

# **Living Water International**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2011 and 2010

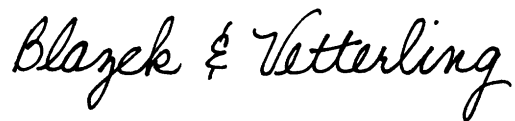
## Independent Auditors' Report

To the Board of Directors of  
Living Water International:

We have audited the accompanying consolidated statements of financial position of Living Water International and subsidiaries (LWI) as of December 31, 2011 and 2010 and the related consolidated 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 consolidated financial position of LWI and subsidiaries as of December 31, 2011 and 2010 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



May 14, 2012

# Living Water International

## Consolidated Statements of Financial Position as of December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 2,293,934	\$ 4,124,264
Investments (Note 2)	2,953,477	250,128
Pledges receivable (Note 3)	1,109,200	232,188
Prepaid expenses and other assets	299,125	393,202
Property and equipment, net (Note 4)	<u>3,673,885</u>	<u>2,987,327</u>
<b>TOTAL ASSETS</b>	<b><u>\$10,329,621</u></b>	<b><u>\$ 7,987,109</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 320,865	\$ 191,023
Accrued expenses	582,432	522,252
Notes payable (Note 5)	<u>                    </u>	<u>231,579</u>
Total liabilities	<u>903,297</u>	<u>944,854</u>
Net assets:		
Unrestricted	6,103,139	5,120,336
Temporarily restricted (Note 6)	<u>3,323,185</u>	<u>1,921,919</u>
Total net assets	<u>9,426,324</u>	<u>7,042,255</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$10,329,621</u></b>	<b><u>\$ 7,987,109</u></b>

*See accompanying notes to consolidated financial statements.*

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# Living Water International

Consolidated Statement of Activities for the year ended December 31, 2011

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 8,868,344	\$ 9,178,653	\$ 18,046,997
Special events	1,612,138	540,300	2,152,438
Water program contracts	143,000		143,000
Training fees	52,855		52,855
Other income	<u>60,659</u>		<u>60,659</u>
Total revenue	10,736,996	9,718,953	20,455,949
Net assets released from restrictions:			
Program expenditures	<u>8,317,687</u>	<u>(8,317,687)</u>	
Total	<u>19,054,683</u>	<u>1,401,266</u>	<u>20,455,949</u>
EXPENSES:			
Program expenses:			
WASH* and Christian Witness	12,153,421		12,153,421
Short-term mission trips	<u>2,132,716</u>		<u>2,132,716</u>
Total program expenses	<u>14,286,137</u>		<u>14,286,137</u>
Management and general	<u>1,144,617</u>		<u>1,144,617</u>
Fundraising	2,832,586		2,832,586
Direct donor benefits – special events	<u>195,334</u>		<u>195,334</u>
Total expenses	<u>18,458,674</u>		<u>18,458,674</u>
Changes in net assets before other changes	596,009	1,401,266	1,997,275
OTHER CHANGES IN NET ASSETS:			
Consolidation of affiliates ( <i>Note 7</i> )	<u>386,794</u>		<u>386,794</u>
CHANGES IN NET ASSETS	982,803	1,401,266	2,384,069
Net assets, beginning of year	<u>5,120,336</u>	<u>1,921,919</u>	<u>7,042,255</u>
Net assets, end of year	<u>\$ 6,103,139</u>	<u>\$ 3,323,185</u>	<u>\$ 9,426,324</u>

\*Water Access, Sanitation and Hygiene

*See accompanying notes to consolidated financial statements.*

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# Living Water International

## Consolidated Statement of Activities for the year ended December 31, 2010

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Contributions	\$ 6,879,045	\$ 8,406,075	\$ 15,285,120
Special events	1,948,679	108,428	2,057,107
Training fees	46,915		46,915
Other income	<u>21,399</u>	<u>                    </u>	<u>21,399</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>	<u>                    </u>
Total	<u>17,980,775</u>	<u>(570,234)</u>	<u>17,410,541</u>
<b>EXPENSES:</b>			
Program expenses:			
WASH* and Christian Witness	11,377,750		11,377,750
Short-term mission trips	<u>1,516,546</u>		<u>1,516,546</u>
Total program expenses	<u>12,894,296</u>		<u>12,894,296</u>
Management and general	<u>1,127,685</u>		<u>1,127,685</u>
Fundraising	2,193,986		2,193,986
Direct donor benefits – special events	<u>135,292</u>		<u>135,292</u>
Total expenses	<u>16,351,259</u>		<u>16,351,259</u>
<b>CHANGES IN NET ASSETS</b>	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>

\*Water Access, Sanitation and Hygiene

*See accompanying notes to consolidated financial statements.*

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## Living Water International

### Consolidated Statement of Functional Expenses for the year ended December 31, 2011

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>SHORT-TERM MISSION TRIPS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING AND DIRECT DONOR BENEFITS</u>	<u>TOTAL EXPENSES</u>
Water drilling and equipment project costs	\$ 5,789,443		\$ 5,789,443			\$ 5,789,443
Salaries and related benefits	2,018,217	\$ 382,929	2,401,146	\$ 756,241	\$ 1,402,221	4,559,608
Travel, meals, and lodging	751,572	1,711,515	2,463,087	34,639	354,447	2,852,173
Professional fees	462,929		462,929	105,649	361,945	930,523
Contract labor	781,703	2,285	783,988	9,319	129,839	923,146
Materials and supplies	767,326	11,709	779,035	24,663	113,517	917,215
Grants	547,631		547,631			547,631
License permits and fees	195,598	81	195,679	33,311	171,468	400,458
Depreciation	173,635		173,635	50,563	26,905	251,103
Leases and rentals	217,434		217,434	6,185	16,933	240,552
Postage and shipping	102,991	128	103,119	5,160	81,094	189,373
Insurance	112,783	23,344	136,127	20,070	27,413	183,610
Printing and reproduction	9,954	15	9,969	2,352	154,271	166,592
Repairs and maintenance	106,402	238	106,640	20,092	20,108	146,840
Telephone	59,824	77	59,901	14,875	30,477	105,253
Advertising and promotion				696	97,304	98,000
Utilities	23,949	395	24,344	33,041	14,723	72,108
Dues and subscriptions	17,780		17,780	7,823	21,372	46,975
Interest and finance charges				13,760		13,760
Other	14,250		14,250	6,178	3,883	24,311
Total expenses	<u>\$12,153,421</u>	<u>\$ 2,132,716</u>	<u>\$14,286,137</u>	<u>\$ 1,144,617</u>	<u>\$ 3,027,920</u>	<u>\$18,458,674</u>

\*Water Access, Sanitation and Hygiene

*See accompanying notes to consolidated financial statements.*

## Living Water International

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

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>SHORT-TERM MISSION TRIPS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING AND DIRECT DONOR BENEFITS</u>	<u>TOTAL EXPENSES</u>
Water drilling and equipment project costs	\$ 6,472,882		\$ 6,472,882			\$ 6,472,882
Salaries and related benefits	1,327,786	\$ 253,166	1,580,952	\$ 738,683	\$ 1,073,822	3,393,457
Travel, meals, and lodging	677,241	1,234,482	1,911,723	43,511	287,852	2,243,086
Professional fees	145,485		145,485	77,980	253,860	477,325
Contract labor	702,175	2,958	705,133	20,447	102,682	828,262
Materials and supplies	424,339	4,042	428,381	15,253	81,323	524,957
Grants	710,156		710,156			710,156
License permits and fees	134,022	1,998	136,020	31,244	107,027	274,291
Depreciation	58,102		58,102	63,694	30,316	152,112
Leases and rentals	236,279		236,279	8,447	7,329	252,055
Postage and shipping	105,341		105,341	6,154	91,203	202,698
Insurance	62,100	18,227	80,327	17,358	23,664	121,349
Printing and reproduction	7,049		7,049	2,616	152,690	162,355
Repairs and maintenance	218,589	1,673	220,262	15,609	12,061	247,932
Telephone	52,402		52,402	14,603	32,413	99,418
Advertising and promotion					28,289	28,289
Utilities	18,226		18,226	23,101	14,619	55,946
Dues and subscriptions	8,894		8,894	9,418	25,617	43,929
Interest and finance charges				22,878		22,878
Other	16,682		16,682	16,689	4,511	37,882
Total expenses	<u>\$11,377,750</u>	<u>\$ 1,516,546</u>	<u>\$12,894,296</u>	<u>\$ 1,127,685</u>	<u>\$ 2,329,278</u>	<u>\$16,351,259</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 December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 2,384,069	\$ 1,059,282
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	251,103	152,112
Assets acquired through consolidation of affiliates	(233,466)	
Equipment transferred to unconsolidated affiliates	120,430	
Changes in operating assets and liabilities:		
Pledges receivable	(877,012)	615,466
Prepaid expenses and other assets	94,077	74,938
Accounts payable	(114,557)	137,015
Accrued expenses	<u>304,579</u>	<u>38,777</u>
Net cash provided by operating activities	<u>1,929,223</u>	<u>2,077,590</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(1,503,145)	(250,128)
Net change in money market mutual funds held as investments	(1,200,204)	
Purchase of property and equipment	<u>(824,625)</u>	<u>(77,860)</u>
Net cash used by investing activities	<u>(3,527,974)</u>	<u>(327,988)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of notes payable	<u>(231,579)</u>	<u>(51,102)</u>
Net cash used by financing activities	<u>(231,579)</u>	<u>(51,102)</u>
<b>NET CHANGE IN CASH</b>	(1,830,330)	1,698,500
Cash, beginning of year	<u>4,124,264</u>	<u>2,425,764</u>
Cash, end of year	<u>\$ 2,293,934</u>	<u>\$ 4,124,264</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$10,626	\$16,072
Contribution of marketable securities	\$344,000	\$447,000

*See accompanying notes to consolidated financial statements.*

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# Living Water International

Notes to Consolidated Financial Statements for the years ended December 31, 2011 and 2010

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## 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 summarized in two inter-related programs as follows:

- *WASH and Christian Witness* – In 2011, LWI celebrated its 21<sup>st</sup> year of ministry and completed its 11,266<sup>th</sup> water project, which included drilling new water wells, harvesting water, and the rehabilitation of non-working wells in 25 under-developed countries. The organization believes that proper health and hygiene practices multiply the benefits of clean water. LWI staff and volunteers teach Christian Witness strategies and hygiene and sanitation practices in developing countries and provide training to empower and inspire people to serve the thirsty.
- *Short-term mission trips* – 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.

Basis of consolidation – Significant intercompany transactions and balances have been eliminated in consolidation. Gains and losses from the transaction of foreign currency financial statements are recorded in the consolidated statement of activities.

Federal income tax status – LWI 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). LWI files annual federal information returns. LWI is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. LWI believes it is no longer subject to examinations of returns for tax years ending before December 31, 2008.

Investments are reported at fair value.

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.

Property and equipment is reported at cost, if purchased, or at estimated fair value at the date of gift, if donated. Property and equipment purchases over \$5,000 are capitalized. Equipment purchased for unconsolidated 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 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 materials are used. LWI received approximately \$197,000 in 2011 and \$65,000 in 2010 in contributed program supplies and materials. 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.

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 – INVESTMENTS AND FAIR VALUE MEASUREMENT**

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

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

Assets measured at fair value at December 31, 2011 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Bond mutual funds	\$ 1,503,144			\$ 1,503,144
Money market mutual funds	<u>1,450,333</u>			<u>1,450,333</u>
Total assets measured at fair value	<u>\$ 2,953,477</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,953,477</u>

Assets measured at fair value at December 31, 2010 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds	\$ 250,128			\$ 250,128
Total assets measured at fair value	<u>\$ 250,128</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 250,128</u>

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

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

### **NOTE 3 – PLEDGES RECEIVABLE**

At December 31, 2011, pledges receivable are expected to be collected as follows:

2012	\$ 717,200
2013-2014	<u>392,000</u>
Total pledges receivable	<u>\$ 1,109,200</u>

### **NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 404,738	\$ 404,738
Building and improvements	2,650,663	2,650,663
Drilling equipment	427,710	225,815
Equipment pending assignment	445,838	
Office and computer equipment	136,622	136,622
Furniture and fixtures	129,949	120,397
Vehicles	<u>477,687</u>	<u>78,410</u>
Total property and equipment, at cost	4,673,207	3,616,645
Accumulated depreciation	<u>(999,322)</u>	<u>(629,318)</u>
Property and equipment, net	<u>\$ 3,673,885</u>	<u>\$ 2,987,327</u>

## NOTE 5 – DEBT

*Notes Payable* – At December 31, 2010, LWI notes payable consisted of \$231,579 due to the Overseas Private Investment Corporation. These amounts were repaid in 2011.

*Line of Credit* – LWI has a \$1,000,000 unsecured revolving line of credit with a bank expiring November 2012. Draws on the line bear interest at 1.25% above the bank's prime lending rate. There were no draws during the year resulting in no outstanding balance on the line of credit at December 31, 2011.

## NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Water well programs:		
Ethiopia	\$ 936,600	\$ 490,326
Haiti	716,858	818,750
Rwanda	365,682	
Uganda	280,066	140,684
Honduras	105,151	27,376
El Salvador	104,885	68,146
Sierra Leone	87,000	154,847
Peru	61,000	46,000
India	44,668	42,152
Burkina Faso	30,000	59,230
Other countries	75	60,008
Equipment	138,000	
Restricted for future periods	<u>453,200</u>	<u>14,400</u>
Total temporarily restricted net assets	<u>\$ 3,323,185</u>	<u>\$ 1,921,919</u>

## NOTE 7 – AFFILIATES

LWI is in the process of restructuring its international activities by establishing international branch offices and revising operating agreements with other nonprofits in developing countries. Effective January 1, 2011, LWI had five international affiliates with net assets totaling \$386,794 which met the criteria for consolidation (Living Water International Zambia, Living Water Service Centre (Kenya), Living Water International (Burundi), Living Water International Canada and Foundation Living Water International (Haiti)).

As of December 31, 2011, LWI has three other affiliates in which it has an economic interest and indirect control and are therefore not required to be consolidated. During 2011, LWI funding of these affiliates totaled \$2,189,721 and is included in LWI's financial statements in program expenses. Summarized financial information for the year ended December 31, 2011 related to these affiliates is presented as follows:

	<u>LWI RWANDA</u>	<u>LWI LIBERIA</u>	<u>LWI UGANDA</u>
Total assets and net assets	\$112,134	\$163,612	\$206,863
Total revenue	\$772,995	\$518,383	\$630,919
Total expenses	\$710,365	\$406,222	\$565,707

At December 31, 2011, accrued expenses of LWI include approximately \$137,000 in amounts payable to these entities.

#### **NOTE 8 – EXPENDITURES IN DEVELOPING COUNTRIES**

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

	<u>2011</u>	<u>2010</u>
Africa	\$ 8,385,576	\$ 7,516,089
Americas	5,381,371	4,916,069
Asia	<u>519,190</u>	<u>462,138</u>
Total program expenses	<u>\$ 14,286,137</u>	<u>\$ 12,894,296</u>

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 (those listed with an asterisk are currently in the process of being converted to an affiliate of LWI):

<u>Country</u>	<u>Name of Organizations</u>
Angola	By Provision
Brazil	Amazon Outreach
Central African Republic	Integrated Community Development International
El Salvador*	Agua Viva Internacional
Ethiopia	Ethiopian Kale Heywet Church; Water is Life International
Ghana	APF Ministries; African Assistance Plan
Guatemala*	Asociación Pozos Agua Viva
Honduras*	Living Water Medical Ministries
India*	Sampurn Development India; Living Water India
Kenya	Serve International
Mexico*	Living Water Internacional, Puebla, Mission Resource International
Namibia	By Provision
Nigeria	Relief Network Ministries
Peru	Tommy Head Peru Ministries
Uganda	Life Giving Water
Zambia	Water for the Oppressed
Zimbabwe	Global Water Partners

#### **NOTE 9 – RELATED PARTY TRANSACTIONS**

LWI entered into contracting agreements with vendors with payments totaling approximately \$73,000 in 2011 and \$97,000 in 2010, in which the principal contractors are immediate family members of the Executive Vice President of LWI. Approximately \$48,000 in 2011 and \$59,000 in 2010 was paid to an in-country implementing contractor who is an immediate family member of a Vice President of LWI. In 2011, approximately \$515,000 was paid to an in-country implementing contractor who is an immediate family member of LWI employees.

#### **NOTE 10 – EMPLOYEE BENEFIT PLANS**

LWI maintains a defined-contribution §403(b) plan. LWI matches employee contributions up to 5% of compensation. Employees are fully-vested in LWI's contributions after one year. LWI contributed approximately \$105,000 to the plan in 2011.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 14, 2012, 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.

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