

Financial Statements and
Supplemental Information

2016

Edge Outreach, Inc.
d/b/a Waterstep, Inc.

December 31, 2016 and 2015



Financial Statements and
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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 are comprised of the statements of financial position as of December 31, 2016 and 2015 and the related statements of activities and cash flows for the years 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 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 audits 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 Organization'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 Edge Outreach, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 12 and 13 are presented for purposes of additional analysis and are 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.


Louisville, Kentucky
June 21, 2017

Statements of Financial Position

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

	December 31	
	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 173,092	\$ 171,673
Restricted cash in escrow account	196,785	227,020
Unconditional promises to give, less allowance for uncollectable amounts	14,725	35,142
Accounts receivable		4,014
Restricted grant receivable		54,275
Inventories	100,558	94,413
Total Current Assets	485,160	586,537
Property and equipment, net of accumulated depreciation	782,437	761,660
Total Assets	\$ 1,267,597	\$ 1,348,197
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 11,586	\$ 44,678
Deferred revenue	2,800	400
Current portion of note payable	5,238	
Tax lien payable		7,337
Total Current Liabilities	19,624	52,415
Long-Term Debt , less current maturities	20,654	
Total Liabilities	40,278	52,415
Net Assets		
Unrestricted	959,293	953,564
Temporarily restricted	268,026	342,218
Total Net Assets	1,227,319	1,295,782
Total Liabilities and Net Assets	\$ 1,267,597	\$ 1,348,197

See Notes to Financial Statements

Statements of Activities

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

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and Support						
Program Service Revenues						
Product sales	\$ 90,383	\$	\$ 90,383	\$ 80,444	\$	\$ 80,444
Safe water trips	69,000		69,000	148,013		148,013
Training and education	3,064		3,064	5,111		5,111
Support						
Shoes for water	222,803		222,803	211,387		211,387
Contributions	342,516	\$ 17,718	\$ 360,234	453,295	\$ 126,795	\$ 580,090
In-kind contributions	55,835		55,835	51,766		111,679
Grants		89,000	89,000		124,500	124,500
Fundraising events, net of direct expenses	12,632		12,632	5,103		5,103
Investment income	607		607	1,019		1,019
Miscellaneous income	10,135		10,135	6,041		6,041
	806,975	106,718	913,693	962,179	311,208	1,273,387
Net Assets Released from Restrictions	180,910	(180,910)		533,564	(533,564)	
Net assets release from restrictions						
	987,885	(74,192)	913,693	1,495,743	(222,356)	1,273,387
Total Revenues and Support						
Expenses						
Program services						
Cost of product sales	141,474		141,474	121,376		121,376
Safe water trips	132,095		132,095	205,895		205,895
Safe water project	147,420		147,420	202,109		202,109
Disaster relief	81,745		81,745	221,009		221,009
Safe water training/education	87,581		87,581	105,484		105,484
Other				37,882		37,882
	590,315		590,315	893,755		893,755
Total Program Services						
General and administrative	156,723		156,723	225,400		225,400
Fundraising	235,118		235,118	261,364		261,364
	982,156		982,156	1,380,519		1,380,519
Total Expenses						
	5,729	(74,192)	(68,463)	115,224	(222,356)	(107,132)
Changes in Net Assets						
	953,564	342,218	1,295,782	838,340	564,574	1,402,914
Net Assets at Beginning of Year						
	\$ 959,293	\$ 268,026	\$ 1,227,319	\$ 953,564	\$ 342,218	\$ 1,295,782
Net Assets at End of Year						

See Notes to Financial Statements

Statements of Cash Flows

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

	Year Ended December 31	
	2016	2015
Cash Flows From Operating Activities		
Changes in net assets	\$ (68,463)	\$ (107,132)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	58,527	47,103
Loss on disposal of equipment		33,384
Increase (decrease) in allowance for doubtful accounts	250	(8,409)
Changes in operating assets and liabilities		
Unconditional promises to give	20,167	21,385
Accounts receivable	4,014	(2,244)
Inventory (net of donated items)	(6,145)	36,001
Prepaid expenses		4,408
Accounts payable	(33,092)	19,584
Deferred revenue	2,400	(29,783)
Tax lien payable	(7,337)	7,337
	<u>(29,679)</u>	<u>21,634</u>
Net Cash Provided By (Used In) Operating Activities	(29,679)	21,634
Cash Flows From Investing Activities		
Decrease (increase) in restricted grant receivable	54,275	(28,930)
Net change in escrow account	30,235	305,609
Purchases of property and equipment	(79,304)	(233,316)
	<u>5,206</u>	<u>43,363</u>
Net Cash Provided By Investing Activities	5,206	43,363
Cash Flows From Financing Activities		
Proceeds from note payable	28,000	
Payments on note payable	(2,108)	
Payments on mortgage payable		(180,896)
	<u>25,892</u>	<u>(180,896)</u>
Net Cash Provided By (Used In) Financing Activities	25,892	(180,896)
Net Increase (Decrease) in Cash and Cash Equivalents	1,419	(115,899)
Cash and Cash Equivalents Beginning of Year	171,673	287,572
Cash and Cash Equivalents End of Year	\$ 173,092	\$ 171,673
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>479</u>	<u>12,651</u>
Supplemental Disclosure of Noncash Investing Activities		
Value of donated equipment and improvements to building	<u>3,580</u>	<u>59,913</u>

See Notes to Financial Statements

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

December 31, 2016 and 2015

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 position 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 statements of activities as net assets released from restrictions.

Use of Estimates--The preparation of financial statements in accordance 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 2016 or 2015.

In-Kind Contributions--The Organization receives a substantial amount of services donated by volunteers and equipment in carrying out the Organization's mission. Contributions of professional services and equipment are recorded at fair value. The Organization received in-kind contributions valued at \$55,835 and \$111,679 that met the criteria under accounting principles generally accepted in the United States of America during 2016 and 2015, respectively. Of this amount, approximately \$3,580 and \$59,900 represented contributions of equipment. The remaining in-kind contributions were for operating expenses during the years ended December 31, 2016 and 2015.

Continued

Notes to Financial Statements--Continued

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

December 31, 2016 and 2015

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 years ended December 31, 2016 and 2015. 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, 2013 through 2015.

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.

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 FDIC insurance by approximately \$110,000 and \$130,000 at December 31, 2016 and 2015, respectively.

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. Management periodically reviews the collectability of promises to give, and any amounts where collection is questionable are reserved.

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, 2016 and 2015, respectively.

Functional Expenses--The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management estimates the expense allocations based on the percentage of square footage or hours worked for the benefited programs or functions.

Continued

Notes to Financial Statements--Continued

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

December 31, 2016 and 2015

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

Reclassifications--Certain accounts in the 2015 financial statements have been reclassified for comparative purposes to confirm with the presentation in the 2016 financial statements. There was no effect on the change in the net assets resulting from these reclassifications.

Advertising Costs--Advertising costs are expensed as incurred. Total advertising expense was approximately \$22,743 and \$25,100 for the years ended December 31, 2016 and 2015, respectively.

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 the full amount of the required matching funds in cash and in-kind contributions. The Organization is required to place these funds in an escrow account and which are restricted for the renovation of the building.

Note C--Unconditional Promises to Give

Unconditional promises to give consist of the following:

	December 31	
	2016	2015
Gross unconditional promises to give	\$ 17,725	\$ 37,892
Less: allowance for uncollectible amounts	3,000	2,750
	<u>\$ 14,725</u>	<u>\$ 35,142</u>

Notes to Financial Statements--Continued

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

December 31, 2016 and 2015

Note D--Inventories

Inventories consist of the following:

	Year Ended December 31	
	2016	2015
Raw materials	\$ 81,179	\$ 68,107
Work in process	5,867	
Finished goods	13,512	26,306
	<u>\$ 100,558</u>	<u>\$ 94,413</u>

Note E--Property and Equipment

Property and equipment consists of the following:

	December 31	
	2016	2015
Land	\$ 40,320	\$ 40,320
Building	575,140	529,439
Furniture, fixtures, and equipment	287,534	286,431
Vehicles	20,201	20,201
	923,195	876,391
Less accumulated depreciation	<u>165,758</u>	<u>114,731</u>
	757,437	761,660
Construction in Progress	<u>25,000</u>	
	<u>\$ 782,437</u>	<u>\$ 761,660</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$58,527 and \$47,103, respectively.

Notes to Financial Statements--Continued

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

December 31, 2016 and 2015

Note F--Note Payable

Note payable consists of the following:

	December 31 2016
Note payable to Republic Bank, requiring monthly principal and interest payments of \$517 through July 2021; interest at 4.07%; collateralized by the building of the Organization.	\$ 25,892
Less current maturities	<u>5,238</u>
	<u><u>\$ 20,654</u></u>

Future minimum payments are as follows:

<u>Year Ending December 31</u>	
2017	\$ 5,238
2018	5,459
2019	5,688
2020	5,926
2021	<u>3,581</u>
	<u><u>\$ 25,892</u></u>

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

December 31, 2016 and 2015

Note G--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 matching grant for the same purpose from the James Graham Brown Foundation (see Note B).

Note H--Fundraising Events

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

	December 31	
	2016	2015
Revenues	\$ 18,830	\$ 28,185
Direct expenses	6,198	23,082
	<u>\$ 12,632</u>	<u>\$ 5,103</u>

Note I--Subsequent Event

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Organization through June 21, 2017, the date the financial statements were available to be issued, and concluded that except as mentioned below, no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Subsequent to year end, Edge Technologies, LLC, a wholly owned subsidiary of the Organization, was formed to participate in a joint venture with McGovern Capital to manufacture and sell water filters. Gross margin from sales will be split evenly between the Organization and McGovern Capital. Edge Technologies, LLC will be responsible for the assembly of the products by employing special needs individuals, and McGovern Capital will be responsible for sales of the units. As of the date of our report, this joint venture has not been finalized.

Supplemental Information

Schedule of Functional Expenses

Edge Outreach, Inc.
d/b/a Waterstep, Inc.

Year Ended December 31, 2016

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 156,245	\$ 68,757	\$ 121,971	\$ 346,973
Payroll taxes	10,366	5,145	8,435	23,946
Employee benefits	24,508	5,568	9,064	39,140
Total Salary Related Expenses	191,119	79,470	139,470	410,059
Cost of product sales	42,433			42,433
Safe water supplies	104,030			104,030
Safe water products	71,025			71,025
Consultant fees			30,250	30,250
Professional fees		9,491		9,491
Travel	52,353		3,048	55,401
Supplies			16,029	16,029
Printing and advertising		21,856	887	22,743
Meals	1,717	1,716	1,717	5,150
Postage and shipping	527	526	3,774	4,827
Direct mail solicitation			4,527	4,527
Insurance	12,414	3,471	5,239	21,124
Utilities	15,756	331	498	16,585
Equipment	2,563	54	81	2,698
Service contracts	8,580	180	271	9,031
Auto expense	277	277	8,337	8,891
Banking and finance fees	2,071	7,349	2,071	11,491
Repairs and maintenance	3,491	74	110	3,675
Interest expense		479		479
Information technology	8,361	8,361	8,361	25,083
Office expense	5,436	5,436	5,436	16,308
Telephone expense	3,256	3,256	3,256	9,768
Depreciation	55,600	1,171	1,756	58,527
Bad debt expense	9,306			9,306
Membership dues		9,625		9,625
Conferences and conventions		3,600		3,600
	<u>\$ 590,315</u>	<u>\$ 156,723</u>	<u>\$ 235,118</u>	<u>\$ 982,156</u>
	60%	16%	24%	

See Independent Auditors' Report

Schedule of Functional Expenses

Edge Outreach, Inc.
d/b/a Waterstep, Inc.

Year Ended December 31, 2015

	Program Expenses	General and Administrative	Fundraising	Total
Salaries	\$ 230,673	\$ 97,351	\$ 105,349	\$ 433,373
Payroll taxes	16,695	7,203	7,825	31,723
Employee benefits	34,847	16,096	6,887	57,830
Total Salary Related Expenses	282,215	120,650	120,061	522,926
Cost of product sales	48,252			48,252
Safe water supplies	94,763			94,763
Safe water products	124,781			124,781
Consultant fees			55,900	55,900
Professional fees		26,665		26,665
Travel	101,174		2,447	103,621
Supplies	51,363	206	12,917	64,486
Printing and advertising	2,654	23,153	821	26,628
Meals	3,434	3,172	3,174	9,780
Postage and shipping	1,227	1,227	1,702	4,156
Direct mail solicitation			13,314	13,314
Insurance	10,366	2,305	5,610	18,281
Utilities	13,826	291	437	14,554
Equipment	2,161	45	68	2,274
Service contracts	8,237	174	260	8,671
Auto expense	1,324	1,325	11,053	13,702
Banking and finance fees	4,152	3,448	4,153	11,753
Repairs and maintenance	3,048	64	96	3,208
Interest expense	12,019	252	380	12,651
Information technology	29,947	3,743	4,404	38,094
Office expense	5,081	7,807	4,721	17,609
Telephone expense	3,433	3,433	3,433	10,299
Depreciation	44,747	943	1,413	47,103
Loss on disposal of equipment	31,715	667	1,002	33,384
Membership dues		11,774		11,774
Other expenses	1,857	1,858	13,620	17,335
Taxes	11,979	252	378	12,609
Conferences and conventions		11,946		11,946
	\$ 893,755	\$ 225,400	\$ 261,364	\$ 1,380,519
	65%	16%	19%	

See Independent Auditors' Report