

Living Water International

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2006 and 2005

Independent Auditors' Report

To the Board of Directors of
Living Water International:

We have audited the accompanying statements of financial position of Living Water International (LWI) as of December 31, 2006 and 2005 and the related statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of the management of LWI. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LWI as of December 31, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 11, 2007

Living Water International

Statements of Financial Position as of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 2,451,716	\$ 837,982
Accounts receivable	62,100	3,305
Pledges receivable	542,001	248,519
Prepaid expenses and other assets	81,237	86,026
Note receivable (<i>Note 3</i>)	390,380	
Property and equipment, net (<i>Note 4</i>)	<u>275,304</u>	<u>217,276</u>
TOTAL ASSETS	<u>\$ 3,802,738</u>	<u>\$ 1,393,108</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 183,821	\$ 138,419
Deferred government grant revenue	258,219	6,000
Notes payable (<i>Note 5</i>)	<u>541,736</u>	<u>172,486</u>
Total liabilities	<u>983,776</u>	<u>316,905</u>
Net assets:		
Unrestricted	1,879,849	855,461
Temporarily restricted (<i>Note 6</i>)	<u>939,113</u>	<u>220,742</u>
Total net assets	<u>2,818,962</u>	<u>1,076,203</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,802,738</u>	<u>\$ 1,393,108</u>

See accompanying notes to financial statements.

Living Water International

Statement of Activities for the year ended December 31, 2006

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 7</i>)	\$ 1,686,793	\$ 3,858,455	\$ 5,545,248
Special events	1,437,643		1,437,643
Government grants	431,005		431,005
Training fees	35,833		35,833
Other income	10,924		10,924
Total revenue	<u>3,602,198</u>	<u>3,858,455</u>	<u>7,460,653</u>
Net assets released from restrictions:			
Program expenditures	<u>3,140,084</u>	<u>(3,140,084)</u>	
Total	<u>6,742,282</u>	<u>718,371</u>	<u>7,460,653</u>
EXPENSES:			
Program expenses:			
Water well programs	4,212,067		4,212,067
Medical ministries	225,223		225,223
Training and hygiene	<u>95,725</u>		<u>95,725</u>
Total program expenses (<i>Note 8</i>)	<u>4,533,015</u>		<u>4,533,015</u>
Management and general	<u>477,990</u>		<u>477,990</u>
Fundraising:			
Special events	56,585		56,585
Direct donor benefits	43,513		43,513
Other fundraising	<u>606,791</u>		<u>606,791</u>
Total fundraising	<u>706,889</u>		<u>706,889</u>
Total expenses	<u>5,717,894</u>		<u>5,717,894</u>
CHANGES IN NET ASSETS	1,024,388	718,371	1,742,759
Net assets, beginning of year	<u>855,461</u>	<u>220,742</u>	<u>1,076,203</u>
Net assets, end of year	<u>\$ 1,879,849</u>	<u>\$ 939,113</u>	<u>\$ 2,818,962</u>

See accompanying notes to financial statements.

Living Water International

Statement of Activities for the year ended December 31, 2005

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 7</i>)	\$ 1,579,619	\$ 3,525,006	\$ 5,104,625
Special events	653,294		653,294
Government grants	232,972		232,972
Training fees	42,380		42,380
Other income	<u>25,929</u>		<u>25,929</u>
Total revenue	2,534,194	3,525,006	6,059,200
Net assets released from restrictions:			
Program expenditures	<u>3,443,491</u>	<u>(3,443,491)</u>	
Total	<u>5,977,685</u>	<u>81,515</u>	<u>6,059,200</u>
EXPENSES:			
Program expenses:			
Water well programs	3,304,389		3,304,389
Medical ministries	1,306,699		1,306,699
Training and hygiene	<u>74,397</u>		<u>74,397</u>
Total program expenses (<i>Note 8</i>)	<u>4,685,485</u>		<u>4,685,485</u>
Management and general	<u>353,900</u>		<u>353,900</u>
Fundraising:			
Special events	43,024		43,024
Direct donor benefits	35,691		35,691
Other fundraising	<u>389,802</u>		<u>389,802</u>
Total fundraising	<u>468,517</u>		<u>468,517</u>
Total expenses	<u>5,507,902</u>		<u>5,507,902</u>
CHANGES IN NET ASSETS	469,783	81,515	551,298
Net assets, beginning of year	<u>385,678</u>	<u>139,227</u>	<u>524,905</u>
Net assets, end of year	<u>\$ 855,461</u>	<u>\$ 220,742</u>	<u>\$ 1,076,203</u>

See accompanying notes to financial statements.

Living Water International

Statement of Functional Expenses for the year ended December 31, 2006

<u>EXPENSES</u>	<u>WATER WELL PROGRAMS</u>	<u>MEDICAL MINISTRIES</u>	<u>TRAINING AND HYGIENE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Program grants	\$ 2,695,070	\$ 225,223		\$ 2,920,293			\$ 2,920,293
Salaries and related benefits	593,361		\$ 41,693	635,054	\$ 311,230	\$ 318,265	1,264,549
Travel, meals, and lodging	563,562		33,787	597,349	6,409	75,627	679,385
Materials and supplies	119,868		13,600	133,468	17,973	41,028	192,469
Donor acquisition	4,901			4,901		118,726	123,627
Contract labor	57,981		2,750	60,731	7,882	14,379	82,992
Leases and rentals	28,355			28,355	10,241	19,672	58,268
Professional and consulting	6,835		580	7,415	33,001	16,713	57,129
Depreciation	28,120			28,120	12,373	12,374	52,867
Printing and reproduction	14,374		1,310	15,684	4,727	20,608	41,019
Telephone	21,008			21,008	7,074	7,056	35,138
Insurance	13,193		1,023	14,216	4,561	7,960	26,737
Interest and finance charges					26,691		26,691
License permits and fees	23,155			23,155	385	449	23,989
Dues and subscriptions	8,524			8,524	6,008	8,878	23,410
Postage and shipping	6,849		150	6,999	1,808	11,764	20,571
Utilities	8,463		400	8,863	5,000	5,000	18,863
Repairs and maintenance	7,882		302	8,184	3,611	3,171	14,966
Credit card and bank fees	8,081		130	8,211	3,488	1,772	13,471
Advertising						2,940	2,940
Other	2,485			2,485	15,528	20,507	38,520
Total expenses	<u>\$ 4,212,067</u>	<u>\$ 225,223</u>	<u>\$ 95,725</u>	<u>\$ 4,533,015</u>	<u>\$ 477,990</u>	<u>\$ 706,889</u>	<u>\$ 5,717,894</u>

See accompanying notes to financial statements.

Living Water International

Statement of Functional Expenses for the year ended December 31, 2005

<u>EXPENSES</u>	<u>WATER WELL PROGRAMS</u>	<u>MEDICAL MINISTRIES</u>	<u>TRAINING AND HYGIENE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Program grants	\$ 2,290,077	\$ 1,306,699		\$ 3,596,776			\$ 3,596,776
Salaries and related benefits	399,624			399,624	\$ 174,560	\$ 259,905	834,089
Travel, meals, and lodging	399,864		\$ 44,737	444,601	19,493	62,529	526,623
Materials and supplies	84,095		17,221	101,316	37,166	46,351	184,833
Donor acquisition						5,671	5,671
Contract labor	38,451		6,799	45,250	24,712	2,305	72,267
Leases and rentals	9,667			9,667	11,775	11,340	32,782
Professional and consulting	21,433			21,433	17,070	14,616	53,119
Depreciation	19,166			19,166	9,583	9,583	38,332
Printing and reproduction	7,929		353	8,282	7,063	11,481	26,826
Telephone	8,373		84	8,457	8,162	6,236	22,855
Insurance	3,497		601	4,098	4,726	6,042	14,866
Interest and finance charges					11,346		11,346
Dues and subscriptions	2,042			2,042	8,965	2,861	13,868
Postage and shipping	3,524		309	3,833	3,845	6,664	14,342
Utilities	1,070		650	1,720	1,609	1,609	4,938
Repairs and maintenance	7,047		3,643	10,690	7,368	6,147	24,205
Credit card and bank fees					6,157	4,096	10,253
Advertising						4,291	4,291
Other	8,530			8,530	300	6,790	15,620
Total expenses	<u>\$ 3,304,389</u>	<u>\$ 1,306,699</u>	<u>\$ 74,397</u>	<u>\$ 4,685,485</u>	<u>\$ 353,900</u>	<u>\$ 468,517</u>	<u>\$ 5,507,902</u>

See accompanying notes to financial statements.

Living Water International

Statements of Cash Flows for the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,742,759	\$ 551,298
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	52,867	38,332
Contributions of property and equipment	(5,185)	(40,227)
Loss on disposal of property and equipment		12,052
Changes in operating assets and liabilities:		
Accounts receivable	(58,795)	12,912
Pledges receivable	(293,482)	(173,970)
Prepaid expenses and other assets	4,789	(21,916)
Accounts payable and accrued expenses	45,402	43,319
Deferred government grant revenue	<u>252,219</u>	
Net cash provided by operating activities	<u>1,740,574</u>	<u>421,800</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for note receivable	(390,380)	
Purchase of property and equipment	(52,216)	(107,152)
Proceeds from the sale of property and equipment	<u>2,000</u>	
Net cash used by investing activities	<u>(440,596)</u>	<u>(107,152)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	482,365	80,890
Repayments of notes payable	<u>(168,609)</u>	<u>(68,404)</u>
Net cash provided by financing activities	<u>313,756</u>	<u>12,486</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,613,734	327,134
Cash and cash equivalents, beginning of year	<u>837,982</u>	<u>510,848</u>
Cash and cash equivalents, end of year	<u>\$ 2,451,716</u>	<u>\$ 837,982</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$24,460	\$11,346
Equipment purchased with a note payable	\$57,000	

See accompanying notes to financial statements.

Living Water International

Notes to Financial Statements for the years ended December 31, 2006 and 2005

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Living Water International (LWI) was organized as a Texas nonprofit corporation in 1990. LWI exists to demonstrate the love of God by providing desperately needed clean water and medical attention, along with the Living Water of the Gospel of Jesus Christ, which alone satisfies the deepest thirst. LWI's services are provided in developing countries. The goal is to provide services by establishing independent non-profit organizations in the country being served. In countries where LWI has not yet established a relationship with a non-profit organization, LWI provides support to individuals or groups who work to further the ministries. Support is then provided to that organization through grants of cash, equipment, or supplies.

Tax status – LWI is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and 170(b)(1)(A)(vi).

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Cash equivalents include highly liquid investments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable at December 31, 2006 are due within one year.

Property and equipment is stated at cost, if purchased, or at estimated fair value at the date of the gift, if donated. Property and equipment purchases over \$5,000 are capitalized. Depreciation is calculated on a straight line basis over estimated useful lives of 5 to 7 years.

Fees for service – Government grant revenue and training fees are recognized in the period in which the related services are provided. Amounts received for future training sessions or unexpended government grant advances are included in financial statements as deferred revenue.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Contributed materials and services are recorded at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and

fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Grants made are recorded as expense when LWI approves an unconditional commitment to a grant recipient. Conditional grants are recorded in the same manner when the conditions are substantially met by the recipient or when the possibility that the conditions will not be met is deemed remote. Grants payable in more than one year are recorded at the present value of their future cash outflows using a risk-free rate of return. Commitments made but not yet funded are recorded as grants payable.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenues and expenses, and the allocation of expenses among functions. Actual results could vary from the estimates that were used.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 610,206	\$ 837,982
Money market funds	<u>1,841,510</u>	<u> </u>
Total cash and cash equivalents	<u>\$ 2,451,716</u>	<u>837,982</u>

At times, bank deposits exceed the federally insured limit of \$100,000 per depositor per institution.

NOTE 3 – NOTE RECEIVABLE

During 2006, LWI entered into a note receivable with Living Water International-Kenya for approximately \$390,000 collateralized by equipment and to be repaid over 10 years.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2006</u>	<u>2005</u>
Drilling equipment	\$ 205,312	\$ 149,580
Office and computer equipment	117,843	92,243
Vehicles	70,865	43,953
Furniture and fixtures	<u>24,919</u>	<u>23,869</u>
Total property and equipment, at cost	418,939	309,645
Accumulated depreciation	<u>(143,635)</u>	<u>(92,369)</u>
Property and equipment, net	<u>\$ 275,304</u>	<u>\$ 217,276</u>

NOTE 5 – NOTES PAYABLE AND COMMITMENTS

Notes payable consist of the following:

	<u>2006</u>	<u>2005</u>
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments of \$10,000 beginning June 2008, with an interest rate of 5.47%, due June 2017.	\$ 200,000	
Note payable to the Overseas Private Investment Corporation payable in semi-annual installment of \$10,000 beginning June 2007, with an interest rate of 5.72%, due June 2016.	200,000	
Note payable to an individual for equipment, payable in monthly installments of \$1,000, with an interest rate of 4.7%.	46,964	
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments of \$16,667, with an interest rate of 6.76%, due July 2007.	33,334	\$ 66,667
Interest free loan from board member.		50,000
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments of \$10,000, with an interest rate of 5%, due July 2007.	20,000	40,000
Note payable to finance company for equipment, payable in monthly installments through 2009, with an interest rate of approximately 4%.	9,697	
Note payable to finance company for equipment, payable in monthly installments through 2007, with an interest rate of approximately 3.5%.	8,806	
Note payable to finance company for equipment, payable in monthly installments through 2007, with an interest rate of approximately 10%.	<u>22,935</u>	<u>15,819</u>
Total	<u>\$ 541,736</u>	<u>\$ 172,486</u>

Principal payments at December 21, 2006 are scheduled to be paid as follows:

2007	\$ 120,789
2008	57,248
2009	53,484
2010	53,625
2011	46,067
Thereafter	<u>210,523</u>
Total	<u>\$ 541,736</u>

NOTE 6 – TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Water well projects	\$ 808,269	\$ 161,939
Building projects	59,651	
Faith support	21,538	
Training facilities	16,000	
Disaster relief	8,655	
Mission support		58,803
Future periods	<u>25,000</u>	
Total temporarily restricted net assets	<u>\$ 939,113</u>	<u>\$ 220,742</u>

NOTE 7 – NON-CASH CONTRIBUTIONS

LWI recognized the following non-cash contributions as revenue and program expense:

	<u>2006</u>	<u>2005</u>
Medical supplies	\$ 199,481	\$ 1,288,655
Equipment for water projects	69,397	40,227
Other	<u>7,180</u>	
Total non-cash contributions	<u>\$ 276,058</u>	<u>\$ 1,328,882</u>

NOTE 8 – EXPENDITURES IN DEVELOPING COUNTRIES

LWI provides services in developing countries by providing support to independent non-profit organizations that have missions and goals similar to those of LWI. A list of these affiliated non-profit organizations is as follows:

<u>Country</u>	<u>Name of Organizations</u>
Angola	By Provisions
Central African Republic	Integrated Community Development International
El Salvador	Agua Viva Internacional
Ethiopia	Kale Hewitt Church Water Program
Ghana	APF/Living Waters Ministries/African Assistance Plan
Honduras	Agua Viva Internacional
India	Living Water
Kenya	Living Water International – Kenya/Serve International
Liberia	Living Water International – Liberia
Nigeria	Relief Network Ministries
Panama	Federacion of Christian Medical Social (FCMS)
Peru	Association Civil Living Water International
Romania	East Lifewater
Rwanda	Living Water International - Rwanda
Uganda	Divine Waters/Life Giving Water
Zambia	Water for the Oppressed

Program expenses by country are as follows:

	<u>2006</u>	<u>2005</u>
Kenya	\$ 842,416	\$ 793,580
Liberia	659,748	309,806
El Salvador	479,063	577,263
United States (training conferences)	471,592	366,877
Guatemala	292,351	228,776
Nicaragua	236,312	226,368
Honduras	222,914	387,803
Ethiopia	199,475	247,265
Peru	131,350	107,044
Rwanda	119,578	
Central Africa Republic	105,472	264,205
Mexico	105,226	218,768
Zambia	98,910	
Angola	72,118	40,490
Romania	68,832	48,148
Haiti	66,127	29,230
India	65,434	248,198
Panama	59,838	255,769
Nigeria	44,214	34,638
Jamaica	42,240	
Sudan	41,541	162,646
Ghana	39,068	11,537
Tanzania	26,346	33,486
Uganda	24,652	89,251
Congo	6,723	
Indonesia	6,362	
Brazil	4,843	
Argentina	236	
Kyrgyzstan	34	
Dominican Republic		3,563
Chad		774
Total	<u>\$ 4,533,015</u>	<u>\$ 4,685,485</u>

NOTE 9 – SUBSEQUENT EVENTS

Subsequent to December 31, 2006, LWI agreed to purchase a building for approximately \$2,100,000. The purchase is financed with cash and a bank loan for \$1,000,000 that is secured by first lien on the building.
