Lifewater, Inc. d.b.a. Lifewater International

Financial Statements

March 31, 2018 and 2017

C O N T E N T S

CALIBER
AUDIT & ATTEST, LLP

Independent Auditors' Report on the Financial Statements

To the Board of Directors
Lifewater, Inc. d.b.a. Lifewater International
San Luis Obispo, California

We have audited the accompanying financial statements of the Lifewater, Inc. d.b.a. Lifewater International ("the Organization"), a non-profit organization, which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of activities and changes in net assets, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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.

805 Aerovista Pl, Ste 103, San Luis Obispo, CA 93401 Phone: (805) 888-0200 Fax: (805) 888-0201

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Independent Auditors' Report on the Financial Statements - Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lifewater, Inc. d.b.a. Lifewater International, as of March 31, 2018 and 2017, 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.

Caliber Audit & Attest, LLP

San Luis Obispo, California
June 13, 2018

805 Aerovista Pl, Ste 103, San Luis Obispo, CA 93401 Phone: (805) 888-0200 Fax: (805) 888-0201

Lifewater, Inc. d.b.a. Lifewater International

Statements of Financial Position
March 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,181,573	$ 511,569
Pledge receivables, net of allowance and discount	1,493,014	514,484
Prepaid expenses and deposits	53,921	57,441
Inventory	41,441	20,930
Property and equipment, less accumulated depreciation	199,776	66,437
Total assets	$ 2,969,725	$ 1,170,861
LIABILITIES AND NET ASSETS		
Accounts payable	$ 33,200	$ 155,926
Accrued expenses	268,393	97,688
Total liabilities	301,593	253,614
Commitments and Contingencies		
Net Assets		
Unrestricted	1,749,677	397,959
Temporarily restricted	918,455	519,288
Total net assets	2,668,132	917,247
Total liabilities and net assets	$ 2,969,725	$ 1,170,861

See Notes to Financial Statements.

Lifewater, Inc. d.b.a. Lifewater International

Statement of Activities and Changes in Net Assets
Year Ended March 31, 2018

	Unrestricted	*Temporarily Restricted*	*Total*
Support and Revenue:			
Contributions	$ 1,373,367	$ 3,680,170	$ 5,053,537
Special events, including contributions, net of direct expenses of $45,277	1,018,745	-	1,018,745
In-kind contributions	29,775	-	29,775
Program fees	14,050	-	14,050
Other income	1,986	-	1,986
Total support and revenue	2,437,923	3,680,170	6,118,093
Net assets released from restrictions	3,281,003	(3,281,003)	-
Total support and revenues	5,718,926	399,167	6,118,093
Functional Expenses:			
Program services	3,293,081	-	3,293,081
Supporting services:			
General and administrative	531,751	-	531,751
Fundraising	542,376	-	542,376
Total functional expenses	4,367,208	-	4,367,208
Change in net assets	1,351,718	399,167	1,750,885
Net assets - beginning of year	397,959	519,288	917,247
Net assets - end of year	$ 1,749,677	$ 918,455	$ 2,668,132

See Notes to Financial Statements.

Lifewater, Inc. d.b.a. Lifewater International

Statement of Activities and Changes in Net Assets
Year Ended March 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions	$ 1,761,968	$ 1,729,211	$ 3,491,179
Special events, including contributions, net of direct expenses of $44,396	283,264	-	283,264
In-kind contributions	28,978	-	28,978
Program fees	23,940	-	23,940
Other income	7,212	-	7,212
Total support and revenue	2,105,362	1,729,211	3,834,573
Net assets released from restrictions	1,725,768	(1,725,768)	-
Total support and revenues	3,831,130	3,443	3,834,573
Functional Expenses:			
Program services	2,683,071	-	2,683,071
Supporting services:			
General and administrative	635,700	-	635,700
Fundraising	371,316	-	371,316
Total functional expenses	3,690,087	-	3,690,087
Change in net assets	141,043	3,443	144,486
Net assets - beginning of year	256,916	515,845	772,761
Net assets - end of year	$ 397,959	$ 519,288	$ 917,247

See Notes to Financial Statements.

Lifewater, Inc. d.b.a. Lifewater International

Statement of Functional Expenses
Year Ended March 31, 2018

	Program Services	Supporting Services: General and Administrative	Supporting Services: Fundraising	Total
Personnel costs:				
Salaries and wages	$ 1,015,358	$ 276,406	$ 255,667	$ 1,547,431
Retirement plan contributions	70,046	8,027	7,671	85,744
Employee benefits - other	120,272	36,577	34,480	191,329
Payroll taxes	43,323	22,838	21,623	87,784
Payroll service fees	40	4,755	-	4,795
Total personnel costs	1,249,039	348,603	319,441	1,917,083
Partnership grants	221,726	-	-	221,726
Professional and outside services	29,266	25,469	16,226	70,961
Marketing and promotion	5	707	134,338	135,050
Information technology	77,405	16,013	10,225	103,643
Office occupancy	71,863	44,779	336	116,978
Office operations	60,587	18,911	10,429	89,927
Travel and meetings expense	72,793	6,821	32,047	111,661
Program management/field travel	362,875	-	-	362,875
Water source construction	546,123	-	-	546,123
Latrine construction	224,331	-	-	224,331
Capacity building and trainings	313,299	288	-	313,587
Monitoring and evaluation	22,572	-	-	22,572
Insurance	12,796	6,024	1,169	19,989
Gain/loss on foreign currency exchange	4,353	(897)	41	3,497
Depreciation	10,508	20,686	-	31,194
Other expenses	13,540	44,347	18,124	76,011
Total non-personnel costs	2,044,042	183,148	222,935	2,450,125
Total functional expenses	$ 3,293,081	$ 531,751	$ 542,376	$ 4,367,208

See Notes to Financial Statements.

Lifewater, Inc. d.b.a. Lifewater International

Statement of Functional Expenses
Year Ended March 31, 2017

	Program Services	Supporting Services: General and Administrative	Supporting Services: Fundraising	Total
Personnel costs:				
Salaries and wages	$ 751,649	$ 308,860	$ 204,040	$ 1,264,549
Retirement plan contributions	43,340	7,371	4,709	55,420
Employee benefits - other	97,642	39,020	26,848	163,510
Payroll taxes	43,246	23,305	16,790	83,341
Payroll service fees	881	3,429	-	4,310
Total personnel costs	936,758	381,985	252,387	1,571,130
Partnership grants	373,828	-	-	373,828
Professional and outside services	39,474	41,919	3,180	84,573
Marketing and promotion	2,086	51,951	55,887	109,924
Information technology	43,146	16,248	6,277	65,671
Office occupancy	57,868	42,925	1,589	102,382
Office operations	54,779	19,413	7,152	81,344
Travel and meetings expense	64,657	6,113	33,540	104,310
Program management/field travel	264,919	-	-	264,919
Water source construction	404,494	-	-	404,494
Latrine construction	147,133	-	-	147,133
Capacity building and trainings	212,279	4,149	-	216,428
Monitoring and evaluation	16,954	-	-	16,954
Insurance	9,354	6,101	997	16,452
Gain/loss on foreign currency exchange	31,513	-	-	31,513
Depreciation	13,616	25,844	-	39,460
Other expenses	10,213	39,052	10,307	59,572
Total non-personnel costs	1,746,313	253,715	118,929	2,118,957
Total functional expenses	$ 2,683,071	$ 635,700	$ 371,316	$ 3,690,087

See Notes to Financial Statements.

Lifewater, Inc. d.b.a. Lifewater International

Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 1,750,885	144,486
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	31,194	39,460
Changes in operating assets and liabilities:		
Pledge receivables, net	(978,530)	(116,082)
Prepaid expenses and deposits	3,520	(17,362)
Inventory	(20,511)	(5,385)
Accounts payable	(122,726)	123,515
Accrued expenses	170,705	27,944
Net cash provided by operating activities	834,537	196,576
Cash flows from investing activities:		
Purchases of property and equipment	(164,533)	(29,868)
Net cash used in investing activities	(164,533)	(29,868)
Net increase in cash and cash equivalents	670,004	166,708
Cash and cash equivalents, beginning of year	511,569	344,861
Cash and cash equivalents, end of year	$ 1,181,573	$ 511,569

See Notes to Financial Statements.

Note 1. Operations and Summary of Significant Accounting Policies

Nature of operations:

Lifewater, Inc. d.b.a. Lifewater International (the Organization or Lifewater), a California non-profit organization, is a Christian community development organization dedicated to effectively serving vulnerable children and families by partnering with underserved communities to overcome water poverty. With experience in more than 40 countries since 1977, Lifewater serves all people by providing them with contextually appropriate water access, sanitation, and hygiene (WASH) interventions.

Lifewater is funded primarily by individual and organizational donors.

Basis of accounting:

The financial statements are presented on an accrual basis, which recognizes income when earned, and expenses when incurred.

Financial statement presentation:

To ensure the observance of limitations and restrictions placed on the use of resources, the accounts of the Organization are maintained in accordance with the principles of fund accounting for the programs it runs. The Organization has presented its financial statements in accordance with generally accepted accounting principles for not-for profit organizations. Under this guidance, the Organization is required to report 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.

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

A summary of the net asset categories included in the accompanying financial statements is as follows:

Unrestricted Net Assets: Unrestricted amounts represent all net assets that are not subject to donor-imposed stipulations. They may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily Restricted Net Assets: Temporarily restricted amounts represent contributions that are subject to donor-imposed restrictions, either for a specific purpose or subject to the passage of time. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets.

Permanently Restricted Net Assets: Permanently restricted amounts represent those assets subject to donor-imposed restrictions that must be maintained permanently by the Organization. There are no permanently restricted assets.

Support and revenue:

All support and revenue is considered to be available for unrestricted use unless specifically restricted by the donor or the terms of a grant. Revenue from public support including contributions from individuals, foundations, and business entities is recognized at the time an unconditional promise to give or transfer of assets is made. Revenues from program fees are recognized over the terms of the program and the period of service provided.

Donated services and assets:

The Organization 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 the Organization.

During the years ended March 31, 2018 and 2017, the Organization recorded $29,775 and $28,978 of donated goods. There were no donated services for the years ended March 31, 2018 and 2017.

Use of estimates:

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair value measurements:

The Fair Value Measurements topic of the FASB *ASC*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or 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 by other means.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The donated services and assets recorded by the Organization have been recorded at fair values, based on management's estimate of fair value on a non-recurring basis from comparisons of similar assets or services or from the value as provided by the donor. This is considered Level 2 of the fair value hierarchy.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain donated services, assets and use of facilities could result in a different fair value measurement at the reporting date.

Cash and cash equivalents:

The Organization considers cash equivalents to be highly liquid instruments purchased with an original maturity of three months or less.

The Organization maintains its cash balances in financial institutions in the United States and abroad. The balances at the institutions in the United States are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times during the years ended March 31, 2018 and 2017, the Organization held cash in financial institutions in excess of federally insured limits.

Pledge receivables:

Pledge receivables are recognized at fair market value as revenues in the period in which there is sufficient evidence in the form of verifiable documentation that an unconditional pledge was received. Conditional pledges are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of estimated cash flows beyond one year. Amortization of the discount is included in contribution revenue. The allowance for uncollectible amounts is estimated based upon historical collection rates and specific identification of uncollectible amounts, if necessary.

Inventory:

Inventory mainly consists of promotional supplies and equipment parts. Inventory is carried at the lower of cost or net realizable value, determined using average cost.

Property and equipment:

Purchased property and equipment are recorded at cost and donated assets are valued at their estimated fair value on the date donated. Assets, in which the Organization has legal title to, are depreciated over estimated useful lives on a straight line basis, once placed into service. Expenditures that significantly increase asset values or extend useful lives are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included on the statement of activities. Repairs and maintenance and small equipment purchases are expensed as incurred.

Assets in the international field countries are expensed as the cost is incurred, since the Organization has no ultimate legal control of the assets since the assets are imported duty-free and/or are subject to project agreements for their utilization. Estimated useful lives are as follows:

	Years
Furniture and fixtures	5 – 7
Machinery and equipment	3 – 5
Software and website	2 – 5

Capitalized software:

The Organization capitalizes software purchased from third parties as part of property and equipment. Internally developed software costs for internal-use are capitalized during the application development stage.

Income tax status:

The Organization's activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Code. Since the Organization is exempt from federal and state income tax liability, no provision is made for current or deferred income tax expense. The Organization is not a private foundation. Management is not aware of any transactions that would impact the Organization's tax-exempt status.

For the years ended March 31, 2018 and 2017, management of the Organization is not aware of any material uncertain tax positions to be accounted for in the financial statements under the principles of the *Income Taxes* topic of the FASB *(ASC)*. The Organization recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes.

Functional expense allocations:

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

Advertising:

The Organization expenses advertising costs as incurred. Marketing and promotion expense for the years ended March 31, 2018 and 2017 was $135,050 and $109,924, respectively.

Foreign currency:

The functional currency of the foreign operations is the US dollar. Transaction gains or losses from foreign exchange transactions are included in net income. Although the effect is not determinable, changes in the exchange rate subsequent to year-end could have an effect on unsettled foreign currency transactions.

Recent accounting pronouncements:

The FASB issued Accounting Standards Update (ASU) No. 2014-09*, Revenue from Contracts with Customers* (Topic 606). This update supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle. As amended by ASU 2015-14, ASU 2014-09 is effective for private companies for reporting periods beginning after December 15, 2018. Management will be evaluating the potential impact of the new guidance and is currently uncertain what impact the pronouncement will have on the financial statements, if any.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This new standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The new standard is effective for private companies for fiscal years beginning after December 15, 2019. Early adoption is permitted. The new standard is required to be adopted using a modified retrospective approach. Management will be evaluating the potential impact of the new guidance and is currently uncertain what impact the pronouncement will have on the financial statements, if any.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The ASU has five key changes that will impact presentation and disclosures of 1) net asset classes, 2) investment return, 3) expense reporting, 4) statement of cash flows, and 5) liquidity. In particular, ASU 2016-14 changes the net asset classification from three classes (unrestricted, temporarily restricted, permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions). The guidance is effective for reporting periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Management will be evaluating the potential impact of the new guidance and is currently uncertain what impact the pronouncement will have on the financial statements, if any.

Note 2. Pledge Receivables

Pledge receivables as of March 31, 2018 and 2017 are as follows:

	2018	2017
Pledge receivables - current	$ 1,116,167	$ 293,036
Other receivables - current	134,715	5,295
Pledge receivables - long-term	247,337	231,930
	1,498,219	530,261
Less: Allowance for uncollectible pledges	-	(11,461)
Less: Discount on pledge receivables	(5,205)	(4,316)
	$ 1,493,014	$ 514,484

Pledge receivables as of March 31, 2018 and 2017, are collectible as follows:

Years Ending March 31,	2018	2017
Within one year	$ 1,250,882	$ 298,331
One to five years	247,337	231,930
	1,498,219	530,261
Less: Allowance and discount	(5,205)	(15,777)
	$ 1,493,014	$ 514,484

The discount on pledge receivables was calculated using the 5-year US Treasury Rate, which was 2.56% and 1.93% as of March 31, 2018 and 2017, respectively.

Note 3. Property and Equipment

Major classes of property and equipment and accumulated depreciation are as follows at March 31, 2018 and 2017:

	2018	2017
Furniture and fixtures	$ 16,997	$ 16,997
Machinery and equipment	62,403	58,531
Software and website	94,283	94,283
Software and website development in process	159,085	-
Construction in progress	1,577	-
	334,345	169,811
Less accumulated depreciation	(134,569)	(103,374)
Total property and equipment	$ 199,776	$ 66,437

Depreciation expense for the years ended March 31, 2018 and 2017 was $31,194 and $39,460, respectively.

Note 4. Accrued Expenses

Accrued expenses consist of the following at March 31, 2018 and 2017:

	2018	2017
Accrued payroll	$ 49,942	$ 41,086
Accrued employee benefits	2,700	-
Accrued paid leave	35,399	31,246
Accrued payroll taxes	4,350	1,651
Accrued expenses - other	156,526	10,605
Credit cards payable	9,926	13,100
Deferred revenue - events	9,550	-
Total accrued expenses	$ 268,393	$ 97,688

Note 5. Temporarily Restricted Net Assets

As of March 31, 2018 and 2017, temporarily restricted net assets related to time and program donor restrictions are as follows:

	2018	2017
Pledge receivables - time restricted	$ 186,443	$ 343,045
Ethiopia programs	248,733	142,765
Uganda programs	80,000	-
Cambodia programs	-	33,478
Software and website development	403,279	-
	$ 918,455	$ 519,288

Note 6. Related Parties

The Organization receives donations from board of director members, who are considered related parties.

Note 7. Retirement Plan

The Organization maintains a Simple IRA plan for its eligible employees in the United States. Employer contributions are made equal to employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year. The Organization also makes retirement contributions as required by the governments of the countries in the respective field offices. Employer retirement plan contributions totaled $85,744 and $55,420 for the years ended March 31, 2018 and 2017, respectively.

Note 8. Concentrations

For the years ended March 31, 2018 and 2017, approximately 15% and 16% of the Organization's contributions came from one donor foundation, respectively.

For the year ended March 31, 2018, approximately 33% of the Organization's pledge receivables came from three foundations. For the year ended March 31, 2017, approximately 67% of the Organization's pledge receivables came from two donor foundations.

Note 9. Subsequent Events

The Organization plans to change its fiscal year-end to the month of December instead of March, effective December 31, 2018.

The date to which events occurring after March 31, 2018 have been evaluated for possible adjustment to the financial statements or disclosure is June 13, 2018, which is the date on which the financial statements were available to be issued.