

**Living Water International**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2008 and 2007

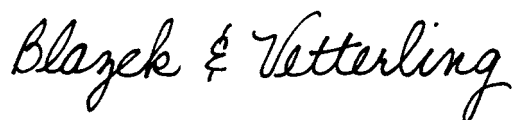
## Independent Auditors' Report

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, 2008 and 2007 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, 2008 and 2007 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.



May 28, 2009

# Living Water International

Statements of Financial Position as of December 31, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents ( <i>Note 3</i> )	\$ 3,356,372	\$ 1,989,942
Accounts receivable	37,700	133,821
Pledges receivable ( <i>Note 4</i> )	2,164,371	791,604
Prepaid expenses and other assets	242,601	268,735
Note receivable		336,768
Property and equipment, net ( <i>Note 5</i> )	<u>2,874,505</u>	<u>2,924,936</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,675,549</u></b>	<b><u>\$ 6,445,806</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 462,560	\$ 459,462
Accrued expenses	115,438	79,920
Other liabilities	29,875	41,511
Notes payable ( <i>Note 6</i> )	<u>338,669</u>	<u>391,713</u>
Total liabilities	<u>946,542</u>	<u>972,606</u>
Net assets:		
Unrestricted	4,469,934	4,197,618
Temporarily restricted ( <i>Note 7</i> )	<u>3,259,073</u>	<u>1,275,582</u>
Total net assets	<u>7,729,007</u>	<u>5,473,200</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,675,549</u></b>	<b><u>\$ 6,445,806</u></b>

*See accompanying notes to financial statements.*

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# Living Water International

Statement of Activities for the year ended December 31, 2008

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Contributions ( <i>Note 9</i> )	\$ 5,048,747	\$ 8,425,780	\$13,474,527
Special events	1,679,847	128,107	1,807,954
Government grants	27,741		27,741
Rental income	137,036		137,036
Training fees	51,003		51,003
Other income	<u>37,450</u>		<u>37,450</u>
Total revenue	6,981,824	8,553,887	15,535,711
Net assets released from restrictions:			
Program expenditures	<u>6,570,396</u>	<u>(6,570,396)</u>	
Total	<u>13,552,220</u>	<u>1,983,491</u>	<u>15,535,711</u>
<b>EXPENSES:</b>			
Program expenses:			
Water well programs	11,094,973		11,094,973
Training and hygiene	<u>124,908</u>		<u>124,908</u>
Total program expenses ( <i>Note 10</i> )	<u>11,219,881</u>		<u>11,219,881</u>
Management and general	<u>704,546</u>		<u>704,546</u>
Fundraising:			
Direct donor benefits	86,373		86,373
Other fundraising	<u>1,269,104</u>		<u>1,269,104</u>
Total fundraising	<u>1,355,477</u>		<u>1,355,477</u>
Total expenses	<u>13,279,904</u>		<u>13,279,904</u>
CHANGES IN NET ASSETS	272,316	1,983,491	2,255,807
Net assets, beginning of year	<u>4,197,618</u>	<u>1,275,582</u>	<u>5,473,200</u>
Net assets, end of year	<u>\$ 4,469,934</u>	<u>\$ 3,259,073</u>	<u>\$ 7,729,007</u>

*See accompanying notes to financial statements.*

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# Living Water International

Statement of Activities for the year ended December 31, 2007

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Contributions ( <i>Note 9</i> )	\$ 2,553,977	\$ 6,679,381	\$ 9,233,358
Special events	1,067,134	700,000	1,767,134
Government grants	715,257		715,257
Rental income	108,843		108,843
Training fees	40,415		40,415
Other income	81,047		81,047
	<u>4,566,673</u>	<u>7,379,381</u>	<u>11,946,054</u>
Net assets released from restrictions:			
Program expenditures	4,838,924	(4,838,924)	
Property and equipment purchases	<u>2,203,988</u>	<u>(2,203,988)</u>	
Total	<u>11,609,585</u>	<u>336,469</u>	<u>11,946,054</u>
<b>EXPENSES:</b>			
Program expenses:			
Water well programs	7,452,404		7,452,404
Training and hygiene	114,561		114,561
Medical ministries	<u>57,659</u>		<u>57,659</u>
Total program expenses ( <i>Note 10</i> )	<u>7,624,624</u>		<u>7,624,624</u>
Management and general	<u>611,634</u>		<u>611,634</u>
Fundraising:			
Direct donor benefits	68,307		68,307
Other fundraising	<u>987,251</u>		<u>987,251</u>
Total fundraising	<u>1,055,558</u>		<u>1,055,558</u>
Total expenses	<u>9,291,816</u>		<u>9,291,816</u>
CHANGES IN NET ASSETS	2,317,769	336,469	2,654,238
Net assets, beginning of year	<u>1,879,849</u>	<u>939,113</u>	<u>2,818,962</u>
Net assets, end of year	<u>\$ 4,197,618</u>	<u>\$ 1,275,582</u>	<u>\$ 5,473,200</u>

*See accompanying notes to financial statements.*

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## Living Water International

### Statement of Functional Expenses for the year ended December 31, 2008

<u>EXPENSES</u>	<u>WATER WELL PROGRAMS</u>	<u>TRAINING AND HYGIENE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Water projects and other programs	\$ 7,414,151		\$ 7,414,151			\$ 7,414,151
Salaries and related benefits	1,192,434	\$ 65,531	1,257,965	\$ 455,633	\$ 723,209	2,436,807
Travel, meals, and lodging	1,126,729	31,829	1,158,558	9,657	205,218	1,373,433
Materials and supplies	510,311	20,418	530,729	33,623	54,214	618,566
Professional fees	95,707		95,707	51,122	125,352	272,181
Contract labor	164,098	1,200	165,298	9,043	40,089	214,430
License permits and fees	90,544		90,544	29,166	44,649	164,359
Depreciation	79,104		79,104	26,419	26,568	132,091
Postage and shipping	97,288	581	97,869	6,989	16,091	120,949
Repairs and maintenance	72,274	300	72,574	16,076	9,722	98,372
Printing and reproduction	12,291	4,011	16,302	4,291	57,903	78,496
Insurance	59,555	1,011	60,566	6,247	8,799	75,612
Leases and rentals	61,543	27	61,570	7,313	5,972	74,855
Telephone	42,403		42,403	7,467	18,377	68,247
Utilities	30,291		30,291	16,314	11,347	57,952
Interest and finance charges				20,092		20,092
Dues and subscriptions	5,341		5,341	4,963	3,473	13,777
Other	40,909		40,909	131	4,494	45,534
Total expenses	<u>\$11,094,973</u>	<u>\$ 124,908</u>	<u>\$11,219,881</u>	<u>\$ 704,546</u>	<u>\$ 1,355,477</u>	<u>\$13,279,904</u>

*See accompanying notes to financial statements.*

## Living Water International

### Statement of Functional Expenses for the year ended December 31, 2007

<u>EXPENSES</u>	<u>WATER WELL PROGRAMS</u>	<u>TRAINING AND HYGIENE</u>	<u>MEDICAL MINISTRIES</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Water projects and other programs	\$ 4,979,924			\$ 4,979,924			\$ 4,979,924
Salaries and related benefits	752,470	\$ 35,739		788,209	\$ 345,549	\$ 390,099	1,523,857
Travel, meals, and lodging	853,215	33,714		886,929	4,856	70,299	962,084
Materials and supplies	197,518	42,418	\$ 57,659	297,595	22,076	34,522	354,193
Professional fees	35,764			35,764	53,225	43,855	132,844
Contract labor	146,242	133		146,375			146,375
License permits and fees	90,728	40		90,768	24,892	4,009	119,669
Depreciation	47,281			47,281	40,806	19,141	107,228
Postage and shipping	84,124	229		84,353	3,022	14,718	102,093
Repairs and maintenance	20,765	667		21,432	13,727	4,456	39,615
Printing and reproduction	23,151	201		23,352	4,837	28,780	56,969
Insurance	35,017	1,420		36,437	3,884	6,330	46,651
Leases and rentals	101,720			101,720	8,490	6,523	116,733
Telephone	41,437			41,437	5,776	10,604	57,817
Utilities	23,693			23,693	10,345	7,891	41,929
Interest and finance charges					63,488		63,488
Dues and subscriptions	6,500			6,500	2,850	4,137	13,487
Direct mail and related expenses						409,810	409,810
Other	12,855			12,855	3,811	384	17,050
Total expenses	<u>\$ 7,452,404</u>	<u>\$ 114,561</u>	<u>\$ 57,659</u>	<u>\$ 7,624,624</u>	<u>\$ 611,634</u>	<u>\$ 1,055,558</u>	<u>\$ 9,291,816</u>

*See accompanying notes to financial statements.*

## Living Water International

Statements of Cash Flows for the years ended December 31, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 2,255,807	\$ 2,654,238
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	132,091	107,228
Contributions restricted for building purchase		(2,203,988)
Contributions of property and equipment		(5,500)
Forgiveness of notes receivable	336,768	
Changes in operating assets and liabilities:		
Accounts receivable	96,121	(71,721)
Pledges receivable	(1,372,767)	(249,603)
Prepaid expenses and other assets	26,134	(187,498)
Accounts payable	3,098	358,156
Accrued expenses	35,518	38,916
Other liabilities	(11,636)	
Deferred government grant revenue		(258,219)
Net cash provided by operating activities	<u>1,501,134</u>	<u>182,009</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(81,660)	(2,725,360)
Proceeds from collection of note receivable		<u>53,612</u>
Net cash used by investing activities	<u>(81,660)</u>	<u>(2,671,748)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	26,990	1,035,859
Repayments of notes payable	(80,034)	(1,211,882)
Proceeds of contributions restricted for building purchase		<u>2,203,988</u>
Net cash provided (used) by financing activities	<u>(53,044)</u>	<u>2,027,965</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,366,430</b>	<b>(461,774)</b>
Cash and cash equivalents, beginning of year	<u>1,989,942</u>	<u>2,451,716</u>
Cash and cash equivalents, end of year	<u>\$ 3,356,372</u>	<u>\$ 1,989,942</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$20,092	\$65,720
Equipment purchased with a note payable		\$26,000
Contribution of marketable securities	\$157,000	\$832,000

*See accompanying notes to financial statements.*

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# Living Water International

Notes to Financial Statements for the years ended December 31, 2008 and 2007

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## 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 health and hygiene training, 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.

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 that are expected to be collected after one year are discounted to estimate the present value of future cash flows, if material.

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.

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.

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.

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to current year presentations.

## NOTE 2 – FAIR VALUE MEASUREMENTS

Effective January 1, 2008, LWI adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. Fair value is the price that would be received to sell assets or paid to transfer a liability in an orderly transaction between market participants at the reporting date. SFAS 157 establishes a three-tier hierarchy that prioritizes the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.
- *Level 3* – Pricing inputs include those that are from objective sources and are generally less observable. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

The inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security.

Assets measured at fair value at December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 2,380,930	_____	_____	\$ 2,380,930
Total	<u>\$ 2,380,930</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,380,930</u>

### NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
Demand deposits	\$ 975,442	\$ 735,515
Money market funds	<u>2,380,930</u>	<u>1,254,427</u>
Total cash and cash equivalents	<u>\$ 3,356,372</u>	<u>\$ 1,989,942</u>

Bank deposits exceed the federally insured limits per depositor per institution.

### NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2008 are expected to be collected as follows:

2009	\$ 1,471,948
2010	415,741
2011	<u>276,682</u>
Total pledges receivable	<u>\$ 2,164,371</u>

### NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 310,000	\$ 310,000
Building and improvements	2,401,313	2,353,567
Drilling equipment	225,815	225,815
Office and computer equipment	116,174	116,062
Vehicles	89,593	70,865
Furniture and fixtures	<u>111,405</u>	<u>96,331</u>
Total property and equipment, at cost	3,254,300	3,172,640
Accumulated depreciation	<u>(379,795)</u>	<u>(247,704)</u>
Property and equipment, net	<u>\$ 2,874,505</u>	<u>\$ 2,924,936</u>

## NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2008</u>	<u>2007</u>
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 5.47%, due June 2017.	\$ 157,894	\$ 178,947
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 5.72%, due June 2016.	157,894	178,947
Other equipment financing arrangements.	<u>22,881</u>	<u>33,819</u>
Total	<u>\$ 338,669</u>	<u>\$ 391,713</u>

Principal payments at December 31, 2008 are scheduled to be paid as follows:

2009	\$ 55,988
2010	51,103
2011	42,106
2012	42,106
2013	42,106
Thereafter	<u>105,260</u>
Total	<u>\$ 338,669</u>

## NOTE 7 – TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Water well projects	\$ 2,620,784	\$ 1,269,773
Time restricted	638,289	
Other	<u>                    </u>	<u>5,809</u>
Total temporarily restricted net assets	<u>\$ 3,259,073</u>	<u>\$ 1,275,582</u>

## NOTE 8 – CONCENTRATION

In 2008, LWI received contributions from two donors totaling approximately \$3,000,000, which represented 21% of contribution revenue.

## NOTE 9 – NON-CASH CONTRIBUTIONS

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

	<u>2008</u>	<u>2007</u>
Equipment for water projects	\$ 81,770	\$ 56,923
Medical supplies	34,010	12,059
Office equipment	23,162	21,044
Other	<u>13,435</u>	<u>10,350</u>
Total non-cash contributions	<u>\$ 152,377</u>	<u>\$ 100,376</u>

## NOTE 10 – 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 non-profit organizations is as follows:

<u>Country</u>	<u>Name of Organizations</u>
Angola	By Provision
Brazil	Amazon Charities
Central African Republic	Integrated Community Development International
El Salvador	Agua Viva Internacional
Ethiopia	Kale Heywet Church Water Program
Ghana	APF/Living Waters Ministries/African Assistance Plan
Haiti	New Life Missions International
Honduras	Agua Viva Internacional
India	Sampurn Development India and Living Water India
Kenya	Living Water International – Kenya/Serve International
Liberia	Living Water International – Liberia
Malawi	Child Legacy
Mexico	Living Water Internacional, Puebla
Namibia	By Provision
Nigeria	Relief Network Ministries
Panama	Federacion of Christian Medical Social (FCMS)
Peru	Tommy Head Peru Ministries
Romania	East Lifewater
Rwanda	Living Water International – Rwanda
Uganda	Divine Waters/Life Giving Water/LWI Uganda
Zambia	Water for the Oppressed/LWI Zambia

Program expenses by country are as follows:

	<u>2008</u>	<u>2007</u>
Liberia	\$ 1,380,745	\$ 570,575
Kenya	1,111,820	1,164,098
United States	837,131	522,729
Rwanda	826,119	932,013
Central Africa Republic	800,758	493,407
Honduras	600,659	368,941
Ethiopia	583,643	99,702
El Salvador	534,940	567,314
Nicaragua	446,218	304,128
Mexico	401,342	264,653
India	381,527	239,793
Haiti	355,661	166,372
Sierra Leone	338,451	29,281
Peru	337,847	290,881
Guatemala	330,228	348,576
Sudan	292,272	228,711
Uganda	252,269	173,697
Namibia	220,795	74,641
Zambia	220,110	
Malawi	181,975	
Nigeria	178,008	173,149
Tanzania	174,398	225,650
Angola	136,095	77,820
Ghana	135,118	123,201
Romania	75,940	46,795
Brazil	56,154	67,696
Central Asia	18,149	
Indonesia	2,423	46,164
Other	<u>9,086</u>	<u>24,637</u>
Total	<u>\$11,219,881</u>	<u>\$ 7,624,624</u>

#### **NOTE 11 – RELATED PARTY TRANSACTIONS**

LWI entered into a contracting agreement with a vendor with payments totaling approximately \$58,000 in 2008 where the principal contractor is a family member of the executive director of LWI.