

Lifewater International, Inc.

Financial Statements

Year Ended March 31, 2010

LIFEWATER INTERNATIONAL, INC.
FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2010

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TAX AND BUSINESS ADVISORS

Emeritus:
Fred L. Glenn
Stephen A. Burdette
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Keith V. Lapp (1932-2008)

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, 2010, and the related statements of activities, functional expenses, 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, 2010, 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 June 11, 2010, 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, Phillips & Bryson
Certified Public Accountants
A Professional Corporation
San Luis Obispo, California

June 11, 2010

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LIFEWATER INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2010

ASSETS

<u>Current Assets</u>	
Cash and cash equivalents	\$ 661,895
Certificate of deposit	11,711
Accounts receivable	793
Partner advances	11,303
Total current assets	<u>685,702</u>
<u>Fixed Assets, Net</u>	55,943
<u>Other Assets</u>	
Unconditional promises to give, net	399,975
Deposit	7,500
	<u>407,475</u>
Total Assets	<u>\$ 1,149,120</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>	
Accounts payable	\$ 24,329
Payroll liabilities	24,564
Credit card liabilities	6,831
Accrued vacation	37,756
Other accrued liabilities	4,471
Refundable advance	46,635
Total current liabilities	<u>144,586</u>
<u>Net Assets</u>	
Unrestricted	739,638
Temporarily restricted	264,896
Total net assets	<u>1,004,534</u>
Total Liabilities and Net Assets	<u>\$ 1,149,120</u>

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

LIFEWATER INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Other Revenue</u>			
Contributions	\$ 1,251,261	\$ 999,274	\$ 2,250,535
Grants	862	192,548	193,410
In-kind contributions	586,178		586,178
Program fees	98,747		98,747
Interest	1,874		1,874
Total support and other revenue	<u>1,938,922</u>	<u>1,191,822</u>	<u>3,130,744</u>
<u>Net assets released from restrictions</u>	<u>1,112,489</u>	<u>(1,112,489)</u>	<u>-</u>
<u>Expenses</u>			
Water projects	2,055,134		2,055,134
Conferences and training	327,609		327,609
General and administration	303,884		303,884
Fundraising	233,039		233,039
Total expenses	<u>2,919,666</u>		<u>2,919,666</u>
<u>Increase in Net Assets</u>	131,745	79,333	211,078
<u>Net Assets - March 31, 2009</u>	<u>607,893</u>	<u>185,563</u>	<u>793,456</u>
<u>Net Assets - March 31, 2010</u>	<u>\$ 739,638</u>	<u>\$ 264,896</u>	<u>\$ 1,004,534</u>

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

LIFEWATER INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2010

	<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	\$ 7,550	\$ 390	\$ 135	\$ 12,785	\$ 20,860
Bank fees			1,772		1,772
Board of directors			118		118
Campaigns	10,788			8,918	19,706
Credit card fees			5,817		5,817
Depreciation	12,522		4,175		16,697
Dues and subscriptions			10,816		10,816
Employee benefits	33,531	31,369	13,473	12,223	90,596
Insurance	915	124	3,563	780	5,382
Licenses and fees			1,465		1,465
Loss on disposal of fixed assets	1,460	174	5,578	1,476	8,688
Millenium Water Alliance fees	15,809				15,809
Miscellaneous expense	375	152	1,207	205	1,939
Office and other supplies	986	2,984	9,198	1,742	14,910
Payroll taxes	15,111	17,743	8,374	16,335	57,563
Postage and delivery	9,728	2,432	2,027	2,026	16,213
Printing and publications	24,774			38,079	62,853
Professional fees	25,196	13,150	31,597	8,388	78,331
Professional fees (in-kind)	586,178				586,178
Projects: outside personnel, water wells, equipment and other	929,218				929,218
Recruiting			1,776		1,776
Rent	23,555	23,555	23,558	23,555	94,223
Repairs and maintenance	440	331	2,084	1,143	3,998
Salaries, wages and related expenses	316,285	218,099	138,750	93,226	766,360
Staff development		211	7,320	855	8,386
Telephone and internet	1,990	310	7,640		9,940
Travel and conferences	21,405	2,937	10,937	5,682	40,961
Vacation	12,103	13,648	8,453	3,552	37,756
Website	5,215			2,069	7,284
Worker's compensation			4,051		4,051
	<u>\$ 2,055,134</u>	<u>\$ 327,609</u>	<u>\$ 303,884</u>	<u>\$ 233,039</u>	<u>\$ 2,919,666</u>

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

LIFEWATER INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010

Note 1 - Summary of Significant Accounting Policies

A. Organization

Lifewater International, Inc. (the Organization), a California non-profit, 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.

B. Basis of Accounting

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.

C. Financial Statement Presentation

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.

D. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

E. 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 \$586,178 as of March 31, 2010.

F. Fair Value Measurements

Effective April 1, 2009, 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 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 Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. As of March 31, 2010, the Company does not have any financial assets or liabilities that require measurement at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

G. 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, 2010, the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. 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, 2007 and by the California Franchise Tax Board for fiscal years ending on or after March 31, 2006.

II. 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 \$264,896 of cash with donor imposed restrictions that it be used for specific projects as well as \$51,869 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.

The Organization maintains cash balances at a bank that participates in the "Transaction Account Guarantee Program". This program provides for non-interest bearing transaction accounts to be fully guaranteed by the Federal Deposit Insurance Corporation (FDIC) for the entire amount held in deposit with the participating bank and insures up to \$250,000 for interest-bearing accounts. At March 31, 2010, the Organization had \$6,441 in excess of FDIC's insured limit.

I. 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.

The Organization received approximately 10% of its funding from one private foundation, Blood: Water Mission.

J. Partner Advances

Partner advances consist of funds advanced to partner entities that were unspent as of March 31, 2010. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

K. 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 does not currently have a capitalization policy.

L. 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 \$135,000 for estimated uncollectible promises.

M. 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.

N. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the year ended March 31, 2010 totaled \$20,860.

O. Subsequent Events

Subsequent events have been evaluated through June 11, 2010, which is the date the financial statements were available to be issued.

LIFEWATER INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010
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Note 2 - Unconditional Promises to Give

Unconditional promises to give as of March 31, 2010, are as follows:

Unconditional promises to give	\$ 435,000
Less unamortized discount	<u>(35,025)</u>
Net unconditional promises to give	<u>\$ 399,975</u>
Amounts due in:	
Less than one year	\$ 90,000
One to five years	240,000
More than five years	<u>240,000</u>
Subtotal	570,000
Less reduction for uncollectible promises	<u>(135,000)</u>
Total	<u>\$ 435,000</u>

Amounts receivable after one year are discounted using a rate of 3.25 percent (prime rate at March 31, 2010). 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 accompanying financial statements.

The Organization has also received a conditional promise to give in the amount of \$495,000 from Blood: Water Mission 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 accompanying financial statements.

Note 3 - Fixed Assets

Fixed assets are comprised of the following at March 31, 2010:

Furniture and fixtures	\$ 37,856
Machinery and equipment	47,421
Computer database and software	<u>74,653</u>
Subtotal	159,930
Less accumulated depreciation	<u>(103,987)</u>
Totals	<u>\$ 55,943</u>

Depreciation for the year ended March 31, 2010 was \$16,697. 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, 2010 and is stored in an off-site location.

LIFEWATER INTERNATIONAL, INC.
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Note 4 - 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 as the Organization makes no employer contributions.