Net decrease in cash and cash equivalents	(326,320)
	<hr/>
Cash and cash equivalents, beginning of year	3,023,665
	<hr/>
Cash and cash equivalents, end of year	<u>\$ 2,697,345</u>

WATER4, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 1 – Nature of Organization and Activities

Water4, Inc. (Water4) is a nonprofit organization incorporated in Oklahoma in 2008 for the purpose of eradicating the world water crisis through faith, empowerment, entrepreneurship, and technology. Water4 focuses on equipping and empowering organizations that seek to combat their water crisis through local people with the combination of technology and behavioral change. The resulting implementation is carried out through Water4's provision of equipment, materials, installation, training, and support of sustainable and reproducible methods to locate and access clean water for both personal and agricultural uses of at-risk populations in impoverished areas around the world. Water4's business model is to partner with locally owned businesses to empower the people affected by the water crisis to be the same people who solve the water crisis. Water4 is active in multiple countries, and its primary operations are within Africa.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets

Water4 reports information regarding its financial position and change in net assets according to two classes of net assets based on the existence or absence of donor-imposed restrictions, as follows:

Without donor restrictions – Net assets without donor restrictions include all resources that are expendable at the discretion of the Board of Directors (Board) and/or management for general operating purposes or Water4's programs. From time to time the Board may designate a portion of these net assets for specific purposes which make them unavailable for use at management's discretion. There were no such Board designations for the year ended December 31, 2018.

With donor restrictions – Net assets with donor restrictions consist of resources whose use is limited by donor-imposed time and/or purpose restrictions. Water4's donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, the net assets are reclassified to net assets without donor restrictions in the statement of activities as net assets released from restrictions. Contributions with restrictions that are fulfilled in the same time period in which the contribution is received are recorded as contributions without donor restrictions in the statement of activities. For the year ended December 31, 2018, Water4 had no endowments or donor-imposed restrictions that were perpetual in nature. See Note 8 for more information on the composition of net assets with donor restrictions.

Accounting 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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The amount of cash maintained in banks is typically in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000. To date, Water4 has not experienced any losses on these accounts and believes it is not exposed to any significant credit risk on cash held in such institutions. Highly liquid investments with original maturities of three months or less are considered to be cash equivalents. At December 31, 2018, cash equivalents totaled approximately \$1,603,000. Water4 does not have any bank accounts in foreign countries.

Contributions receivable

Contributions receivable with expected collections greater than one year are recorded at their net present value. Receivables are evaluated on an individual basis for collectibility. Water4's periodic assessment of contributions receivable and credit loss provisions are based on management's best estimates of contributions which may not be recoverable. Receivables are written off when deemed uncollectible. At December 31, 2018, management believes that all amounts will be collected in full, and no allowance for doubtful accounts has been established.

Inventory

Inventory is recorded at the lower of cost or net realizable value and is comprised primarily of finished goods and raw materials for the construction of drilling equipment. A loss is recognized for the decrease in value of any slow-moving inventory. For the year ended December 31, 2018, management determined that no allowance for obsolescence was necessary.

Property and equipment

Property and equipment is carried at cost or, if donated, at fair value on the date of donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 3 to 39 years. Expenditures for betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation charged to operations was \$17,410 in 2018.

Gifts of property are presented as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Property donated with restrictions regarding their use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations about how long these assets must be maintained, these restrictions expire when the asset is acquired and a reclassification is made from net assets with donor restrictions to net assets without donor restrictions at that time.

Revenue recognition

Water4's revenues are primarily derived from contributions. Contributions, including unconditional promises to give, are recognized as revenue when the donor's unconditional commitment is received. Gifts of cash and other assets received are reported as restricted support if they are received with donor-imposed stipulations that limit the use of the donated assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed materials are recorded at fair value at the time of donation, and contributed services are recorded at the fair value of the services, provided they create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills which would typically be purchased if not provided by donation. Contributions recognized from donated materials and services totaled approximately \$29,000 for 2018.

Fundraising events

Water4 conducts an annual fundraising event in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of benefits provided at special events is measured at the actual cost to Water4. The direct costs of the event, which ultimately benefit the donor rather than Water4, are netted against related revenues in the statement of activities.

Functional allocation of expenses

The costs of program services and supporting activities are summarized in the statement of activities on a functional basis. The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of Water4 are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on the estimated cost attributable to each function. Salaries, payroll taxes and benefits expenses are allocated based upon management's best estimate of benefit provided to each area. Additionally, occupancy expenses are allocated based upon the percentage of square footage of office space used by each program or supporting function. All other expenses with no direct association to a functional category are allocated based upon the estimated percentage of use by each program or supporting function.

Income taxes

No provision for income taxes has been made in the accompanying financial statements because Water4 is exempt from federal taxes on income related to its exempt purpose under the provisions of Internal Revenue Code (the Code) Section 501(c)(3). Water4 has been determined not to be a private foundation under Section 509(a) of the Code. As long as Water4 complies with applicable regulations, it is not subject to income taxes. However, Water4 is subject to federal income tax on any unrelated business taxable income.

Adoption of new accounting pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the standard are as follows: the standard (1) replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions; (2) expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds; (3) requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses; (4) requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk; and (5) requires investment returns to be presented net of external and direct internal investment expenses. Water4 adopted the provisions of this standard as of and for the year ended December 31, 2018. As a result, Water4 changed its presentation of its net asset classes and expanded the footnote disclosures required by the standard.

Accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. As deferred by ASU No. 2015-14, the standard is effective for Water4 for the year ending December 31, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. Management is currently evaluating the impact the standard will have on its financial statements and related disclosures; however, Water4 will apply the guidance using the cumulative effect transition method. The cumulative effect (if any) of applying the standard will be accounted for as an adjustment to the opening balance of net assets at the date of initial application.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. Specifically, the standard provides additional guidance to clarify contributions vs. exchange transactions and provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The requirements are effective for Water4 for transactions in which the entity serves as a resource recipient for the year ending December 31, 2019. For transactions in which Water4 serves as the resource provider, the requirements are effective for the year ending December 31, 2020, with early adoption permitted.

Subsequent events

Management has evaluated subsequent events through October 2, 2019, the date which the financial statements were available to be issued. See Note 11.

Note 3 – Liquidity and Availability of Financial Assets

Water4's financial assets available for general expenditure within one year of the statement of financial position date are as follows at December 31, 2018:

Cash and cash equivalents	\$ 2,697,345
Contributions receivable	499,277
Other receivables	<u>2,765</u>
Total financial assets available within one year	3,199,387
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose and time restrictions (see Note 8)	<u>(697,273)</u>
Total financial assets available to meet general expenditures within the next 12 months	<u><u>\$ 2,502,114</u></u>

Water4 maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management actively monitors contributions, and management and the Board approve an annual budget to help manage liquidity needs. It is management's intent to achieve and maintain a minimum of six-month cash availability to cover daily operating and programmatic expenses. To help manage unanticipated liquidity needs, Water4 invests excess operating cash in cash equivalents.

Note 4 – Related Party Transactions

Various members of Water4's Board contribute to Water4 through other organizations. Such contributions totaled approximately \$2,530,000, which represented approximately 39% of Water4's total revenues for 2018. Approximately \$138,000 of these related party contributions are recognized in contributions receivable in the accompanying December 31, 2018, statement of financial position.

In July 2018, Water4 received a \$9,000,000 pledge from the corporation of a Board member. Water4 is eligible to collect up to \$3,000,000 each year for three consecutive years, beginning in 2019. According to the terms of the pledge, \$3,000,000 is conditional upon Water4 collecting matching funds of \$1,000,000 for each of the three years. The remaining \$6,000,000 was not subject to the match requirement; however, the entire \$9,000,000 pledge is subject to certain additional donor-imposed conditions. Water4 did not meet these conditions for the year ended December 31, 2018. As such, no amount of this pledge was recognized in 2018.

In August 2016, Water4 entered into consulting and vendor agreements with Access Development, LLC (Access Development), a separate for-profit entity, for assistance in developing, testing, designing, and manufacturing its uniquely designed water pumps, as well as supporting Water4's efforts to equip and train local nationals and their supporting nongovernmental organizations to locate and drill water wells. In 2018, Water4 paid Access Development production management fees of approximately \$111,000 for services rendered. Total payments made to Access Development totaled approximately \$1,551,000, which represented approximately 33% of Water4's total program expenses for 2018. Water4 is Access Development's only substantial customer; consequently, the entities are financially interrelated. For the year ended December 31, 2018, management determined that Water4 did not have a controlling financial interest through direct or indirect ownership of a majority voting interest in Access Development, nor was Water4 able to control the entity by other means.

Subsequent to the year ended December 31, 2018, Water4 obtained a controlling financial interest in Access Development. See Note 11.

Note 5 – Collaborative Project

In June 2012, Water4 entered into a nonbinding Memorandum of Understanding (MOU) with World Vision, Inc. (World Vision) in a collaborative project to provide water, sanitation, and hygiene programs to approximately one million people in various countries in Africa over a five-year period, referred to as the Water4More program. A joint fundraising target of \$20,000,000 was outlined in the MOU, with World Vision agreeing to match funds raised by Water4 for this program up to \$10,000,000. Neither party was obligated to provide the full \$10,000,000 in funding. Contributions received by Water4 designated for the Water4More program were sent to World Vision, who acted as the fiduciary agent for the project and controlled the flow of funds. Water4 acted as the technical and operational arm of the collaboration and would request funding from World Vision based on detailed budgets and action plans for each participating country.

In June 2018, based on periodic assessments to determine the feasibility of fundraising and program goals, Water4 and World Vision mutually agreed to cease funding the Water4More program. In 2018, Water4 recognized approximately \$759,000 in contributions and programmatic expenses related to Water4More, of which \$170,000 are recognized in contributions receivable in the accompanying December 31, 2018, statement of financial position. Since inception of the Water4More program, Water4 has recognized revenues and program expenses of approximately \$9,814,000 related to the project.

Note 6 – Note Receivable

As a part of the Water4More collaborative project with World Vision (see Note 5), the parties elected to conduct drilling operations in Ethiopia. Ethiopian governmental regulations stipulate that any organization doing business in Ethiopia must be officially registered. Water4, as a foreign nonprofit organization, was precluded under Ethiopian law from registering to do business in the country. Through its relationship with Access Development (see Note 4), Access Development, as a for-profit entity, registered with the country. An in-country investment of \$500,000, in the form of cash or equipment, was also required for registration. In 2015, Water4 advanced \$500,000 to Access Development to fund this investment requirement. The note bears interest at a variable rate and matures December 31, 2020. For the year ended December 31, 2018, approximately \$211,000 was outstanding on the note.

Subsequent to the year ended December 31, 2018, Water4 obtained a controlling financial interest in Access Development (see Note 11).

Note 7 – Property and Equipment

Property and equipment consist of the following at December 31, 2018:

	<u>Estimated Useful Life</u>	
Land		\$ 106,000
Buildings and buildings improvements	39	652,517
Furniture, fixtures and equipment	5 - 7	40,957
Vehicles	5	7,700
Software	3	<u>20,332</u>
		827,506
Less accumulated depreciation		<u>(164,947)</u>
Total property and equipment, net		<u><u>\$ 662,559</u></u>

Note 8 – Restrictions on Net Assets

Net assets with donor restrictions consist of the following at December 31, 2018:

Restricted by donor for specific country	\$ 215,746
Restricted by donor for specific project	<u>481,527</u>
Total net assets with donor restrictions	<u><u>\$ 697,273</u></u>

Note 9 – Retirement Plan

Water4 maintains a Simple-IRA plan for its employees, who may participate in the plan subject to certain eligibility requirements. Water4 matches up to 3% of the employee's salary deferred by the employee. The cost to Water4 under this plan was approximately \$40,000 for 2018.

Note 10 – Concentrations

Contributions to Water4 are primarily from individuals and businesses in Oklahoma. As a result, support of Water4 is highly dependent upon the general economic conditions in the area. See Note 4 for concentrations of contributions received from related party contributors in 2018. Management actively monitors contributions as part of its liquidity management policies (see Note 3) to determine the risk of near-term severe impact on the operations and mission of Water4 due to these concentrations.

Note 11 – Subsequent Event

Effective January 1, 2019, the sole member of Access Development (see Note 4) transferred 100% of his ownership interest in the entity to Water4 in a transaction accounted for as an acquisition. As a result, Water4 obtained a controlling financial interest through direct ownership of the for-profit entity. Accordingly, Water4 determined the consolidation criteria established under FASB Accounting Standards Codification 958-810, *Consolidations* had been met and, as such, the accounts of Access Development should be consolidated for the year ending December 31, 2019. Access Development is a for-profit entity that shares Water4's mission of eradicating the world water crisis. The acquisition provides Water4 an opportunity to enhance its ongoing business relationship with Access Development. Water4 intends to provide administrative and financial support to Access Development to continue its existing programs in foreign countries.

Water4 acquired cash of approximately \$30,000 and property and equipment with a net book value of approximately \$150,000. Water4 assumed liabilities of approximately \$211,000, which satisfied the related note payable to Water4 (see Note 6). Management believes the carrying amounts of these acquired assets and liabilities approximates their fair values at January 1, 2019. The acquisition-date fair value of net assets acquired from Access Development resulted in a deficit of approximately \$31,000, which was recorded as a loss in Water4's 2019 financial statements.