

Living Water International

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

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, 2019 and 2018 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years 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, 2019 and 2018 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.

Adoption of New Accounting Standard

As discussed in Note 3 to the financial statements, Living Water adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended June 30, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

November 13, 2019

Living Water International

Consolidated Statements of Financial Position as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 1,371,537	\$ 1,436,590
Prepaid expenses and other assets	489,379	498,179
Contributions receivable (Note 5)	4,244,520	5,095,400
Property and equipment, net (Note 6)	<u>5,820,327</u>	<u>5,796,654</u>
TOTAL ASSETS	<u>\$ 11,925,763</u>	<u>\$ 12,826,823</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 569,099	\$ 552,092
Accrued payroll and related benefits expense	625,229	806,671
Deferred revenue	<u>341,303</u>	<u>123,585</u>
Total liabilities	<u>1,535,631</u>	<u>1,482,348</u>
Commitments and contingencies (Note 7)		
Net assets:		
Without donor restrictions (Note 8)	5,775,984	6,292,403
With donor restrictions (Note 9)	<u>4,614,148</u>	<u>5,052,072</u>
Total net assets	<u>10,390,132</u>	<u>11,344,475</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,925,763</u>	<u>\$ 12,826,823</u>

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 7,567,351	\$ 11,924,609	\$ 19,491,960
Special events	3,457,611		3,457,611
Water program contracts	670,707		670,707
Training fees and other income	<u>111,707</u>		<u>111,707</u>
Total revenue	11,807,376	11,924,609	23,731,985
Net assets released from restrictions:			
Program expenditures	11,663,465	(11,663,465)	
Capital expenditures	<u>699,068</u>	<u>(699,068)</u>	
Total	<u>24,169,909</u>	<u>(437,924)</u>	<u>23,731,985</u>
EXPENSES:			
Program expenses (<i>Note 11</i>):			
WASH* and Christian Witness	16,615,122		16,615,122
Living Water mission trips	<u>2,692,942</u>		<u>2,692,942</u>
Total program expenses	19,308,064		19,308,064
Management and general	1,578,232		1,578,232
Fundraising	3,588,702		3,588,702
Direct donor benefit costs of special events	<u>211,330</u>		<u>211,330</u>
Total expenses	<u>24,686,328</u>		<u>24,686,328</u>
CHANGES IN NET ASSETS	(516,419)	(437,924)	(954,343)
Net assets, beginning of year	<u>6,292,403</u>	<u>5,052,072</u>	<u>11,344,475</u>
Net assets, end of year	<u>\$ 5,775,984</u>	<u>\$ 4,614,148</u>	<u>\$ 10,390,132</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
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>81,145</u>		<u>81,145</u>
Total revenue	13,375,490	14,193,002	27,568,492
Net assets released from restrictions:			
Program expenditures	9,420,119	(9,420,119)	
Expiration of time restrictions	<u>377,101</u>	<u>(377,101)</u>	
Total	<u>23,172,710</u>	<u>4,395,782</u>	<u>27,568,492</u>
EXPENSES:			
Program expenses (<i>Note 11</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	(1,591,745)	4,395,782	2,804,037
Net assets, beginning of year (<i>Note 3</i>)	<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 Functional Expenses for the year ended June 30, 2019

<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	\$ 5,875,419	\$ 473,013	\$ 6,348,432	\$ 1,214,079	\$ 2,362,845	\$ 9,925,356
Travel, meals, and lodging	1,326,861	1,988,619	3,315,480	82,899	138,186	3,536,565
Contract labor	2,489,255	19,239	2,508,494	10,694	332,479	2,851,667
Water drilling and equipment project costs	2,190,084	15,530	2,205,614			2,205,614
Materials and supplies	1,082,900	21,815	1,104,715	1,045	3,134	1,108,894
Depreciation	850,368	36,180	886,548	30,084	90,252	1,006,884
Professional fees	398,375		398,375	139,838	301,596	839,809
Repairs and maintenance	586,198	15,929	602,127	2,445	7,335	611,907
Insurance	216,151	63,024	279,175	9,757	29,266	318,198
Office supplies	231,521	6,144	237,665	8,979	66,475	313,119
License permits and fees	184,024	1,130	185,154	3,783	121,473	310,410
Education and training	272,879	898	273,777	18,073	10,556	302,406
Leases and rentals	263,996	21,042	285,038	4,668	8,180	297,886
Partner support for Hygiene and Church Mobilization and Gospel Proclamation	280,326		280,326			280,326
Telephone	162,326	3,172	165,498	10,411	25,891	201,800
Printing and reproduction	32,078	13,195	45,273	3,620	108,908	157,801
Venue rental and food for special event					126,556	126,556
Utilities	61,367	4,237	65,604	4,338	13,014	82,956
Postage and shipping	45,405	9,497	54,902	1,993	23,259	80,154
Dues and subscriptions	36,950		36,950	23,540	14,527	75,017
Advertising and promotion	26,017	278	26,295		16,100	42,395
Other	<u>2,622</u>	<u> </u>	<u>2,622</u>	<u>7,986</u>	<u> </u>	<u>10,608</u>
Total expenses	<u>\$16,615,122</u>	<u>\$ 2,692,942</u>	<u>\$19,308,064</u>	<u>\$ 1,578,232</u>	<u>\$ 3,800,032</u>	<u>\$24,686,328</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
Insurance	195,874	64,949	260,823	10,967	33,108	304,898
Office supplies	237,300	5,194	242,494	14,487	51,185	308,166
License permits and fees	194,594	5,251	199,845	5,430	121,300	326,575
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
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
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
Grants	77,356		77,356			77,356
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 Statements of Cash Flows for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (954,343)	\$ 2,804,037
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for equipment		(3,200,000)
Depreciation	1,006,884	914,199
Equipment transferred to unconsolidated affiliates		600
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	8,800	148,864
Contributions receivable	(149,120)	(1,600,557)
Accounts payable and accrued expenses	17,007	(86,757)
Accrued payroll and related benefits expense	(181,442)	8,398
Deferred revenue	<u>217,718</u>	<u>57,209</u>
Net cash used by operating activities	<u>(34,496)</u>	<u>(954,007)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(1,030,557)</u>	<u>(1,241,974)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for equipment	1,000,000	
Proceeds from line of credit	2,650,000	2,550,000
Repayments of line of credit	<u>(2,650,000)</u>	<u>(2,550,000)</u>
Net cash provided by financing activities	<u>1,000,000</u>	<u>0</u>
NET CHANGE IN CASH	(65,053)	(2,195,981)
Cash, beginning of year	<u>1,436,590</u>	<u>3,632,571</u>
Cash, end of year	<u>\$ 1,371,537</u>	<u>\$ 1,436,590</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$42,887	\$427,153

See accompanying notes to consolidated financial statements.

Living Water International

Notes to Consolidated Financial Statements for the years ended June 30, 2019 and 2018

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 2019, Living Water celebrated its 28th year of ministry and completed its 20,673rd water project, which included drilling new water wells, harvesting water, and the rehabilitation of non-working wells. Living Water is currently active in 17 developing countries. Well projects in 2019 and 2018 total 1,028 and 1,094, 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 1,615 volunteers into the field in 2019 and 1,983 in 2018 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 structures 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 (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 affiliates’ 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 in 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 affiliates 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 years ended June 30, 2019 and 2018.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

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.

Special events revenue is recognized when the event occurs. Amounts received in advance of the event represent conditional contributions and are reported in the statement of financial position as deferred revenue. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more activities are allocated among the activities benefitted. 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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a five-step process to determine when performance obligations are satisfied and revenue is recognized. Living Water will adopt this ASU in fiscal year 2020 and expects the impact to be primarily limited to additional disclosures.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU

could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Living Water is required to apply the amendments for the fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Living Water will adopt this ASU in fiscal year 2020 and expects the impact to be primarily limited to additional disclosures.

NOTE 3 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Living Water adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 4 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 comprise the following:

Financial assets at June 30, 2019:	
Cash	\$ 1,371,537
Other assets (receivables)	143,662
Contributions receivable	<u>4,244,520</u>
Total financial assets	<u>5,759,719</u>
Less financial assets not available for general expenditure:	
Contributions receivable in 2021 and 2022	<u>(1,890,000)</u>
Total financial assets available for general expenditures within one year	<u>\$ 3,869,719</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Living Water considers all expenditures related to its ongoing activities of providing water and the Word in developing countries to be general expenditures.

In addition to the financial assets listed above, Living Water has additional conditional contributions of \$1,580,000, as denoted in Note 5, that will become available to support country and general expenditures in the next fiscal year.

Living Water has an unsecured \$3,000,000 bank line of credit with interest paid monthly and an interest rate that varies based upon the bank's prime rate. There were no outstanding balances on the line of credit as of June 30, 2019 and 2018.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2019 are expected to be collected as follows:

Receivable in one year	\$ 2,354,520
Receivable in one to five years	<u>1,890,000</u>
Total contributions receivable	<u>\$ 4,244,520</u>

At June 30, 2019, approximately 96% of contributions receivable is from four contributors.

Conditional contributions – During 2018, Living Water received a conditional contribution of \$5,110,000, which is restricted by the donor for a WASH initiative in Uganda, Zambia, and Nicaragua. The initial \$290,000 of the gift was restricted for the fiscal year ended June 30, 2018 and was recognized as revenue. In 2019, certain conditions were met and \$1,580,000 was recognized as a contribution. The balance of the gift at June 30, 2019 totaling \$3,240,000 is payable in two installments of \$1,580,000 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 contributions when the conditions are satisfied.

During 2019 and 2018, Living Water received two conditional contributions totaling \$3,403,768 for WASH programs in Mexico and Burkina Faso. These gifts are conditioned on both meeting a match requirement and meeting certain performance and expenditure benchmarks. In 2019 and 2018, \$537,336 and \$221,570 was recognized as revenue, respectively. The balance of the gifts at June 30, 2019 totaling \$2,644,862 will be recognized as revenue through September 2022 as the conditions are satisfied. Deferred revenue of \$279,487 related to one of these gifts has been recorded at June 30, 2019.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 441,738	\$ 441,738
Building and improvements	3,034,685	2,984,110
Vehicles	4,311,200	3,953,261
Drilling equipment	3,402,104	3,104,540
Office and computer equipment	1,327,551	1,307,640
Furniture and fixtures	<u>160,656</u>	<u>149,948</u>
Total property and equipment, at cost	12,677,934	11,941,237
Accumulated depreciation	<u>(6,857,607)</u>	<u>(6,144,583)</u>
Property and equipment, net	<u>\$ 5,820,327</u>	<u>\$ 5,796,654</u>

NOTE 7 – 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 its 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 February 2021. Draws on the line bear interest at .75% above the bank's prime lending rate. At June 30, 2019 and 2018, 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 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ (44,343)	\$ 495,749
Property and equipment, net	<u>5,820,327</u>	<u>5,796,654</u>
Total net assets without donor restrictions	<u>\$ 5,775,984</u>	<u>\$ 6,292,403</u>

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Equipment	\$ 2,000,000	\$ 3,000,000
Personnel costs	619,000	900,000
Water well programs:		
Sierra Leone	500,778	
India	469,500	32,500
Peru	339,291	770,934
Kenya	202,000	72,000
Haiti	101,848	38,873
Guatemala	87,600	
Ghana	48,000	48,000
El Salvador	46,000	
Honduras	41,000	
Other water well programs	75,796	32,524
Other	<u>83,335</u>	<u>157,241</u>
Total net assets with donor restrictions	<u>\$ 4,614,148</u>	<u>\$ 5,052,072</u>

NOTE 10 – UNCONSOLIDATED AFFILIATES

At June 30, 2019, 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 2019 and 2018, Living Water's funding of these affiliates totaled \$525,933 and \$534,011, respectively. This funding is included in Living Water's financial statements as program expenses.

Summarized financial information for the year ended June 30, 2019 related to these affiliates is presented as follows:

	<u>EL SALVADOR</u>	<u>HONDURAS</u>	<u>TOTAL</u>
Total assets and net assets	\$7,424	\$9,974	\$17,398
Total revenue	\$514,012	\$485,273	\$999,285
Total expenses	\$500,947	\$479,681	\$980,628

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

NOTE 11 – EXPENDITURES IN DEVELOPING COUNTRIES

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

	<u>2019</u>	<u>2018</u>
Africa	\$ 8,794,000	\$ 8,901,000
Americas	8,684,000	8,846,000
Asia	<u>1,830,000</u>	<u>1,636,000</u>
Total program expenses	<u>\$ 19,308,000</u>	<u>\$ 19,383,000</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>
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 12 – 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 \$247,000 and \$253,000 to the plan in 2019 and 2018, respectively.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 13, 2019, 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.
