

Engineers Without Borders – USA, Inc.

Financial Statements

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Engineers Without Borders – USA, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Engineers Without Borders – USA, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Engineers Without Borders – USA, Inc. as of December 31, 2018 and 2017, 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.

**Board of Directors
Engineers Without Borders – USA, Inc.**

Emphasis of Matters

As discussed in note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Keundinger, Coudra & Congle, P.C.

April 11, 2019

Engineers Without Borders - USA, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 3,983,440	3,288,501
Investments (notes 3 and 4)	2,023,036	1,989,255
Contributions and grants receivable (note 5)	3,585,183	237,222
Membership dues receivable	77,535	90,065
Prepaid expenses and other assets	158,575	137,862
Project advances	225,257	208,869
Funds held on behalf of EWB-I (note 8)	252,107	260,820
Furniture and equipment (note 6)	185,091	273,694
Total assets	\$ 10,490,224	6,486,288
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 120,565	73,584
Accrued personnel costs	199,603	147,721
Deferred revenue	77,545	125,817
Refundable advance	-	200,000
Agency liability (note 8)	252,107	260,820
Total liabilities	649,820	807,942
Net assets (note 9)		
Without donor restrictions:		
Board designated	800,000	-
Undesignated	331,039	252,289
Total net assets without donor restrictions	1,131,039	252,289
With donor restrictions	8,709,365	5,426,057
Total net assets	9,840,404	5,678,346
Commitments (notes 7, 10 and 11)		
Total liabilities and net assets	\$ 10,490,224	6,486,288

See the accompanying notes to the financial statements.

Engineers Without Borders - USA, Inc.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Support			
Contributions	\$ 4,223,594	5,064,672	9,288,266
Grants and contracts	954,505	-	954,505
In-kind project mentor contributions	4,320,000	-	4,320,000
Membership dues	327,735	-	327,735
Conference revenue	151,010	-	151,010
Chapter fees	67,972	-	67,972
Other income	24,647	-	24,647
Investment return (note 3)	45,329	-	45,329
Net assets released from restrictions	1,781,364	(1,781,364)	-
Total revenue, gains and support	<u>11,896,156</u>	<u>3,283,308</u>	<u>15,179,464</u>
Expenses			
Program services:			
Projects	9,071,547	-	9,071,547
Education	364,936	-	364,936
Total program services	<u>9,436,483</u>	<u>-</u>	<u>9,436,483</u>
Supporting services:			
General and administrative	558,478	-	558,478
Fund raising	1,022,445	-	1,022,445
Total supporting services	<u>1,580,923</u>	<u>-</u>	<u>1,580,923</u>
Total expenses	<u>11,017,406</u>	<u>-</u>	<u>11,017,406</u>
Change in net assets	878,750	3,283,308	4,162,058
Net assets at beginning of year	<u>252,289</u>	<u>5,426,057</u>	<u>5,678,346</u>
Net assets at end of year	<u>\$ 1,131,039</u>	<u>8,709,365</u>	<u>9,840,404</u>

See the accompanying notes to the financial statements.

Engineers Without Borders - USA, Inc.
Statement of Activities
Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Gains and Support			
Contributions	\$ 2,674,974	2,366,091	5,041,065
Grants and contracts	485,906	-	485,906
In-kind project mentor contributions	3,561,900	-	3,561,900
Membership dues	337,321	-	337,321
Conference revenue	85,801	-	85,801
Chapter fees	123,651	-	123,651
Other income	42,448	-	42,448
Investment return (note 3)	45,907	-	45,907
Net assets released from restrictions	1,790,460	(1,790,460)	-
Total revenue, gains and support	<u>9,148,368</u>	<u>575,631</u>	<u>9,723,999</u>
Expenses			
Program services:			
Projects	7,637,616	-	7,637,616
Education	283,253	-	283,253
Total program services	<u>7,920,869</u>	<u>-</u>	<u>7,920,869</u>
Supporting services:			
General and administrative	420,822	-	420,822
Fund raising	739,714	-	739,714
Total supporting services	<u>1,160,536</u>	<u>-</u>	<u>1,160,536</u>
Total expenses	<u>9,081,405</u>	<u>-</u>	<u>9,081,405</u>
Change in net assets	66,963	575,631	642,594
Net assets at beginning of year	<u>185,326</u>	<u>4,850,426</u>	<u>5,035,752</u>
Net assets at end of year	<u>\$ 252,289</u>	<u>5,426,057</u>	<u>5,678,346</u>

See the accompanying notes to the financial statements.

Engineers Without Borders - USA, Inc.
Statement of Functional Expenses
Year Ended December 31, 2018

	Program services			Supporting services			Total expenses
	Projects	Education	Total program services	General and administrative	Fund raising	Total supporting services	
Salaries	\$ 1,428,980	-	1,428,980	367,808	477,906	845,714	2,274,694
Payroll taxes	108,460	-	108,460	39,752	29,623	69,375	177,835
Benefits	102,495	-	102,495	45,999	18,480	64,479	166,974
Total salaries and related expenses	1,639,935	-	1,639,935	453,559	526,009	979,568	2,619,503
Project mentors	4,320,000	-	4,320,000	-	-	-	4,320,000
Travel	912,253	35,344	947,597	7,677	25,706	33,383	980,980
Contract services	502,380	83,735	586,115	12,651	315,406	328,057	914,172
Project materials and logistic support	795,635	-	795,635	-	-	-	795,635
Office expense	198,570	13,785	212,355	3,765	107,668	111,433	323,788
Grants	283,314	-	283,314	-	-	-	283,314
Meetings and conventions	48,754	216,706	265,460	5,303	4,190	9,493	274,953
Insurance	158,395	415	158,810	2,238	1,399	3,637	162,447
Depreciation and amortization	56,572	3,143	59,715	18,736	11,714	30,450	90,165
Occupancy	55,328	2,710	58,038	16,154	10,100	26,254	84,292
Licenses and fees	50,210	-	50,210	1,563	-	1,563	51,773
Bank fees	28,987	4,288	33,275	9,470	5,920	15,390	48,665
Professional fees	2,818	-	2,818	18,000	-	18,000	20,818
Printing and copying	5,461	1,364	6,825	-	8,546	8,546	15,371
Dues and subscriptions	2,650	-	2,650	8,290	4,067	12,357	15,007
Postage and delivery	2,804	2,741	5,545	1,072	470	1,542	7,087
Promotional materials	7,481	705	8,186	-	1,250	1,250	9,436
Total expenses	\$ <u>9,071,547</u>	<u>364,936</u>	<u>9,436,483</u>	<u>558,478</u>	<u>1,022,445</u>	<u>1,580,923</u>	<u>11,017,406</u>

See the accompanying notes to the financial statements.

Engineers Without Borders - USA, Inc.
Statement of Functional Expenses
Year Ended December 31, 2017

	Program services			Supporting services			Total expenses
	Projects	Education	Total program services	General and administrative	Fund raising	Total supporting services	
Salaries	\$ 1,176,832	52,617	1,229,449	237,845	378,448	616,293	1,845,742
Payroll taxes	93,846	4,733	98,579	25,804	22,714	48,518	147,097
Benefits	90,148	3,866	94,014	47,458	8,518	55,976	149,990
Total salaries and related expenses	1,360,826	61,216	1,422,042	311,107	409,680	720,787	2,142,829
Project mentors	3,561,900	-	3,561,900	-	-	-	3,561,900
Travel	903,576	6,886	910,462	4,904	11,872	16,776	927,238
Contract services	452,074	55,008	507,082	11,590	148,596	160,186	667,268
Project materials and logistic support	636,717	-	636,717	-	-	-	636,717
Office expense	145,004	17,277	162,281	4,464	113,513	117,977	280,258
Meetings and conventions	30,935	133,320	164,255	1,424	1,064	2,488	166,743
Insurance	149,883	718	150,601	3,970	2,490	6,460	157,061
Grants	112,910	-	112,910	-	-	-	112,910
Depreciation and amortization	72,693	2,576	75,269	21,146	13,262	34,408	109,677
Miscellaneous	79,032	(918)	78,114	(2,768)	10,000	7,232	85,346
Occupancy	58,657	1,703	60,360	13,978	8,767	22,745	83,105
Bank fees	33,239	3,255	36,494	9,521	5,971	15,492	51,986
Professional fees	8,973	-	8,973	24,279	-	24,279	33,252
Licenses and fees	9,459	-	9,459	6,312	1,395	7,707	17,166
Postage and delivery	3,540	366	3,906	2,553	9,565	12,118	16,024
Promotional materials	11,721	1,305	13,026	-	500	500	13,526
Dues and subscriptions	1,800	-	1,800	8,249	2,270	10,519	12,319
Printing and copying	4,677	541	5,218	93	769	862	6,080
Total expenses	\$ 7,637,616	283,253	7,920,869	420,822	739,714	1,160,536	9,081,405

See the accompanying notes to the financial statements.

Engineers Without Borders - USA, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 4,162,058	642,594
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	90,165	109,677
Net realized and unrealized losses (gains) on investments	3,747	(2,208)
(Increase) decrease in operating assets:		
Contributions and grants receivable	(3,347,961)	(156,061)
Membership dues receivable	12,530	33,723
Prepaid expenses and other assets	(20,713)	43,538
Project advances	(16,388)	(46,299)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	46,981	(73,581)
Accrued personnel costs	51,882	(19,176)
Deferred revenue	(48,272)	(28,742)
Refundable advance	(200,000)	200,000
Net cash provided by operating activities	<u>734,029</u>	<u>703,465</u>
Cash flows from investing activities		
Purchases of furniture and equipment	(1,562)	(19,683)
Net (purchases) sales of investments	<u>(37,528)</u>	<u>215,749</u>
Net cash (used in) provided by investing activities	<u>(39,090)</u>	<u>196,066</u>
Net increase in cash and cash equivalents	694,939	899,531
Cash and cash equivalents at beginning of year	<u>3,288,501</u>	<u>2,388,970</u>
Cash and cash equivalents at end of year	<u>\$ 3,983,440</u>	<u>3,288,501</u>

See the accompanying notes to the financial statements.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Organization

Engineers Without Borders - USA, Inc. (EWB-USA) was established in 2002 to connect a developing community with a specific infrastructure need to engineers that can design a solution to that need. EWB-USA's projects seek to address some of the most prevalent challenges facing developing communities, including water purification, sanitation, transportation, renewable energy, and other infrastructure projects.

In addition, EWB-USA provides training and education for its volunteers to ensure that its designs are appropriate and sustainable for the environment in which they are constructed.

EWB-USA has approximately 10,500 volunteers within the USA organized within over 250 student and professional chapters. Some of the student chapters utilize the not-for-profit status of their respective university and therefore, the financial activities of those chapters are not reflected in the EWB-USA's financial statements.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

EWB-USA is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of EWB-USA. These net assets may be used at the discretion of EWB-USA's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of EWB-USA or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. At December 31, 2018 and 2017, there are no net assets with perpetual donor restrictions.

(d) Cash and Cash Equivalents

EWB-USA considers all highly liquid investments with an original maturity of three months or less and not held for long-term purposes to be cash equivalents.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Fair value is determined as more fully described in note 4. Investment gain or loss (including realized and unrealized gains and losses) are included in the change in net assets in the statements of activities.

(f) Concentration of Credit Risk

Financial instruments which potentially subject EWB-USA to concentrations of credit risk consist primarily of cash and cash equivalents, investments, contributions and grants receivable, and membership dues receivable. EWB-USA places its cash and cash equivalents with creditworthy, high-quality financial institutions. At times during the year, a portion of EWB-USA's cash deposits may not be insured by the FDIC or related entity.

EWB-USA has significant investments in debt and equity securities and temporary cash investments and is therefore subject to concentrations of credit risk. Investments are made and monitored by the management of EWB-USA pursuant to an investment policy established by the Board of Directors. Though the market values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of EWB-USA.

Credit risk with respect to contributions and grants receivable and membership dues receivable is limited due to the credit worthiness of the entities that comprise the contributor base.

(g) Contributions and Grants Receivable

Contributions are recognized when cash, securities or other assets, and unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

All donor restricted support, including pledges, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions receivable 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. EWB-USA considers all contributions and grants receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary.

Grant and contract awards generally specify the purpose for which the funds are to be used. Revenue under grant and contract agreements is deemed earned and is reported as revenue when EWB-USA has incurred expenditures or performed services in compliance with the provisions of the grant and contract agreement.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Project Advances

EWB-USA advances money to its members for travel and in-country project expenses that are to take place in the future.

(i) Furniture and Equipment

Furniture and equipment are stated at cost or, if donated, at fair value at date of donation. Expenditures for and contributions of equipment with a fair value greater than \$1,000 are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, ranging from three to ten years.

(j) Donated Goods and Services

Donated goods and services are reflected as contributions and corresponding expenses at their estimated values at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise need to be purchased. During the years ended December 31, 2018 and 2017, in-kind contributions consisted of international project professional services valued at \$4,320,000 and \$3,561,900, respectively.

In addition, numerous volunteers have donated significant amounts of time to EWB-USA's program services. These services did not meet the requirement for recognition in the financial statements and have not been recorded.

(k) Deferred Revenue and Membership Dues

Membership dues which are billed and collected in advance are deferred and recognized as revenue ratably over the membership period. Workshop fees received in advance of the workshop date are recorded as deferred revenue until the workshop occurs. Contract revenue received in advance of the commencement date are recorded as deferred revenue until earned.

The American Society of Civil Engineers (ASCE) collects memberships on behalf of EWB-USA. Memberships received through ASCE have been paid by cash transfers from ASCE to EWB-USA. As of December 31, 2018 and 2016, memberships collected by ASCE resulted in a receivable in the amount of \$77,535 and \$90,065, respectively, and are included in membership dues receivable on the accompanying statements of financial position.

(l) Functional Expense Allocation

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. EWB-USA incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. EWB-USA also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

(n) Income Taxes

EWB-USA is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and qualifies for the charitable contribution deduction. Income from activities not directly related to EWB-USA's tax-exempt purpose is subject to taxation as unrelated business income. EWB-USA is subject to income tax on transportation fringe benefits under the Tax Cut and Jobs Act of 2017. EWB-USA incurred income tax totaling \$385 on these benefits for the year ended December 31, 2018. For the year ended 2017, EWB-USA did not incur taxes for unrelated trade or business income.

Management is required to evaluate tax positions taken by EWB-USA, and to recognize a tax liability if EWB-USA has taken an uncertain position that probably would not be sustained upon examination by taxing authorities. EWB-USA believes it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. EWB-USA is subject to routine audits by tax jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes EWB-USA is no longer subject to income tax examinations for years prior to December 31, 2015.

(o) Subsequent Events

EWB-USA has evaluated subsequent events through April 11, 2019, the date the financial statements were available to be issued.

(p) Not-for-Profit Financial Statement Presentation

During 2018, EWB-USA adopted ASU No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. EWB-USA has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(2) Availability and Liquidity

The following represents EWB-USA's financial assets as of December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 3,983,440
Investments	2,023,036
Contributions and grants receivable	3,585,183
Membership dues receivable	<u>77,535</u>
Total financial assets	9,669,194
Less amounts not available to be used within one year:	
Net assets with donor restrictions	8,709,365
Board designated operating reserve fund	800,000
Contributions receivable expected to be collected within one year	(1,647,527)
Net assets with purposes restrictions expected to be met in one year	<u>(997,339)</u>
Total amounts not available to be used within one year	6,864,499
Financial assets available to meet expenditures over the next twelve months	\$ <u>2,804,695</u>

At December 31, 2018, the Board designated \$800,000 of the 2018 surplus as an operating reserve (see note 9). While EWB-USA does not intend to spend the operating reserve fund, it could be made available for current operations, if needed.

Management has estimated that net assets with purpose and time restrictions expected to be met within one year total \$2,644,866. This estimate is based on projects expected to be completed, budgeted expenditures for the next year, and contributions receivable expected to be collected in the next year.

As part of EWB-USA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds, CDs, and other short-term investments. To help manage liquidity, EWB-USA maintains a \$250,000 line of credit with a bank that is drawn upon as needed to manage cash flows. At December 31, 2018, no amounts are outstanding under this line of credit.

(3) Investments

Investments are stated at their fair values and consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Fixed income ETF	\$ 1,305,539	\$ -
Corporate debt securities	-	1,267,307
Certificates of deposit	649,505	647,947
Mutual funds	63,831	69,801
Equity securities	<u>4,161</u>	<u>4,200</u>
Total	\$ <u>2,023,036</u>	\$ <u>1,989,255</u>

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(3) Investments, Continued

Investment return is summarized below for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 49,076	\$ 43,699
Realized and unrealized net investment gains (losses)	<u>(3,747)</u>	<u>2,208</u>
Net investment return	<u>\$ 45,329</u>	<u>\$ 45,907</u>

(4) Fair Value Measurements

EWB-USA reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require EWB-USA to classify these financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, cash and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in EWB-USA's financial statements.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(4) Fair Value Measurements, Continued

The following table summarizes EWB-USA's investments by the above fair value hierarchy levels as of December 31, 2018:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income ETF	\$ 1,305,539	1,305,539	-	-
Certificates of deposit	649,505	-	649,505	-
Mutual funds	63,831	63,831	-	-
Equity securities	<u>4,161</u>	<u>4,161</u>	-	-
Total investments	<u>\$ 2,023,036</u>	<u>1,373,531</u>	<u>649,505</u>	<u>-</u>

The following table summarizes EWB-USA's investments by the above fair value hierarchy levels as of December 31, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate debt securities	\$ 1,267,307	-	1,267,307	-
Certificates of deposit	647,947	-	647,947	-
Mutual funds	69,801	69,801	-	-
Equity securities	<u>4,200</u>	<u>4,200</u>	-	-
Total investments	<u>\$ 1,989,255</u>	<u>74,001</u>	<u>1,915,254</u>	<u>-</u>

All assets have been valued using a market based approach, except for Level 2 assets. The fair value of investments in marketable equity securities and mutual funds is based upon market values and other observable inputs. The fair value of corporate debt securities is determined by quoted market prices for similar assets or liabilities in active markets, as determined by the custodians of the securities. The fair value of certificates of deposit is based on current interest rates for debt instruments with similar characteristics, as estimated by the custodians of the securities. There were no changes in the valuation techniques during the current year. EWB-USA recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

(5) Contributions and Grants Receivable

Contributions and grants receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 3,445,964	-
Grants receivable	<u>139,219</u>	<u>237,222</u>
Total contributions and grants receivable	<u>\$ 3,585,183</u>	<u>237,222</u>
Amounts due in:		
Less than one year	\$ 1,785,183	237,222
One to five years	<u>1,800,000</u>	<u>-</u>
Total contributions and grants receivable	<u>\$ 3,585,183</u>	<u>237,222</u>

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(6) Furniture and Equipment

Furniture and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$ 10,151	10,932
Furniture and equipment	62,463	63,703
Leasehold improvements	99,997	99,997
Website and software costs	<u>425,667</u>	<u>508,561</u>
	598,278	683,193
Less accumulated depreciation and amortization	<u>(413,187)</u>	<u>(409,499)</u>
	<u>\$ 185,091</u>	<u>273,694</u>

(7) Leases

EWB-USA leases office space and equipment under operating leases that expire through May 31, 2023. The office lease is subject to a 3% rent escalator increase beginning January of each year. Rent expense related to these leases totaled \$77,739 and \$72,500 for the years ended December 31, 2018 and 2017. Minimum future lease payments under these lease agreements are as follows for the years ending December 31:

2019	\$ 87,549
2020	90,025
2021	92,576
2022	95,203
2023	<u>47,703</u>
	<u>\$ 413,056</u>

(8) Agency Liability

EWB-USA collects and distributes assets on behalf of Engineers Without Borders-International (EWB-I). During the year ended December 31, 2018, EWB-USA received contributions and membership dues totaling \$310,553 for the benefit of EWB-I and paid grants and other expenses of \$319,266 through this agency arrangement. During the year ended December 31, 2017, EWB-USA received contributions and membership dues totaling \$486,338 for the benefit of EWB-I and paid grants and other expenses of \$615,951 through this agency arrangement. The remaining benefit to EWB-I at December 31, 2018 and 2017 totals \$252,107 and \$260,820, respectively, and is reflected as a liability in the statements of financial position.

Engineers Without Borders–USA, Inc.
Notes to Financial Statements, Continued

(9) Net Assets

Net Assets Without Donor Restrictions

During 2018, EWB-USA’s board of directors elected to designate \$800,000 of its net assets without donor restrictions as an operating reserve.

Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Student and professional chapters and international projects	\$ 4,405,035	4,736,710
Tyler Palmer fund	78,006	86,308
Future operations	3,446,338	315,000
General operating support for specific chapters	<u>779,986</u>	<u>288,039</u>
	<u>\$ 8,709,365</u>	<u>5,426,057</u>

During 2018 and 2017, net assets with donor restrictions totaling \$1,781,364 and \$1,790,460, respectively, were released from restrictions by incurring expenses satisfying the restricted purposes or the passage of time.

(10) Line of Credit

EWB-USA has a \$250,000 revolving line of credit with a bank. Under the terms of the agreement, EWB-USA is required to maintain on deposit with the bank a compensating balance of \$500,000, which is included in cash and cash equivalents in the accompanying statements of financial position. The line of credit agreement expires on August 24, 2020. Borrowings on the line bear interest at the one-month London Interbank Offered Rate (“LIBOR”) plus 5.84%. At December 31, 2018 and 2017, no amounts were outstanding on the line.

(11) Pension Plan

EWB-USA sponsors an employee 401(k) profit sharing plan which covers all employees. EWB-USA makes a discretionary contribution each year equal to a percentage of each eligible participant’s contributions. EWB-USA made matching contributions totaling \$61,124 and \$56,665, respectively, for the years ended December 31, 2018 and 2017.