

**CONSOLIDATED FINANCIAL STATEMENTS**



**EVIDENCE ACTION, INC. AND  
AFFILIATES**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

# EVIDENCE ACTION, INC. AND AFFILIATES

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Evidence Action, Inc. and Affiliates  
Washington, D.C.

We have audited the accompanying consolidated financial statements of Evidence Action, Inc. and Affiliates (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, 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 did not audit the financial activity of Evidence Action Kenya, Malawi, Uganda and Nigeria, whose statements reflect total assets of \$414,135 (1% of total assets) and \$1,427,237 (2% of total assets) as of December 31, 2018 and 2017, respectively, total revenues of \$17,038 (0.05% of total revenues) and \$34,156 (0.50% of total revenues), respectively, and total expenses of \$8,339,647 (37% of total expenses) and \$7,380,059 (38% of total expenses), respectively, for the years ended December 31, 2018 and 2017. Those statements were audited by other auditors, whose reports expressed an unmodified opinion on those statements and have been furnished to us, and our opinion, insofar as it relates to the amounts included for Evidence Action Kenya, Malawi, Uganda and Nigeria, is based solely on the reports of the other auditors dated May 21, 2019, May 23, 2019, May 16, 2019 and June 17, 2019, respectively. 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 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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2018 and 2017, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

August 2, 2019

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018 AND 2017**

<b>ASSETS</b>		<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents:			
Cash held in the United States	\$ 11,041,525	\$ 39,043,576	
Cash held in foreign jurisdictions	<u>186,112</u>	<u>476,104</u>	
Total cash and cash equivalents	11,227,637	39,519,680	
Investments	61,698,196	16,965,888	
Contributions and grants receivable, net of allowance for doubtful accounts of \$0 and \$105,770 in 2018 and 2017, respectively	1,244,708	3,193,287	
Accounts, employee, and other receivables	1,043,831	1,982,954	
Prepaid expenses	<u>192,558</u>	<u>265,333</u>	
Total current assets	<u>75,406,930</u>	<u>61,927,142</u>	
<b>FIXED ASSETS</b>			
Furniture and equipment	168,525	160,993	
Vehicles	<u>97,586</u>	<u>97,586</u>	
	266,111	258,579	
Less: Accumulated depreciation	<u>(166,978)</u>	<u>(116,906)</u>	
Net fixed assets	<u>99,133</u>	<u>141,673</u>	
<b>OTHER ASSETS</b>			
Contributions and grants receivable, net of current portion	1,399,472	1,688,093	
Security deposits	<u>98,299</u>	<u>61,171</u>	
Total other assets	<u>1,497,771</u>	<u>1,749,264</u>	
<b>TOTAL ASSETS</b>	<b><u>\$ 77,003,834</u></b>	<b><u>\$ 63,818,079</u></b>	
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long-term debt	\$ -	\$ 500,000	
Accounts payable and accrued liabilities	<u>968,401</u>	<u>641,182</u>	
Total current liabilities	<u>968,401</u>	<u>1,141,182</u>	
<b>NET ASSETS</b>			
Without donor restrictions	6,034,719	3,959,791	
With donor restrictions	<u>70,000,714</u>	<u>58,717,106</u>	
Total net assets	<u>76,035,433</u>	<u>62,676,897</u>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 77,003,834</u></b>	<b><u>\$ 63,818,079</u></b>	

See accompanying notes to consolidated financial statements.

## EVIDENCE ACTION, INC. AND AFFILIATES

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE</b>			
Contributions and grants	\$ 2,258,913	\$ 32,324,877	\$ 34,583,790
Carbon revenue	48,155	-	48,155
Investment income, net	1,028,096	-	1,028,096
Contributed services	146,594	-	146,594
Other revenue	59,581	-	59,581
Net assets released from donor restrictions	<u>21,041,269</u>	<u>(21,041,269)</u>	<u>-</u>
Total revenue and gains	<u>24,582,608</u>	<u>11,283,608</u>	<u>35,866,216</u>
<b>EXPENSES</b>			
Program Services:			
Deworm the World Initiative	10,475,955	-	10,475,955
Dispensers for Safe Water Program	4,377,733	-	4,377,733
Evidence Action Beta	<u>4,493,859</u>	<u>-</u>	<u>4,493,859</u>
Total program services	<u>19,347,547</u>	<u>-</u>	<u>19,347,547</u>
Supporting Services:			
Management and General	2,843,683	-	2,843,683
Fundraising	<u>316,450</u>	<u>-</u>	<u>316,450</u>
Total supporting services	<u>3,160,133</u>	<u>-</u>	<u>3,160,133</u>
Total expenses	<u>22,507,680</u>	<u>-</u>	<u>22,507,680</u>
Changes in net assets	2,074,928	11,283,608	13,358,536
Net assets at beginning of year	<u>3,959,791</u>	<u>58,717,106</u>	<u>62,676,897</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 6,034,719</u></b>	<b><u>\$ 70,000,714</u></b>	<b><u>\$ 76,035,433</u></b>

EVIDENCE ACTION, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<b>2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE</b>			
Contributions and grants	\$ 4,309,559	\$ 58,134,268	\$ 62,443,827
Carbon revenue	1,530,322	-	1,530,322
Investment income, net	482,133	-	482,133
Contributed services	39,846	-	39,846
Other revenue	37,739	-	37,739
Net assets released from donor restrictions	<u>20,433,799</u>	<u>(20,433,799)</u>	<u>-</u>
Total revenue and gains	<u>26,833,398</u>	<u>37,700,469</u>	<u>64,533,867</u>
<b>EXPENSES</b>			
Program Services:			
Deworm the World Initiative	8,482,733	-	8,482,733
Dispensars for Safe Water Program	3,804,720	-	3,804,720
Evidence Action Beta	<u>3,526,128</u>	<u>-</u>	<u>3,526,128</u>
Total program services	<u>15,813,581</u>	<u>-</u>	<u>15,813,581</u>
Supporting Services:			
Management and General	3,154,846	-	3,154,846
Fundraising	<u>225,775</u>	<u>-</u>	<u>225,775</u>
Total supporting services	<u>3,380,621</u>	<u>-</u>	<u>3,380,621</u>
Total expenses	<u>19,194,202</u>	<u>-</u>	<u>19,194,202</u>
Changes in net assets	7,639,196	37,700,469	45,339,665
Net assets at beginning of year	<u>(3,679,405)</u>	<u>21,016,637</u>	<u>17,337,232</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 3,959,791</u></b>	<b><u>\$ 58,717,106</u></b>	<b><u>\$ 62,676,897</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services				Supporting Services			
	Deworm the World Initiative	Dispensers for Safe Water Program	Evidence Action Beta	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 1,320,335	\$ 1,030,686	\$ 1,276,677	\$ 3,627,698	\$ 1,931,870	\$ 155,922	\$ 2,087,792	\$ 5,715,490
Payroll taxes and employee benefits	194,140	302,008	226,442	722,590	334,325	29,936	364,261	1,086,851
Contract services	4,944,417	258,752	1,082,018	6,285,187	(141,034)	95,431	(45,603)	6,239,584
Occupancy	109,865	179,220	67,818	356,903	278,185	5,693	283,878	640,781
Office expenses	374,153	701,376	50,270	1,125,799	99,968	4,418	104,386	1,230,185
Program management and material	1,549,613	1,587,090	1,377	3,138,080	4,615	-	4,615	3,142,695
Travel	857,674	245,047	177,800	1,280,521	115,986	2,475	118,461	1,398,982
Information technology	14,439	32,536	26,149	73,124	203,282	22,251	225,533	298,657
Insurance	1,036	513	703	2,252	26,174	-	26,174	28,426
Conferences and meetings	333,755	24,416	8,913	367,084	33,987	304	34,291	401,375
Grant awards	756,408	-	1,567,968	2,324,376	-	-	-	2,324,376
Other	20,120	12,192	7,724	40,036	(89,850)	20	(89,830)	(49,794)
Depreciation	-	3,897	-	3,897	46,175	-	46,175	50,072
<b>TOTAL</b>	<b>\$ 10,475,955</b>	<b>\$ 4,377,733</b>	<b>\$ 4,493,859</b>	<b>\$ 19,347,547</b>	<b>\$ 2,843,683</b>	<b>\$ 316,450</b>	<b>\$ 3,160,133</b>	<b>\$ 22,507,680</b>

See accompanying notes to consolidated financial statements.



**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services			Supporting Services				Total Expenses
	Deworm the World Initiative	Dispensers for Safe Water Program	Evidence Action Beta	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 1,139,545	\$ 1,020,704	\$ 944,347	\$ 3,104,596	\$ 1,755,057	\$ 74,577	\$ 1,829,634	\$ 4,934,230
Payroll taxes and employee benefits	262,185	273,471	300,768	836,424	37,919	26,290	64,209	900,633
Contract services	3,983,661	260,545	427,680	4,671,886	578,122	101,301	679,423	5,351,309
Occupancy	95,740	163,017	62,762	321,519	222,586	6,021	228,607	550,126
Office expenses	476,689	478,273	64,120	1,019,082	146,643	5,762	152,405	1,171,487
Program management and material	1,475,316	1,246,071	20,743	2,742,130	9,975	-	9,975	2,752,105
Travel	656,651	222,805	193,796	1,073,252	82,305	4,741	87,046	1,160,298
Information technology	44,896	11,859	35,461	92,216	95,988	5,507	101,495	193,711
Insurance	5,119	17,485	3,658	26,262	17,102	43	17,145	43,407
Conferences and meetings	322,458	97,769	5,335	425,562	27,699	1,533	29,232	454,794
Grant awards	-	-	1,432,035	1,432,035	-	-	-	1,432,035
Other	20,473	8,824	35,423	64,720	127,010	-	127,010	191,730
Depreciation	-	3,897	-	3,897	54,440	-	54,440	58,337
<b>TOTAL</b>	<b>\$ 8,482,733</b>	<b>\$ 3,804,720</b>	<b>\$ 3,526,128</b>	<b>\$ 15,813,581</b>	<b>\$ 3,154,846</b>	<b>\$ 225,775</b>	<b>\$ 3,380,621</b>	<b>\$ 19,194,202</b>

See accompanying notes to consolidated financial statements.

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 13,358,536	\$ 45,339,665
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	50,072	58,337
Net realized and unrealized loss (gain) on investments	23,499	(134,208)
Change in discount on long-term receivables	58,320	(59,487)
Change in allowance for doubtful accounts	(105,770)	105,770
Forgiveness of long-term debt	(500,000)	(2,749,950)
Decrease (increase) in:		
Contributions and grants receivable	2,284,650	(2,234,294)
Accounts, employee, and other receivables	939,123	(1,551,556)
Prepaid expenses	72,775	(21,638)
Security deposits	(37,128)	8,720
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>327,219</u>	<u>(10,542)</u>
Net cash provided by operating activities	<u>16,471,296</u>	<u>38,750,817</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(7,532)	(58,531)
Purchases of investments	(92,941,586)	(11,367,942)
Proceeds from sale of investments	<u>48,185,779</u>	<u>3,136,004</u>
Net cash used in investing activities	<u>(44,763,339)</u>	<u>(8,290,469)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	<u>-</u>	<u>(29,999)</u>
Net cash used by financing activities	<u>-</u>	<u>(29,999)</u>
Net (decrease) increase in cash and cash equivalents	(28,292,043)	30,430,349
Cash and cash equivalents at beginning of year	<u>39,519,680</u>	<u>9,089,331</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 11,227,637</u></b>	<b><u>\$ 39,519,680</u></b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Donated Securities	<b><u>\$ 326,979</u></b>	<b><u>\$ 3,457,864</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organizations -

Evidence Action, Inc. (Evidence Action) is a 501(c)(3) non-profit organization, incorporated and headquartered in the District of Columbia. Evidence Action has assumed the management and growth responsibility of three programs that are currently making a difference in the lives of millions of people in Africa and Asia.

Evidence Action maintains branch offices and affiliate organizations to facilitate operations outside of the United States. These offices and organizations were established to conduct Evidence Action's in-country work to help ensure compliance with local laws and to minimize risk to overall operations. Evidence Action transfers cash to its branches and affiliates on a regular basis to ensure there is sufficient funding to implement its programs and meet ongoing commitments. Where applicable, it provides letters of comfort to these affiliate organizations confirming future financial support. Net assets of the affiliates are included in Evidence Action's consolidated net assets. On dissolution of these entities, any remaining net assets will be returned to Evidence Action. These branch offices and affiliated organizations include:

**Evidence Action Kenya:** Branch office, established in 2013, under a Certificate of Compliance as required by Section 366 of the Companies Act. The principal activity of the Kenya branch is to develop and de-risk business models for programs that aim to reduce poverty and spur growth in developing countries.

**Evidence Action Uganda:** Subsidiary non-profit organization, established in 2014 under the Companies Act of Uganda as a company limited by guarantee. Evidence Action Uganda was established for purposes of conducting Evidence Action's programmatic work in Uganda whose principal activity is to promote access to safe water.

**Evidence Action Malawi:** Subsidiary non-profit organization, established in 2014 and incorporated in 2017, as a private company limited by guarantee under the Malawi Companies Act, No. 15 of 2013. Evidence Action Malawi's principal activity is to scale proven development solutions to benefit millions of people around the world through the Dispensers for Safe Water Program.

**Evidence Action Development Initiative Ltd/GTE (Nigeria):** An organization established and incorporated in 2018 under the Companies and Allied Matters Act 1990 in Nigeria, as a private company limited by guarantee. Evidence Action Nigeria is dedicated to providing a school based deworming program of school children.

**Evidence Action PTY LTD (Australia):** An organization established in 2016 under the Corporations Act 2001 in Australia to conduct Evidence Action's work in Australia and ensure compliance with local laws.

**Evidence Action India Foundation:** An organization established in 2018 as a Section 7 Company (under the Companies Act of 2013), limited by guarantee. Evidence Action India's mission is to work towards improving the health and educational outcomes of children through programs in deworming, nutrition and related interventions in the health space. During the year ended December 31, 2018, Evidence Action India did not have any financial transactions.

The consolidated financial statements include the accounts of Evidence Action, Inc. (including its branch office in Kenya) and affiliated entities (Evidence Action Uganda, Evidence Action Malawi, Evidence Action Australia, Evidence Action Nigeria and Evidence Action India), collectively referred to as "the Organization." All intercompany transactions and balances have been eliminated in consolidation.

## EVIDENCE ACTION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended December 31, 2018 and applied retrospectively.

##### Program services -

**Deworm the World Initiative:** Evidence Action's Deworm the World Initiative helps to translate evidence into widespread practice by advocating for school-based deworming to policymakers and providing technical assistance to launch, strengthen and sustain school-based deworming programs. Evidence Action works directly with governments to rapidly scale programs targeting all at-risk school-age children. Regular deworming results in improved education, health, and long-term well-being for treated children.

**Dispensers for Safe Water Program:** Chlorine dispensers are an innovative, low-cost approach proven to increase rates of household chlorination of drinking water in rural areas of Sub-Saharan Africa. Chlorine disinfects drinking water while protecting it from recontamination for up to 72 hours. Evidence Action has continued to see high adoption rates of around 58% as they continue to operate in Kenya, Uganda, Malawi and Nigeria. Evidence Action is providing nearly four million people with access to safe water.

**Evidence Action Beta:** Evidence Action Beta identifies and pressure-tests evidence-based innovations that reduce the burden of poverty, and then designs and builds the most cost-effective programs for massive scale. Evidence Action Beta looks for promising interventions that have already been subjected to rigorous scientific trials, focusing on interventions that are pro-poor, have measurable impact, and have the potential to be cost-effectively scaled up to benefit millions of people.

##### Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000.

At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

The Organization maintains numerous bank accounts in foreign countries, which are largely uninsured. Total cash and cash equivalents held outside the United States were \$186,112 and \$476,104 as of December 31, 2018 and 2017, respectively.

##### Foreign currency translation -

The U.S. Dollar is the functional currency for the Organization. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the Consolidated Statements of Financial Position.

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Foreign currency translation (continued) -

Gains and losses on translation of foreign currencies, which are not material, are recorded in the Consolidated Statements of Activities and Changes in Net Assets.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income net of investment expenses provided by external investment advisors in the Consolidated Statements of Activities and Changes in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. Evidence Action's policy is to liquidate all gifts of investments as soon as possible after the gift.

Receivables -

Contributions and grants receivable are presented at estimated fair value. Contributions and grants receivable that are expected to be collected in future years are recorded at their fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Accretion of the discounts is included in contributions and grants revenue. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and historical experience. As a result of these reviews, management establishes an allowance as a best estimate of probable losses. All contribution and grants receivable balances, or portions thereof, that are deemed to be uncollectible, or that require excessive collection cost, are written off.

Accounts, employee and other receivables are expected to be collected within one year and are considered by management to be fully collectible. Accordingly, no allowance for doubtful accounts has been established for the amounts. Conditional promises to give are not included as support until the conditions are substantially met.

Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$50,072 and \$58,337, respectively.

Income taxes -

Evidence Action is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is only subject to tax on unrelated business income. Evidence Action is not a private foundation.

Evidence Action Uganda, Evidence Action Malawi, Evidence Action Australia, and Evidence Action Nigeria are registered (in each respective country) as tax-exempt organizations. Evidence Action India's application for tax exemption has been submitted and is pending approval.

## EVIDENCE ACTION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Uncertain tax positions -

For the years ended December 31, 2018 and 2017, the Organization has considered potential uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

##### Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions." Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions and grants restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions and grants are reported as increases in "net assets with donor restrictions," depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from donor restrictions.

##### Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements.

##### Contributed services -

Contributed services consist of pro-bono legal services. Contributed services are recorded at their estimated fair value as of the date of the gift based upon the donors' and management's estimates.

##### Use of estimates -

The preparation of the consolidated 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 of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ significantly from those estimates.

## EVIDENCE ACTION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Organization are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

##### Risks and uncertainties -

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

##### Fair value measurement -

The Organization utilizes a framework for measuring fair value based upon a fair value hierarchy utilizing inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) to measure fair value, and enhances disclosure requirements for fair value measurements. The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

##### Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$3,959,791 are now classified as "net assets without donor restrictions." Net assets previously classified as temporarily restricted net assets in the amount of \$58,717,106 are now classified as "net assets with donor restrictions."

##### New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under accounting principles generally accepted in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

**EVIDENCE ACTION, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

New accounting pronouncements (not yet adopted) (continued) -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction accounted for under other guidance. The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Organization has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Consolidated Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organization plans to adopt the new ASUs at the respective required implementation dates.

**2. INVESTMENTS**

Investments, at fair value, consisted of the following at December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Mutual funds	\$ 35,278,656	\$ 14,871,868
Exchange-traded funds	26,419,540	1,813,424
Equities	-	280,596
<b>TOTAL INVESTMENTS</b>	<b>\$ 61,698,196</b>	<b>\$ 16,965,888</b>

Included in investment income was the following during the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Interest and dividends	\$ 1,079,743	\$ 409,840
Net realized and unrealized (loss) gain	(23,499)	134,208
Management fees	(28,148)	(61,915)
<b>TOTAL INVESTMENT INCOME, NET</b>	<b>\$ 1,028,096</b>	<b>\$ 482,133</b>



**EVIDENCE ACTION, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**2. INVESTMENTS (Continued)**

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Consolidated Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used or transfers between levels as of December 31, 2018 and 2017.

- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Organization are deemed to be actively traded.
- *Exchange-traded funds* - Valued at the closing price reported on the active market in which the individual securities are traded (typically tracks an index).
- *Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Mutual funds	\$ 35,278,656	\$ -	\$ -	\$ 35,278,656
Exchange-traded funds	<u>26,419,540</u>	<u>-</u>	<u>-</u>	<u>26,419,540</u>
<b>TOTAL</b>	<b><u>\$ 61,698,196</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 61,698,196</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**2. INVESTMENTS (Continued)**

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Mutual funds	\$ 14,871,868	\$ -	\$ -	\$ 14,871,868
Exchange-traded funds	1,813,424	-	-	1,813,424
Equities	<u>280,596</u>	<u>-</u>	<u>-</u>	<u>280,596</u>
<b>TOTAL</b>	<b><u>\$ 16,965,888</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 16,965,888</u></b>

**3. CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributors to the Organization have made written promises to give, of which \$2,740,700 and \$5,025,350, respectively, remained due and outstanding as of December 31, 2018 and 2017. Contributions and grants due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of approximately 5.5% and 2% for the years ended December 31, 2018 and 2017, respectively.

Contributions and grants are due as follows as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 1,244,708	\$ 3,299,057
One to five years	<u>1,495,992</u>	<u>1,726,293</u>
Total	2,740,700	5,025,350
Less: Allowance to discount balance to present value	(96,520)	(38,200)
Less: Allowance for doubtful contributions and grants	<u>-</u>	<u>(105,770)</u>
	2,644,180	4,881,380
Less: Current portion	<u>(1,244,708)</u>	<u>(3,193,287)</u>
<b>CONTRIBUTIONS AND GRANTS RECEIVABLE, NET OF CURRENT PORTION, ALLOWANCE FOR DOUBTFUL ACCOUNTS AND PRESENT VALUE DISCOUNT</b>	<b><u>\$ 1,399,472</u></b>	<b><u>\$ 1,688,093</u></b>

**4. NET ASSETS WITHOUT DONOR RESTRICTIONS**

As of December 31, 2018 and 2017, net assets without donor restrictions includes the following:

	<u>2018</u>	<u>2017</u>
Board designated net assets:		
Operating reserve	\$ 622,419	\$ -
Undesignated net assets	<u>5,412,300</u>	<u>3,959,791</u>
<b>TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b><u>\$ 6,034,719</u></b>	<b><u>\$ 3,959,791</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**5. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Deworm the World Initiative	\$ 45,365,491	\$ 37,652,274
Dispensers for Safe Water Program	614,916	1,780,975
Evidence Action Beta	21,611,303	17,115,421
Other	<u>2,409,004</u>	<u>2,168,436</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 70,000,714</u></b>	<b><u>\$ 58,717,106</u></b>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2018</u>	<u>2017</u>
Deworm the World Initiative	\$ 12,231,658	\$ 10,286,204
Dispensers for Safe Water Program	3,669,127	5,031,661
Evidence Action Beta	5,131,050	4,642,070
Other	<u>9,434</u>	<u>473,864</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 21,041,269</u></b>	<b><u>\$ 20,433,799</u></b>

**6. LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Consolidated Statements of Financial Position date comprise the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash held in the United States	\$ 11,041,525	\$ 39,043,576
Cash held in foreign jurisdictions	186,112	476,104
Investments	61,698,196	16,965,888
Contributions and grants receivable	2,644,180	4,881,380
Accounts, employee, and other receivables	<u>1,043,831</u>	<u>1,982,954</u>
Subtotal financial assets available within one year	76,613,844	63,349,902
Less: Donor restricted funds	<u>(70,000,714)</u>	<u>(58,717,106)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 6,613,130</u></b>	<b><u>\$ 4,632,796</u></b>

The Organization is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

## EVIDENCE ACTION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

#### 6. LIQUIDITY AND AVAILABILITY (Continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

#### 7. LONG-TERM DEBT

The Organization obtained loans from three non-profit public benefit corporations to support the installation and maintenance of chlorine dispensers in Kenya and Malawi. Repayment of each of the loans was based on sales of carbon credits relating to those chlorine dispensers specified in each agreement. As such, repayment amounts were not guaranteed nor certain as payment amounts were representative of future events that may or may not occur. Should events not occur, payments may not be required. The terms of the first two loans were for 84 months and the term of the third loan was for 120 months. The loans carry no annual interest and are not collateralized.

During the year ended December 31, 2017, \$2,749,950 of the outstanding principal was forgiven and is included in contributions and grants in the accompanying Consolidated Statements of Activities and Changes in Net Assets. As of December 31, 2017, the outstanding principal of the loans payable was \$500,000.

During the year ended December 31, 2018, the outstanding principal of \$500,000 was forgiven and is included in contributions and grants revenue in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

#### 8. LEASE COMMITMENTS

On March 19, 2018, the Organization entered into a 42-month agreement to lease office space in Washington, D.C. Base rent is \$294,170 a year, increasing by a factor of 4% per year. The lease includes six months of abated rent at a rate of 50% in the first year of the lease. In addition, the Organization leases office space under agreements in the Republic of Kenya, the Republic of Uganda, the Republic of Malawi and the Republic of Nigeria. These operating leases expire in various years through 2022.

The following is a schedule of the future minimum lease payments:

#### Year Ending December 31,

2019	\$	392,280
2020		408,874
2021		370,801
2022		<u>49,646</u>
	\$	<u>1,221,601</u>

Occupancy costs (including utilities) for the years ended December 31, 2018 and 2017 were \$640,781 and \$550,126, respectively.

## **EVIDENCE ACTION, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017**

#### **9. RETIREMENT PLAN**

The Organization provides retirement benefits to its eligible employees. The type of plan and matching contribution differ in each country in which it has operations, with a maximum employer contribution of 10%. Contributions to the Plans during the years ended December 31, 2018 and 2017 totaled \$166,231 and \$168,483, respectively.

#### **10. CONCENTRATION OF REVENUE**

Approximately 54% of the Organization's revenue for the year ended December 31, 2018 was derived from grants awarded by one donor. For the year ended December 31, 2017, approximately 48% of the Organization's revenue was derived from grants awarded by two donors. The Organization does not believe that relationships with these donors will be discontinued in the foreseeable future. Additionally, the grants received from these donors in both 2017 and 2018 funded programs over several years (up to 3 years) and cash for these grants have been received in full. However, any interruption of these relationships (i.e., the failure to renew grant agreements) could adversely affect the Organization's ability to finance ongoing operations.

#### **11. SERVICE AGREEMENT WITH RELATED ENTITY**

The Organization maintains service agreements with Pramanit Karya India Private Limited (PKIPL) for consulting services (the previous agreement commenced April 1, 2017 and was for a one year period). While the Organization provides 100% of PKIPL's revenue during any given financial year (March 31st fiscal year-end), it does not maintain significant influence (or exercise control) over PKIPL, and therefore, the financial activities are not consolidated in these financial statements. On April 1, 2018, a three-year service agreement was executed. During the years ended December 31, 2018 and 2017, the Organization paid PKIPL \$4,205,366 and \$3,823,546, respectively, for consulting related services.

#### **12. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 2, 2019, the date the consolidated financial statements were issued.