

Living Water International

Consolidated Financial Statements
and Independent Auditors' Report
for the eighteen months ended June 30, 2017
and the year ended December 31, 2015

Living Water International

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Independent Auditors' Report

To the Board of Directors of
Living Water International:

We have audited the accompanying financial statements of Living Water International and subsidiaries (Living Water), which comprise the consolidated statements of financial position as of June 30, 2017 and December 31, 2015 and the related consolidated statements of activities, of functional expenses, and of cash flows for the eighteen months and the year 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.

Auditors' Responsibility

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 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 auditors' 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 consolidated financial position of Living Water as of June 30, 2017 and December 31, 2015 and the changes in its net assets and its cash flows for the eighteen months and the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. We were unable to apply certain limited procedures to this information in accordance with auditing standards generally accepted in the United States of America. Therefore, we do not express an opinion or provide any assurance on that financial information.

Blazek & Vetterling

November 2, 2017

Living Water International

Consolidated Statements of Financial Position as of June 30, 2017 and December 31, 2015

	JUNE 30 <u>2017</u>	DECEMBER 31 <u>2015</u>
ASSETS		
Cash	\$ 1,190,653	\$ 2,565,289
Investments (Note 4)	2,441,918	3,165,994
Prepaid expenses and other assets	647,043	678,504
Pledges receivable	294,843	1,523,368
Property and equipment, net (Note 5)	<u>5,469,479</u>	<u>4,379,213</u>
 TOTAL ASSETS	 <u>\$ 10,043,936</u>	 <u>\$ 12,312,368</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 638,849	\$ 459,244
Accrued payroll and related benefits expense	798,273	760,311
Deferred revenue	<u>66,376</u>	<u>377,141</u>
Total liabilities	<u>1,503,498</u>	<u>1,596,696</u>
Net assets:		
Unrestricted (Note 7)	7,884,148	7,964,684
Temporarily restricted (Note 8)	<u>656,290</u>	<u>2,750,988</u>
Total net assets	<u>8,540,438</u>	<u>10,715,672</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 10,043,936</u>	 <u>\$ 12,312,368</u>

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the eighteen months ended June 30, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 11,024,812	\$ 20,052,729	\$ 31,077,541
Special events	3,508,725		3,508,725
Water program contracts	2,402,896		2,402,896
Training fees and other income	109,908		109,908
Investment return, net <i>(Note 4)</i>	<u>56,906</u>		<u>56,906</u>
Total revenue	17,103,247	20,052,729	37,155,976
Net assets released from restrictions:			
Program expenditures	21,947,427	(21,947,427)	
Expiration of time restrictions	<u>200,000</u>	<u>(200,000)</u>	
Total	<u>39,250,674</u>	<u>(2,094,698)</u>	<u>37,155,976</u>
EXPENSES:			
Program expenses <i>(Note 10)</i> :			
WASH* and Christian Witness	26,413,333		26,413,333
Short-term mission trips	<u>5,363,580</u>		<u>5,363,580</u>
Total program expenses	31,776,913		31,776,913
Management and general	2,826,689		2,826,689
Fundraising	5,241,457		5,241,457
Direct donor benefit costs of special events	<u>304,933</u>		<u>304,933</u>
Total expenses	<u>40,149,992</u>		<u>40,149,992</u>
Changes in net assets before other changes	(899,318)	(2,094,698)	(2,994,016)
OTHER CHANGES IN NET ASSETS:			
Consolidation of affiliates <i>(Note 3)</i>	229,727		229,727
Transfers of property and equipment to new entities <i>(Note 3)</i>	<u>589,055</u>		<u>589,055</u>
CHANGES IN NET ASSETS	(80,536)	(2,094,698)	(2,175,234)
Net assets, beginning of year	<u>7,964,684</u>	<u>2,750,988</u>	<u>10,715,672</u>
Net assets, end of year	<u>\$ 7,884,148</u>	<u>\$ 656,290</u>	<u>\$ 8,540,438</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the year ended December 31, 2015

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 7,940,327	\$ 12,513,195	\$ 20,453,522
Special events	2,701,932	1,150,000	3,851,932
Water program contracts	1,927,837		1,927,837
Training fees and other income	69,234		69,234
Investment return, net (<i>Note 4</i>)	<u>16,039</u>		<u>16,039</u>
Total revenue	12,655,369	13,663,195	26,318,564
Net assets released from restrictions:			
Program expenditures	12,830,792	(12,830,792)	
Expiration of time restrictions	<u>179,500</u>	<u>(179,500)</u>	
Total	<u>25,665,661</u>	<u>652,903</u>	<u>26,318,564</u>
EXPENSES:			
Program expenses (<i>Note 10</i>):			
WASH* and Christian Witness	16,743,285		16,743,285
Short-term mission trips	<u>3,636,127</u>		<u>3,636,127</u>
Total program expenses	20,379,412		20,379,412
Management and general	1,879,339		1,879,339
Fundraising	2,921,331		2,921,331
Direct donor benefit costs of special events	<u>274,159</u>		<u>274,159</u>
Total expenses	<u>25,454,241</u>		<u>25,454,241</u>
CHANGES IN NET ASSETS	211,420	652,903	864,323
Net assets, beginning of year	<u>7,753,264</u>	<u>2,098,085</u>	<u>9,851,349</u>
Net assets, end of year	<u>\$ 7,964,684</u>	<u>\$ 2,750,988</u>	<u>\$ 10,715,672</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Functional Expenses for the eighteen months ended June 30, 2017

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>SHORT-TERM MISSION TRIPS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING AND DIRECT DONOR BENEFIT COSTS</u>	<u>TOTAL EXPENSES</u>
Salaries and related benefits	\$ 9,649,987	\$ 1,019,729	\$10,669,716	\$ 2,169,429	\$ 3,130,439	\$15,969,584
Travel, meals, and lodging	1,665,707	3,989,082	5,654,789	186,160	254,022	6,094,971
Water drilling and equipment project costs	4,119,459	35,721	4,155,180			4,155,180
Contract labor	3,566,895	40,878	3,607,773	13,741	361,116	3,982,630
Materials and supplies	2,182,214	31,499	2,213,713			2,213,713
Professional fees	444,087	267	444,354	120,325	914,954	1,479,633
Depreciation	1,146,668	20,913	1,167,581	67,060	26,455	1,261,096
Repairs and maintenance	890,470	42,696	933,166	8,983	14,271	956,420
Leases and rentals	440,361	68,049	508,410	6,112	17,451	531,973
Office supplies	342,063	19,060	361,123	38,701	76,968	476,792
License permits and fees	257,373	7,340	264,713	12,033	161,364	438,110
Education and training	386,974	4,729	391,703	35,886	8,822	436,411
Insurance	321,641	25,682	347,323	34,264	51,396	432,983
Partner support for hygiene and Church Mobilization and Gospel Proclamation	341,075		341,075			341,075
Printing and reproduction	93,835	18,410	112,245	3,535	210,758	326,538
Telephone	226,252	9,254	235,506	26,869	38,694	301,069
Venue rental and food for special event					169,754	169,754
Dues and subscriptions	69,815		69,815	52,969	22,361	145,145
Utilities	86,207	18,587	104,794	14,576	21,864	141,234
Postage and shipping	65,831	10,224	76,055	4,298	43,739	124,092
Grants for WASH programs	75,000		75,000			75,000
Advertising and promotion	39,992		39,992		20,785	60,777
Other	1,427	1,460	2,887	31,748	1,177	35,812
Total expenses	<u>\$26,413,333</u>	<u>\$ 5,363,580</u>	<u>\$31,776,913</u>	<u>\$ 2,826,689</u>	<u>\$ 5,546,390</u>	<u>\$40,149,992</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Functional Expenses for the year ended December 31, 2015

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>SHORT-TERM MISSION TRIPS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING AND DIRECT DONOR BENEFIT COSTS</u>	<u>TOTAL EXPENSES</u>
Salaries and related benefits	\$ 5,909,815	\$ 829,447	\$ 6,739,262	\$ 1,362,811	\$ 1,845,937	\$ 9,948,010
Travel, meals, and lodging	1,129,490	2,568,868	3,698,358	138,004	152,625	3,988,987
Water drilling and equipment project costs	3,816,914	27,897	3,844,811			3,844,811
Contract labor	986,007	19,396	1,005,403	13,678	224,256	1,243,337
Materials and supplies	1,585,138	7,479	1,592,617			1,592,617
Professional fees	208,005	8,366	216,371	153,405	280,181	649,957
Depreciation	787,509	12,633	800,142	47,548	17,418	865,108
Repairs and maintenance	492,837	34,393	527,230	5,895	6,856	539,981
Leases and rentals	329,615	47,668	377,283	3,892	5,193	386,368
Office supplies	332,661	32,223	364,884	33,982	94,649	493,515
License permits and fees	177,120	7,124	184,244		132,175	316,419
Education and training	286,064	1,682	287,746	16,955	10,779	315,480
Insurance	225,186	4,111	229,297	30,740	34,832	294,869
Printing and reproduction	59,430	4,741	64,171	3,320	118,558	186,049
Telephone	160,551	7,619	168,170	17,234	26,766	212,170
Venue rental and food for special event					149,691	149,691
Dues and subscriptions	22,637		22,637	28,761	18,319	69,717
Utilities	66,406	15,652	82,058	12,291	13,644	107,993
Postage and shipping	32,661	6,671	39,332	3,684	43,662	86,678
Grants for WASH programs	108,008		108,008			108,008
Advertising and promotion	26,842	157	26,999	1,314	15,815	44,128
Other	389		389	5,825	4,134	10,348
Total expenses	<u>\$16,743,285</u>	<u>\$ 3,636,127</u>	<u>\$20,379,412</u>	<u>\$ 1,879,339</u>	<u>\$ 3,195,490</u>	<u>\$25,454,241</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statements of Cash Flows for the eighteen months ended June 30, 2017
and the year ended December 31, 2015

	JUNE 30 <u>2017</u>	DECEMBER 31 <u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (2,175,234)	\$ 864,323
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Assets acquired through consolidation of affiliates	(818,782)	
Depreciation	1,261,096	865,110
Equipment transferred to unconsolidated affiliates	21,872	692
Net realized and unrealized (gain) loss on investments	(37,137)	20,034
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	31,461	(105,713)
Pledges receivable	1,228,525	(38,723)
Accounts payable and accrued expenses	179,605	210,770
Accrued payroll and related benefits expense	37,962	(353,077)
Deferred revenue	<u>(310,765)</u>	<u>32,211</u>
Net cash provided (used) by operating activities	<u>(581,397)</u>	<u>1,495,627</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	665,367	248,907
Purchase of investments	(10,643)	(45,176)
Net change in cash held as investments	106,489	(136,476)
Purchase of property and equipment	<u>(1,554,452)</u>	<u>(958,885)</u>
Net cash used by investing activities	<u>(793,239)</u>	<u>(891,630)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	5,150,000	1,900,000
Repayments of line of credit	<u>(5,150,000)</u>	<u>(1,900,000)</u>
Net cash provided (used) by financing activities	<u>0</u>	<u>0</u>
NET CHANGE IN CASH	(1,374,636)	603,997
Cash, beginning of year	<u>2,565,289</u>	<u>1,961,292</u>
Cash, end of year	<u>\$ 1,190,653</u>	<u>\$ 2,565,289</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$316,689	\$340,410

See accompanying notes to consolidated financial statements.

Living Water International

Notes to Consolidated Financial Statements for the eighteen months ended June 30, 2017
and the year ended December 31, 2015

NOTE 1 – ORGANIZATION

Organization – Living Water International (Living Water) was organized as a Texas nonprofit corporation in 1990. Living Water 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. Living Water serves all people, regardless of religion, race, ethnicity or gender. Living Water’s services are provided in developing countries.

The work of Living Water can be summarized in two inter-related programs as follows:

- *Water Access, Sanitation and Hygiene (WASH) and Christian Witness* – In 2017, Living Water celebrated its 26th year of ministry and completed its 18,460th water project, which included drilling new water wells, harvesting water, and the rehabilitation of non-working wells. Living Water is currently active in more than 20 developing countries. Well projects in 2017 and 2015 total 1,895 and 1,205, respectively. The organization believes that proper health and hygiene practices multiply the benefits of clean water. Living Water staff and volunteers teach Christian Witness strategies through the Church Mobilization and Gospel Proclamation program, and hygiene and sanitation practices in developing countries and provide training to empower and inspire people to serve the thirsty.
- *Short-term mission trips* – Living Water led 3,131 volunteers into the field in 2017 and 2,311 in 2015 to assist in drilling wells, teaching health and hygiene, and sharing their faith. The contributions given for mission trips, which are included in contribution revenue, cover the volunteer costs for travel, meals, and lodging.

Living Water has been in the process of restructuring its global activities by establishing international non-profit branch offices organized as non-governmental organizations (NGO) in the countries in which they are located. Living Water consolidates affiliates where both control of the board of directors of the NGO and an economic interest exists. The following international affiliates, which met the criteria for consolidation, are included in these financial statements:

Living Water International Zambia
Living Water Service Centre (Kenya)
Living Water Africa Region (Kenya)
Foundation Living Water International (Haiti)
LW Internacional AC Puebla MX (Mexico)
Living Water International (Liberia)
LWI Uganda
Living Water International Rwanda
Living Water International – Sierra Leone
Living Water International (Nicaragua)
Living Water International (Ethiopia)
Living Water International (Angola)
Living Water International (Guatemala)
Living Water International Burkina Faso
Living Water International (El Salvador)
Living Water International (Honduras)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets, and activities of Living Water’s Houston operations as well as of its international subsidiaries’ operations. Significant intercompany transactions and balances have been eliminated in consolidation. Gains and losses from the translation of foreign currency financial statements are recognized in the consolidated statement of activities. Assets and liabilities transferred from previously unconsolidated affiliates are reported under other changes in net assets on the consolidated statement of activities during the year of consolidation.

Federal income tax status – Living Water is exempt from federal income tax 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). Living Water’s subsidiaries are considered tax-exempt by the countries in which they are incorporated.

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution. Management evaluates their banking relationships routinely to mitigate the risk to bank deposits.

Pledges receivable that are expected to be collected within one year are reported 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. At June 30, 2017, all pledges receivable are expected to be collected within one year and are due from one donor.

Investments are reported at fair value.

Property and equipment is reported at cost, if purchased, or at fair value at the date of gift, if donated. Property and equipment purchases over \$5,000 are capitalized. Equipment purchased for unconsolidated international affiliates and partners is expensed at the time the equipment and its title are transferred. Depreciation is calculated on a straight-line basis, using a half-year convention, overestimated useful lives of 3 to 40 years.

Management evaluates property for impairment on a routine basis. An impairment loss of \$39,000 was recognized during the year ended December 31, 2015 on equipment pending assignment. No impairment loss was recognized during the eighteen months ended June 30, 2017.

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.

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

In-kind contributions are recognized at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. 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 mission trips for which no amount has been recognized in the financial

statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Water program contracts and training fees are recognized in the period in which the related services are provided. Amounts received in advance of the services being provided are reported as deferred revenue.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various 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 with the current presentation.

NOTE 3 – CONSOLIDATION OF AFFILIATES AND TRANSFERS OF ASSETS TO NEW ENTITIES

Two Living Water international affiliates were consolidated into Living Water’s financial statements in 2017: Living Water International (Guatemala) and Living Water International Burkina Faso. Both came under the direct control of Living Water for the eighteen months ended June 30, 2017. The net assets of these international affiliates, at the time they became subsidiaries of Living Water, were approximately \$240,700. Living Water (India) was transitioned from an affiliate to a partner during 2017, resulting in \$10,980 of net assets being transferred to the India partnership. In addition, two new Living Water entities were created in 2017: Living Water International (El Salvador) and Living Water International (Honduras). During the period, title to all equipment, previously owned by Living Water’s partners (unconsolidated affiliates) in those countries, was transferred to these new entities. At June 30, 2017, these new entities only hold title to equipment and had no operating revenue or expense. Operational activities in these countries continue to be managed by the two unconsolidated affiliates, as disclosed in Note 9.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments in mutual funds measured at fair value	\$ 36,794	\$ 0	\$ 0	\$ 36,794
Cash held as investments				<u>2,405,124</u>
Total investments				<u>\$ 2,441,918</u>

Assets measured at fair value at December 31, 2015 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments in mutual funds measured at fair value	<u>\$ 654,381</u>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 654,381
Cash held as investments				<u>2,511,613</u>
Total investments				<u>\$ 3,165,994</u>

Mutual funds are valued at the net asset value of shares held at year end. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Living Water believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on cash and consists of the following:

	<u>2017</u>	<u>2015</u>
Realized and unrealized gain (loss)	\$ 37,137	\$ (20,034)
Interest and dividends	<u>19,769</u>	<u>36,073</u>
Investment return, net	<u>\$ 56,906</u>	<u>\$ 16,039</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2017</u>	<u>2015</u>
Land	\$ 441,738	\$ 416,738
Building and improvements	2,939,572	2,924,196
Drilling equipment	2,859,075	1,985,833
Equipment pending assignment	21,553	40,072
Office and computer equipment	829,103	328,373
Furniture and fixtures	150,356	166,143
Vehicles	<u>3,701,127</u>	<u>3,048,629</u>
Total property and equipment, at cost	10,942,524	8,909,984
Accumulated depreciation	<u>(5,473,045)</u>	<u>(4,530,771)</u>
Property and equipment, net	<u>\$ 5,469,479</u>	<u>\$ 4,379,213</u>

NOTE 6 – LINE OF CREDIT

Living Water has a \$3,000,000 unsecured revolving line of credit with a bank expiring in January 2018. Draws on the line bear interest at 1.25% above the bank's prime lending rate. At June 30, 2017 and December 31, 2015, no amounts were outstanding on this line of credit.

NOTE 7 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2017</u>	<u>2015</u>
Undesignated	\$ 2,414,669	\$ 3,585,471
Property and equipment, net	<u>5,469,479</u>	<u>4,379,213</u>
Total unrestricted net assets	<u>\$ 7,884,148</u>	<u>\$ 7,964,684</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2015</u>
Water well programs:		
India	\$ 127,000	\$ 59,700
Guatemala	88,766	569,819
Kenya	66,174	
Zambia	60,000	
Haiti	24,837	
Uganda	23,636	60,000
Liberia	17,000	40,000
Rwanda	15,000	342,959
El Salvador		470,787
Honduras		72,374
Mexico		44,260
Peru		40,000
Ethiopia		21,000
Other water well programs	71,777	37,974
Church Mobilization and Gospel Proclamation	142,812	778,851
Restricted for future periods		200,000
Other	<u>19,288</u>	<u>13,264</u>
Total temporarily restricted net assets	<u>\$ 656,290</u>	<u>\$ 2,750,988</u>

NOTE 9 – UNCONSOLIDATED AFFILIATES

At June 30, 2017, Living Water has two affiliates in which it has an economic interest without direct control, and therefore are not consolidated in these financial statements. These two affiliates are Agua Viva Internacional (El Salvador) and Living Water Medical Ministries (Honduras). During 2017, Living

Water's funding of these affiliates totaled \$1,372,495 and is included in Living Water's financial statements as program expenses. Summarized financial information for the eighteen months ended June 30, 2017 related to these affiliates is presented as follows:

	<u>EL SALVADOR</u>	<u>HONDURAS</u>	<u>TOTAL</u>
Total assets and net assets	\$3,521	\$140,854	\$144,375
Total revenue	\$772,719	\$687,167	\$1,459,886
Total expenses	\$820,314	\$691,448	\$1,511,762

As described in Note 3, in 2017 El Salvador and Honduras transferred property and equipment totaling approximately \$589,055 to two newly formed NGO's controlled by Living Water.

During 2015, Living Water had three unconsolidated affiliates, including Asociación Pozos Agua Viva (Guatemala) which was consolidated in 2017. Living Water's funding of the three affiliates totaled \$1,715,500 and is included in Living Water's financial statements as program expenses. Summarized financial information for the year ended December 31, 2015 related to these affiliates is presented as follows:

	<u>EL SALVADOR</u>	<u>GUATEMALA</u>	<u>HONDURAS</u>	<u>TOTAL</u>
Total assets and net assets	\$228,986	\$199,308	\$378,676	\$806,970
Total revenue	\$598,417	\$442,467	\$679,052	\$1,719,936
Total expenses	\$580,988	\$494,251	\$551,687	\$1,626,926

NOTE 10 – EXPENDITURES IN DEVELOPING COUNTRIES

A summary of approximate program expenses by geographic region is as follows:

	<u>2017</u>	<u>2015</u>
Africa	\$ 14,952,000	\$ 8,923,000
Americas	14,682,000	10,143,000
Asia	<u>2,143,000</u>	<u>1,313,000</u>
Total program expenses	<u>\$ 31,777,000</u>	<u>\$ 20,379,000</u>

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

<u>Country</u>	<u>Name of Organization</u>
Burkina Faso	Geoffrey Richter
Central African Republic	Integrated Community Development International
Ethiopia	Ethiopian Kale Heywet Church
Ghana	Africa Assistance Plan
India – North	Sampurn Development India
India – South	New India Church of God

Kenya	Serve Academy
Nigeria	Relief Network Ministries
Peru	Asociacion Manantiales de Agua
Sierra Leone	Mariatu's Hope
Uganda	Life Giving Water
Zimbabwe	Global Water Partners; Evangelical Fellowship of Zimbabwe

NOTE 11 – CONDITIONAL CONTRIBUTION

During 2015, Living Water received a conditional contribution of \$4,370,000, the specified purpose of which was for a WASH initiative in Uganda, Zambia, and Nicaragua. The initial \$1,680,000 of the gift was funded in 2015 and \$1,446,000 of it was recognized as revenue, with the difference recorded as refundable advances and included in deferred revenue at December 31, 2015. The balance of the gift totaling \$2,690,000 was paid during 2017 as the conditions regarding the completion of the activities specified in the grant agreement had been met.

NOTE 12 – EMPLOYEE BENEFIT PLAN

Living Water maintains a defined-contribution §403(b) plan. Living Water matches employee contributions up to 5% of compensation. Employees are fully vested in Living Water's contributions after one year. Living Water contributed approximately \$394,000 and \$246,000 to the plan in 2017 and 2015.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 2, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Living Water International

Key Financial Data – 12-Month Comparison at June 30, 2015, 2016, and 2017 (unaudited)

Management has provided the following information for purposes of comparing 12-month periods for three years as follows:

	JUNE 30		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating revenue:			
Contributions, fees, and special events	\$ 24,437,000	\$ 26,589,000	\$ 26,361,000
Operating expenses:			
Program	21,069,000	21,516,000	20,227,000
Fundraising	3,161,000	3,177,000	3,844,000
Management and general	<u>1,661,000</u>	<u>2,026,000</u>	<u>1,836,000</u>
Total operating expenses	<u>25,891,000</u>	<u>26,719,000</u>	<u>25,907,000</u>
Change in net assets from operations	(1,454,000)	(130,000)	454,000
Consolidation of affiliates and other transfers	<u> </u>	<u>390,000</u>	<u>177,000</u>
CHANGES IN NET ASSETS	(1,454,000)	260,000	631,000
Net assets, beginning of year	<u>9,103,000</u>	<u>7,649,000</u>	<u>7,909,000</u>
Net assets, end of year	<u>\$ 7,649,000</u>	<u>\$ 7,909,000</u>	<u>\$ 8,540,000</u>

Note: Historical numbers have been restated to conform to the new fiscal year end of June 30 (historically was December 31).
