

Living Water International

Consolidated Financial Statements
and Independent Auditors' Report
for the year ended June 30, 2018
and the eighteen months ended June 30, 2017

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, 2018 and 2017 and the related consolidated statements of activities, of functional expenses, and of cash flows for the year and the eighteen months 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, 2018 and 2017 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Blazek & Vetterling

November 21, 2018

Living Water International

Consolidated Statements of Financial Position as of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 1,436,590	\$ 3,632,571
Prepaid expenses and other assets	498,179	647,043
Contributions receivable (Note 4)	5,095,400	294,843
Property and equipment, net (Note 5)	<u>5,796,654</u>	<u>5,469,479</u>
TOTAL ASSETS	<u>\$ 12,826,823</u>	<u>\$ 10,043,936</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 552,092	\$ 638,849
Accrued payroll and related benefits expense	806,671	798,273
Deferred revenue	<u>123,585</u>	<u>66,376</u>
Total liabilities	<u>1,482,348</u>	<u>1,503,498</u>
Commitments and contingencies (Note 6)		
Net assets:		
Unrestricted (Note 7)	6,292,403	7,884,148
Temporarily restricted (Note 8)	<u>5,052,072</u>	<u>656,290</u>
Total net assets	<u>11,344,475</u>	<u>8,540,438</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,826,823</u>	<u>\$ 10,043,936</u>

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the year ended June 30, 2018

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 9,698,609	\$ 14,043,002	\$ 23,741,611
Special events	1,969,838	150,000	2,119,838
Water program contracts	1,625,898		1,625,898
Training fees and other income	<u>38,854</u>		<u>38,854</u>
Total revenue	13,333,199	14,193,002	27,526,201
Net assets released from restrictions:			
Program expenditures	9,420,119	(9,420,119)	
Capital expenditures	<u>377,101</u>	<u>(377,101)</u>	
Total	<u>23,130,419</u>	<u>4,395,782</u>	<u>27,526,201</u>
EXPENSES:			
Program expenses (<i>Note 10</i>):			
WASH* and Christian Witness	16,062,543		16,062,543
Living Water mission trips	<u>3,320,480</u>		<u>3,320,480</u>
Total program expenses	19,383,023		19,383,023
Management and general	1,720,263		1,720,263
Fundraising	3,453,794		3,453,794
Direct donor benefit costs of special events	<u>207,375</u>		<u>207,375</u>
Total expenses	<u>24,764,455</u>		<u>24,764,455</u>
Changes in net assets before other changes	(1,634,036)	4,395,782	2,761,746
OTHER CHANGES IN NET ASSETS:			
Transfers of property and equipment to new entities (<i>Note 3</i>)	<u>42,291</u>		<u>42,291</u>
CHANGES IN NET ASSETS	(1,591,745)	4,395,782	2,804,037
Net assets, beginning of year	<u>7,884,148</u>	<u>656,290</u>	<u>8,540,438</u>
Net assets, end of year	<u>\$ 6,292,403</u>	<u>\$ 5,052,072</u>	<u>\$ 11,344,475</u>

*Water Access, Sanitation and Hygiene

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>	TEMPORARILY <u>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	<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
Living Water 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 Functional Expenses for the year ended June 30, 2018

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>LIVING WATER 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	\$ 5,452,660	\$ 563,626	\$ 6,016,286	\$ 1,396,086	\$ 2,266,975	\$ 9,679,347
Travel, meals, and lodging	903,736	2,488,048	3,391,784	95,638	150,080	3,637,502
Contract labor	2,409,401	23,299	2,432,700	3,661	321,120	2,757,481
Water drilling and equipment project costs	2,221,163	19,511	2,240,674			2,240,674
Materials and supplies	1,409,727	30,418	1,440,145	1,217	3,652	1,445,014
Depreciation	824,965	14,643	839,608	18,647	55,944	914,199
Professional fees	258,647	2,410	261,057	105,441	334,091	700,589
Repairs and maintenance	518,711	25,276	543,987	3,465	10,395	557,847
Education and training	401,509	2,281	403,790	10,486	5,779	420,055
Leases and rentals	290,577	30,223	320,800	3,153	8,200	332,153
License permits and fees	194,594	5,251	199,845	5,430	121,300	326,575
Office supplies	237,300	5,194	242,494	14,487	51,185	308,166
Insurance	195,874	64,949	260,823	10,967	33,108	304,898
Partner support for Hygiene and Church Mobilization and Gospel Proclamation	271,324		271,324			271,324
Telephone	185,580	5,108	190,688	13,650	34,889	239,227
Printing and reproduction	36,603	16,333	52,936	1,188	100,395	154,519
Venue rental and food for special event					122,421	122,421
Utilities	71,487	7,469	78,956	4,380	13,139	96,475
Grants	77,356		77,356			77,356
Postage and shipping	34,185	14,652	48,837	2,258	23,827	74,922
Dues and subscriptions	39,165	987	40,152	23,379		63,531
Advertising and promotion	26,527	737	27,264		4,669	31,933
Other	1,452	65	1,517	6,730		8,247
Total expenses	<u>\$16,062,543</u>	<u>\$ 3,320,480</u>	<u>\$19,383,023</u>	<u>\$ 1,720,263</u>	<u>\$ 3,661,169</u>	<u>\$24,764,455</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>LIVING WATER 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
Contract labor	3,566,895	40,878	3,607,773	13,741	361,116	3,982,630
Water drilling and equipment project costs	4,119,459	35,721	4,155,180			4,155,180
Materials and supplies	2,182,214	31,499	2,213,713			2,213,713
Depreciation	1,146,668	20,913	1,167,581	67,060	26,455	1,261,096
Professional fees	444,087	267	444,354	120,325	914,954	1,479,633
Repairs and maintenance	890,470	42,696	933,166	8,983	14,271	956,420
Education and training	386,974	4,729	391,703	35,886	8,822	436,411
Leases and rentals	440,361	68,049	508,410	6,112	17,451	531,973
License permits and fees	257,373	7,340	264,713	12,033	161,364	438,110
Office supplies	342,063	19,060	361,123	38,701	76,968	476,792
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
Telephone	226,252	9,254	235,506	26,869	38,694	301,069
Printing and reproduction	93,835	18,410	112,245	3,535	210,758	326,538
Venue rental and food for special event					169,754	169,754
Utilities	86,207	18,587	104,794	14,576	21,864	141,234
Grants	75,000		75,000			75,000
Postage and shipping	65,831	10,224	76,055	4,298	43,739	124,092
Dues and subscriptions	69,815		69,815	52,969	22,361	145,145
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 Statements of Cash Flows for the year ended June 30, 2018
and the eighteen months ended June 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,804,037	\$ (2,175,234)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for equipment	(3,200,000)	
Assets acquired through consolidation of affiliates		(818,782)
Depreciation	914,199	1,261,096
Equipment transferred to unconsolidated affiliates	600	21,872
Net realized and unrealized (gain) loss on investments		(37,137)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	148,864	31,461
Contributions receivable	(1,600,557)	1,228,525
Accounts payable and accrued expenses	(86,757)	179,605
Accrued payroll and related benefits expense	8,398	37,962
Deferred revenue	<u>57,209</u>	<u>(310,765)</u>
Net cash used by operating activities	<u>(954,007)</u>	<u>(581,397)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in cash and mutual funds held as investments		3,203,131
Purchase of property and equipment	<u>(1,241,974)</u>	<u>(1,554,452)</u>
Net cash provided (used) by investing activities	<u>(1,241,974)</u>	<u>1,648,679</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	2,550,000	5,150,000
Repayments of line of credit	<u>(2,550,000)</u>	<u>(5,150,000)</u>
Net cash provided (used) by financing activities	<u>0</u>	<u>0</u>
NET CHANGE IN CASH	(2,195,981)	1,067,282
Cash, beginning of year	<u>3,632,571</u>	<u>2,565,289</u>
Cash, end of year	<u>\$ 1,436,590</u>	<u>\$ 3,632,571</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$427,153	\$316,689

See accompanying notes to consolidated financial statements.

Living Water International

Notes to Consolidated Financial Statements for the year ended June 30, 2018
and the eighteen months ended June 30, 2017

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 2018, Living Water celebrated its 27th year of ministry and completed its 19,645th 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 the 12 months of 2018 and the 18 months of 2017 total 1,094 and 1,895, 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.
- *Living Water mission trips* – Living Water led 1,983 volunteers into the field in the 12 months of 2018 and 3,131 in the 18 months of 2017 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)
Living Water International (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.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions 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 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. No impairment loss was recognized during the year ended June 30, 2018 or 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.

Functional allocation of expenses – The cost of program or supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification of expenses by function. Certain expenses have been allocated among the programs and supporting services benefited. Costs in the facilities department, information technology department, and the president’s department include salaries and benefits, depreciation, and other costs, and are allocated on the basis of estimated time and effort.

Foreign currency translation adjustments – The assets and liabilities of international Living Water consolidated affiliates, whose functional currencies are the respective country’s local currency, are translated into U. S. dollars at year-end exchange rates and revenue and expenses are translated at weighted average rates during the year. The resulting translation adjustment is included in program services expense in the consolidated statements of activities.

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 new Living Water legal entities were created in 2017: Living Water International (El Salvador) and Living Water International (Honduras). During 2017 and 2018, 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, 2018, these new entities only hold title to equipment and had no operating revenue and minimal operating expense. Operational activities in these countries continue to be managed by the two unconsolidated affiliates, as disclosed in Note 9.

In 2017, Living Water consolidated two international affiliates into Living Water’s financial statements: 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.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2018 are expected to be collected as follows:

Receivable in one year	\$ 2,495,400
Receivable in one to five years	<u>2,600,000</u>
Total contributions receivable	<u>\$ 5,095,400</u>

At June 30, 2018, approximately 99% of contributions receivable is from one contributor.

Conditional contributions – During 2018, Living Water received a conditional contribution of \$5,110,000, the specified purpose of which is for a WASH initiative in Uganda, Zambia, and Nicaragua. The initial \$290,000 of the gift was specified for the fiscal year ended June 30, 2018 and was recognized as revenue. The balance of the gift totaling \$4,820,000 is payable in three installments of \$1,580,000 in 2019 and in 2020, and \$1,660,000 in 2021, and is conditioned upon donor approved budgets for the activities specified in the grant agreement. Living Water will record the remaining contribution when the conditions are substantially met.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 441,738	\$ 441,738
Building and improvements	2,984,110	2,939,572
Vehicles	3,953,261	3,701,127
Drilling equipment	3,104,540	2,880,628
Office and computer equipment	1,307,640	829,103
Furniture and fixtures	<u>149,948</u>	<u>150,356</u>
Total property and equipment, at cost	11,941,237	10,942,524
Accumulated depreciation	<u>(6,144,583)</u>	<u>(5,473,045)</u>
Property and equipment, net	<u>\$ 5,796,654</u>	<u>\$ 5,469,479</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Living Water maintains certain cash accounts at various financial institutions in the United States and foreign countries. The total deposits at institutions in the United States, at times, exceed the amount covered by bank deposit insurance. Many of the deposits held at institutions outside of the United States are not covered by local depository insurance. In the event of nonperformance by the other parties to investment transactions, Living Water is exposed to loss for the amount of cash in excess of the insurance coverage. Management evaluates their bank relationships routinely to mitigate the risk to bank deposits.

Living Water has a \$3,000,000 unsecured revolving line of credit with a bank expiring in January 2019. Draws on the line bear interest at .75% above the bank's prime lending rate. At June 30, 2018 and 2017, no amounts were outstanding on this line of credit.

Living Water is subject to employment laws not only in the United States but in international countries. Living Water believes it is in compliance with the laws in each international location and records payroll-related liabilities to reflect their expected commitments to fulfill their employment obligations.

NOTE 7 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 495,749	\$ 2,414,669
Property and equipment, net	<u>5,796,654</u>	<u>5,469,479</u>
Total unrestricted net assets	<u>\$ 6,292,403</u>	<u>\$ 7,884,148</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 3,000,000	
Personnel costs	900,000	
Water well programs:		
Peru	770,934	
Kenya	72,000	\$ 66,174
Ghana	48,000	
Haiti	38,873	24,837
India	32,500	127,000
Guatemala		88,766
Zambia		60,000
Uganda		23,636
Liberia		17,000
Rwanda		15,000
Other water well programs	32,524	71,777
Other	<u>157,241</u>	<u>162,100</u>
Total temporarily restricted net assets	<u>\$ 5,052,072</u>	<u>\$ 656,290</u>

NOTE 9 – UNCONSOLIDATED AFFILIATES

At June 30, 2018, 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 Organización Religiosa Agua Viva Internacional (Honduras). During 2018 and 2017, Living Water's funding of these affiliates totaled \$992,031 and \$1,372,495, respectively, and is included in Living Water's financial statements as program expenses.

Summarized financial information for the year ended June 30, 2018 related to these affiliates is presented as follows:

	<u>EL SALVADOR</u>	<u>HONDURAS</u>	<u>TOTAL</u>
Total assets and net assets	\$14,163	\$13,099	\$27,262
Total revenue	\$510,578	\$549,745	\$1,060,323
Total expenses	\$487,918	\$632,754	\$1,120,672

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 2018 and 2017 El Salvador and Honduras transferred property and equipment totaling approximately \$42,000 and \$589,000, respectively, to two NGO's controlled by Living Water.

NOTE 10 – EXPENDITURES IN DEVELOPING COUNTRIES

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

	<u>2018</u>	<u>2017</u>
Africa	\$ 8,901,000	\$ 14,952,000
Americas	8,846,000	14,682,000
Asia	<u>1,636,000</u>	<u>2,143,000</u>
Total program expenses	<u>\$ 19,383,000</u>	<u>\$ 31,777,000</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>
Ethiopia	Ethiopian Kale Heywet Church
Ghana	Africa Assistance Plan
India	Living Water
Kenya	Serve Academy
Peru	Asociacion Manantiales de Agua
Uganda	Life Giving Water
Zimbabwe	Global Water Partners; Evangelical Fellowship of Zimbabwe

NOTE 11 – EMPLOYEE BENEFIT PLAN

Living Water maintains a defined-contribution §403(b) plan. Living Water matches employee contributions up to 5% of compensation and employees are fully vested in those contributions after one year. Living Water contributed approximately \$253,000 and \$394,000 to the plan in the 12 months of 2018 and the 18 months of 2017.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 2018, 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, 2016, 2017, and 2018 (unaudited)

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

	JUNE 30		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating revenue:			
Contributions, fees, and special events	\$ 26,589,000	\$ 26,361,000	\$ 27,526,000
Operating expenses:			
Program	21,516,000	20,227,000	19,383,000
Fundraising	3,177,000	3,844,000	3,661,000
Management and general	<u>2,026,000</u>	<u>1,836,000</u>	<u>1,720,000</u>
Total operating expenses	<u>26,719,000</u>	<u>25,907,000</u>	<u>24,764,000</u>
Change in net assets from operations	(130,000)	454,000	2,762,000
Consolidation of affiliates and other transfers	<u>390,000</u>	<u>177,000</u>	<u>42,000</u>
CHANGES IN NET ASSETS	260,000	631,000	2,804,000
Net assets, beginning of year	<u>7,649,000</u>	<u>7,909,000</u>	<u>8,540,000</u>
Net assets, end of year	<u>\$ 7,909,000</u>	<u>\$ 8,540,000</u>	<u>\$ 11,344,000</u>

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