

**Lifewater International, Inc.**

**Financial Statements**

**Year Ended March 31, 2011**

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**Financial Statements**  
**Year Ended March 31, 2011**

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**Principals:**

David W. Phillips, CPA  
David A. Bryson, CPA  
Jeanne A. Potter, CPA  
Daniel J. O'Hare, CPA  
Kathi Niffenegger, CPA  
Fred W. Bogart, CPA  
Allen E. Eschenbach, CPA  
Michael T. Glauzel, CPA  
R. Lance Cowart, CPA  
David J. Merlo, CPA



**CERTIFIED PUBLIC ACCOUNTANTS  
TAX AND BUSINESS ADVISORS**

**Emeritus:**

Fred L. Glenn  
Stephen A. Burdette  
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

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**Independent Auditors' Report**

Board of Directors  
Lifewater International, Inc.  
San Luis Obispo, California

We have audited the accompanying statement of financial position of Lifewater International, Inc. (a non-profit organization) as of March 31, 2011, and the related statements of activities, functional expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides 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 Lifewater International Inc. as of March 31, 2011, and the changes in its net assets and its cash flows for the year 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 our report dated August 24, 2011, on our consideration of Lifewater International Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.

Glenn Burdette  
Certified Public Accountants  
San Luis Obispo, California  
August 24, 2011

**Lifewater International, Inc.**  
**Statement of Financial Position**  
**March 31, 2011**

**Assets**

**Current assets:**

Cash and cash equivalents	\$ 399,482
Accounts receivable	1,130
Prepaid expenses	6,500
Total current assets	<u>407,112</u>

**Fixed assets, net of accumulated depreciation**

42,615

**Other assets:**

Certificate of deposit	11,736
Unconditional promises to give, net	332,832
Deposit	7,500
	<u>351,068</u>

Total assets

\$ 801,795

**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable	\$ 60,205
Payroll liabilities	83,056
Credit card liabilities	7,135
Accrued vacation	33,355
Other accrued liabilities	13,567
Refundable advance	74,650
Total current liabilities	<u>271,968</u>

**Net assets:**

Unrestricted	(3,733)
Temporarily restricted	533,560
Total net assets	<u>529,827</u>

Total liabilities and net assets

\$ 801,795

*The accompanying notes are an integral part of this financial statement.*

**Lifewater International, Inc.**  
**Statement of Activities**  
**Year Ended March 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>			
Contributions	\$ 749,195	\$ 773,993	\$ 1,523,188
Grants		311,854	311,854
In-kind contributions	428,762		428,762
Program fees	79,061		79,061
Merchandise sales	8,248		8,248
Interest	2,042		2,042
Total revenues and other support	<u>1,267,308</u>	<u>1,085,847</u>	<u>2,353,155</u>
 <b>Net assets released from restrictions</b>	 <u>817,183</u>	 <u>(817,183)</u>	 <u>-</u>
 <b>Expenses:</b>			
Water projects	1,744,863		1,744,863
Conferences and training	146,872		146,872
General and administration	615,270		615,270
Fundraising	320,858		320,858
Total expenses	<u>2,827,862</u>		<u>2,827,862</u>
 Change in net assets	 <u>\$ (743,371)</u>	 <u>\$ 268,664</u>	 <u>\$ (474,707)</u>

*The accompanying notes are an integral part of this financial statement.*

**Lifewater International, Inc.**  
**Statement of Functional Expenses**  
**Year Ended March 31, 2011**

	<u>Program Services</u>		<u>Support Services</u>		<u>Total</u>
	<u>Water Projects</u>	<u>Conference and Training</u>	<u>General and Administration</u>	<u>Fund- Raising</u>	
Advertising	\$	\$	\$	\$ 6,168	\$ 6,168
Bank fees		1	5,775		5,776
Board of directors			4,179	703	4,882
Campaigns			83	31,056	31,139
Credit card fees			7,444	532	7,976
Depreciation			13,328		13,328
Dues and subscriptions		130	5,750	9,965	15,845
Employee benefits	33,985	18,874	31,984	16,326	101,168
Insurance			5,436		5,436
Licenses and fees			3,429		3,429
Millenium Water Alliance fees	11,500				11,500
Miscellaneous expense			274	3,966	4,240
Office and other supplies	1,187	345	3,493	962	5,987
Payroll taxes	17,771	10,384	23,118	16,494	67,767
Postage and delivery	299		7,354	2,197	9,850
Printing and publications	102	242	8,328	23,412	32,085
Professional fees	50,000	1,679	72,471	32,101	156,252
Professional fees (in-kind)	428,762				428,762
Projects: outside personnel, water wells, equipment and other	1,025,571	408			1,025,979
Recruiting			824		824
Rent	5,945	252	88,437		94,634
Repairs and maintenance	1,193	13	5,927	774	7,907
Salaries, wages and related expenses	149,600	104,595	239,333	159,614	653,142
Staff development		87	6,416	581	7,084
Telephone and internet	3,830	1,080	6,210	1,292	12,412
Travel and conferences	15,118	798	22,895	1,479	40,289
Vacation		5,055	40,044	13,237	58,336
Website		2,928			2,928
Workers' compensation			12,738		12,738
	<u>\$ 1,744,863</u>	<u>\$ 146,872</u>	<u>\$ 615,270</u>	<u>\$ 320,858</u>	<u>\$ 2,827,862</u>

*The accompanying notes are an integral part of this financial statement.*

**Lifewater International, Inc.**  
**Statement of Changes in Net Assets**  
**Year Ended March 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Net assets - beginning of year</b>	\$ 739,638	\$ 264,896	\$ 1,004,534
Change in net assets	<u>(743,371)</u>	<u>268,664</u>	<u>(474,707)</u>
<b>Net assets - end of year</b>	<u>\$ (3,733)</u>	<u>\$ 533,560</u>	<u>\$ 529,827</u>

*The accompanying notes are an integral part of this financial statement.*

**Lifewater International, Inc.**  
**Statement of Cash Flows**  
**Year Ended March 31, 2011**

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (474,707)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation expense	13,328
Change in operating assets and liabilities:	
Accounts receivable	(337)
Prepaid expenses	(6,500)
Partner advances	11,303
Unconditional promises to give, net	67,143
Accounts payable	35,876
Payroll liabilities	58,492
Credit card liabilities	304
Accrued vacation	(4,401)
Other accrued liabilities	9,096
Refundable advance	28,015
Net cash used in operating activities	<u>(262,388)</u>
<b>Cash flows from investing activities:</b>	
Interest reinvested in certificate of deposit	<u>(25)</u>
Net cash used in investing activities	<u>(25)</u>
<b>Cash and cash equivalents - beginning of year</b>	<u>661,895</u>
<b>Cash and cash equivalents - end of year</b>	<u><u>\$ 399,482</u></u>

*The accompanying notes are an integral part of this financial statement.*

**Lifewater International, Inc.**  
**Notes to Financial Statements**  
**March 31, 2011**

**Note 1: Nature of Business**

Lifewater International, Inc. (the Organization), a California non-profit organization, was established and incorporated on April 26, 1984. The Organization's purpose is to transfer water resource management information, design, technology, and equipment from the more affluent, technologically developed countries to the poor people of disadvantaged countries around the world. Lifewater is a Christian organization of water resource management specialists who will carry out this objective as a technical resource group primarily serving relief and development mission agencies, local and national churches, and other requesting groups.

**Note 2: Summary of Significant Accounting Policies**

**Financial Statement Presentation**

The financial statements have been prepared on the accrual basis of accounting, which requires that revenues be recorded when earned and expenses be recorded when incurred. Revenues from grants are recorded as the costs related to performance of the grant requirements are incurred. Revenues from other sources are recognized when earned. Net unreimbursed grant expenses are recorded as grants receivable and net cash advances in excess of grant expenses are recorded as refundable advances in the accompanying financial statements.

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 – Not for Profit Entities, the Organization is required to classify its financial position and activities for accounting and reporting purposes into three classes of net assets according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

In accordance with FASB ASC 958 – Not for Profit Entities, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restriction when the donor stipulated time restriction ends or the purpose restriction is accomplished by the Organization. All gifts granted to the Organization are recorded at fair market value at the time of receipt.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Included in this balance is \$200,768 of cash with donor imposed restrictions that is to be used for specific projects as well as \$100,875 maintained in a separate bank account, in accordance with United States Agency for International Development (USAID) grant requirements. Management expects these monies to be spent within one year.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable**

The Organization has not recorded an allowance for doubtful accounts since management believes that accounts receivable are collectible. Any bad debts in the future would be charged off as incurred.

**Partner Advances**

Partner advances consist of funds advanced to partner entities that were unspent as of March 31, 2011. The Organization enters into written agreements with these entities for the purpose of carrying out various projects in foreign countries on behalf of the Organization. At March 31, 2011, the Organization did not have any partner advances.

**Fixed Assets**

Fixed assets purchased are recorded at cost. Donated property is recorded at fair market value on the date received. Such donations are recorded as unrestricted support unless the donor stipulates how the assets must be used. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 7 years. The Organization capitalizes assets greater than \$3,500 that have a useful life in excess of one year.

**Unconditional Promises to Give**

The fair value of unconditional promises to give is estimated based on the net realizable value of the promise as well as a current discount factor applied to the estimated future cash flows initially recorded. The net realizable value of unconditional promises to give consists of an initial reduction of \$120,000 for estimated uncollectible promises.

**Use of Estimates**

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fair Value Measurements**

Effective April 1, 2010, the Organization records its financial assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of FASB Accounting Standards Codification (the "Topic"). This Topic provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding

**Note 2: Summary of Significant Accounting Policies (Continued)**

fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Topic also establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

*Level 2:* Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

This hierarchy requires the Organization to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. As of March 31, 2011, the Organization did not have any financial assets or liabilities that require measurement at fair value.

**Income Taxes**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income taxes.

Income Taxes Topic of FASB Accounting Standards Codification requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of March 31, 2011, the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. The Organization has not provided for income tax provision in financial statements since unrelated business income tax is expected to be immaterial. Although the Organization does not maintain any uncertain tax positions, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after March 31, 2008 and by the California Franchise Tax Board for fiscal years ending on or after March 31, 2007.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**In-Kind Support - Donated Services**

The Organization receives donated services which are recorded in the financial statements if the services received (a) create or enhance long-lived assets or (b) require specialized skills or training and would typically need to be purchased if not provided by donation. In-kind services consist primarily of professionals and engineers with water management expertise. The amounts reflected in the financial statements as in-kind services are offset by like amounts as cost of in-kind services. The donated services are valued at \$75 per hour, which is the standard fee for these types of professional services. The contributed services are also used to meet matching requirements on a federal grant. The value of donated services included in the financial statements was \$428,762 as of March 31, 2011.

**Advertising Costs**

Advertising costs are expensed as incurred. For the year ended March 31, 2011, advertising costs totaled \$6,168.

**Concentrations**

*Credit Risk:*

At March 31, 2011, the Organization's checking and related deposit accounts were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 with temporary unlimited coverage for non-interest-bearing accounts held by participating financial institutions. At March 31, 2011, the Organization had no deposits in excess of the FDIC's insured limit.

*Major Granting Agencies:*

At March 31, 2011, one government agency accounted for approximately 16% of the Organization's total revenues.

**Functional Allocations**

The cost of providing the various program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

**Subsequent Events**

Events subsequent to March 31, 2011, have been evaluated through August 24, 2011, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

**Lifewater International, Inc.**  
**Notes to Financial Statements**  
**March 31, 2011**  
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**Note 3: Unconditional Promises to Give**

At March 31, 2011, unconditional promises to give were as follows:

Unconditional promises to give	\$ 360,000
Less unamortized discount	<u>(27,168)</u>
Net unconditional promises to give	<u>\$ 332,832</u>
Amounts due in:	
Less than one year	\$ 60,000
One to five years	300,000
More than five years	<u>120,000</u>
Subtotal	480,000
Less reduction for uncollectible promises	<u>(120,000)</u>
Total	<u>\$ 360,000</u>

Amounts receivable after one year are discounted using a rate of 3.25% (prime rate at March 31, 2011). Under accounting principles generally accepted in the United States of America, the original estimate of future cash flows is not increased for anticipated increases in estimated collections between the time the promises are recorded and collected. Amounts collected in excess of the net unconditional promises to give will be recorded as contributions revenue when received. Decreases in the estimate of future collections are recorded as expenses and a reduction in unconditional promises to give in the Organization's financial statements.

The Organization has also received a conditional promise to give in the amount of \$240,000 from one donor to be disbursed through June 2012 as long as the donor is able to raise those funds. This has not been recorded as unconditional promises to give in the Organization's financial statements.

**Note 4: Fixed Assets**

At March 31, 2011, fixed assets were comprised of the following:

Furniture and fixtures	\$ 37,856
Office machinery and equipment	47,421
Computer database and software	<u>74,653</u>
	159,930
Less accumulated depreciation	<u>(117,315)</u>
Fixed assets, net of accumulated depreciation	<u>\$ 42,615</u>

**Lifewater International, Inc.**  
**Notes to Financial Statements**  
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**Note 4: Fixed Assets (Continued)**

Included in the furniture and fixtures balance is \$21,405 of donated furniture that is currently non-depreciable as it has not been placed into service as of March 31, 2011 and is stored in an off-site location.

**Note 5: Retirement Plan**

The Organization has a qualified 403(b) retirement plan. Employees who have completed one month of service are eligible to participate in the plan and are immediately 100% vested in employee contributions. The Organization, at its discretion, can make employer contributions at a pre-determined rate. For the year ended March 31, 2011, there were no employer contributions.

**Note 6: Related Parties**

For the year ended March 31, 2011, one board member served as interim Chief Executive Officer for a 3-month period and received \$7,961 in compensation and another board member provided consulting services to the Organization and received \$15,000 in compensation.