

Financial Statements and  
Supplemental Information

2014

**EDGE Outreach, Inc.**  
**d/b/a Waterstep, Inc.**

December 31, 2014



Financial Statements and  
Supplemental Information

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

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**Strothman and Company**  
*Certified Public Accountants and Advisors*  
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## **Independent Auditors' Report**



Board of Directors  
EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.  
Louisville, Kentucky

We have audited the accompanying financial statements of EDGE Outreach, Inc. d/b/a Waterstep, Inc. (the "Organization"), which is comprised of the statement of financial position as of December 31, 2014, and the related statements of activities 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 from 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 Organization'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.

### **Basis for Qualified Opinion**

We did not observe the taking of the physical inventories at December 31, 2014 (stated \$130,414), since this date was prior to the time we were initially engaged as auditors for the Organization. We were unable to obtain sufficient appropriate audit evidence about the inventories by other auditing procedures.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of EDGE Outreach, Inc. as of December 31, 2014, 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.

### **Prior Period Adjustments**

As described in Note J to the financial statements, adjustments to unrestricted and temporarily restricted net assets were needed to recognize an unconditional promise to give, and to record in-kind donations not properly released as of December 31, 2013. Our opinion is not modified with respect to these matters.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Stullman and Company PC*  
Louisville, Kentucky  
October 15, 2015

Statement of Financial Position

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

**Current Assets**

Cash and cash equivalents	\$	287,572
Unconditional promises to give, net		48,118
Accounts receivable		1,770
Inventory		130,414
Prepaid expenses		<u>4,408</u>

**Total Current Assets** 472,282

**Restricted Assets**

Cash in escrow account		532,629
Grant receivable		<u>25,345</u>

**Total Restricted Assets** 557,974

**Property and Equipment, net**

608,831

**Total Assets** \$ 1,639,087

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable	\$	25,094
Deferred revenue		30,183
Mortgage payable		<u>180,896</u>

**Total Current Liabilities** 236,173

**Net Assets**

Unrestricted		838,340
Temporarily restricted		<u>564,574</u>

**Total Net Assets** 1,402,914

**Total Liabilities and Net Assets** \$ 1,639,087

See Notes to Financial Statements

Statement of Activities

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Support</b>			
Program Service Revenues			
Shoes for water	\$ 198,256		\$ 198,256
Product sales	241,146		241,146
Safe water missions	180,187		180,187
Training	16,100		16,100
Support			
Contributions	468,180	\$ 520,250	988,430
In-kind contributions	51,074	122,827	173,901
Grants	22,623	24,250	46,873
Fundraising events, net	20,281		20,281
Investment income	14,100	917	15,017
Miscellaneous income	3,265		3,265
	<u>1,215,212</u>	<u>668,244</u>	<u>1,883,456</u>
<b>Net Assets Released from Restrictions</b>			
Net assets release from restrictions	<u>311,488</u>	<u>(311,488)</u>	
	<b>1,526,700</b>	<b>356,756</b>	<b>1,883,456</b>
<b>Expenses</b>			
Program services			
Shoes for water	119,399		119,399
Product sales	133,397		133,397
Safe water missions	276,893		276,893
Training	93,152		93,152
Fellowship with Christ	24,530		24,530
	<u>647,371</u>		<u>647,371</u>
	<b>647,371</b>		<b>647,371</b>
General and administrative	286,366		286,366
Fundraising	240,767		240,767
	<u>1,174,504</u>		<u>1,174,504</u>
	<b>1,174,504</b>		<b>1,174,504</b>
	<b>352,196</b>	<b>356,756</b>	<b>708,952</b>
<b>Net Assets at Beginning of Year (as restated)</b>	<u>486,144</u>	<u>207,818</u>	<u>693,962</u>
	<u><b>\$ 838,340</b></u>	<u><b>\$ 564,574</b></u>	<u><b>\$ 1,402,914</b></u>

See Notes to Financial Statements

Statement of Cash Flows

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

Year Ended December 31, 2014

**Cash Flows From Operating Activities**

Changes in net assets	\$ 708,952
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	7,865
Gain on disposal of equipment	735
Dividends reinvestment	(991)
Value of donated investments	(34,983)
Changes in	
Unconditional promises to give	35,080
Accounts receivable	9,166
Inventory (net of donated items)	(57,328)
Prepaid expenses	(206)
Accounts payable	(23,384)
Deferred revenue	(30,852)

**Net Cash Provided By Operating Activities** 614,054

**Cash Flows From Investing Activities**

Proceeds from sale of investments	80,196
Increase in restricted grant receivable	(25,345)
Collections on restricted grants and promises to give	(411,441)
Purchases of property and equipment	(256,152)

**Net Cash Used In Investing Activities** (612,742)

**Cash Flows From Financing Activities**

Payments on mortgage payable	(44,680)
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**Net Decrease in Cash and Cash Equivalents** (43,368)

**Cash and Cash Equivalents Beginning of Year** 330,940

**Cash and Cash Equivalents End of Year** \$ 287,572

**Supplemental Disclosure of Cash Flow Information**

Cash paid during the year for interest	<u>\$ 18,265</u>
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**Supplemental Disclosure of Noncash Investing Activities**

Value of capitalized donated equipment and improvements to building	<u>\$ 117,477</u>
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See Notes to Financial Statements

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

**Note A--Nature of Organization and Summary of Significant Accounting Policies**

Nature of Activities--EDGE Outreach, Inc., d/b/a Waterstep, Inc., (the "Organization") acting through its Board of Directors, operates as a not-for-profit organization established to empower ordinary people to provide safe water solutions to communities in need. The Organization works with individuals and organizations to offer safe water solutions in developing countries and in disaster situations. The Organization is dependent on contributions from supporters and revenues from shoes for water, mission projects and product sales.

Basis of Presentation--The Organization is required to report information regarding its financial positions and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization classifies mission trip revenue as temporarily restricted until the related mission trip is taken. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.

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 the reported amounts in the financial statements and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment--Property and equipment is stated at cost if purchased, or at fair market value if donated. Depreciation is computed using straight-line over the estimated useful lives of the assets. Renewals and betterments in excess of \$1,000 and that extend the economic useful lives of the related assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are reduced, and any gain or loss is included in operations.

Impairment of Long-Lived Assets--Management of the Organization reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition, are less than its carrying amount. There were no charges for impairment of long-lived assets during 2014.

Contributed Services--The Organization receives a substantial amount of services donated by volunteers in carrying out the Organization's mission. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Continued



**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

**Note A--Nature of Organization and Summary of Significant Accounting Policies--Continued**

Income Taxes--The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 141.010(1)(f) of the Kentucky Revised Statutes. The Organization had no unrelated business income for the year ended December 31, 2014. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Organization's tax returns subject to examination by the Internal Revenue Service are for years ended December 31, 2011 through 2013.

Generally accepted accounting principles prescribe a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There is no impact on the Organization's financial statements as a result of the implementation of these accounting principles.

Program Service Revenues and Accounts Receivable--The Organization sells water purification devices and related materials. Items are billed when shipped and the Organization records these amounts as receivables. The Organization uses the direct write off method for uncollectible receivables, and records bad debt expense when the associated receivable is identified as uncollectable.

Promises to Give--Unconditional promises to give are recognized as support when the donor makes a promise that is in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Cash and Cash Equivalents--The Organization considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

These bank accounts and cash equivalents are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Organization had bank balances and cash equivalents exceeding its insurance by approximately \$490,000 at December 31, 2014.

Inventories--Inventories of purification devices and related materials are recorded at the lower of cost or market value. Reserves for obsolete inventory are recorded when an impairment of value is identified. No reserves were recorded at December 31, 2014.

Functional Expenses--The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Continued

Notes to Financial Statements--Continued

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

**Note A--Nature of Organization and Summary of Significant Accounting Policies--Continued**

Advertising Costs--Advertising costs are expensed as incurred. Total advertising expense was approximately \$25,000 for the year ended December 31, 2014.

Date of Management's Review--In preparing these financial statements, the management of the Organization has evaluated events and transactions for potential recognition or disclosure through October 15, 2015, the date the financial statements were available to be issued.

**Note B--Restricted Funds**

Under the terms of a grant agreement, the James Graham Brown Foundation will match funds raised by the Organization for the renovation of its operating facility up to \$500,000. To date, the Organization has raised \$445,725 of the required matching funds in cash and in-kind contributions. The Organization is required to place these funds in an escrow account until the grant requirements are met. Restricted funds are held in a separate account and are not available for operating purposes.

**Note C--Unconditional Promises to Give**

Unconditional promises to give consist of the following:

Gross unconditional promises to give	\$	59,277
Less: allowance for uncollectible amounts		<u>11,159</u>
	\$	<u><u>48,118</u></u>

Notes to Financial Statements--Continued

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

**Note D--Property and Equipment**

A summary of property and equipment is as follows:

Land	\$ 40,320
Building	395,683
Furniture, fixtures, and equipment	254,116
Vehicles	<u>20,201</u>
	710,320
Less accumulated depreciation	<u>101,489</u>
	<u><u>\$ 608,831</u></u>

Depreciation expense for the year ended December 31, 2014 was \$7,865.

**Note E--Mortgage Payable**

The Organization has a mortgage payable for the purchase of its headquarters building, which is collateral for this debt. This debt is payable in monthly principal and interest installments of \$1,863 until August 1, 2015, when a final balloon payment for the remaining principal was paid. The interest rate was 5.99% until August 1, 2014 when it increased to 12%.

**Note F--In-Kind Contributions**

During the year ended December 31, 2014, the Organization received in-kind contributions valued at \$173,901. Of this amount, approximately \$117,000 represented contributions of equipment and services for renovation of the Organization's building. The remaining in-kind contributions were for operating expenses during the year ended December 31, 2014.

**Note G--Contingencies**

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in funding, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Organization's ability to maintain sufficient liquidity.

Notes to Financial Statements--Continued

**EDGE Outreach, Inc.  
d/b/a Waterstep, Inc.**

December 31, 2014

**Note H--Temporarily Restricted Net Assets**

Temporarily restricted net assets consists of funds raised for the renovation of the Organization's operating facility, and funds from a conditional matching grant for the same purpose from the James Graham Brown Foundation (see Note B).

**Note I--Fundraising Events**

Revenue generated by fundraising events is presented net of direct expenses in the accompanying statement of activities. The following represents the gross revenues and expenses for fundraising events:

Revenues	\$	79,547
Direct expenses		<u>59,266</u>
	\$	<u><u>20,281</u></u>

**Note J--Prior Period Adjustments**

Certain errors resulting in an understatement of previously reported unconditional promises to give and revenue and support were discovered during the current year. A corresponding adjustment was made to increase previously reported unrestricted net assets as of December 31, 2013 by \$122,971; which was previously reported as \$363,173.

In addition certain temporarily restricted in-kind donations were not properly released from temporarily restricted net assets to unrestricted net assets during 2013. A corresponding adjustment was made to increase unrestricted net assets and decrease temporarily restricted net assets in previously reported net assets by \$39,773 as of December 31, 2013; which was previously reported as \$247,591.

## **Supplemental Information**

Schedule of Functional Expenses

**EDGE Outreach, Inc.**  
**d/b/a Waterstep, Inc.**

Year Ended December 31, 2014

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 196,849	\$ 153,638	\$ 129,632	\$ 480,119
Payroll taxes	14,285	11,150	9,408	34,843
Employee benefits	21,323	16,642	14,042	52,007
<b>Total Salary Related Expenses</b>	<b>232,457</b>	<b>181,430</b>	<b>153,082</b>	<b>566,969</b>
Cost of product sales	39,866			39,866
Safe Water Missions-Product	100,890			100,890
Fellowship with Christ	24,530			24,530
Safe Water Missions-Other	35,481			35,481
Speaker fees				
Consultant fees			23,567	23,567
Professional fees		25,835		25,835
Travel	51,484	2,413	2,983	56,880
Supplies	18,951	10,139	5,935	35,025
Printing and advertising			16,603	16,603
Meals	7,245	7,704	6,608	21,557
Postage	13,371	2,277	6,121	21,769
Insurance	14,462	207	103	14,772
Utilities	19,025	272	136	19,433
Equipment	10,954	157	78	11,189
Equipment rental			1,634	1,634
Auto expense	13,797	2,253	1,934	17,984
Rent expense	1,842	26	1,857	3,725
Repairs and maintenance	7,194	103	51	7,348
Interest expense	17,881	257	127	18,265
Information technology	11,355	11,354	11,354	34,063
Office expense	3,601	23,752		27,353
Telephone expense	3,935	4,199	3,670	11,804
Depreciation	7,700	110	55	7,865
Licenses and fees		13,606		13,606
Taxes	7,486	107	54	7,647
Conferences and conventions	3,864	165	4,815	8,844
	<u>\$ 647,371</u>	<u>\$ 286,366</u>	<u>\$ 240,767</u>	<u>\$ 1,174,504</u>

See Independent Auditors' Report