

Financial Statements

2017

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

December 31, 2017 and 2016



Financial Statements

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

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Independent Auditors' Report

Board of Directors
Edge Outreach, 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, 2017 and 2016 and the related statements of activities, functional expenses 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, 2017 and 2016, 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.

Change in Accounting Principle

As discussed in Note B to the financial statements, in 2017 the Organization adopted new accounting guidance retrospectively which required that its statement of cash flows explain the change during the year in its total cash, including restricted cash held in escrow accounts. Our opinion is not modified with respect to this matter.

Stottman and Company PSC
Louisville, Kentucky
May 25, 2018

Statements of Financial Position

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

	December 31	
	2017	2016
Assets		
Current Assets		
Cash	\$ 387,929	\$ 173,092
Accounts receivable	25,204	
Restricted cash in escrow account	416	196,785
Unconditional promises to give, less allowance for uncollectable amounts		14,725
Inventories	123,149	100,558
Total Current Assets	536,698	485,160
Property and Equipment , net of accumulated depreciation	1,003,674	782,437
Other Assets	4,000	
Total Assets	\$ 1,544,372	\$ 1,267,597
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 8,006	\$ 11,586
Deferred revenue	900	2,800
Current portion of note payable	5,459	5,238
Total Current Liabilities	14,365	19,624
Long-Term Debt , less current maturities	15,232	20,654
Total Liabilities	29,597	40,278
Net Assets		
Unrestricted	1,358,198	959,293
Temporarily restricted	156,577	268,026
Total Net Assets	1,514,775	1,227,319
Total Liabilities and Net Assets	\$ 1,544,372	\$ 1,267,597

See Notes to Financial Statements

Statements of Activities

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

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and Support						
Program Service Revenues						
Product sales	\$ 304,078	\$	\$ 304,078	\$ 90,383	\$	\$ 90,383
Safe water trips	53,500		53,500	69,000		69,000
Training and education Support	5,300		5,300	3,064		3,064
Shoes for water Contributions	203,855		203,855	222,803		222,803
In-kind contributions	394,726	\$ 273,717	668,443	342,516	\$ 17,718	360,234
Grants	147,267		147,267	55,835		55,835
Fundraising events, net of direct expenses	20,878	142,300	142,300	89,000		89,000
Investment income	351		20,878	12,632		12,632
Miscellaneous income	10,595		10,595	10,135		10,135
	1,140,550	416,017	1,556,567	806,975	106,718	913,693
Net Assets Released from Restrictions	527,466	(527,466)		180,910	(180,910)	
Net assets release from restrictions	1,668,016	(111,449)	1,556,567	987,885	(74,192)	913,693
Total Revenues and Support			1,556,567			913,693
Expenses						
Program services						
Cost of product sales	315,646		315,646	141,474		141,474
Safe water trips	121,823		121,823	132,095		132,095
Safe water project	122,918		122,918	147,420		147,420
Disaster relief	261,179		261,179	81,745		81,745
Safe water training/education	77,679		77,679	87,581		87,581
Total Program Services	899,245		899,245	590,315		590,315
General and administrative Fundraising	162,042		162,042	156,723		156,723
	207,824		207,824	235,118		235,118
Total Expenses	1,269,111		1,269,111	982,156		982,156
Changes in Net Assets	398,905	(111,449)	287,456	5,729	(74,192)	(68,463)
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	\$ 1,358,198	\$ 156,577	\$ 1,514,775	\$ 959,293	\$ 268,026	\$ 1,227,319

See Notes to Financial Statements

Statements of Cash Flows

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

	Year Ended December 31	
	2017	2016
Cash Flows From Operating Activities		
Changes in net assets	\$ 287,456	\$ (68,463)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	65,452	58,527
Increase (decrease) in allowance for doubtful accounts	(3,000)	250
Changes in operating assets and liabilities		
Unconditional promises to give	17,725	20,167
Accounts receivable	(25,204)	4,014
Inventory	(22,591)	(6,145)
Accounts payable	(3,580)	(33,092)
Deferred revenue	(1,900)	2,400
Tax lien payable		(7,337)
Net Cash Provided By (Used In) Operating Activities	314,358	(29,679)
Cash Flows From Investing Activities		
Purchases of property and equipment	(286,689)	(79,304)
Decrease in restricted grant receivable		54,275
Other assets	(4,000)	
Net Cash Used In Investing Activities	(290,689)	(25,029)
Cash Flows From Financing Activities		
Payments on note payable	(5,201)	(2,108)
Proceeds from note payable		28,000
Net Cash Provided By (Used In) Financing Activities	(5,201)	25,892
Net Increase (Decrease) in Cash	18,468	(28,816)
Cash Beginning of Year	369,877	398,693
Cash at End of Year	\$ 388,345	\$ 369,877
Cash	\$ 387,929	\$ 173,092
Restricted Cash in Escrow Account	416	196,785
Cash at End of Year	\$ 388,345	\$ 369,877
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 1,105	\$ 479
Supplemental Disclosure of Noncash Investing Activities		
Value of donated equipment and improvements to building	\$ 71,106	\$ 3,580

See Notes to Financial Statements

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

December 31, 2017 and 2016

Note A--Nature of Organization

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.

Note B--Summary of Significant Accounting Policies

Basis of Accounting--The financial statements of the Organization are prepared on the accrual basis of accounting. The *Accounting Standards Codification* ("ASC") as produced by the Financial Accounting Standards Board is the sole source of authoritative generally accepted accounting principles.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, support and expenses during the reporting period. 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 2017 or 2016.

Continued

Notes to Financial Statements--Continued

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

December 31, 2017 and 2016

Note B--Summary of Significant Accounting Policies--Continued

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 \$147,267 and \$55,835 that met the criteria under accounting principles generally accepted in the United States of America during 2017 and 2016, respectively. Of this amount, approximately \$71,106 and \$3,580 represented contributions of equipment. The remaining in-kind contributions were for operating expenses during the years ended December 31, 2017 and 2016.

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, 2017 and 2016. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Organization follows generally accepted accounting principles which 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. For the years ended December 31, 2017 and 2016, the Organization determined it did not have any uncertain tax positions and the Organization did not incur or accrue any associated interest or penalties related to those positions.

Cash and Cash Equivalents--The Organization considers all short-term investments 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 \$198,000 and \$110,000 at December 31, 2017 and 2016, 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. There was no allowance for promises to give as of December 31, 2017. The allowance for the promises to give was \$3,000 as of December 31, 2016.

Advertising Costs--Advertising costs are expensed as incurred. Total advertising expense was approximately \$21,194 and \$22,743 for the years ended December 31, 2017 and 2016, respectively.

Continued

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

December 31, 2017 and 2016

Note B--Summary of Significant Accounting Policies--Continued

Inventories--Inventories of purification devices and related materials are recorded at the lower of cost (first-in, first-out method) or market value. Reserves for obsolete inventory are recorded when an impairment of value is identified. No reserves were recorded at December 31, 2017 or 2016, 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.

New Accounting Pronouncement--In November, 2016, FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that a statement of cash flows explain the change during the year in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-year and end-of-end total amounts shown on the statements of cash flows. The Organization's adoption of this guidance in 2017 was applied retrospectively and did not have a material impact on its financial statements.

Note C--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 are restricted for the renovation of the building. The funds available for use in the escrow account was \$416 and \$196,785 for the years ended December 31, 2017 and 2016, respectively.

Note D--Inventories

Inventories consist of the following:

	Year Ended December 31	
	2017	2016
Raw materials	\$ 84,188	\$ 81,179
Work in process		5,867
Finished goods	38,961	13,512
	<u>\$ 123,149</u>	<u>\$ 100,558</u>

Notes to Financial Statements--Continued

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

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Note E--Property and Equipment

Property and equipment consists of the following:

	December 31	
	2017	2016
Land	\$ 40,320	\$ 40,320
Building	717,379	575,140
Furniture, fixtures, and equipment	315,975	287,534
Vehicles	20,201	20,201
	<u>1,093,875</u>	<u>923,195</u>
Less accumulated depreciation	231,210	165,758
	862,665	757,437
Construction in progress	<u>141,009</u>	<u>25,000</u>
	<u><u>\$ 1,003,674</u></u>	<u><u>\$ 782,437</u></u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$65,452 and \$58,527, respectively.

Note F--Line of Credit

The Organization maintains a revolving line of credit with Republic Bank which allows for borrowings up to \$50,000 and expires in July 2019. Outstanding borrowings bear interest at prime rate plus 1%. The bank's prime rate was 4.50% and 3.75% at December 31, 2017 and 2016, respectively. The Organization had no borrowings on the line of credit as of December 31, 2017 and 2016. The line of credit is collateralized by the building of the Organization.

Notes to Financial Statements--Continued

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

December 31, 2017 and 2016

Note G--Note Payable

Note payable consists of the following:

	December 31	
	<u>2017</u>	<u>2016</u>
Note payable to Republic Bank, requiring monthly principal and interest payments of \$517 through July 2021; interest at 4.07%; collateralized by the building	\$ 20,691	\$ 25,892
Less current maturities	<u>5,459</u>	<u>5,238</u>
	<u>\$ 15,232</u>	<u>\$ 20,654</u>

Future minimum payments are as follows:

<u>Year Ending December 31</u>	
2018	\$ 5,459
2019	5,688
2020	5,926
2021	<u>3,618</u>
	<u>\$ 20,691</u>

Note H--Temporarily Restricted Net Assets

Temporarily restricted net assets of \$156,577 and \$268,026 at December 31, 2017 and 2016, respectively, are available for various water projects and clean water initiatives. The Organization had no permanently restricted net assets at December 31, 2017 and 2016.

Notes to Financial Statements--Continued

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

December 31, 2017 and 2016

Note I--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	
	2017	2016
Revenues	\$ 27,585	\$ 18,830
Direct expenses	<u>6,707</u>	<u>6,198</u>
	<u>\$ 20,878</u>	<u>\$ 12,632</u>

Note J--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 May 25, 2018, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.