

Living Water International

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2010 and 2009

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009 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, 2010 and 2009 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

June 23, 2011

Living Water International

Statements of Financial Position as of December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash (<i>Note 2</i>)	\$ 4,374,392	\$ 2,425,764
Pledges receivable	232,188	847,654
Prepaid expenses and other assets	393,202	468,140
Property and equipment, net (<i>Note 3</i>)	<u>2,987,327</u>	<u>3,061,579</u>
TOTAL ASSETS	<u>\$ 7,987,109</u>	<u>\$ 6,803,137</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 435,422	\$ 298,407
Accrued expenses	277,853	239,076
Notes payable (<i>Note 4</i>)	<u>231,579</u>	<u>282,681</u>
Total liabilities	<u>944,854</u>	<u>820,164</u>
Net assets:		
Unrestricted	5,120,336	3,490,820
Temporarily restricted (<i>Note 5</i>)	<u>1,921,919</u>	<u>2,492,153</u>
Total net assets	<u>7,042,255</u>	<u>5,982,973</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,987,109</u>	<u>\$ 6,803,137</u>

See accompanying notes to financial statements.

Living Water International

Statement of Activities for the year ended December 31, 2010

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 6,879,045	\$ 8,406,075	\$ 15,285,120
Special events	1,948,679	108,428	2,057,107
Rental income	17,816		17,816
Training fees	46,915		46,915
Other income	<u>3,583</u>		<u>3,583</u>
Total revenue	8,896,038	8,514,503	17,410,541
Net assets released from restrictions:			
Program expenditures	<u>9,084,737</u>	<u>(9,084,737)</u>	
Total	<u>17,980,775</u>	<u>(570,234)</u>	<u>17,410,541</u>
EXPENSES:			
Program expenses:			
Water well programs	11,493,778		11,493,778
Mission outreach	1,263,380		1,263,380
Training and hygiene	<u>137,138</u>		<u>137,138</u>
Total program expenses (<i>Note 6</i>)	<u>12,894,296</u>		<u>12,894,296</u>
Management and general	<u>1,127,685</u>		<u>1,127,685</u>
Fundraising:			
Direct donor benefits	135,292		135,292
Other fundraising	<u>2,193,986</u>		<u>2,193,986</u>
Total fundraising	<u>2,329,278</u>		<u>2,329,278</u>
Total expenses	<u>16,351,259</u>		<u>16,351,259</u>
CHANGES IN NET ASSETS	1,629,516	(570,234)	1,059,282
Net assets, beginning of year	<u>3,490,820</u>	<u>2,492,153</u>	<u>5,982,973</u>
Net assets, end of year	<u>\$ 5,120,336</u>	<u>\$ 1,921,919</u>	<u>\$ 7,042,255</u>

See accompanying notes to financial statements.

Living Water International

Statement of Activities for the year ended December 31, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 5,530,164	\$ 4,860,008	\$ 10,390,172
Special events	1,710,852	98,425	1,809,277
Rental income	77,821		77,821
Training fees	68,326		68,326
Other income	<u>107,439</u>		<u>107,439</u>
Total revenue	7,494,602	4,958,433	12,453,035
Net assets released from restrictions:			
Program expenditures	<u>5,725,353</u>	<u>(5,725,353)</u>	
Total	<u>13,219,955</u>	<u>(766,920)</u>	<u>12,453,035</u>
EXPENSES:			
Program expenses:			
Water well programs	10,631,993		10,631,993
Mission outreach	776,639		776,639
Training and hygiene	<u>107,250</u>		<u>107,250</u>
Total program expenses (<i>Note 6</i>)	<u>11,515,882</u>		<u>11,515,882</u>
Management and general	<u>971,155</u>		<u>971,155</u>
Fundraising:			
Direct donor benefits	97,477		97,477
Other fundraising	<u>1,614,555</u>		<u>1,614,555</u>
Total fundraising	<u>1,712,032</u>		<u>1,712,032</u>
Total expenses	<u>14,199,069</u>		<u>14,199,069</u>
CHANGES IN NET ASSETS	(979,114)	(766,920)	(1,746,034)
Net assets, beginning of year	<u>4,469,934</u>	<u>3,259,073</u>	<u>7,729,007</u>
Net assets, end of year	<u>\$ 3,490,820</u>	<u>\$ 2,492,153</u>	<u>\$ 5,982,973</u>

See accompanying notes to financial statements.

Living Water International

Statement of Functional Expenses for the year ended December 31, 2010

<u>EXPENSES</u>	<u>WATER WELL PROGRAMS</u>	<u>MISSION OUTREACH</u>	<u>TRAINING AND HYGIENE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Water drilling and equipment project costs	\$ 7,183,038			\$ 7,183,038			\$ 7,183,038
Salaries and related benefits	1,511,786		\$ 69,166	1,580,952	\$ 738,683	\$ 1,073,822	3,393,457
Travel, meals, and lodging	640,331	\$ 1,234,482	36,910	1,911,723	43,511	287,852	2,243,086
Contract labor	702,175	2,958		705,133	20,447	102,682	828,262
Materials and supplies	399,580	4,042	24,759	428,381	15,253	81,323	524,957
Professional fees	145,369		116	145,485	77,980	253,860	477,325
License permits and fees	134,022	1,998		136,020	31,244	107,027	274,291
Leases and rentals	234,329		1,950	236,279	8,447	7,329	252,055
Repairs and maintenance	218,566	1,673	23	220,262	15,609	12,061	247,932
Postage and shipping	104,663		678	105,341	6,154	91,203	202,698
Printing and reproduction	6,921		128	7,049	2,616	152,690	162,355
Depreciation	58,102			58,102	63,694	30,316	152,112
Insurance	62,100	18,227		80,327	17,358	23,664	121,349
Telephone	52,194		208	52,402	14,603	32,413	99,418
Utilities	18,226			18,226	23,101	14,619	55,946
Dues and subscriptions	8,894			8,894	9,418	25,617	43,929
Advertising and promotion						28,289	28,289
Interest and finance charges					22,878		22,878
Other	13,482		3,200	16,682	16,689	4,511	37,882
Total expenses	<u>\$11,493,778</u>	<u>\$ 1,263,380</u>	<u>\$ 137,138</u>	<u>\$12,894,296</u>	<u>\$ 1,127,685</u>	<u>\$ 2,329,278</u>	<u>\$16,351,259</u>

See accompanying notes to financial statements.

Living Water International

Statement of Functional Expenses for the year ended December 31, 2009

<u>EXPENSES</u>	<u>WATER WELL PROGRAMS</u>	<u>MISSION OUTREACH</u>	<u>TRAINING AND HYGIENE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Water drilling and equipment project costs	\$ 7,259,431			\$ 7,259,431			\$ 7,259,431
Salaries and related benefits	1,216,228		\$ 55,776	1,272,004	\$ 677,082	\$ 926,192	2,875,278
Travel, meals, and lodging	304,041	\$ 747,520	45,524	1,097,085	6,376	196,469	1,299,930
Contract labor	608,061		1,300	609,361	26,090	49,494	684,945
Materials and supplies	257,298	2,835		260,133	15,445	68,888	344,466
Professional fees	215,786			215,786	55,040	110,674	381,500
License permits and fees	190,267	1,909		192,176	47,507	74,215	313,898
Leases and rentals	94,360	1,197		95,557	7,678	5,265	108,500
Repairs and maintenance	63,543	3,441		66,984	15,423	13,020	95,427
Postage and shipping	187,956		2,310	190,266	4,084	40,970	235,320
Printing and reproduction	4,185		2,340	6,525	799	123,467	130,791
Depreciation	54,315			54,315	54,950	27,163	136,428
Insurance	78,477	18,824		97,301	10,760	14,065	122,126
Telephone	51,788			51,788	7,875	24,882	84,545
Utilities	24,205			24,205	18,329	14,523	57,057
Dues and subscriptions	13,965			13,965	3,742	9,756	27,463
Advertising and promotion						12,989	12,989
Interest and finance charges					17,083		17,083
Other	8,087	913		9,000	2,892		11,892
Total expenses	<u>\$10,631,993</u>	<u>\$ 776,639</u>	<u>\$ 107,250</u>	<u>\$11,515,882</u>	<u>\$ 971,155</u>	<u>\$ 1,712,032</u>	<u>\$14,199,069</u>

See accompanying notes to financial statements.

Living Water International

Statements of Cash Flows for the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,059,282	\$(1,746,034)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	152,112	136,428
Changes in operating assets and liabilities:		
Pledges receivable	615,466	1,316,717
Prepaid expenses and other assets	74,938	(187,839)
Accounts payable	137,015	(164,153)
Accrued expenses	<u>38,777</u>	<u>93,763</u>
Net cash provided (used) by operating activities	<u>2,077,590</u>	<u>(551,118)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(77,860)</u>	<u>(323,502)</u>
Net cash used by investing activities	<u>(77,860)</u>	<u>(323,502)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	<u>(51,102)</u>	<u>(55,988)</u>
Net cash used by financing activities	<u>(51,102)</u>	<u>(55,988)</u>
NET CHANGE IN CASH	1,948,628	(930,608)
Cash, beginning of year	<u>2,425,764</u>	<u>3,356,372</u>
Cash, end of year	<u>\$ 4,374,392</u>	<u>\$ 2,425,764</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$16,072	\$17,083
Contribution of marketable securities	\$447,000	\$151,000

See accompanying notes to financial statements.

Living Water International

Notes to Financial Statements for the years ended December 31, 2010 and 2009

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 serves all people, regardless of religion, race, ethnicity or gender. LWI's services are provided in developing countries.

The work of LWI can be broken down into three programs that are inter-related:

- *Water well program* – In 2010, LWI celebrated its 20th year of service and completed its 10,000th water project, which included drilling new water wells and the rehabilitation of non-working wells in over 20 under-developed countries.
- *Mission outreach program* – LWI leads hundreds of volunteers into the field each year 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.
- *Training and hygiene program* – The organization believes that proper health and hygiene practices multiply the benefits of clean water. LWI staff and volunteers teach health and hygiene courses in developing countries and provide training to empower and inspire people to serve the thirsty.

Federal income 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).

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 December 31, 2010, pledges receivable are due within one year.

Property and equipment is reported 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. Equipment purchased for foreign country affiliates and partners is expensed at the time the equipment and its title are transferred. Depreciation is calculated on a straight-line basis over estimated useful lives of 5 to 40 years.

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 reported as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Contributed materials and services are recognized 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. LWI received approximately \$65,000 in 2010 and \$80,000 in 2009 in contributed program supplies and materials. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising 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.

Rental income and training fees are recognized in the period in which the related services are provided.

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 2 – CASH

Cash consists of both unrestricted cash and cash balances from temporarily restricted contributions as follows:

	<u>2010</u>	<u>2009</u>
Unrestricted cash	\$ 2,666,604	\$ 541,358
Cash from temporarily restricted contributions	<u>1,707,788</u>	<u>1,884,406</u>
Total cash	<u>\$ 4,374,392</u>	<u>\$ 2,425,764</u>

It is management's goal to have an unrestricted cash balance of three months' working capital coverage to offset variances in actual donations versus planned.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 404,738	\$ 404,738
Building and improvements	2,650,663	2,595,463
Drilling equipment	225,815	225,815
Office and computer equipment	136,622	124,578
Furniture and fixtures	120,397	109,780
Vehicles	<u>78,410</u>	<u>78,410</u>
Total property and equipment, at cost	3,616,645	3,538,784
Accumulated depreciation	<u>(629,318)</u>	<u>(477,205)</u>
Property and equipment, net	<u>\$ 2,987,327</u>	<u>\$ 3,061,579</u>

NOTE 4 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2010</u>	<u>2009</u>
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 5.47%, due June 2016, to finance well drilling equipment for work in Kenya.	\$ 115,789	\$ 136,842
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 5.72%, due June 2016, to finance well drilling equipment for work in Kenya.	115,790	136,842
Other equipment financing arrangements.	<u> </u>	<u>8,997</u>
Total notes payable	<u>\$ 231,579</u>	<u>\$ 282,681</u>

Principal payments are scheduled to be paid as follows:

2011	\$ 42,105
2012	42,105
2013	42,105
2014	42,105
2015	42,105
2016	<u>21,054</u>
Total	<u>\$ 231,579</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and time periods:

	<u>2010</u>	<u>2009</u>
Water well programs:		
Haiti	\$ 818,750	\$ 10,514
Ethiopia (Hilton Grant)	490,326	1,149,619
Sierra Leone	154,847	60,000
Uganda	140,684	132,510
El Salvador	68,146	69,978
Burkina Faso	59,230	99,090
India	42,152	94,215
Honduras	27,376	86,807
Rwanda		185,000
Kenya		137,810
Burundi		147,844
Other countries	106,008	175,265
Time restricted	<u>14,400</u>	<u>143,501</u>
Total temporarily restricted net assets	<u>\$ 1,921,919</u>	<u>\$ 2,492,153</u>

NOTE 6 – EXPENDITURES IN DEVELOPING COUNTRIES

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

<u>Country</u>	<u>Name of Organizations</u>
Angola	By Provision
Brazil	Amazon Outreach
Burkina Faso	NGO not yet established
Central African Republic	Integrated Community Development International
El Salvador	Agua Viva Internacional
Ethiopia	Kale Heywet Church Water Program; Salem Water is Life
Ghana	APF; Living Waters Ministries; African Assistance Plan
Guatemala	Asociación Pozos Agua Viva
Haiti	New Life Missions International
Honduras	Agua Viva Internacional
India	Sampurn Development India; Living Water India
Kenya	Serve International
Liberia	Living Water International – Liberia
Mexico	Living Water Internacional, Puebla, Mission Resource International
Namibia	By Provision
Nicaragua	NGO not yet established
Nigeria	Relief Network Ministries
Peru	Tommy Head Peru Ministries
Rwanda	Living Water International – Rwanda
Sierra Leone	Living Water International - Sierra Leone
Tanzania	NGO not yet established
Uganda	Divine Waters; Life Giving Water; LWI Uganda
Zambia	Water for the Oppressed; LWI Zambia
Zimbabwe	Global Water Partners

NOTE 7 – RELATED PARTY TRANSACTIONS

LWI entered into contracting agreements with vendors with payments totaling approximately \$97,000 in 2010 and \$184,000 in 2009, in which the principal contractors are family members of the Executive Vice

President of LWI. In 2010, approximately \$59,000 was paid to an in-country implementing contractor who is a family member of a Vice President of LWI.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 23, 2011, 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.
