

**CONSOLIDATED FINANCIAL STATEMENTS**



**EVIDENCE ACTION, INC.  
AND AFFILIATES**

**FOR THE YEAR ENDED DECEMBER 31, 2019  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2018**

# EVIDENCE ACTION, INC. AND AFFILIATES

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**CPAs & ADVISORS**

## **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 statement of financial position as of December 31, 2019, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. We did not audit the financial activity of Evidence Action Kenya, Malawi, Uganda and Nigeria, whose statements reflect total assets of \$1,835,766 (2% of total assets) as of December 31, 2019, total revenues of \$25,112 (0.07% of total revenues), and total expenses of \$9,130,595 (37% of total expenses), for the year ended December 31, 2019. 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 June 22, 2020, June 15, 2020, June 15, 2020 and June 18, 2020, respectively. 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 consolidated financial statements are free from material misstatement.

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

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## 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, 2019, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited the Organization's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 2, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



August 18, 2020

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2019**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

**ASSETS**

	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Cash held in the United States	\$ 11,267,546	\$ 11,041,525
Cash held in foreign jurisdictions	<u>1,187,706</u>	<u>186,112</u>
Total cash and cash equivalents	12,455,252	11,227,637
Investments	63,684,243	61,698,196
Contributions and grants receivable	5,053,687	1,244,708
Accounts, employee, and other receivables	1,642,617	1,043,831
Prepaid expenses	<u>550,213</u>	<u>192,558</u>
Total current assets	<u>83,386,012</u>	<u>75,406,930</u>
<b>FIXED ASSETS</b>		
Furniture and equipment	168,525	168,525
Vehicles	<u>194,397</u>	<u>97,586</u>
	362,922	266,111
Less: Accumulated depreciation	<u>(218,996)</u>	<u>(166,978)</u>
Net fixed assets	<u>143,926</u>	<u>99,133</u>
<b>NONCURRENT ASSETS</b>		
Contributions and grants receivable, net of current portion and present value discount	3,865,512	1,399,472
Security deposits	<u>54,892</u>	<u>98,299</u>
Total noncurrent assets	<u>3,920,404</u>	<u>1,497,771</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 87,450,342</u></b>	<b><u>\$ 77,003,834</u></b>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable and accrued liabilities	\$ <u>1,826,441</u>	\$ <u>968,401</u>
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**NET ASSETS**

Without donor restrictions	8,479,305	5,215,478
With donor restrictions	<u>77,144,596</u>	<u>70,819,955</u>
Total net assets	<u>85,623,901</u>	<u>76,035,433</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 87,450,342</u></b>	<b><u>\$ 77,003,834</u></b>
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See accompanying notes to consolidated financial statements.

## EVIDENCE ACTION, INC. AND AFFILIATES

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 2,945,608	\$ 3,819,017	\$ 6,764,625	\$ 5,518,571
Foundation grants	96,520	25,449,094	25,545,614	29,065,219
Carbon revenue	155,791	-	155,791	48,155
Investment income	381,654	1,622,491	2,004,145	1,028,096
Contributed services	90,000	-	90,000	146,594
Other revenue	10,839	-	10,839	59,581
Net assets released from donor restrictions	<u>23,933,179</u>	<u>(23,933,179)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>27,613,591</u>	<u>6,957,423</u>	<u>34,571,014</u>	<u>35,866,216</u>
<b>EXPENSES</b>				
Program Services:				
Deworm the World Initiative	12,395,444	-	12,395,444	10,483,359
Dispensers for Safe Water Program	4,581,610	-	4,581,610	4,373,116
Evidence Action Accelerator	<u>3,719,731</u>	<u>-</u>	<u>3,719,731</u>	<u>4,494,546</u>
Total program services	<u>20,696,785</u>	<u>-</u>	<u>20,696,785</u>	<u>19,351,021</u>
Supporting Services:				
Management and General	3,341,243	-	3,341,243	2,913,539
Fundraising	<u>357,383</u>	<u>-</u>	<u>357,383</u>	<u>316,450</u>
Total supporting services	<u>3,698,626</u>	<u>-</u>	<u>3,698,626</u>	<u>3,229,989</u>
Total expenses	<u>24,395,411</u>	<u>-</u>	<u>24,395,411</u>	<u>22,581,010</u>
Change in net assets before other items	<u>3,218,180</u>	<u>6,957,423</u>	<u>10,175,603</u>	<u>13,285,206</u>
<b>OTHER ITEMS</b>				
Deobligation and return of grant funds	-	(632,782)	(632,782)	-
Gain on foreign currency exchange	<u>45,647</u>	<u>-</u>	<u>45,647</u>	<u>73,330</u>
Total other items	<u>45,647</u>	<u>(632,782)</u>	<u>(587,135)</u>	<u>73,330</u>
Change in net assets	3,263,827	6,324,641	9,588,468	13,358,536
Net assets at beginning of year, as restated	<u>5,215,478</u>	<u>70,819,955</u>	<u>76,035,433</u>	<u>62,676,897</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 8,479,305</u></b>	<b><u>\$ 77,144,596</u></b>	<b><u>\$ 85,623,901</u></b>	<b><u>\$ 76,035,433</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019							2018	
	Program Services				Supporting Services			Total Expenses	Total Expenses
	Deworm the World Initiative	Dispensers for Safe Water Program	Evidence Action Accelerator	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 1,856,354	\$ 1,373,057	\$ 1,460,068	\$ 4,689,479	\$ 1,681,162	\$ 259,051	\$ 1,940,213	\$ 6,629,692	\$ 5,715,490
Payroll taxes and employee benefits	368,382	419,970	262,341	1,050,693	330,527	45,316	375,843	1,426,536	1,086,851
Contract services	5,923,741	125,497	1,782,867	7,832,105	357,485	8,894	366,379	8,198,484	6,239,584
Occupancy	125,896	244,515	62,973	433,384	330,604	12,537	343,141	776,525	640,781
Office expenses	231,209	278,224	34,444	543,877	182,380	6,503	188,883	732,760	1,230,185
Program management and material	1,334,389	1,723,880	1,376	3,059,645	1,620	-	1,620	3,061,265	3,142,695
Travel	1,172,168	297,301	94,015	1,563,484	69,791	1,355	71,146	1,634,630	1,398,982
Information technology	29,264	62,753	11,448	103,465	224,042	23,727	247,769	351,234	298,657
Insurance	1,728	837	321	2,886	61,778	-	61,778	64,664	28,426
Conferences and meetings	259,338	42,451	7,939	309,728	33,184	-	33,184	342,912	401,375
Grant awards	1,032,358	-	-	1,032,358	-	-	-	1,032,358	2,324,376
Bank finance charges, taxes and fees	42,820	9,228	1,939	53,987	38,348	-	38,348	92,335	23,536
Depreciation	17,797	3,897	-	21,694	30,322	-	30,322	52,016	50,072
<b>TOTAL</b>	<b>\$ 12,395,444</b>	<b>\$ 4,581,610</b>	<b>\$ 3,719,731</b>	<b>\$ 20,696,785</b>	<b>\$ 3,341,243</b>	<b>\$ 357,383</b>	<b>\$ 3,698,626</b>	<b>\$ 24,395,411</b>	<b>\$ 22,581,010</b>

See accompanying notes to consolidated financial statements.

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 9,588,468	\$ 13,358,536
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,018	50,072
Net realized and unrealized (gain) loss on investments	(670,793)	23,499
Receipt of donated securities	(179,741)	(326,979)
Proceeds from sale of donated securities	180,780	334,603
Realized gain on sale of donated securities	(1,039)	(7,624)
Change in discount on long-term receivables	157,828	58,320
Change in allowance for doubtful accounts	-	(105,770)
Forgiveness of long-term debt	-	(500,000)
(Increase) decrease in:		
Contributions and grants receivable	(6,432,847)	2,284,650
Accounts, employee, and other receivables	(598,786)	939,123
Prepaid expenses	(357,655)	72,775
Security deposits	43,407	(37,128)
Increase in:		
Accounts payable and accrued liabilities	<u>858,040</u>	<u>327,219</u>
Net cash provided by operating activities	<u>2,639,680</u>	<u>16,471,296</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(96,811)	(7,532)
Purchases of investments	(1,315,254)	(92,941,586)
Proceeds from sale of investments	<u>-</u>	<u>48,185,779</u>
Net cash used in investing activities	<u>(1,412,065)</u>	<u>(44,763,339)</u>
Net increase (decrease) in cash and cash equivalents	1,227,615	(28,292,043)
Cash and cash equivalents at beginning of year	<u>11,227,637</u>	<u>39,519,680</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 12,455,252</u></b>	<b><u>\$ 11,227,637</u></b>



**EVIDENCE ACTION, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 (see program descriptions on pages 9 and 10) 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. Under Financial Accounting Standards Board (FASB) ASC 958-810, consolidation is required if an organization has control (i.e., major voting interest) and significant economic interest in that other organization. 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.

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, and Evidence Action Nigeria), 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, 2019

#### 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*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor 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 restricted by donors 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 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 Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class; such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2018, from which the summarized information was derived.

##### 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 55% 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 Accelerator (previously Evidence Action Beta):** Following a strategic review in 2019, Evidence Action Beta was reconstituted as Evidence Action Accelerator with a new area of focus.

## EVIDENCE ACTION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

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

Program services (continued) -

**Evidence Action Accelerator (previously Evidence Action Beta) (continued):** Certain ongoing Beta projects that met its new focus areas were absorbed with Accelerator, while other Beta projects that did not meet the criteria were discontinued. Evidence Action Accelerator drives new program development, selecting high-potential interventions with massive opportunity for evidence-based, cost-effective impact. The accelerator tests and refines delivery models with the goal of rapidly scaling interventions with levels of impact similar to our existing programs.

New accounting pronouncements adopted -

During 2019, the Organization early adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way Evidence Action recognized revenue; however, the presentation and disclosures of revenue have been enhanced. Evidence Action has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

Also, during 2019, the Organization adopted ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. The Organization adopted the ASU using a modified prospective basis.

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 was \$1,187,706 as of December 31, 2019.

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 Statement of Financial Position. Gains and losses on translation of foreign currencies are recorded in the Consolidated Statement of Activities and Change in Net Assets.

Investments -

Investments are recorded at their readily determinable fair value.

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

Investments (continued) -

Interest, dividends, realized and unrealized gains and losses are included in investment income in the Consolidated Statement of Activities and Change 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. Management considers contributions and grants receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established for the amounts.

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.

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 year ended December 31, 2019 totaled \$52,018.

Income taxes -

Evidence Action is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. 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.

Uncertain tax positions -

For the year ended December 31, 2019, 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.

**EVIDENCE ACTION, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

Revenue -

Contributions and grants are recognized in the appropriate category of net assets in the period received. The Organization performs an analysis of the individual contribution and grant to determine if the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal.

For contributions and grants qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the condition on which they depend are substantially met. Contributions and grants qualifying as contributions that are unconditional that have 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 financial statements.

Grant agreements qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Most conditional grant awards received are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Organization recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred).

Grants classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and record revenue when the performance obligations are met. The revenue is recorded directly to without donor restrictions and the transaction price is based on expenses incurred in compliance with the criteria stipulated in the grant or contract agreements. Contributions and grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant and contract agreements.

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.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## EVIDENCE ACTION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

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

Functional allocation of expenses (continued) -

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.

New accounting pronouncement not yet adopted -

FASB issued ASU 2019-01, *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 Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Organization plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption methods and the impact of the new standard on its accompanying consolidated financial statements.

#### 2. INVESTMENTS

Investments, at fair value, consisted of the following at December 31, 2019:

Mutual funds	\$ 35,976,360
Exchange-traded funds	<u>27,707,883</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 63,684,243</u></b>

Included in investment income was the following during the year ended December 31, 2019:

Interest and dividends	\$ 1,333,352
Net realized and unrealized gain	<u>670,793</u>
<b>TOTAL INVESTMENT INCOME, NET</b>	<b><u>\$ 2,004,145</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**

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**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 Statement 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, 2019.

- *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).

The table below summarizes, by level within the fair value hierarchy, the Organization's investments as of December 31, 2019:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Asset Class:</b>				
Mutual funds	\$ 35,976,360	\$ -	\$ -	\$ 35,976,360
Exchange-traded funds	<u>27,707,883</u>	<u>-</u>	<u>-</u>	<u>27,707,883</u>
<b>TOTAL</b>	<b><u>\$ 63,684,243</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 63,684,243</u></b>

**3. CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributors to the Organization have made written promises to give, of which \$9,173,547, remained due and outstanding as of December 31, 2019. 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 4.75% and 5.5% for the years ended December 31, 2019 and 2018.

**EVIDENCE ACTION, INC. AND AFFILIATES**  
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**3. CONTRIBUTIONS AND GRANTS RECEIVABLE (Continued)**

Contributions and grants are due as follows as of December 31, 2019:

Less than one year	\$ 5,053,687
One to five years	<u>4,119,860</u>
Total	9,173,547
Less: Allowance to discount balance to present value	<u>(254,348)</u>
	8,919,199
Less: Current portion	<u>(5,053,687)</u>
<b>CONTRIBUTIONS AND GRANTS RECEIVABLE, NET OF CURRENT PORTION AND PRESENT VALUE DISCOUNT</b>	<b><u>\$ 3,865,512</u></b>

**4. NET ASSETS WITHOUT DONOR RESTRICTIONS**

As of December 31, 2019, net assets without donor restrictions includes the following:

Board designated net assets:	
Operating reserve	\$ 1,543,945
Undesignated net assets	<u>6,935,360</u>
<b>TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b><u>\$ 8,479,305</u></b>

**5. NET ASSETS WITH DONOR RESTRICTIONS**

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

Deworm the World Initiative	\$ 50,708,336
Dispensers for Safe Water Program	6,177,056
Evidence Action Accelerator	9,990,160
Organizational Strengthening	<u>10,269,044</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 77,144,596</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:

Deworm the World Initiative	\$ 14,561,477
Dispensers for Safe Water Program	2,430,714
Evidence Action Accelerator	6,899,115
Organizational Strengthening	<u>41,873</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 23,933,179</u></b>



**EVIDENCE ACTION, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**6. LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following at December 31, 2019:

Cash held in the United States	\$ 11,267,546
Cash held in foreign jurisdictions	1,187,706
Investments	63,684,243
Contributions and grants receivable	8,919,199
Accounts, employee, and other receivables	<u>1,642,617</u>
Subtotal financial assets	86,701,311
Less: Donor restricted funds	<u>(77,144,596)</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS  
FOR GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 9,556,715**

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.

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. 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:

<u>Year Ending December 31,</u>	
2020	\$ 408,874
2021	370,801
2022	<u>49,646</u>
	<b><u>\$ 829,321</u></b>

Occupancy costs (including utilities) for the year ended December 31, 2019 totaled \$776,525.

**8. 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, 2019 and 2018 totaled \$313,839 and \$166,231, respectively.

**EVIDENCE ACTION, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**9. DEOBLIGATION AND RETURN OF GRANT FUNDS**

During the year ended December 31, 2019, funders deobligated grant funds of \$632,782 previously awarded to the Organization, which is reflected as an other item in the accompanying Consolidated Statement of Activities and Change in Net Assets.

**10. CONCENTRATION OF REVENUE**

For the year ended December 31, 2019, approximately 44% of the Organization's revenue was derived from grants awarded by three donors. The Organization does not believe that relationships with most of these donors will be discontinued in the foreseeable future. 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. RELATED ENTITIES**

The Organization maintains service agreements with Pramanit Karya India Private Limited (PKIPL) for consulting services. 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, 2019 and 2018, the Organization paid PKIPL \$5,839,888 and \$4,205,366, respectively, for consulting related services.

Evidence Action India Foundation (EAIF) was established in 2018 as a Section 7 Company (under the Companies Act of 2013), limited by guarantee. EAIF'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. The Organization does not maintain significant influence (or exercise control) over EAIF, and therefore, the financial activities are not consolidated in the accompanying financial statements.

**12. PRIOR PERIOD RESTATEMENT**

In previously issued consolidated financial statements, the Organization did not appropriately classify a portion of investment income as with donor restrictions. Correcting this misclassification decreased net assets without donor restrictions and increased net assets with donor restrictions by \$819,241. This correction resulted in the following restatement in the Consolidated Statement of Financial Position at December 31, 2018:

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2018 as previously stated	\$ 6,034,719	\$ 70,000,714	\$ 76,035,433
Reclassification of investment income	<u>(819,241)</u>	<u>819,241</u>	<u>-</u>
<b>BALANCE, DECEMBER 31, 2018 AS RESTATED</b>	<b><u>\$ 5,215,478</u></b>	<b><u>\$ 70,819,955</u></b>	<b><u>\$ 76,035,433</u></b>

**EVIDENCE ACTION, INC. AND AFFILIATES**  
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**13. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 18, 2020, the date the consolidated financial statements were issued.

On March 11, 2020, the World Health Organization (WHO) declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen. Any potential financial or operational impacts from COVID-19 are unknown at this time.

On May 1, 2020, the Organization entered into a two year promissory note agreement in the amount of \$500,000 with a 1% fixed interest rate under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note, unless otherwise forgiven. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part.