



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

**LIFEWATER, INC.
dba
LIFEWATER INTERNATIONAL**

March 31, 2016

LIFEWATER INTERNATIONAL

March 31, 2016

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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, 2016 and 2015 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

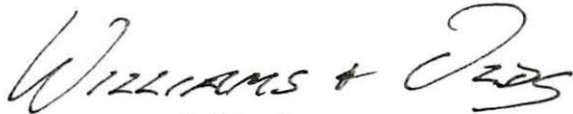
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2016 and 2015, 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
July 22, 2016

LIFEWATER INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 344,860	\$ 306,211
Grants and contributions receivable	250,086	138,701
Bequests receivable, net - Note C	300,777	352,540
Other receivables	2,590	5,465
Prepaid expenses and deposits	40,081	26,546
Inventory	15,544	23,418
Furniture and equipment, less accumulated depreciation of \$67,617 in 2016 and \$41,003 in 2015	<u>76,030</u>	<u>82,337</u>
TOTAL ASSETS	\$ <u>1,029,968</u>	\$ <u>935,218</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 32,411	\$ 26,686
Accrued expenses	<u>69,745</u>	<u>73,720</u>
TOTAL LIABILITIES	102,156	100,406
 COMMITMENTS - Note D	 -	 -
 NET ASSETS		
Unrestricted	256,916	301,791
Temporarily restricted - Note F	<u>670,896</u>	<u>533,021</u>
	<u>927,812</u>	<u>834,812</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,029,968</u>	\$ <u>935,218</u>

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions and bequests	\$ 1,811,042	761,670	\$ 2,572,712
Special events, net of direct expenses of \$28,831	151,219	-	151,219
In-kind contributions - Note B	74,700	-	74,700
Program fees	28,827	-	28,827
Merchandise sales	-	-	-
Government grants	-	-	-
Other income	1,014	-	1,014
<i>Net assets released from restrictions</i>	<u>623,795</u>	<u>(623,795)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>2,690,597</u>	<u>137,875</u>	<u>2,828,472</u>
EXPENSES			
Program services	2,026,381	-	2,026,381
Supporting services			
General and administrative	384,178	-	384,178
Fundraising	<u>324,913</u>	<u>-</u>	<u>324,913</u>
Total supporting services	<u>709,091</u>	<u>-</u>	<u>709,091</u>
TOTAL EXPENSES	<u>2,735,472</u>	<u>-</u>	<u>2,735,472</u>
CHANGE IN NET ASSETS	(44,875)	137,875	93,000
NET ASSETS AT BEGINNING OF YEAR	<u>301,791</u>	<u>533,021</u>	<u>834,812</u>
NET ASSETS AT END OF YEAR	<u>\$ 256,916</u>	<u>\$ 670,896</u>	<u>\$ 927,812</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
Special events, net of direct expenses of \$11,176	112,269	-	112,269
In-kind contributions - Note B	170,396	658	171,054
Program fees	44,909	6,412	51,321
Merchandise sales	15,916	-	15,916
Government grants	46,480	-	46,480
Other income	41,080	-	41,080
<i>Net assets released from restrictions</i>	400,060	(400,060)	-
	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	306,381	-	306,381
Total supporting services	753,158	-	753,158
	2,677,398	-	2,677,398
CHANGE IN NET ASSETS			
	(244,685)	179,370	(65,315)
NET ASSETS AT BEGINNING OF YEAR			
	546,476	353,651	900,127
NET ASSETS AT END OF YEAR			
	\$ 301,791	\$ 533,021	\$ 834,812

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2016

	Program Services	Supporting Services			Total Expenses
		General and Administrative	Fundraising	Total	
Salaries	\$ 744,711	91,918	167,826	\$ 259,744	\$ 1,004,455
Payroll taxes and benefits	145,440	19,576	35,610	55,186	200,626
Total salaries and related costs	890,151	111,494	203,436	314,930	1,205,081
Project costs	820,023	-	-	-	820,023
Professional services	84,090	66,607	12,767	79,374	163,464
Campaigns	1,158	50,065	67,711	117,776	118,934
Occupancy	58,181	23,633	-	23,633	81,814
Donated goods and services - Note B	38,415	12,290	1,936	14,226	52,641
Licenses and fees	8,512	19,019	24,886	43,905	52,417
Supplies	39,188	12,330	304	12,634	51,822
Travel and conferences	6,232	30,133	5,758	35,891	42,123
Depreciation	7,967	18,647	-	18,647	26,614
Donated professional services - Note B	20,135	1,924	-	1,924	22,059
Telephone	14,890	4,695	-	4,695	19,585
Computer services	11,445	3,393	4,534	7,927	19,372
Advertising	-	12,983	446	13,429	13,429
Postage, shipping and delivery	4,044	6,865	696	7,561	11,605
Insurance	6,978	2,822	-	2,822	9,800
Dues and subscriptions	6,131	2,533	-	2,533	8,664
Printing and copying	3,212	2,069	2,008	4,077	7,289
Repairs and maintenance	3,244	835	-	835	4,079
Staff development	25	701	431	1,132	1,157
Meetings	-	-	-	-	-
Miscellaneous	2,360	1,140	-	1,140	3,500
	<u>\$ 2,026,381</u>	<u>\$ 384,178</u>	<u>\$ 324,913</u>	<u>\$ 709,091</u>	<u>\$ 2,735,472</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
Campaigns	-	4,620	70,365	74,985	74,985
Occupancy	40,187	26,791	-	26,791	66,978
Donated goods and services - Note B	57,567	20,943	61,531	82,474	140,041
Licenses and fees	-	28,430	-	28,430	28,430
Supplies	29,621	19,747	-	19,747	49,368
Travel and conferences	-	34,973	-	34,973	34,973
Depreciation	10,407	-	6,937	6,937	17,344
Donated professional services - Note B	22,624	8,269	120	8,389	31,013
Telephone	6,944	4,629	-	4,629	11,573
Computer services	17,771	11,847	-	11,847	29,618
Advertising	-	-	-	-	-
Postage, shipping and delivery	6,863	4,575	-	4,575	11,438
Insurance	4,069	2,712	-	2,712	6,781
Dues and subscriptions	1,510	7,274	-	7,274	8,784
Printing and copying	12,041	8,027	-	8,027	20,068
Repairs and maintenance	21	14	-	14	35
Staff development	2,076	1,384	-	1,384	3,460
Meetings	-	52	-	52	52
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

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 93,000	\$ (65,315)
<i>Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation	26,614	17,344
Assets acquired through merger	-	(6,802)
<i>(Increase) decrease in operating assets:</i>		
Receivables, net	(56,747)	(145,894)
Prepaid expenses and deposits	(13,535)	(4,716)
Inventory	7,874	(21,460)
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	5,726	19,591
Accrued expenses	(3,976)	33,935
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>58,956</u>	<u>(173,317)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(20,307)	(49,515)
Software development costs	-	(10,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(20,307)</u>	<u>(59,515)</u>
NET INCREASE (DECREASE) IN CASH	38,649	(232,832)
CASH AT BEGINNING OF YEAR	<u>306,211</u>	<u>539,043</u>
CASH AT END OF YEAR	<u>\$ 344,860</u>	<u>\$ 306,211</u>

SUPPLEMENTAL INFORMATION:

During the years ended March 31, 2016 and 2015, no cash was paid for interest or income taxes.

See accompanying notes to the financial statements.

LIFEWATER INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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.

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, 2016 and 2015, 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, 2016

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment: Lifewater capitalizes all expenditures for property and equipment in excess of \$1,000, with the exception of fully funded program use vehicles from designated contributions. These program use vehicles are expensed at the time of the purchase. 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>2016</u>	<u>2015</u>
Goods and services	\$ 52,641	\$ 140,041
Professional services	<u>22,059</u>	<u>31,013</u>
	<u>\$ 74,700</u>	<u>\$ 171,054</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, 2016

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>2016</u>	<u>2015</u>
Gross bequests receivable	\$ 319,904	\$ 376,889
Less: unamortized discount	<u>(19,127)</u>	<u>(24,349)</u>
Net bequests receivable	\$ <u>300,777</u>	\$ <u>352,540</u>

Gross bequests receivable are collectible as follows at March 31:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 52,725	\$ 56,986
One to five years	267,179	319,903
More than five years	<u>-</u>	<u>-</u>
	\$ <u>319,904</u>	\$ <u>376,889</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, 2016

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 1.21% (5-year US Treasury rate at March 31, 2016).

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: 2017 - \$27,500. Lifewater has entered into international office site leases with the longest lease expiring June 2018. The future minimum lease payments are as follows: 2017 - \$10,146 and 2018 - \$390. Rent expense under operating leases amounted to \$70,184 and \$51,700 during the years ended March 31, 2016 and 2015, 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>2016</u>	<u>2015</u>
Contribution receivable – time restricted	\$ 300,777	\$ 352,540
East Africa	164,341	-
WASH program – Ethiopia	111,570	173,837
4 Villages - Kaliro, Uganda	48,000	-
SE Asia Expansion	46,208	-
WASH program – Kenya	<u>-</u>	<u>6,644</u>
	\$ <u>670,896</u>	\$ <u>533,021</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 \$15,880 and \$14,208 for the years ended March 31, 2016 and 2015, respectively.

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, 2016

NOTE H - SUBSEQUENT EVENTS

In preparing the financial statements, Lifewater has evaluated events and transactions for potential recognition or disclosure through July 22, 2016, the date that the financial statements were available to be issued.