

**Safe Water Network
and Subsidiary**

**Consolidated Financial Statements
and Independent Auditor's Report**

December 31, 2019 and 2018

Safe Water Network and Subsidiary

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9

Independent Auditor's Report

To the Board of Directors
Safe Water Network

We have audited the accompanying consolidated financial statements of Safe Water Network and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Safe Water Network and Subsidiary as of December 31, 2019 and 2018, 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.



Hartford, Connecticut
October 23, 2020

Safe Water Network and Subsidiary

**Consolidated Statements of Financial Position
December 31, 2019 and 2018**

Assets

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 2,414,978	\$ 1,366,291
Grants and contributions receivable, net	2,835,734	3,348,632
Accounts receivable	-	16,367
Prepaid expenses and other assets	138,368	171,277
Certificate of deposit	103,445	101,366
Investments	-	88,822
Investments in water systems - Ghana, net	2,145,721	2,894,701
Property and equipment, net of accumulated depreciation of \$385,957 and \$377,526	<u>77,281</u>	<u>128,444</u>
Total assets	<u>\$ 7,715,527</u>	<u>\$ 8,115,900</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 219,238	\$ 320,894
Loans payable	<u>113,104</u>	<u>130,648</u>
Total liabilities	<u>332,342</u>	<u>451,542</u>
Commitments		
Net assets		
Without donor restrictions	1,952,876	3,069,538
With donor restrictions	<u>5,430,309</u>	<u>4,594,820</u>
Total net assets	<u>7,383,185</u>	<u>7,664,358</u>
Total liabilities and net assets	<u>\$ 7,715,527</u>	<u>\$ 8,115,900</u>

See Notes to Financial Statements.

Safe Water Network and Subsidiary

**Consolidated Statement of Activities
Year Ended December 31, 2019**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support			
Grants and contributions			
Foundations	\$ 72,000	\$ 3,815,590	\$ 3,887,590
Corporations and other Individuals	1,212,401 66,967	41,939 623,233	1,254,340 690,200
Water delivery sales	390,091	-	390,091
Interest and dividend income	2,903	-	2,903
Realized gain on investments	25,476	-	25,476
Other income	84,019	-	84,019
Net assets released from restrictions	<u>3,645,273</u>	<u>(3,645,273)</u>	<u>-</u>
Total revenues and other support	<u>5,499,130</u>	<u>835,489</u>	<u>6,334,619</u>
Expenses			
Program services			
Africa	2,660,913	-	2,660,913
India	1,481,646	-	1,481,646
Program development	<u>664,545</u>	<u>-</u>	<u>664,545</u>
Total program services	<u>4,807,104</u>	<u>-</u>	<u>4,807,104</u>
Supporting services			
Management and general	541,856	-	541,856
Fundraising	<u>790,914</u>	<u>-</u>	<u>790,914</u>
Total supporting services	<u>1,332,770</u>	<u>-</u>	<u>1,332,770</u>
Total expenses	<u>6,139,874</u>	<u>-</u>	<u>6,139,874</u>
Change in net assets before other changes	(640,744)	835,489	194,745
Other changes			
Foreign currency remeasurement loss	<u>(475,918)</u>	<u>-</u>	<u>(475,918)</u>
Change in net assets	(1,116,662)	835,489	(281,173)
Net assets, beginning	<u>3,069,538</u>	<u>4,594,820</u>	<u>7,664,358</u>
Net assets, ending	<u>\$ 1,952,876</u>	<u>\$ 5,430,309</u>	<u>\$ 7,383,185</u>

See Notes to Financial Statements.

Safe Water Network and Subsidiary

Consolidated Statement of Activities Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
Revenues and other support			
Grants and contributions			
Foundations	\$ 155,600	\$ 2,601,504	\$ 2,757,104
Corporations and other Individuals	11,660 607,543	76,920 432,686	88,580 1,040,229
Water delivery sales	397,476	-	397,476
Interest and dividend income	3,716	-	3,716
Realized loss on investments	(3,149)	-	(3,149)
Other income	67,482	-	67,482
Net assets released from restrictions	4,338,944	(4,338,944)	-
Total revenues and other support	5,579,272	(1,227,834)	4,351,438
Expenses			
Program services			
Africa	2,978,221	-	2,978,221
India	1,040,791	-	1,040,791
Program development	661,478	-	661,478
Total program services	4,680,490	-	4,680,490
Supporting services			
Management and general	522,201	-	522,201
Fundraising	858,560	-	858,560
Total supporting services	1,380,761	-	1,380,761
Total expenses	6,061,251	-	6,061,251
Change in net assets before other changes	(481,979)	(1,227,834)	(1,709,813)
Other changes			
Foreign currency remeasurement loss	(215,917)	-	(215,917)
Change in net assets	(697,896)	(1,227,834)	(1,925,730)
Net assets, beginning	3,767,434	5,822,654	9,590,088
Net assets, ending	<u>\$ 3,069,538</u>	<u>\$ 4,594,820</u>	<u>\$ 7,664,358</u>

See Notes to Financial Statements.

Safe Water Network and Subsidiary

Consolidated Statement of Functional Expenses Year Ended December 31, 2019

	Program services			Total program services	Supporting services		Total supporting services	Total
	Africa	India	Program development		Management and general	Fundraising		
Direct program expenses	\$ 748,980	\$ 453,304	\$ -	\$ 1,202,284	\$ -	\$ -	\$ -	\$ 1,202,284
Salaries	760,682	580,138	387,555	1,728,375	258,317	350,328	608,645	2,337,020
Employee benefits	159,241	52,017	52,017	263,275	31,210	20,807	52,017	315,292
Payroll taxes	28,663	106,149	28,663	163,475	17,198	11,465	28,663	192,138
Insurance	29,318	4,326	4,326	37,970	4,614	2,375	6,989	44,959
Professional fees	173,479	134,044	100,940	408,463	154,406	8,651	163,057	571,520
Consulting	-	-	8,066	8,066	-	339,360	339,360	347,426
Office expense	77,233	14,133	8,960	100,326	10,338	4,134	14,472	114,798
Field expenses	220,906	-	-	220,906	-	-	-	220,906
Occupancy	55,584	54,971	14,929	125,484	24,117	-	24,117	149,601
Travel	146,803	34,153	29,879	210,835	20,685	27,580	48,265	259,100
Depreciation	53,531	4,973	4,388	62,892	3,038	4,050	7,088	69,980
Information technology	20,092	20,092	20,092	60,276	13,910	18,546	32,456	92,732
Repairs and maintenance	128,098	-	-	128,098	-	-	-	128,098
Other	58,303	23,346	4,730	86,379	4,023	3,618	7,641	94,020
Total expenses	\$ 2,660,913	\$ 1,481,646	\$ 664,545	\$ 4,807,104	\$ 541,856	\$ 790,914	\$ 1,332,770	\$ 6,139,874

See Notes to Financial Statements.

Safe Water Network and Subsidiary

Consolidated Statement of Functional Expenses Year Ended December 31, 2018

	Program services			Total program services	Supporting services		Total supporting services	Total
	Africa	India	Program development		Management and general	Fundraising		
Direct program expenses	\$ 748,122	\$ 132,400	\$ -	\$ 880,522	\$ -	\$ -	\$ -	\$ 880,522
Salaries	902,274	614,413	360,339	1,877,026	302,916	498,090	801,006	2,678,032
Employee benefits	168,281	56,344	56,345	280,970	38,079	66,308	104,387	385,357
Payroll taxes	114,204	28,532	28,533	171,269	19,753	26,337	46,090	217,359
Insurance	31,607	2,293	2,292	36,192	1,587	2,116	3,703	39,895
Professional fees	81,311	41,228	37,043	159,582	41,607	82,678	124,285	283,867
Consulting	-	-	34,177	34,177	-	51,265	51,265	85,442
Office expense	120,619	13,929	12,899	147,447	9,961	11,906	21,867	169,314
Field expenses	316,394	-	-	316,394	-	-	-	316,394
Occupancy	71,308	44,744	26,224	142,276	36,125	24,207	60,332	202,608
Travel	206,491	50,666	49,046	306,203	33,955	45,273	79,228	385,431
Depreciation	15,118	3,070	2,639	20,827	2,258	2,435	4,693	25,520
Information technology	45,913	45,913	45,912	137,738	31,786	42,380	74,166	211,904
Repairs and maintenance	138,090	-	-	138,090	-	-	-	138,090
Interest expense	12,460	-	-	12,460	-	-	-	12,460
Other	6,029	7,259	6,029	19,317	4,174	5,565	9,739	29,056
Total expenses	\$ 2,978,221	\$ 1,040,791	\$ 661,478	\$ 4,680,490	\$ 522,201	\$ 858,560	\$ 1,380,761	\$ 6,061,251

See Notes to Financial Statements.

Safe Water Network and Subsidiary

Consolidated Statements of Cash Flows Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (281,173)	\$ (1,925,730)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	69,627	95,534
Allowance for uncollectible water systems receivable	65,495	698,077
Realized (gain) loss on investments	(26,035)	3,149
Donated securities	(22,086)	-
Gain on disposal of asset	(4,113)	-
Discount on grants receivable	31,440	(41,658)
Changes in operating assets and liabilities		
Grants and contributions receivable	481,458	1,113,367
Accounts receivable	(74,803)	-
Investments in water systems - Ghana	267,167	(650,645)
Prepaid expenses and other assets	28,223	(44,001)
Accounts payable and accrued expenses	(88,052)	(159,960)
Net cash provided by (used in) operating activities	447,148	(911,867)
Cash flows from investing activities		
Proceeds from sale of investments	140,000	33,231
Change in certificate of deposit	(5,136)	154,222
Purchases of property and equipment	(30,928)	(18,699)
Proceeds from sale of property and equipment	4,113	-
Net cash provided by investing activities	108,049	168,754
Cash flows from financing activities		
Proceeds from loans payable	-	50,623
Net cash provided by financing activities	-	50,623
Effect of exchange rate changes on cash and cash equivalents	493,490	178,206
Net increase (decrease) in cash and cash equivalents	1,048,687	(514,284)
Cash and cash equivalents, beginning	1,366,291	1,880,575
Cash and cash equivalents, end	\$ 2,414,978	\$ 1,366,291
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ -	\$ 12,460

See Notes to Financial Statements.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Note 1 - Organization and summary of significant accounting policies

Organization

Safe Water Network ("SWN") is a not-for-profit organization whose primary purpose is to provide financial support and technical assistance for the implementation of decentralized water purification systems in developing countries. Through collaborative efforts with private and public stakeholders, local organizations, public health experts and local and international providers of technology, services and funding, SWN addresses the challenges of local water system ownership and sustainability. SWN's primary sources of revenue are grants and contributions from foundations and individuals. SWN's four integrated areas of activity include:

Field Initiatives - Design, launch and management of water purification stations and rainwater harvesting programs to provide safe water to those in need. Through these initiatives, SWN gains important field experience to optimize solutions.

Analytics and Insights - A fact-based approach to measure outcomes, build the evidence base for sustainability and impact, and develop scale propositions.

Sector Engagement - Collaborative activities, best practice approaches and action-oriented programs that apply partner expertise to SWN's field work and scale development projects.

Technical Assistance - On-site consultation to other organizations, as well as support through training materials and manuals.

SWN is headquartered in New York, New York, with field offices in Accra, Ghana and New Delhi, India.

SWN Water Solutions Private Ltd. ("SWNWS") is a for-profit organization formed in March 2014 in New Delhi and is wholly-owned by SWN. SWNWS's primary objective is to carry on the business of environment, hydrology, sanitation and water system sustainability, including all related ancillary work.

Principles of consolidation

The consolidated financial statements include the accounts of SWN and SWNWS. Collectively, these organizations are referred to as the "Organization." All significant intercompany accounts and transactions are eliminated in consolidation.

Newly adopted accounting standards

The Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers*. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Organization adopted ASU 2014-09 on January 1, 2019 using the modified retrospective method of transition for all contracts that were not completed as of that date.

The Organization's revenue for reporting periods ended after December 31, 2018 are presented under the new guidance, while financial results for prior periods will continue to be reported in accordance with the prior guidance and the Organization's historical accounting policy. The Organization has not experienced significant changes to the pattern of revenue recognition for its contracts, the identification of contracts and performance obligations or the measurement of

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

variable consideration. Adopting the new standard did not have a material effect on the timing of the Organization's revenue recognition.

The Organization also adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization adopted the provisions of ASU 2018-08 on January 1, 2019 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. There is no effect on net assets in connection with the implementation of ASU 2018-08.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Organization reports information regarding its consolidated financial position and activities according to two classes of net assets, described as follows:

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations or to those imposed by operation of law. Net assets without donor restriction may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

With donor restrictions - Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The change in net assets with donor restrictions is impacted primarily by gifts with time and donor constraints. There were no net assets with perpetual restrictions at December 31, 2019 and 2018.

Liquidity and availability

The Organization's financial assets available within one year of the consolidated statements of financial position dates for general expenditure as of December 31, 2019 and 2018, are as follows:

	2019	2018
Cash and cash equivalents	\$ 2,414,978	\$ 1,366,291
Grants and contributions receivable due in one year	2,194,302	2,363,410
Accounts receivable	-	16,367
Certificate of deposit	103,445	101,366
Financial assets available for general expenditure within one year	<u>\$ 4,712,725</u>	<u>\$ 3,847,434</u>

In addition to these available financial assets, the Organization operates a balanced budget and anticipates the collection of additional grant revenue available for its mission to cover general expenditures, liabilities and other obligations.

Revenue recognition

Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Organization has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

of any advanced funding if the Organization fails to overcome the barrier. The Organization recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received.

Conditional and unconditional contributions are recorded as either with donor restriction or without donor restriction. Contributions are recognized as contributions with donor restrictions if they are received after the consolidated statement of financial position date or are contributed with donor stipulations that limit the use of the donated asset. Contributions subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in net assets with donor restrictions. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statements of activities as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contributions without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the time the contribution is made.

Water delivery sales revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing water to communities in need of these services. These amounts are earned from communities to which water is provided and includes variable consideration for retroactive revenue adjustments due to settlement of government regulations, audits, reviews, and investigations, if any. Revenue is recognized as performance obligations are satisfied at a point in time.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid short-term instruments with an original maturity of three months or less when acquired. At December 31, 2019 and 2018, the Organization had cash equivalents of \$699,457 and \$864,584, respectively.

Grants and contributions receivable

Grants and contributions receivable represent unconditional promises to give that are recognized in the period in which the promise is received. Grants and contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Grants and contributions receivable that are expected to be collected in more than one year are discounted to their net present value. Amortization of the resulting discount is recognized as additional grant and contribution revenue. On a periodic basis, the Organization evaluates its grants and contributions receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs, collections and current credit conditions. Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

Investments

Investments are carried at fair value (see Note 4). Realized and unrealized gains and losses and investment income, net of investment expenses, are recorded in the statements of activities as net assets without donor restrictions.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Investments in water systems - Ghana

Investments in water systems represents the cost of water purification systems advanced by the Organization on behalf of various communities in Ghana. Management has deemed an allowance to be necessary and has recorded an allowance of \$2,689,705 and \$2,340,944 at December 31, 2019 and 2018, respectively.

Certificate of deposit

At December 31, 2019 and 2018, the Organization held a certificate of deposit (the "Certificate") yielding 0.3%. The Certificate is held in a financial institution, is federally insured and matures in April 2021. The Certificate is recorded at the original investment plus accrued interest. The fair value of the Certificate approximates carrying value because of the short-term maturity of the Certificate.

Property and equipment

Property and equipment, comprised mainly of various motor vehicles, office equipment and furnishings, is stated at cost or, if donated, at its approximate fair value at the date of donation. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, ranging from five to seven years. Expenditures for repairs and maintenance are charged to expense as incurred.

Donated property and equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or construct property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated, acquired or constructed assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions at that time. There was no donated property or equipment recorded during the years ended December 31, 2019 and 2018.

Donated services

The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization. There were no donated services recorded during the years ended December 31, 2019 and 2018 because they did not meet the requirements for recognition.

Income taxes

The Organization is exempt from federal and state corporate income taxes under the provisions of Internal Revenue Code (the "Code") Section 501(c)(3).

The Organization has no unrecognized tax benefits at December 31, 2019 and 2018. The Organization's federal and state information returns prior to fiscal year 2016 are closed. The Organization believes it is in compliance with all laws and regulations, but management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Organization's foreign divisions may require certain additional forms associated with their respective countries and / or provinces.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

If the Organization had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

Functional expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses reported by functional categories include allocations of costs for operation and maintenance, depreciation and amortization expense. The Organization applies various methods to allocate costs amongst its programmatic and support functions, the most significant of which are by time and effort.

Use of estimates

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

Reclassification

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

Subsequent events

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure through October 23, 2020, which is the date the consolidated financial statements were available to be issued.

Note 2 - Grants and contributions receivable

Grants and contributions receivable at December 31, 2019 and 2018, consist of the following:

	2019	2018
Receivables due in less than one year	\$ 2,194,302	\$ 2,363,410
Receivables due in one - five years	687,650	1,000,000
	2,881,952	3,363,410
Less discount to present value (1.5%)	(46,218)	(14,778)
	<u>\$ 2,835,734</u>	<u>\$ 3,348,632</u>

Management does not believe an allowance is necessary at December 31, 2019 and 2018. At December 31, 2019, 94% of grants and contributions receivable are from four sources. At December 31, 2018, 85% of grants and contributions receivable are from four sources.

Note 3 - Net asset limitations and restrictions

The Organization had no board-designated net assets at December 31, 2019 and 2018.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Net assets with donor restrictions at December 31, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Grants and contributions receivable	\$ 2,835,734	\$ 3,348,632
Financial capacity and internal framework	<u>2,594,575</u>	<u>1,246,188</u>
Total net assets with donor restrictions	<u>\$ 5,430,309</u>	<u>\$ 4,594,820</u>

Net assets released from restrictions for the years ended December 31, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Financial capacity and internal framework	\$ 3,039,462	\$ 2,750,422
Water purification system development	-	1,443,522
Grants and contributions receivable restricted by time	<u>605,811</u>	<u>145,000</u>
Total net assets released from restrictions	<u>\$ 3,645,273</u>	<u>\$ 4,338,944</u>

Note 4 - Investments

The Organization holds various domestic common stocks that have an aggregate fair value of \$0 and \$88,822 as of December 31, 2019 and 2018, respectively. Included in the Organization's investment brokerage account are deposit accounts totaling \$4,316 and \$7,373 as of December 31, 2019 and 2018, respectively. The deposit account balances are included in cash equivalents at December 31, 2019 and 2018.

Note 5 - Fair value measurements

The Organization values its financial assets and liabilities based on 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 order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs which are used to measure fair value into three broad levels, as described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data. If an asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization recognizes transfers between levels in the fair value hierarchy at the beginning of the period. There were no such transfers during the years ended December 31, 2019 and 2018.

The Organization's investment holdings, which consist of various domestic common stocks that have an aggregate fair value of \$0 and \$88,822 as of December 31, 2019 and 2018, have been categorized as Level 1.

Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the valuation techniques and related inputs.

Note 6 - Property and equipment

Net property and equipment consisted of the following at December 31:

	2019	2018
Motor vehicles	\$ 284,571	\$ 340,325
Furniture and fixtures	101,680	93,427
Computers and IT equipment	66,846	60,389
Machinery and other equipment	10,141	11,829
Total	463,238	505,970
Less accumulated depreciation	385,957	377,526
Net property and equipment	<u>\$ 77,281</u>	<u>\$ 128,444</u>

Note 7 - Retirement benefits

The Organization maintains a SIMPLE IRA plan (the "SIMPLE IRA Plan"). Participation in the SIMPLE IRA Plan is limited to employees who have prior year compensation of at least \$5,000 and current year compensation is expected to exceed \$5,000. Contributions by the Organization to the SIMPLE IRA Plan for the years ended December 31, 2019 and 2018 were \$45,195 and \$56,330, respectively.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Note 8 - Loans payable

In May 2015, the Organization entered into a term loan agreement (the "Term Loan Agreement") with an unrelated third party in the principal amount of \$105,000. Per the Term Loan Agreement, the principal amount was immediately converted to 385,875 Ghanaian cedis, and that value in cedis will form the basis of repayment. Interest-only payments began in 2016. Principal and interest payments were to commence January 1, 2018, with a final payment date of December 1, 2029. The interest rate is fixed at 10%. At December 31, 2019 and 2018, the outstanding principal balance converted to United States dollars was \$67,942 and \$80,025, respectively. The Term Loan Agreement is currently being renegotiated. As part of the renegotiation, it was agreed that no principal payments will be required until the new terms have been defined.

On December 18, 2018, the Organization entered into a loan agreement with a grantor foundation for a maximum sum of 41,000 British pounds. The agreement shall remain in force for five years, with a two-year optional extension, from the date of the loan agreement, so long as any part of the loan remains unspent, whichever is longer. The loan agreement states that principal will be repaid in five equal principal installments beginning in 2020 and has no stated interest rate. The funds were received on December 24, 2018. At December 31, 2019 and 2018, the outstanding balance, converted to United States dollars, was \$45,162 and \$50,623, respectively.

Note 9 - Operating leases

The Organization has an agreement to share office space under a sublease agreement which expired May 31, 2019 for its corporate headquarters in New York City. In April, 2019, the Organization entered into a new lease agreement for new office space within the same building. The new office space was subject to renovation by the owner. The renovation was completed during 2019. The new lease agreement is currently expected to expire no earlier than May 31, 2024.

The Organization leases office space for its field office in Accra, Ghana under an agreement which expires December 31, 2019, and will renew annually thereafter, through December 31, 2021.

The Organization leases office space for its field office in New Delhi, India under an agreement which expires March 31, 2021.

Rental expense recognized in the accompanying consolidated statements of activities for the years ended December 31, 2019 and 2018 was \$138,941 and \$183,343, respectively.

Future minimum lease payments in each of the years subsequent to December 31, 2019, are as follows:

2020	\$	245,166
2021		244,723
2022		253,564
2023		262,898
2024		186,265
Total	\$	<u>1,192,616</u>

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Note 10 - Related parties

The Organization provides grants to a related party, Safe Water Network India Trust ("SWN Trust"), in support of various programs. Total grants for the years ended December 31, 2019 and 2018 were \$453,400 and \$132,400, respectively, and are included in direct program expenses. SWN Trust is a separate entity and is not owned or controlled by the Organization.

Note 11 - Functional currency, foreign currency translation and currency exchange rate exposure

Based on several factors, including the dominant role of the U.S. currency in the funding of the Organization's programs, management considers the U.S. dollar to be the Organization's functional currency. As such, the Organization's assets and liabilities held in foreign currencies are remeasured using the current rate at the statement of financial position date.

Most revenues and expenses that occur during a period are remeasured for practical purposes using a weighted average exchange rate for the period.

The Organization regularly transfers cash from its domestic accounts to its foreign accounts to cover expenses, translating its foreign transactions into U.S. dollars using a weighted average exchange rate. The Organization has deposits in foreign financial institutions and petty cash held in the local currencies of Ghana and India. The Organization has other assets and liabilities originally denominated in foreign currencies. This results in an exposure to currency exchange gains and losses at the time assets are disposed of and liabilities are settled, as well as during year-end foreign currency translation into U.S. dollars. In any particular year, currency exchange rate fluctuations may have a significant impact on the Organization's financial results.

The foreign currency translation gains and losses are recorded on the Organization's consolidated statements of activities as a net remeasurement gain or loss. For the years ended December 31, 2019 and 2018, the Organization recognized net remeasurement losses of \$475,918 and \$215,917, respectively. To date, the Organization has not engaged in any currency trading or hedging transactions to reduce its exposure to currency fluctuations, but it may engage in such transactions in the future.

Note 12 - Concentrations

Credit risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits. Concentration of credit risk with respect to accounts receivable is limited due to management's active monitoring of these balances. Concentration of credit risk with respect to grants and contributions receivable is limited due to the active involvement of the donors with the Organization. In addition, management closely monitors these balances while maintaining allowances for potential losses.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Operations risk

The Organization's operations in Ghana and India are subject to risks not typically associated with operations in North America. Accordingly, the Organization's financial condition and activities may be influenced by the political, economic and legal environments in these sovereign states. As a result, the Organization's activities are subject to a variety of risks, including:

- Social, political and economic instability;
- Inflation;
- Additional costs of compliance with government regulation and licensing requirements;
- Tariffs and other trade barriers;
- Expropriation, nationalization and limitation on repatriation of earnings;
- Fluctuations in foreign exchange rates (Note 11);
- Adverse changes in the creditworthiness of parties with whom the Organization has significant receivables;
- Longer receivables collection periods and greater difficulty in collecting accounts receivable;
- Unexpected changes in regulatory requirements.

Any of these developments, or others, could adversely affect the Organization's financial condition and activities. Should such circumstances occur, the Organization might need to curtail, cease or alter its activities in a particular area. The Organization's ability to address these issues may be affected by applicable U.S. laws and, in particular, potential conflicts between the requirements of U.S. law and the need to protect its employees and assets.

In addition, the Organization is required to comply with the United States Foreign Corrupt Practices Act and similar laws, which prohibit entities from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, payoffs, theft and other fraudulent practices occur from time to time in the areas in which the Organization operates. The majority of funds are maintained in the U.S. and most of the Organization's costs are fulfilled directly with vendors or go toward staff payroll, both of which are highly predictable payments that leave good paperwork trails. Although the Organization informs its staff that corruption, extortion, bribery and so forth are illegal, there can be no assurance that employees or other agents will not engage in such conduct for which the Organization might be held responsible. If employees or other agents are found to have engaged in such practices, the Organization could suffer severe penalties.

Safe Water Network and Subsidiary

Notes to Consolidated Financial Statements December 31, 2019 and 2018

Note 13 - Subsequent events

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced. The spread of this virus globally in early 2020 has caused business disruption domestically in the United States, one of the primary operational areas for the Organization. This virus has also had effects in the other areas of operation for the Organization globally. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. The Organization has seen fluctuations in income and expenses as a result of these events, and currently does not expect this matter to negatively impact the Organization's financial condition, results of operations, or cash flows. The extent of the financial impact and duration cannot be reasonably estimated at this time.

In May 2020, the Organization received a loan in the amount of \$285,175 through their bank. The loan was obtained through the Paycheck Protection Program and is guaranteed by the Small Business Administration. Subject to certain guidelines, some or all of the loan may be forgiven. Interest on the portion of the loan that is not forgiven is charged at 1%. Interest payments are deferred for the first six months. The loan is due in full May 2022.



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