

Living Water International

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2007 and 2006

Independent Auditors' Report

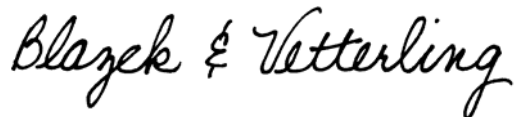
To the Board of Directors of
Living Water International:

We have audited the accompanying statements of financial position of Living Water International (LWI) as of December 31, 2007 and 2006 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, 2007 and 2006 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 7, 2008, on our consideration of LWI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



May 7, 2008

Living Water International

Statements of Financial Position as of December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 1,989,942	\$ 2,451,716
Accounts receivable	133,821	62,100
Pledges receivable	791,604	542,001
Prepaid expenses and other assets	268,735	81,237
Note receivable (<i>Note 3</i>)	336,768	390,380
Property and equipment, net (<i>Note 5</i>)	<u>2,924,936</u>	<u>275,304</u>
TOTAL ASSETS	<u>\$ 6,445,806</u>	<u>\$ 3,802,738</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 436,962	\$ 78,806
Accrued expenses	143,931	105,015
Deferred government grant revenue		258,219
Notes payable (<i>Note 6</i>)	<u>391,713</u>	<u>541,736</u>
Total liabilities	<u>972,606</u>	<u>983,776</u>
Net assets:		
Unrestricted	4,197,618	1,879,849
Temporarily restricted (<i>Note 7</i>)	<u>1,275,582</u>	<u>939,113</u>
Total net assets	<u>5,473,200</u>	<u>2,818,962</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,445,806</u>	<u>\$ 3,802,738</u>

See accompanying notes to financial statements.

Living Water International

Statement of Activities for the year ended December 31, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (Note 8)	\$ 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 (Note 9)	108,843		108,843
Training fees	40,415		40,415
Other income	<u>81,047</u>		<u>81,047</u>
Total revenue	4,566,673	7,379,381	11,946,054
Net assets released from restrictions:			
Program expenditures	4,838,924	(4,838,924)	
Property and equipment expenditures	<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>
EXPENSES:			
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 (Note 10)	<u>7,624,624</u>		<u>7,624,624</u>
Management and general	<u>611,634</u>		<u>611,634</u>
Fundraising:			
Special events	128,088		128,088
Direct donor benefits	68,307		68,307
Other fundraising	<u>859,163</u>		<u>859,163</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.

Living Water International

Statement of Activities for the year ended December 31, 2006

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

See accompanying notes to financial statements.

Living Water International

Statement of 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
Direct mail and related expenses						409,810	409,810
Materials and supplies	197,518	42,418	\$ 57,659	297,595	22,076	34,522	354,193
Contract labor	146,242	133		146,375			146,375
Professional fees	35,764			35,764	53,225	43,855	132,844
License permits and fees	90,728	40		90,768	24,892	4,009	119,669
Leases and rentals	101,720			101,720	8,490	6,523	116,733
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
Interest and finance charges					63,488		63,488
Telephone	41,437			41,437	5,776	10,604	57,817
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
Utilities	23,693			23,693	10,345	7,891	41,929
Repairs and maintenance	20,765	667		21,432	13,727	4,456	39,615
Dues and subscriptions	6,500			6,500	2,850	4,137	13,487
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

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

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

See accompanying notes to financial statements.

Living Water International

Statements of Cash Flows for the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,654,238	\$ 1,742,759
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	107,228	52,867
Contributions restricted for building purchase	(2,203,988)	
Contributions of property and equipment	(5,500)	(5,185)
Changes in operating assets and liabilities:		
Accounts receivable	(71,721)	(58,795)
Pledges receivable	(249,603)	(293,482)
Prepaid expenses and other assets	(187,498)	4,789
Accounts payable	358,156	(41,592)
Accrued expenses	38,916	86,994
Deferred government grant revenue	<u>(258,219)</u>	<u>252,219</u>
Net cash provided by operating activities	<u>182,009</u>	<u>1,740,574</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Funding of note receivable		(390,380)
Proceeds from collection of note receivable	53,612	
Purchase of property and equipment	(2,725,360)	(52,216)
Proceeds from the sale of property and equipment	<u> </u>	<u>2,000</u>
Net cash used by investing activities	<u>(2,671,748)</u>	<u>(440,596)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of contributions restricted for building purchase	2,203,988	
Proceeds from notes payable	1,035,859	482,365
Repayments of notes payable	<u>(1,211,882)</u>	<u>(168,609)</u>
Net cash provided by financing activities	<u>2,027,965</u>	<u>313,756</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(461,774)	1,613,734
Cash and cash equivalents, beginning of year	<u>2,451,716</u>	<u>837,982</u>
Cash and cash equivalents, end of year	<u>\$ 1,989,942</u>	<u>\$ 2,451,716</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$65,720	\$24,460
Equipment purchased with a note payable	\$26,000	\$57,000
Contribution of marketable securities	\$832,000	

See accompanying notes to financial statements.

Living Water International

Notes to Financial Statements for the years ended December 31, 2007 and 2006

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable at December 31, 2007 are due within one year.

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

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

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

Contributed materials and services are recorded at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2007</u>	<u>2006</u>
Demand deposits	\$ 735,515	\$ 610,206
Money market funds	<u>1,254,427</u>	<u>1,841,510</u>
Total cash and cash equivalents	<u>\$ 1,989,942</u>	<u>\$ 2,451,716</u>

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

NOTE 3 – NOTE RECEIVABLE

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

NOTE 4 – CONDITIONAL CONTRIBUTION

At December 31, 2007, LWI had a conditional pledge of approximately \$2,000,000. The gift was conditional upon certain matching requirements that had not been met and will be recognized when the conditions have been met.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 310,000	
Building and improvements	2,353,567	
Drilling equipment	225,815	\$ 205,312
Office and computer equipment	116,062	117,843
Vehicles	70,865	70,865
Furniture and fixtures	<u>96,331</u>	<u>24,919</u>
Total property and equipment, at cost	3,172,640	418,939
Accumulated depreciation	<u>(247,704)</u>	<u>(143,635)</u>
Property and equipment, net	<u>\$ 2,924,936</u>	<u>\$ 275,304</u>

NOTE 6 – NOTES PAYABLE AND COMMITMENTS

Notes payable consist of the following:

	<u>2007</u>	<u>2006</u>
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 5.47%, due June 2017.	\$ 178,947	\$ 200,000
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 5.72%, due June 2016.	178,947	200,000
Note payable to an individual for equipment, payable in monthly installments, with an interest rate of 4.7%.		46,964
Note payable to the Overseas Private Investment Corporation payable in semi-annual installments, with an interest rate of 6.76%, due July 2007.		33,334
Other equipment financing arrangements.	<u>33,819</u>	<u>61,438</u>
Total	<u>\$ 391,713</u>	<u>\$ 541,736</u>

Principal payments at December 31, 2007 are scheduled to be paid as follows:

2008	\$ 75,536
2009	42,494
2010	42,106
2011	42,106
2012	42,106
Thereafter	<u>147,365</u>
Total	<u>\$ 391,713</u>

NOTE 7 – TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Water well projects	\$ 1,269,773	\$ 808,269
Building projects		59,651
Future periods		25,000
Faith support		21,538
Training facilities		16,000
Other	<u>5,809</u>	<u>8,655</u>
Total temporarily restricted net assets	<u>\$ 1,275,582</u>	<u>\$ 939,113</u>

NOTE 8 – NON-CASH CONTRIBUTIONS

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

	<u>2007</u>	<u>2006</u>
Equipment for water projects	\$ 56,923	\$ 69,397
Office equipment	21,044	
Medical supplies	12,059	199,481
Other	<u>10,350</u>	<u>7,180</u>
Total non-cash contributions	<u>\$ 100,376</u>	<u>\$ 276,058</u>

NOTE 9 – RENTAL INCOME

LWI leases office space to tenants under noncancelable operating leases. The future minimum rental income at December 31, 2007, is as follows:

2008	\$ 141,732
2009	<u>59,055</u>
Total	<u>\$ 200,787</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 affiliated non-profit organizations is as follows:

<u>Country</u>	<u>Name of Organizations</u>
Angola	By Provision
Brazil	Amazon Charities and Amazon Outreach
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	LWI-Mexico
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
Zambia	Water for the Oppressed

Program expenses by country are as follows:

	<u>2007</u>	<u>2006</u>
Kenya	\$ 1,164,098	\$ 842,416
Rwanda	932,013	119,578
Liberia	570,575	659,748
El Salvador	567,314	479,063
United States (training conferences)	522,729	471,592
Central Africa Republic	493,407	105,472
Honduras	368,941	222,914
Guatemala	348,576	292,351
Nicaragua	304,128	236,312
Peru	290,881	131,350
Mexico	264,653	105,226
India	239,793	65,434
Sudan	228,711	41,541
Tanzania	225,650	26,346
Uganda	173,697	24,652
Nigeria	173,149	44,214
Haiti	166,372	66,127
Ghana	123,201	39,068
Ethiopia	99,702	199,475
Angola	77,820	72,118
Namibia	74,641	
Brazil	67,696	4,843
Romania	46,795	68,832
Indonesia	46,164	6,362
Sierra Leone	29,281	
Other	<u>24,637</u>	<u>207,981</u>
Total	<u>\$ 7,624,624</u>	<u>\$ 4,533,015</u>
