

Audited Financial Statements

**Water to Thrive**

*For the Year Ended December 31, 2018  
With Report of Independent Auditors*

# **Water to Thrive**

## **Audited Financial Statements**

**For the Year Ended December 31, 2018**

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## **Report of Independent Auditors**

To the Board of Directors of  
Water to Thrive  
Austin, Texas

We have audited the accompanying financial statements of Water to Thrive (the “Organization”) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and 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.

### **Auditors’ 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ 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 auditors consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Water to Thrive 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.

*Reynolds & Franke, PC*

Austin, Texas  
July 17, 2019

## **Audited Financial Statements**

## Water to Thrive

### Statement of Financial Position

*December 31, 2018*

#### **Assets**

Cash and cash equivalents	\$ 183,519
Trust receivable, current, with restrictions	38,831
Receivables – related parties	16,311
Inventory	8,517
Prepaid expenses and other current assets	14,742
Total current assets	<u>261,920</u>
Cash and cash equivalents with restrictions	103,431
Trust receivable, non-current, with restrictions	258,582
Property and equipment, net	<u>8,351</u>
Total assets	<u>\$ 632,284</u>

#### **Liabilities and Net Assets**

Accounts payable	\$ 9,423
Accounts payable – related party	1,046
Accrued liabilities	44,334
Deferred revenue	2,000
Note payable – current portion	16,785
Total current liabilities	<u>73,588</u>
Note payable – long-term portion	<u>9,653</u>
Total liabilities	<u>83,241</u>
<b>Net Assets</b>	
Without restrictions	148,199
With restrictions	400,844
Total net assets	<u>549,043</u>
Total liabilities and net assets	<u>\$ 632,284</u>

*The accompanying notes are an integral part of these financial statements.*

# Water to Thrive

## Statement of Activities

*For the Year Ended December 31, 2018*

	Without Restrictions	With Restrictions	Total
Revenues and other support:			
Contributions	\$ 231,239	\$ 632,775	\$ 864,014
Change in value of split-interest agreement	-	10,385	10,385
Other	8,159	-	8,159
Total revenues and other support	239,398	643,160	882,558
Special events:			
Special event revenues	214,228	-	214,228
Special event expenses	(98,025)	-	(98,025)
Special events, net	116,203	-	116,203
Missions travel:			
Missions travel revenues	49,397	-	49,397
Missions travel expenses	(46,683)	-	(46,683)
Missions travel, net	2,714	-	2,714
Merchandise sales:			
Gross sales	14,708	-	14,708
Cost of goods sold	(9,879)	-	(9,879)
Merchandise sales, net	4,829	-	4,829
Net assets released from restrictions	713,922	(713,922)	-
Total revenues, support, and reclassifications	1,077,066	(70,762)	1,006,304
Expenses:			
Program services	827,876	-	827,876
Fundraising	172,573	-	172,573
Management and general	89,943	-	89,943
Total expenses	1,090,392	-	1,090,392
Total change in net assets	(13,326)	(70,762)	(84,088)
Net assets, beginning of year, as previously reported	128,488	504,643	633,131
Prior period adjustment:			
Restatement of restricted net assets	33,037	(33,037)	-
Net assets, beginning of year, restated	161,525	471,606	633,131
Net assets, end of year	\$ 148,199	\$ 400,844	\$ 549,043

*The accompanying notes are an integral part of these financial statements.*

## Water to Thrive

### Statement of Functional Expenses

*For the Year Ended December 31, 2018*

	<b>Program Services</b>	<b>Fundraising</b>	<b>Management &amp; General</b>	<b>Total</b>
Salaries	\$ 80,796	\$ 94,082	\$ 52,578	\$ 227,456
Payroll taxes	6,778	7,904	4,421	19,103
Water projects	668,847	-	-	668,847
Occupancy	22,102	28,417	19,646	70,165
Bad debt expense	23,272	-	-	23,272
Office	14,245	4,444	2,314	21,003
Marketing	-	13,657	896	14,553
Bank service charges	1,250	7,056	5	8,311
Postage and shipping	1,066	3,199	1,069	5,334
Printing	1,020	2,804	1,274	5,098
In-kind water projects expense	4,950	-	-	4,950
Other	1,387	1,557	445	3,389
Website	-	1,623	1,623	3,246
Fundraising	-	3,122	-	3,122
Dues and subscriptions	1,565	181	1,264	3,010
Travel and entertainment	598	2,093	298	2,989
Depreciation	-	-	2,561	2,561
Conferences and meetings	-	2,434	-	2,434
Insurance	-	-	1,549	1,549
Total expenses	<u>\$ 827,876</u>	<u>\$ 172,573</u>	<u>\$ 89,943</u>	<u>\$ 1,090,392</u>
Percentage of total expenses	<u>76%</u>	<u>16%</u>	<u>8%</u>	<u>100%</u>

*The accompanying notes are an integral part of these financial statements.*



## Water to Thrive

### Statement of Cash Flows

*For the Year Ended December 31, 2018*

<b>Cash flows from operating activities</b>	
Change in net assets	\$ (84,088)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	2,561
Bad debt expense	23,272
Usage of accrued in-kind services	4,950
Amortization of discount on trust receivable	(10,385)
Loss on writedown of inventory	9,767
Changes in operating assets and liabilities:	
Increase in cash and cash equivalents with restrictions	(18,003)
Decrease in receivables	31,060
Increase in receivables – related parties	(13,511)
Increase in inventory	(8,846)
Decrease in Trust receivable	40,000
Decrease in prepaid expenses and other current assets	4,496
Decrease in accounts payable	(30,689)
Increase in accounts payable – related party	1,046
Increase in accrued liabilities	23,795
Decrease in deferred revenue	(14,500)
Net cash used in operating activities	<u>(39,075)</u>
<b>Cash flows from investing activities</b>	
Purchase of property and equipment	<u>(6,749)</u>
Net cash used in investing activities	<u>(6,749)</u>
<b>Cash flows from financing activities</b>	
Distributions made on note receivable	(740)
Payments received on note receivable	4,000
Principal payments on note payable	(15,578)
Net cash used in financing activities	<u>(12,318)</u>
Change in cash and cash equivalents	(58,142)
Cash and cash equivalents, at beginning of period	<u>241,661</u>
Cash and cash equivalents, at end of period	<u>\$ 183,519</u>
<b>Supplemental disclosure of cash flow information:</b>	
Cash paid for interest	<u>\$ 1,621</u>

*The accompanying notes are an integral part of these financial statements.*

# **Water to Thrive**

## **Notes to Financial Statements**

*For the Year Ended December 31, 2018*

### **Note 1 – Summary of Significant Accounting Policies**

#### **Nature of Activities**

Water to Thrive (the “Organization”), was established in 2008. The Organization is a non-profit organization whose mission is to provide fresh water wells to impoverished areas in developing countries through non-governmental organizations and partners. The Organization is dedicated to spreading awareness of the global water crisis while raising funds needed to construct water wells for those who need them in rural Africa.

The mission is accomplished by:

- ☐ In the US, the Organization works with individuals, churches, corporate offices, and schools to raise funds.
- ☐ The Organization then partners with African non-governmental organizations to implement water work.

The Organization’s revenue is primarily generated from special events and individual contributions.

#### **Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred.

#### **New Accounting Pronouncement**

During the year ended December 31, 2018, the Organization adopted the requirements of the Financial Accounting Standards Board’s Accounting Standards Update No. 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is related to amounts previously reported as unrestricted net assets are now reported as net assets without restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with restrictions. In addition, a statement of functional expenses is now required to be presented and a footnote on liquidity has also been added (see Note 10).

# Water to Thrive

## Notes to Financial Statements (continued)

*For the Year Ended December 31, 2018*

### **Note 1 – Summary of Significant Accounting Policies (continued)**

#### **Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendations of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958). Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without restrictions – These types of net assets are not subject to donor-imposed stipulations. This also includes Board-designated net assets for specific purposes, since these designations may be reversed by the Board of Directors at any time in the future.

Net assets with restrictions – These types of net assets are subject to donor-imposed stipulations, which limit their use by the Organization, either permanently or temporarily, to a specific purpose and/or the passage of time. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

#### **Use of Estimates**

The preparation of financial statements 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 these estimates.

#### **Federal Income Taxes**

Water to Thrive is a not-for-profit organization exempt from Federal income taxes on their operating income under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income, if any.

The most significant tax positions of the Organization are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management has determined that the Organization had activities subject to UBIT in the year ended December 31, 2018. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

## **Water to Thrive**

### **Notes to Financial Statements (continued)**

*For the Year Ended December 31, 2018*

#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### **Federal Income Taxes (continued)**

The Organization is required to file Form 990 (Return of Organization Exempt from Income Tax) annually and the Form 990-T (Exempt Organization Business Income Tax Return) in years in which the Organization is subject to UBIT. All tax returns are subject to examination by the Internal Revenue Service (IRS), generally up to three years from the later of the original due date or the date the tax return was filed. The Forms 990 for the years ended December 31, 2017, 2016, and 2015 and Forms 990-T for the years ended December 31, 2017 and 2016 are open to examination by the IRS as of December 31, 2018.

##### **Fair Value of Financial Instruments**

The Organization follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which relates to the Organization's financial assets and liabilities carried at fair value and the associated fair value disclosures. FASB ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. 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.

There are three levels of inputs to fair value measurements – Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

The Organization's financial instruments consist principally of cash and cash equivalents, trust receivable, current, with restrictions, receivables – related parties, cash and cash equivalents with restrictions, trust receivable, non-current, with restrictions, accounts payable, accounts payable – related party, and accrued liabilities. The Organization believes all of the financial instruments' recorded values approximate current market values.

##### **Cash and Cash Equivalents**

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For purposes of the statement of cash flows, cash and cash equivalents exclude cash and cash equivalents with restrictions.

# **Water to Thrive**

## **Notes to Financial Statements (continued)**

*For the Year Ended December 31, 2018*

### **Note 1 – Summary of Significant Accounting Policies (continued)**

#### **Accounts Receivable**

Accounts receivable are stated at the amount the Organization expects to collect from outstanding balances which consist of grants and contributions. The Organization has not set up an allowance for uncollectible receivables at December 31, 2018, because management estimates that the receivables are collectible, and write-offs are historically unusual and small.

#### **Inventory**

Inventories consist of coffee, clothing and jewelry and are valued at the lower of cost or market on a first-in, first-out basis.

#### **Property and Equipment**

Property and equipment are stated at cost, if purchased, and at fair market value at date of gift, if received by donation. The Organization capitalizes assets with cost/fair value of \$1,000 or more and a useful life of more than one year. Provision has been made for depreciation of property and equipment using the straight-line method over an estimated useful life of three years. Upon the sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the account. Any gain or loss on the sale or retirement is recognized in current operations.

#### **Charitable Lead Trust Receivable**

The Organization's beneficial interest in a charitable lead unitrust was recorded as net assets with restrictions when the Organization was notified of the trust's existence. The assets for the contribution receivable from the trust consist of investments that are held and managed by a trustee. The Organization has no control over those assets. The contribution receivable is reported at fair value, which is estimated using an income approach based on assumptions developed by the Organization about the future distributions it will receive from the trust. Changes in the fair value of the contribution receivable are reflected in the net assets with restrictions. Distributions from the trust are reflected as reductions in the contribution receivable and reclassifications from net assets with restrictions to net assets without restrictions.

#### **Contributions**

Contributions received are recorded as increases in activities with restrictions or without restrictions depending on the existence and/or nature of any donor restrictions.

## **Water to Thrive**

### **Notes to Financial Statements (continued)**

*For the Year Ended December 31, 2018*

#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### **Contributions (continued)**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in net assets with restrictions depending on the nature of the restriction. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

##### **Functional Allocation of Expenses**

The expense information contained in the statement of activities is presented on a functional basis. Accordingly, certain expenses are allocated among the programs and supporting services benefited. Expenses which cannot be specifically identified have been allocated based on management's best estimate of usage. Salaries, payroll taxes, and benefits are allocated based on estimated time spent by the employees for each function. Occupancy costs are allocated based on the space usage. Depreciation is allocated on estimated usage in each function.

##### **In-Kind Support**

The Organization records various types of in-kind support primarily related to their special events, programs, and fundraising efforts. In-kind support is recognized in accordance with the *Contributions Received* Subsection of FASB ASC 958. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses.

##### **Date of Management's Review**

These financial statements considered subsequent events through July 17, 2019, the date the financial statements were available to be issued.

#### **Note 2 – Concentration of Risk**

Financial instruments which potentially subject the Organization to credit risk principally consist of cash and cash equivalents. To minimize the risk, the Organization places its temporary cash investments with high credit quality financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Effective January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest bearing accounts. As of December 31, 2018, the Organization had \$727 of uninsured balances. The Organization has not experienced any losses in these accounts in the past.

## Water to Thrive

### Notes to Financial Statements (continued)

*For the Year Ended December 31, 2018*

#### **Note 3 – Charitable Lead Trust**

During 2012, a donor established a trust with a bank naming the Organization as the lead beneficiary of a charitable lead unitrust. Under terms of the split-interest agreement, the Organization is to receive an annual distribution equal to \$40,000 for 15 years beginning in 2013. On an annual basis, the Organization remeasures the estimated fair value of the contribution receivable based on an applicable discount rate of 4%. The Organization received \$40,000 from the trust during the year ended December 31, 2018, which was recorded as a reduction in the receivable and a corresponding reclassification from net assets with restrictions to net assets without restrictions.

Future payments from the charitable lead trust at December 31, 2018 are as follows:

2019	\$	40,000
2020		40,000
2021		40,000
2022		40,000
2023		40,000
Thereafter		160,000
		<u>360,000</u>
Discount to present value		<u>(62,587)</u>
Total	\$	<u>297,413</u>

#### **Note 4 – Property and Equipment**

At December 31, 2018, property and equipment consisted of the following:

Computer equipment	\$	7,330
Website		8,000
Less: accumulated depreciation		<u>(6,979)</u>
Property and equipment, net	\$	<u>8,351</u>

Total depreciation expense was \$2,561 for the year ended December 31, 2018.

## Water to Thrive

### Notes to Financial Statements (continued)

*For the Year Ended December 31, 2018*

#### **Note 5 – Note Payable**

In order to provide the funds to Diversity Tours Ethiopia (DTE), the Organization entered into an unsecured agreement with another party to provide financing. The Organization borrowed \$63,000 for a loan to DTE for vehicles, and also financed the \$5,000 origination fee associated with the loan. The note also requires an annual maintenance fee of \$1,000. The note payable accrues interest at 7.5% with repayment in 48 monthly payments of \$1,648.11 until the maturity date of June 1, 2020.

Future payments on the note payable at December 31, 2018 are as follows:

2019	\$ 16,785
2020	9,653
Total	<u>\$ 26,438</u>

#### **Note 6 – Net Assets with Restrictions and Prior Period Adjustment**

The Organization had the following net assets with restrictions activity for the year ended December 31, 2018:

	Beginning Balance	Prior Period Adjustment	Additions	Released from Restrictions	Ending Balance
<b>Restricted for a Specified Purpose:</b>					
Water projects	\$ 139,503	\$ -	\$ 632,775	\$ (668,847)	\$ 103,431
Mission travel	33,037	(33,037)	-	-	-
Wheat Ridge Ministries	917	-	-	(917)	-
Desk project	4,158	-	-	(4,158)	-
<b>Time Restricted:</b>					
Annuity trust	327,028	-	10,385	(40,000)	297,413
Total	<u>\$ 504,643</u>	<u>\$ (33,037)</u>	<u>\$ 643,160</u>	<u>\$ (713,922)</u>	<u>\$ 400,844</u>

During the current year audit, management determined that the portion of the net assets with restrictions related to mission travel as of December 31, 2017 should not be recorded as restricted activity since it relates to the payment of travel expenses for the attendees to go on the missions. As a result, the net assets with restrictions funds related to mission travel have been restated as of December 31, 2017 to decrease the balance by \$33,037 and increase net assets without restrictions by \$33,037.



## Water to Thrive

### Notes to Financial Statements (continued)

*For the Year Ended December 31, 2018*

#### Note 7 – Related Party Transactions

During the year ended December 31, 2018, the Organization received income of \$16,000 from a company owned by a member of the Board of Directors for professional services. Additionally, the Organization reimbursed companies owned by a member of the Board of Directors for various expenses totaling \$55,025 during the year ended December 31, 2018.

During the year ended December 31, 2018, members of the Board of Directors made contributions totaling \$55,784.

#### Note 8 – Operating Lease Commitments

The Organization has entered into lease agreements for office space and for office equipment, which expire at various times through May 2023. For the year ended December 31, 2018, total rental expense was \$70,165.

Future minimum lease payments at December 31, 2018 are as follows:

2019	\$	42,075
2020		43,263
2021		12,375
2022		1,980
2023		825
Total	\$	<u>100,518</u>

#### Note 9 – Fair Value Measurements

The following table sets forth by level within the fair value hierarchy the Organization's assets that are measured at fair value on a recurring basis at December 31, 2018:

	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Charitable lead trust receivable	\$ -	\$ -	\$ 297,413	\$ 297,413
	\$ -	\$ -	\$ 297,413	\$ 297,413

## Water to Thrive

### Notes to Financial Statements (continued)

*For the Year Ended December 31, 2018*

#### **Note 10 – Liquidity and Availability of Financial Assets**

The Organization's working capital and cash flows have seasonal variations during the year attributable to cash receipts of contributions and from special events. Monthly cash outflows vary each year based on the specific requirements of the Organization's programming during the period.

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Organization or Board approves that action.

Financial assets available:

Cash and cash equivalents	\$ 183,519
Receivables collectible in less than one year	16,311
Accounts receivable with restrictions collectible in less than one year	38,831
Cash and cash equivalents with restrictions	<u>103,431</u>

Total financial assets, excluding noncurrent receivables	342,092
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Contractual or donor-imposed restrictions:

With designations	-
With restrictions	<u>(103,431)</u>

Financial assets available to meet cash needs  
for expenditures within one year

\$ 238,661

#### **Note 11 – Subsequent Event**

On March 18, 2019, the Organization entered into a line of credit agreement with a bank for \$15,000 as required by the landlord of their office space. The agreement calls for interest only monthly payments with an annual interest rate of 7.25% with any drawn amounts due in full at maturity on March 18, 2021. The Organization has not borrowed any amounts as of the audit report date.