



**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**LIFEWATER, INC.
dba
LIFEWATER INTERNATIONAL**

March 31, 2015

LIFEWATER INTERNATIONAL

March 31, 2015

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors of Lifewater International

We have audited the accompanying financial statements of Lifewater, Inc. dba Lifewater International (Lifewater) which comprise the statements of financial position as of March 31, 2015 and 2014 and the related statements of activities, functional expenses, and 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

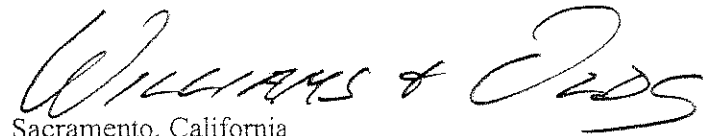
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 financial position of Lifewater International as of March 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Sacramento, California
June 2, 2015

LIFEWATER INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 306,211	\$ 539,043
Grants and contributions receivable	138,701	114,061
Bequests receivable, net - Note C	352,540	235,651
Other receivables	5,465	1,100
Prepaid expenses and deposits	26,546	21,830
Inventory	23,418	1,958
Furniture and equipment, less accumulated depreciation of \$41,003 in 2015 and \$23,659 in 2014	<u>82,337</u>	<u>33,365</u>
TOTAL ASSETS	\$ <u>935,218</u>	\$ <u>947,008</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 26,686	\$ 7,095
Accrued expenses	<u>73,720</u>	<u>39,786</u>
TOTAL LIABILITIES	100,406	46,881
 COMMITMENTS - Note D	 -	 -
 NET ASSETS		
Unrestricted	301,791	546,476
Temporarily restricted - Note F	<u>533,021</u>	<u>353,651</u>
	<u>834,812</u>	<u>900,127</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>935,218</u>	\$ <u>947,008</u>

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions and bequests	\$ 1,601,603	\$ 572,360	\$ 2,173,963
In-kind contributions - Note B	170,396	658	171,054
Government grants	46,480	-	46,480
Program fees	44,909	6,412	51,321
Special events, net of direct expenses of \$62,549	112,269	-	112,269
Merchandise sales	15,916	-	15,916
Other income	41,080	-	41,080
<i>Net assets released from restrictions</i>	<u>400,060</u>	<u>(400,060)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	2,432,713	179,370	2,612,083
EXPENSES			
Program services	1,924,240	-	1,924,240
Supporting services			
General and administrative	446,777	-	446,777
Fundraising	<u>306,381</u>	<u>-</u>	<u>306,381</u>
Total supporting services	<u>753,158</u>	<u>-</u>	<u>753,158</u>
TOTAL EXPENSES	<u>2,677,398</u>	<u>-</u>	<u>2,677,398</u>
CHANGE IN NET ASSETS	(244,685)	179,370	(65,315)
NET ASSETS AT BEGINNING OF YEAR	<u>546,476</u>	<u>353,651</u>	<u>900,127</u>
NET ASSETS AT END OF YEAR	<u>\$ 301,791</u>	<u>\$ 533,021</u>	<u>\$ 834,812</u>

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions and bequests	\$ 1,401,560	\$ 137,000	\$ 1,538,560
In-kind contributions - Note B	239,046	-	239,046
Government grants	263,522	-	263,522
Program fees	85,572	-	85,572
Special events, net of direct expenses of \$11,176	124,709	-	124,709
Merchandise sales	697	-	697
Other income	5,893	-	5,893
<i>Net assets released from restrictions</i>	<u>266,373</u>	<u>(266,373)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	2,387,372	(129,373)	2,257,999
EXPENSES			
Program services	1,616,351	-	1,616,351
Supporting services			
General and administrative	342,020	-	342,020
Fundraising	<u>295,795</u>	<u>-</u>	<u>295,795</u>
Total supporting services	<u>637,815</u>	<u>-</u>	<u>637,815</u>
TOTAL EXPENSES	<u>2,254,166</u>	<u>-</u>	<u>2,254,166</u>
CHANGE IN NET ASSETS	133,206	(129,373)	3,833
NET ASSETS AT BEGINNING OF YEAR	<u>413,270</u>	<u>483,024</u>	<u>896,294</u>
NET ASSETS AT END OF YEAR	<u>\$ 546,476</u>	<u>\$ 353,651</u>	<u>\$ 900,127</u>

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2015

	<u>Program</u> <u>Services</u>	<u>Supporting Services</u>			<u>Total</u> <u>Expenses</u>
		<u>General and</u> <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries	\$ 402,349	\$ 167,645	\$ 100,587	\$ 268,232	\$ 670,581
Payroll taxes and benefits	85,912	35,797	21,478	57,275	143,187
Total salaries and related costs	488,261	203,442	122,065	325,507	813,768
Project costs	1,162,727	-	-	-	1,162,727
Professional services	60,504	55,456	44,515	99,971	160,475
Donated goods and services - Note B	57,567	20,943	61,531	82,474	140,041
Campaigns	-	4,620	70,365	74,985	74,985
Occupancy	40,187	26,791	-	26,791	66,978
Supplies	29,621	19,747	-	19,747	49,368
Travel and conferences	-	34,973	-	34,973	34,973
Donated professional services - Note B	22,624	8,269	120	8,389	31,013
Computer services	17,771	11,847	-	11,847	29,618
Licenses and fees	-	28,430	-	28,430	28,430
Printing and copying	12,041	8,027	-	8,027	20,068
Depreciation	10,407	-	6,937	6,937	17,344
Telephone	6,944	4,629	-	4,629	11,573
Postage, shipping and delivery	6,863	4,575	-	4,575	11,438
Dues and subscriptions	1,510	7,274	-	7,274	8,784
Insurance	4,069	2,712	-	2,712	6,781
Staff development	2,076	1,384	-	1,384	3,460
Meetings	-	52	-	52	52
Repairs and maintenance	21	14	-	14	35
Miscellaneous	1,047	3,592	848	4,440	5,487
	<u>\$ 1,924,240</u>	<u>\$ 446,777</u>	<u>\$ 306,381</u>	<u>\$ 753,158</u>	<u>\$ 2,677,398</u>

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2014

	Program Services	Supporting Services			Total Expenses
		General and Administrative	Fundraising	Total	
Salaries	\$ 250,661	\$ 106,814	\$ 156,582	\$ 263,396	\$ 514,057
Payroll taxes and benefits	48,629	20,720	30,377	51,097	99,726
Total salaries and related costs	299,290	127,534	186,959	314,493	613,783
Project costs	985,040	234	85	319	985,359
Professional services	83,458	52,200	12,835	65,035	148,493
Donated goods and services - Note B	85,582	58,021	1,451	59,472	145,054
Campaigns	55	12,701	24,988	37,689	37,744
Occupancy	21,050	6,882	12,549	19,431	40,481
Supplies	14,208	4,645	8,470	13,115	27,323
Travel and conferences	7,735	10,447	2,388	12,835	20,570
Donated professional services - Note B	55,455	37,597	940	38,537	93,992
Computer services	7,158	2,365	4,591	6,956	14,114
Licenses and fees	2,860	5,919	10,991	16,910	19,770
Printing and copying	10,424	3,408	6,214	9,622	20,046
Depreciation	5,119	1,674	3,051	4,725	9,844
Telephone	4,468	1,461	2,664	4,125	8,593
Postage, shipping and delivery	23,358	7,636	13,925	21,561	44,919
Dues and subscriptions	577	3,650	1,276	4,926	5,503
Insurance	2,700	883	1,610	2,493	5,193
Staff development	866	2,661	-	2,661	3,527
Meetings	3,525	58	291	349	3,874
Repairs and maintenance	792	259	472	731	1,523
Miscellaneous	2,631	1,785	45	1,830	4,461
	<u>\$ 1,616,351</u>	<u>\$ 342,020</u>	<u>\$ 295,795</u>	<u>\$ 637,815</u>	<u>\$ 2,254,166</u>

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (65,315)	\$ 3,833
<i>Adjustments to reconcile the change in net assets to net cash used in operating activities:</i>		
Depreciation	17,344	9,844
Assets acquired through merger	(6,802)	-
<i>(Increase) decrease in operating assets:</i>		
Receivables, net	(145,894)	(121,400)
Prepaid expenses and deposits	(4,716)	(18,165)
Inventory	(21,460)	(1,958)
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	19,591	(38,318)
Accrued expenses	33,935	(2,394)
NET CASH USED IN OPERATING ACTIVITIES	<u>(173,317)</u>	<u>(168,558)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(49,515)	(1,584)
Software development costs	(10,000)	-
Website development costs	-	(16,500)
NET CASH USED IN INVESTING ACTIVITIES	<u>(59,515)</u>	<u>(18,084)</u>
NET DECREASE IN CASH	(232,832)	(186,642)
CASH AT BEGINNING OF YEAR	<u>539,043</u>	<u>725,685</u>
CASH AT END OF YEAR	<u>\$ 306,211</u>	<u>\$ 539,043</u>

SUPPLEMENTAL INFORMATION:

During the years ended March 31, 2015 and 2014, no cash was paid for interest or income taxes.

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

March 31, 2015

NOTE A - ORGANIZATION

Lifewater, Inc. dba Lifewater International (Lifewater), a California non-profit organization, was established and incorporated on April 26, 1984. Lifewater'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.

Effective July 1, 2014, the independent non-profit organization Activewater merged with Lifewater and operates as a wholly owned entity of Lifewater. All rights and assets of Activewater have been transferred to Lifewater and the Activewater entity was formally dissolved.

Lifewater is funded primarily by individual and organizational donors as well as government grants.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At March 31, 2015 and 2014, Lifewater's net assets consisted of temporarily restricted and unrestricted net assets.

Fair Value: Lifewater follows FASB ASC 820-10, *Fair Value Measurements*. ASC 820-10 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of certain assets and liabilities. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, whereby level 1 uses quoted prices and active markets for identical assets or liabilities when determining fair market value; level 2 uses non active quoted prices for similar assets and liabilities that can be corroborated with market data; and level 3 uses unobservable information with little or no market data. Lifewater utilizes the active market approach (level 1) to measure fair value for its financial assets, which consist of cash in checking and savings accounts. The carrying value of Lifewater's nonfinancial assets and liabilities approximates fair value.

Cash and Cash Equivalents: Lifewater considers all short term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable: Lifewater considers grants, contributions, and other receivables to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, they will be charged to operations when that determination is made.

LIFEWATER INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS - Continued

March 31, 2015

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment: Lifewater capitalizes all expenditures for property and equipment in excess of \$1,000. Property and equipment are recorded at cost or, if donated, at the fair market value at the time of donation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

In-Kind Contributions: Lifewater records the value of donated goods and services when there is an objective basis available to measure their fair market value. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with these skills, and would otherwise be purchased by Lifewater. During the years ended March 31, Lifewater recorded the following in-kind contributions:

	<u>2015</u>	<u>2014</u>
Goods and services	\$ 140,041	\$ 94,854
Professional services	31,013	93,992
Equipment	-	35,000
Travel	<u>-</u>	<u>15,200</u>
	\$ <u>171,054</u>	\$ <u>239,046</u>

In-kind services consist primarily of professionals and engineers with water management expertise. Contributed services are also used to meet Federal grant matching requirements.

Contributions: Lifewater accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions and grants whose restrictions are met in the same period are reported as unrestricted support.

Functional Expenses: The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of employees' time incurred and usage of resources.

Income Taxes: Lifewater is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue of Taxation Code. Lifewater may be subject to federal and state taxes on its non-exempt function income under federal and state regulations governing unrelated business income.

LIFEWATER INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS - Continued

March 31, 2015

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Uncertainty in Income Taxes: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Lifewater to report information regarding its exposure to various tax positions taken. Lifewater has determined whether any tax positions have met the recognition threshold and have measured the exposure to those tax positions. Management believes that Lifewater has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to Lifewater are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications: Certain prior year amounts have been reclassified for comparative purposes.

NOTE C – BEQUESTS RECEIVABLE

Bequests receivable consist of the following at March 31:

	<u>2015</u>	<u>2014</u>
Gross bequests receivable	\$ 376,889	\$ 255,000
Less: unamortized discount	<u>(24,349)</u>	<u>(19,349)</u>
Net bequests receivable	\$ <u>352,540</u>	\$ <u>235,651</u>

Gross bequests receivable are collectible as follows at March 31:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 56,986	\$ 60,000
One to five years	319,903	195,000
More than five years	<u>-</u>	<u>-</u>
	\$ <u>376,889</u>	\$ <u>255,000</u>

During 2009, Lifewater was named as a beneficiary of a restricted purpose fund administered by a community foundation. Lifewater, along with three other beneficiaries, are to each receive \$60,000 a year as long as that amount does not exceed 15% of the total fund balance. Once the annual payments exceed the 15% threshold, the awards will be reduced to reflect 15% of the value of the fund. Payments are to continue for approximately 10 years or until the entire value of the fund has been granted.

LIFEWATER INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS - Continued

March 31, 2015

NOTE C – BEQUESTS RECEIVABLE - Continued

Lifewater has recognized this bequest at the present value of the expected future cash payment, discounted at a rate of 1.4% (5-year US Treasury rate at March 31, 2015).

NOTE D - COMMITMENTS

Lifewater leases its office premises under the terms of a non-cancellable operating lease that expires in August 2016. Future minimum lease payments are as follows: 2016 - \$66,000 and 2017 - \$27,500. Rent expense under this lease amounted to \$51,700 and \$31,680 during the years ended March 31, 2015 and 2014, respectively.

NOTE E - CONCENTRATION OF RISK

Lifewater maintains its cash in bank accounts which, at times, may exceed the FDIC insured limits. Lifewater has not experienced losses in any of these accounts and management believes Lifewater is not exposed to any significant credit risk related to these accounts.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent unexpended grants and contributions restricted for the following purposes at March 31:

	<u>2015</u>	<u>2014</u>
Contribution receivable – time restricted	\$ 352,540	\$ 235,651
WASH program – Ethiopia	173,837	31,000
WASH program – Kenya	6,644	30,000
Capacity Building	-	33,000
WASH program – Malawi	<u>-</u>	<u>24,000</u>
	\$ <u>533,021</u>	\$ <u>353,651</u>

NOTE G - EMPLOYEE RETIREMENT PLAN

Effective April 10, 2014, Lifewater adopted a Simple IRA plan for its eligible employees. Employer contributions are made equal to employees' salary reduction contributions up to a limit of 3% of the employees' contribution for the calendar year. Employer contributions totaled \$14,208 for the year ended March 31, 2015.

Previously, Lifewater had a salary deferral plan under Internal Revenue Code Section 403(b). Employees who had completed one month of service were eligible to participate in the plan and were immediately vested in employee contributions. Lifewater could make employer contributions at a pre-determined rate. No employer contributions were made during the year ended March 31, 2014. This plan was terminated April 8, 2014.

LIFEWATER INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS - Continued

March 31, 2015

NOTE H - SUBSEQUENT EVENTS

In preparing the financial statements, Lifewater has evaluated events and transactions for potential recognition or disclosure through June 2, 2015, the date that the financial statements were available to be issued.