

NONPROFIT INVESTOR

INDEPENDENT RESEARCH FOR PHILANTHROPY

charity: water

Nonprofit Investor Rating:

BUY

Mission Statement

Charity: water is a non-profit organization bringing clean and safe drinking water to people in developing nations.

Financial Overview

\$ in MM, Fiscal Year Ended December 31

	2009	2010	2011
Revenue and Support	\$8.8	\$15.8	\$26.9
Operating Expenses	\$6.7	\$11.6	\$21.2
% of Total:			
Program Expenses	82.1%	81.5%	87.3%
G&A	5.7%	8.4%	5.5%
Fundraising	12.3%	10.1%	7.2%

Year Founded: 2006

Contact Details

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SUMMARY

Charity: water provides clean drinking water to residents of the developing world by partnering with on-the-ground organizations to build wells and to train the local population to maintain them.

STRENGTHS

▲ **Demonstrated Impact.** Since 2006, Charity: water has funded the construction of nearly 7,000 wells worldwide, providing clean water to an estimated 2.4 million people.

▲ **Rigorous Accountability.** Charity: water's "dollars to projects" program provides GPS coordinates and photos of all completed wells, allow donors to better see the impact they've generated.

▲ **Consistent Growth.** Charity: water is well funded with consistent revenue growth since inception, and the rate of growth is increasing.

▲ **Transparency.** Charity: water exhibits a high level of transparency in tracking donor dollars and in demonstrating return on investment. The organization publishes regular annual reports, and presents its Form 990s and executive salaries clearly on its website.

▲ **Separate Administrative Budget.** All administrative activities of charity: water are funded by a small group of private donors, allowing all other donations to go directly to program activities. This provides for increased transparency for donors.

CAUTIONS

● **Increasing Cost of Wells.** The cost to construct a well has increased over the last three years from \$4,500 to \$7,600. This could be due to recent capacity building initiatives, but may also reflect a change in geographic mix or a recent decrease in efficiency.

● **Lack of impact studies.** Charity: water cites a UNESCO study indicating that every \$1 invested in the water supply yields up to \$12 for the local economy. However, more targeted impact studies based on CW activities would be useful in order to maximize ROI.

RECOMMENDATION: BUY

Currently in its sixth year, charity: water has posted an impressive track record in terms of transparency, effectiveness, and financial strength. The organization has been growing steadily with consistently demonstrated impact.

History

Charity: water was founded in 2006 by Scott Harrison, a former New York nightlife promoter, following a volunteer trip to Liberia. The first iteration of charity: water was simple: to help a refugee camp in Northern Uganda complete a series of wells that would provide clean water to residents. Scott solicited donations from his friends and family at his 30th birthday party, and followed this fundraising a month later with free photo exhibitions to raise awareness and gather donations. In 2007, the organization funded 378 water projects across 9 countries – all focused on providing clean and potable water to people in need. Charity: water funded another 988 water projects in 2008, and expanded into four additional countries. By 2009, the organization had brought clean water to over a million people while also implementing new fundraising tactics. Through 2011, charity: water had funded approximately 7,000 water projects, providing 2.4 million people with clean water across 19 countries.

Program overview

In many areas throughout the developing world, people have no immediate access to clean water. Instead, they live miles from the closest source and must walk hours each day with heavy containers in order to have any water to drink at all. This responsibility of water collection is often assigned to women and children, who not only must endure the dangers associated with the trek to collect water, but also lose valuable time that could be spent in school or working. Additionally, in many regions of the world, even once water is accessed, it is often not clean. Unclean water can play host to a variety of bacteria, including e. coli and salmonella, which can lead to sickness and death. With their developing immune systems, children are especially vulnerable.

Combined, the overall effects of water insecurity are enormous. It is estimated to cause over 1.5 million preventable deaths each year, and in Africa alone (where charity: water is most focused), it causes economic loss amounting to 5% of the continent's GDP each year. But with these disturbing figures comes room to make an impact: UNESCO expects that one dollar invested in water security has a return of between \$3 and \$34 dollars.

Consequently, charity: water has focused on a singular operational goal and function since inception: building and maintaining wells that provide clean water in a variety of developing countries (in 2011, the country that received the most financial investment from charity: water was Ethiopia with \$8.5MM). In each country, charity: water works directly with local partners based out of the respective host countries to construct and maintain wells. Currently, charity: water maintains relationships with 16 partners. These partners are responsible for the actual construction of the wells and education of the local community, due to their integration into and understanding of the culture, as well as their project experience in the target region. Meanwhile, charity: water provides fundraising, awareness, and accountability.

Consequently, this arrangement leads to a high level of reliance on partner efficiency, and charity: water has a number of controls in place to ensure that it is working with the most effective organizations. In particular, it only selects organizations that have a staff that includes water experts, accountants, auditors, and program evaluators, and that have an exceptional track record of work in the designated area. Charity: water then follows up on the work done by these partner organizations by sending staff and photographers to all completed wells to ensure that the project was built according to high standards, and that the local population is educated on use and maintenance.

Costs for these operations vary widely across countries due to a range of factors including labor costs, infrastructure on the ground, and economies of scale. As of 2011, the cheapest projects were in Bangladesh, at a cost of \$1,900/well, and the most expensive were in Guatemala, where projects cost an average of \$56,000/well. In addition to directly funding the building and maintenance of wells, charity: water has recently begun pursuing "capacity building" initiatives – investments to increase the efficiency of partner organizations. The most notable example of this was the purchase of

two drilling rigs: these rigs can each drill 160 wells per year much more efficiently than preceding methods, and are a key part of the organization's continued growth.

Staff and support

In 2007, one year after inception, charity: water had a small staff of four people. By the end of 2011, the staff numbered 30 - approximately 90% growth each year (notably, staff growth has nearly exactly mirrored the average yearly revenue growth of 93%/year). The CEO compensation in 2011 was approximately \$165,000, and compensation of other executive positions ranged from \$85,000 to \$120,000 – figures that tend to be somewhat lower than similar organizations based in New York City. Overall, the staff makes an average salary of \$65,000 per person, but there is no consistent trend for this figure: it has ranged from a low of \$55,000 in 2009 to a high of \$70,000 in 2010.

In addition to full-time paid staff, charity: water also makes use of interns and volunteer workers, which outnumber full-time staff members. In 2011 the organization selected 32 interns out of a pool of 640 applicants. Interns manage communications with volunteers and corporate partners, and support fundraising efforts. Volunteers are even more numerous – in 2011, the organization's 615 volunteers helped complete a variety of labor intensive tasks ranging from building exhibitions to mailing donation receipts. Interns and volunteers are a key part of charity: water operations, and volunteering is one of the ways interested youth can be involved in charity: water's mission.

Endorsements and media coverage

Charity: water has actively sourced celebrity endorsements as a way of advertising its mission, leading to a long list of celebrities that have voiced support for the organization. In particular, Justin Bieber held a campaign for his fans to donate to the organization to celebrate his birthday, and Will and Jada Smith also ran a similar campaign. The organization has also been cited repeatedly by *New York Times* columnist Nicolas Kristof as a standard-bearer for transparency, and has been covered by media sources including USA Today, The Wall Street Journal, and the Huffington Post. Recently, the organization was mentioned by U.S. President Barack Obama as an example of an organization doing "good work".

PROGRAM RESULTS AND EFFECTIVENESS

At its core, charity: water's impact-tracking strategy is fairly simple and relies heavily on cameras and GPS. Each time a well is built, charity: water attains a photo of the well and detailed GPS coordinates. This documentation of each project is made public via the charity: water website so that donors can actually see the wells that have been built with their monetary contributions. Additionally, these site visits and photos are a key part of how charity: water can evaluate and track the progress of local partner organizations.

Through 2011, charity: water had funded the construction of 6,994 wells across 20 countries, via relationships with 21 local partners (16 of which charity: water currently still maintains), and had helped an estimated cumulative 2.4 million people gain access to clean water. In 2011 alone, they brought clean water to an estimated 752,000 people, a 15% increase from the previous year.

Unfortunately, charity: water does not provide access to any external studies quantifying the impact and benefit of the wells on beneficiaries, and there is a lack of any longitudinal research researching the wells' social impact to

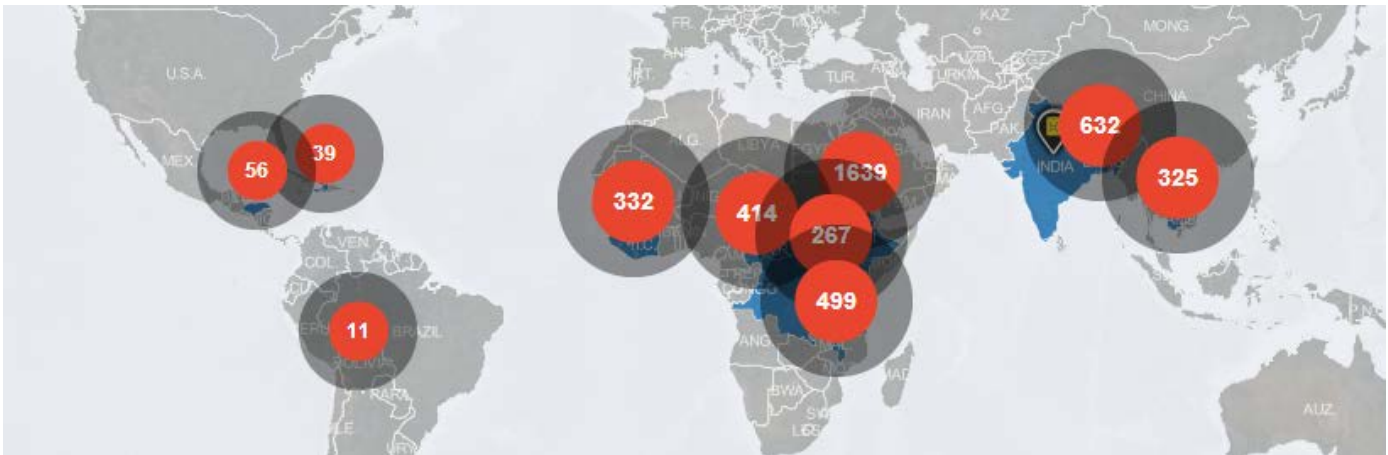
beneficiaries to ascertain how lives are impacted (due in part to the relative youth of the organization). Moving forward, such studies would be useful in evaluating the value of the services the organization provides.

However, while it would be helpful to see additional research on impact and effectiveness, high-level results are encouraging and it is evident that donations are, in fact, causing a positive impact for communities in need – and charity: water provides the information necessary for any external reviewer to visit sites and see results for themselves, thus lending credibility to the effort.

TRANSPARENCY

Charity: water's dedication to transparency is readily apparent and has been since inception, and is a key driver of NPI's **BUY** rating. Each year, the organization releases an audited report along with its Form 990 (the auditor is Lambrides, Lamos, Taylor LLP), and makes these documents easily accessible on the website. This allows donors to have a clear understanding of the operation's funding and expenses. The organization also releases a salary survey each year detailing the salaries of key personnel, and demonstrates how these salaries compare to average compensation in the nonprofit industry. Finally, charity: water publishes an annual report each year. These reports provide useful context on the financial information, and clearly illustrate the organization's activities and strategic goals.

In addition to clearly accessible financial and strategic information, charity: water goes above and beyond traditional reporting standards by making it possible for donors to observe how their dollars were used. This is called "Dollars to Projects", and allows teams that raise money to receive photos of the wells for which their funds were used, as well as GPS coordinates of the well location. Charity: water also maintains a page on its website that shows the GPS coordinates of all funded water projects on a customized Google Map – clearly exhibiting where funds are used and allowing for external assessment:

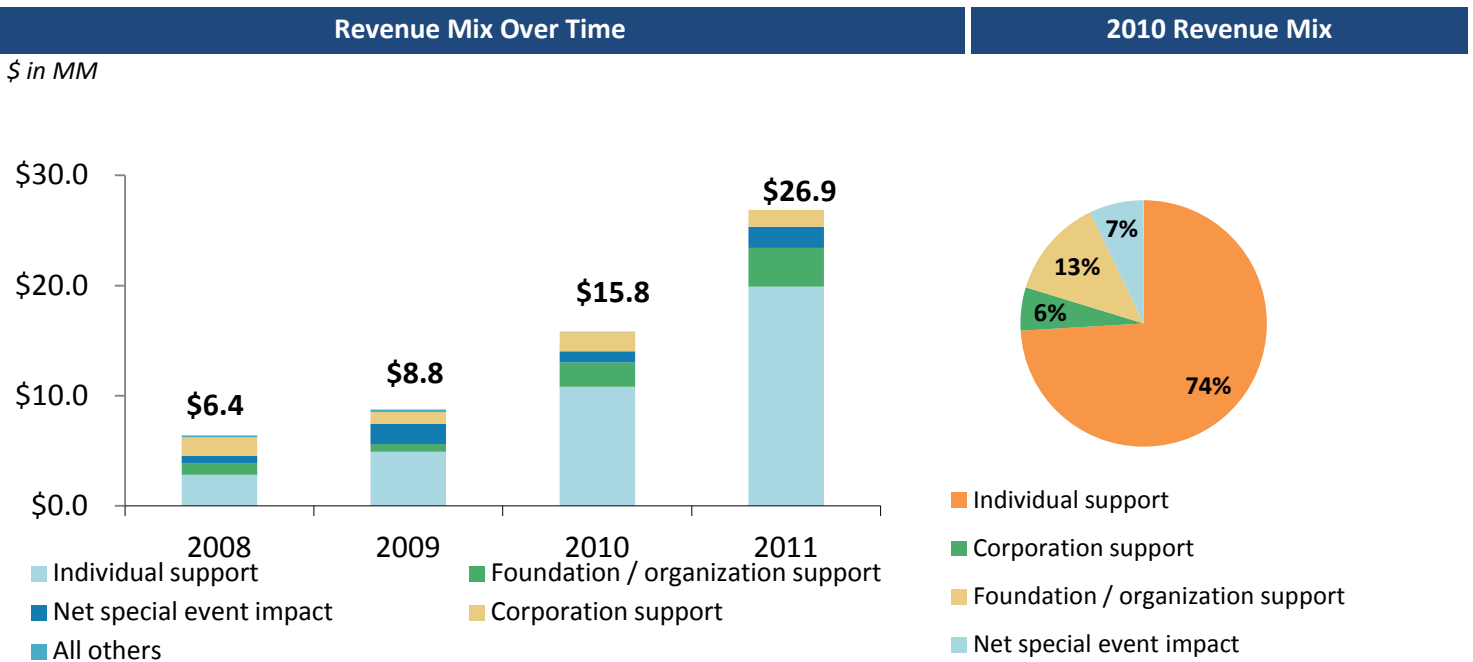


Finally, charity: water was very forthcoming and open when contacted for NPI for the purpose of this report. Michael Letta, the Chief Financial Officer, made time available for inquiries, and answered all questions fully and clearly.

FINANCIAL OVERVIEW

Charity: water's transparent reporting of financials reveals a strongly-managed organization with financial strength and sustainability, a third key driver of NPI's **BUY** rating. This is clear both in revenue trends as well as the organization's management of expenses.

Revenue



Charity: water raises funds through three primary channels: private donations, an event called the "charity: ball", and support from foundations and corporations.

Donations from individuals are the largest source of funding, and account for 74% of total revenue. In 2011, over 170,000 individuals donated to the organization, including donations as small as \$0.01. NPI believes this large and diversified base of small donations lowers exposure to funding risk, a favorable trait for a nonprofit organization.

A unique aspect of charity: water's fundraising efforts is its "100% model", whereby all administrative and fundraising activities are funded by a small group of private donors. As such, 100% of all other donations received can then be directed towards program activities rather than administrative or fundraising activities. This small group of private donors is termed "The Well", and in 2011 they covered 56% of the operating and fundraising costs (other donors, including the board, covered the remaining 44%). In 2011, there were 86 members who made up The Well, each donating at least \$12,000 to the organization. It is notable that even within The Well, funding is concentrated – the top 9 Well members contribute 70% of overall Well funding. While this does heighten exposure to the risk of a few Well members ceasing donations and threatening continued growth, the operational reserves that CW has built up largely mitigate this concern. Additionally, employment of the 100% model makes for great marketing, and incentivizes increased funding and provides for enhanced donor transparency.

The majority of all other individual donations are sourced through an innovative fundraising model called "mycharity: water". This tool allows interested individuals to set up their own fundraisers to source donations from their friends and families. In 2011, there were nearly 100,000 individuals that donated through mycharity: water campaigns. Mycharity: water campaigns can be directed to fund a specific water project, and once the project is complete, the campaign receives photographic proof of the well they supported, along with GPS coordinates. Additionally, the organization promotes the use of "Birthday campaigns", where supportive individuals can set up a mycharity: water campaign for donations in lieu of birthday presents.

The second main source of funding is the annual charity: ball, inaugurated in 2007. At this yearly event, the organization's work is presented and a live auction is hosted. Additionally, the Ball includes a "Waterwalk", where guests try walking with full jerry cans of water, as many people in developing countries must do. This Ball brings in significant funding – in 2011, the event raised \$2,100,000 from the 2,200 guests that attended (approximately 7% of total revenues). Additionally, the overall costs associated with hosting the Ball are low – charity: water receives a significant amount of gifts-in-kind to support the event, ranging from logistical support to event space.

The third source of revenue is support from foundations and corporations, which make up 7% and 6% of all revenue respectively. Some of the major foundations that support the organization are the Bilger Foundation, the Heritage Mark Foundation, the Provision Foundation, and the Mortimer D. Sackler Foundation. Major corporate donors include Macallan, Toms Shoes, and Gilt Groupe. Support from foundations has been growing over the recent years as the organization gains prominence, while corporation support has stayed relatively constant on an absolute dollar basis, with little growth.

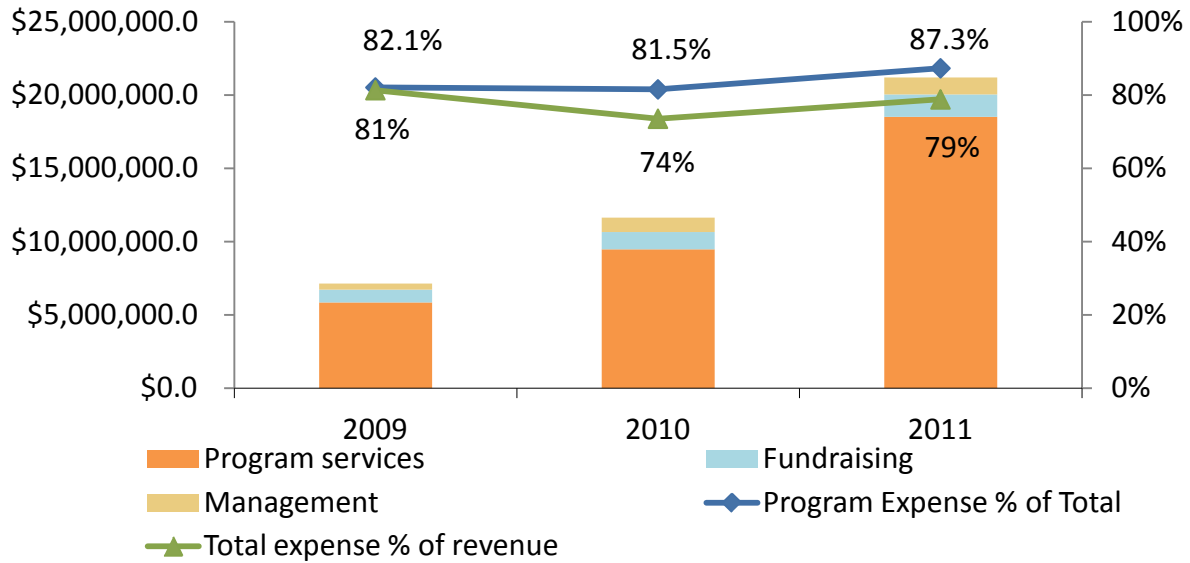
In conclusion, when examining revenue overall, all trends are encouraging. At a high-level, charity: water has seen robust revenue growth over the last five years, growing from \$1MM of revenue in 2006, to more than \$26MM of revenue in 2011. Revenue has increased year-over-year at a rate that constantly exceeds 40%, and this growth rate is increasing. It is also worth noting that this consistent growth continued throughout the recent financial crisis and economic slowdown, when many similar organizations lost significant funding.

Furthermore, we believe that the breakdown of the revenue among the sources mentioned above provides a healthy base for future growth. Most notably, the diversified set of individuals that fund 74% of all revenue reduces the impact any one donor will have on organization growth. As such, NPI believes that charity: water's annual revenue stream is relatively low risk and likely will continue to grow as the charity gains exposure and rewards donors with clear impact and transparency.

Expenses

Expense Breakout Over Time

\$ in MM

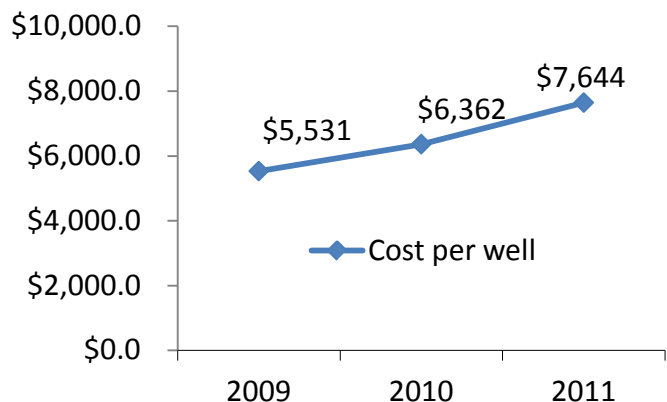


On the expense side, charity: water also shows positive high-level results, as well as one cost trend that causes caution.

87% of total expenses in 2011 went to program activities – a figure that is in line with traditionally high-impact charities (the other two main buckets, operations and fundraising took up 5.5% and 7.2% of total donations respectfully). Notably, 87% is higher than any of the preceding three years, where program expenses ranged from 81% to 83% of all expenses. Additionally, each year, total expenses fall between 70% to 85% of total revenues. In 2011, this figure was 79% - a small increase from the 74% the year before, but still below the historic high of 85% in 2008. All of these figures are reassuring that the organization is spending prudently.

However, one trend does suggest concern, and it is the rising cost of program activities. Each year, starting in 2008, the average cost per well drilled has increased on the previous year's figure by an average of 20%. In 2008, the organization spent \$4.4MM dollars and drilled 988 wells – implying an average cost of \$4,500 per well. In contrast, in 2011, the organization spent \$18.5MM to support the building of 2,421 wells – leading to an average cost of \$7,644 per well. Using the same method, the estimated cost per beneficiary increased from \$14 in 2009 to \$25 in 2011. The reasons for these increasing costs are unclear, but may reflect the impact of recent "capacity building initiatives" noted above. However, we would look to see this trend stabilize and reverse in the 2012 financials and following years.

Cost per well



In summary, charity: water's financials show cause for confidence in the organization's ability to prudently deploy in a sustainable and impactful manner, but moving forward it is important that the organization maintains efficiency in selecting and drilling wells.

Detailed Financial Statements (GAAP Basis)

Fiscal Year Ended December 31

	2009	2010	2011
Revenue and Expenses			
Operating Revenue:			
Individual support	\$4,909,593	\$10,818,740	\$19,901,178
Corporation support	1,064,073	1,751,960	1,524,321
Foundation / organization support	705,310	2,211,945	3,524,938
Special event contributions	1,839,879	1,063,369	1,976,618
Special event ticket sales	58,108	76,640	247,360
Special event direct benefit to donor	(64,226)	(139,817)	(304,970)
Interest and other income	25,617	33,486	34,651
Other	231,573	(2,012)	0
Total Support and Revenues	\$8,769,927	\$15,814,311	\$26,904,096
% Growth	36.7%	80.3%	70.1%
Expenses:			
Program Services total:	5,851,668	9,478,973	18,505,476
Water program funding	5,439,218	\$8,609,576	\$17,646,927
Salaries, employee benefits, and taxes	\$212,611	522,282	645,245
Professional fees	48,702	81,602	63,836
Travel, meals, and meetings	63,437	88,184	101,528
Rent, utilities, and cleaning	10,693	14,642	14,983
Communication, printing, and postage	11,586	13,847	9,128
Bank charges, merchant, and credit card fees	0	0	\$0
Office equipment and supplies	60,262	53,207	\$15,984
All other	5,159	95,633	7,845
Management and general total	404,671	972,439	1,166,703
Water program funding	\$0	\$0	\$0
Salaries, employee benefits, and taxes	138,765	461,710	\$419,490
Professional fees	77,028	110,096	\$200,886
Travel, meals, and meetings	33,236	20,625	\$36,060
Rent, utilities, and cleaning	22,317	53,686	\$48,695
Communication, printing, and postage	16,679	50,773	\$29,665
Bank charges, merchant, and credit card fees	62,061	157,806	\$260,462
Office equipment and supplies	43,818	96,465	\$51,948
All other	10,767	21,278	119,497
Development total	875,407	1,175,462	\$1,528,984
Water program funding	\$0	\$0	\$0
Salaries, employee benefits, and taxes	529,585	706,204	\$904,670
Professional fees	55,654	105,176	\$223,710
Travel, meals, and meetings	30,845	59,667	\$76,384
Rent, utilities, and cleaning	35,980	39,044	\$44,949
Communication, printing, and postage	52,606	36,925	\$68,710
Bank charges, merchant, and credit card fees	0	0	\$0
Office equipment and supplies	76,264	75,972	\$148,710
All other	94,473	152,474	61,851
Total Expenses:	\$6,719,296	\$11,626,874	\$21,201,163
% of Revenue	76.6%	73.5%	78.8%
Increase in Net Assets from Operations	\$2,050,631	\$4,187,437	\$5,702,933
Donated goods, services, facilities - revenue	155,701	498,621	1,624,843
Donated goods, services, facilities - expenses	(155,701)	(498,621)	(1,624,843)
Loss on disposal of equipment	(43,074)	0	(6,725)
Change in Assets	\$2,007,557	\$4,187,437	\$5,696,208
KEY BALANCE SHEET INFORMATION			
Cash and Cash Equivalents	\$6,297,744	\$10,095,966	\$17,784,114
Contributions and pledges receivable, net	\$1,232,190	\$3,153,452	\$5,968,903
Prepaid and other current assets	\$108,051	\$109,729	\$125,564
Fixed assets (net of accumulated depreciations)	\$99,720	\$166,893	\$228,806
Expenses by Function ([GAAP or Tax] Accounting Basis)			
Program services	\$5,851,668	\$9,478,973	\$18,505,476
Management	404,671	972,439	1,166,703
Development	875,407	1,175,462	1,528,984
Total Expenses	\$7,131,746	\$11,626,874	\$21,201,163
Program Costs as a % of Total Expenses	82.1%	81.5%	87.3%
G&A as a % of Total Expenses	5.7%	8.4%	5.5%
Fundraising as a % of Total Expenses	12.3%	10.1%	7.2%

KEY PERSONNEL BIOS

Scott Harrison – Founder and CEO

"In 2004, Scott served as a photojournalist for Mercy Ships in Liberia, West Africa, where he learned the life-threatening effects of contaminated water. Upon moving back to his home in New York City in 2006, he founded charity: water."

Christoph Gorder – President

"Christoph grew up in the Central African Republic and Nigeria, where getting clean water is still a dream for millions. He's spent the last 15 years at AmeriCares, bringing medicine, medical supplies and healthcare to people in crisis around the world. Christoph joined charity: water to lead our programs, run day-to-day operations, and help us maximize our efficiency and impact worldwide."

Michael Letta – Chief Financial Officer

"Michael has more than 10 years of experience in non-profit, private industry and public accounting. His drive for meaningful work led him straight to charity: water, where he now manages and supports our innovative accounting and operations staff."

OTHER THIRD PARTY RATINGS

- Charity Navigator rates charity: water 4 out of 4 stars.
- GreatNonprofits rates charity: water 4.8 out of 5 stars based on 5 user reviews.
- Philanthropedia.
 - Strengths include: Transparency, marketing, capacity building, and leadership
 - Areas of improvement include: Better collaboration with partners in the field

Charity: water is not currently covered by GiveWell.

GET INVOLVED

There are a variety of ways for interested individuals to get involved with charity: water:

Fundraising:

- **Make a donation** – by far the easiest way to get involved, charity: water accepts donations from the public via credit card or pay pal
- **Please your birthday** – Charity: water supports individuals in asking for donations instead of birthday gifts – a tradition that extends back to the early days of the organization
- **Start a mycharity: water campaign** – Individuals can run a customer built campaign complete with webpage

Volunteering: Charity: water maintains an active list of volunteers, both in New York City and worldwide. Volunteers are called upon to assist with a variety of tasks ranging from assisting in event set-up to maintaining a social media presence.

Individuals can also request a charity: water representative to speak at an event.

DISCLOSURES

Luke Pryor certifies that he does not have any affiliation with charity: water and has never made a donation to the organization. Additionally, Luke Pryor has not supported directly competing organizations in a greater capacity than a nominal donation. NPI analysts and NPI as an organization do not receive any form of compensation from reviewed charities.

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