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

Financial Statements

For the Nine Month Period
April 1 through December 31, 2018

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 statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the nine month period from April 1 through December 31, 2018, 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 audit. 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 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.

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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 December 31, 2018, and the changes in its net assets and its cash flows for the nine month period from April 1 through December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, as of and for the nine month period from April 1 through December 31, 2018, Lifewater, Inc. d.b.a. Lifewater International adopted Financial Standards Board (FASB) Accounting Standards Update (ASU) no. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU no. 2018-08, *Clarifying the Scope and the Accounting guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Caliber Audit & Attest, LLP

San Luis Obispo, California
June 12, 2019

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

Statement of Financial Position
December 31, 2018

ASSETS	
Cash and cash equivalents	$ 973,680
Short-term investments	127,680
Contributions receivable, net of allowance	679,082
Prepaid expenses and deposits	54,244
Inventory	25,102
Property and equipment, less accumulated depreciation	464,411
Total assets	$ 2,324,199
LIABILITIES AND NET ASSETS	
Accounts payable	$ 69,729
Accrued expenses	130,052
Total liabilities	199,781
Commitments and Contingencies	
Net Assets	
Without donor restrictions	1,305,056
With donor restrictions:	
Purpose restrictions	780,557
Time-restricted for future periods	38,805
Total with donor restrictions	819,362
Total net assets	2,124,418
Total liabilities and net assets	$ 2,324,199

See Notes to Financial Statements.

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

Statement of Activities and Changes in Net Assets
For the Nine Month Period from April 1 through December 31, 2018

	Without Donor Restrictions	***With Donor Restrictions***	***Total***
Support and Revenue:			
Contributions	$ 3,422,388	$ 377,278	$ 3,799,666
Special events, including contributions, net of direct expenses of $86,521	414,323	-	414,323
In-kind contributions	18,200	-	18,200
Other income	6,779	-	6,779
Total support and revenue	3,861,690	377,278	4,238,968
Net assets released from restrictions	476,371	(476,371)	-
Total support and revenues	4,338,061	(99,093)	4,238,968
Functional Expenses:			
Program services	2,918,576	-	2,918,576
Management and general	604,965	-	604,965
Fundraising and development	347,036	-	347,036
Total functional expenses	3,870,577	-	3,870,577
Change in net assets	467,484	(99,093)	368,391
Net assets - beginning of year as previously stated	1,749,677	918,455	2,668,132
Cumulative effect adjustment	(912,105)	-	(912,105)
Net assets - beginning of year as restated	837,572	918,455	1,756,027
Net assets - end of year	$ 1,305,056	$ 819,362	$ 2,124,418

See Notes to Financial Statements.

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

Statement of Functional Expenses
For the Nine Month Period from April 1 through December 31, 2018

	Program Services	*Management & General*	*Fundraising & Development*	*Total*
Personnel costs:				
Salaries and wages	$ 1,071,592	$ 289,053	$ 188,005	$1,548,650
Retirement plan contributions	56,050	7,151	4,655	67,856
Employee benefits - other	132,294	26,772	16,603	175,669
Payroll taxes	53,073	22,082	14,297	89,452
Payroll service fees	363	3,292	-	3,655
Total personnel costs	1,313,372	348,350	223,560	1,885,282
Partnership grants	4,417	-	-	4,417
Professional and outside services	83,351	51,422	1,805	136,578
Marketing and promotion	6,813	14,732	79,227	100,772
Donated goods and services	-	18,200	-	18,200
Information technology	91,865	34,096	2,818	128,779
Office occupancy	80,294	42,642	-	122,936
Office operations	77,406	16,431	7,228	101,065
Travel and meetings expense	62,049	3,033	19,661	84,743
Program management/field travel	183,439	-	-	183,439
Water source construction	476,530	-	-	476,530
Latrine construction	163,187	-	-	163,187
Capacity building and trainings	301,084	239	-	301,323
Monitoring and evaluation	27,654	-	-	27,654
Insurance	20,488	7,021	68	27,577
Gain/loss on foreign currency exchange	7,002	-	-	7,002
Depreciation	9,737	8,991	-	18,728
Other expenses	9,888	59,808	12,669	82,365
Total non-personnel costs	1,605,204	256,615	123,476	1,985,295
Total functional expenses	$2,918,576	$ 604,965	$ 347,036	$3,870,577

See Notes to Financial Statements.

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

Statement of Cash Flows
For the Nine Month Period from April 1 through December 31, 2018

Cash flows from operating activities:	
Change in net assets	$ 368,391
Adjustments to reconcile the change in net assets to net cash provided by operating activities:	
Depreciation	18,728
Changes in operating assets and liabilities:	
Contributions receivable, net	(98,173)
Prepaid expenses and deposits	(323)
Inventory	16,339
Accounts payable	36,529
Accrued expenses	(138,341)
Net cash provided by operating activities	203,150
Cash flows from investing activities:	
Purchases of certificates of deposits	(127,680)
Purchases of property and equipment	(283,363)
Net cash used in investing activities	(411,043)
Net decrease in cash and cash equivalents	(207,893)
Cash and cash equivalents, beginning of year	1,181,573
Cash and cash equivalents, end of year	$ 973,680

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.

The Organization changed its year end from March to December in 2018.

Financial statement presentation and net assets:

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. 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 two classes of net assets: without donor restrictions or with donor restrictions.

The Organization reports gifts 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net Assets With Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be

maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Support and revenue:

All support and revenue is considered to be available for use without donor restriction 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, if any.

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 nine month period from April 1 through December 31, 2018, the Organization recorded $18,200 of donated services.

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 nine month period from April 1 through December 31, 2018, the Organization held cash in financial institutions not in excess of federally insured limits.

Contributions receivable:

Contributions 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 gift was received. Conditional gifts 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, if applicable. 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 nine month period from April 1 through December 31, 2018, 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 nine month period from April 1 through December 31, 2018 was $100,772.

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. Contribution revenue is not subject to this ASU.

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. 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 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 has adopted the new guidance and has updated the presentation and disclosures in these financial statements as a result.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This new standard was issued to clarify and improve the guidance in GAAP for distinguishing transactions that are contributions from those that are exchange transactions. The ASU also provides guidance for determining whether a contribution is conditional. The amendments in ASU 2018-08 are effective for nonprofit organizations that are recipients of resources for annual periods beginning after December 15, 2018. Management has early adopted the new guidance with retrospective application and has updated the presentation and disclosures in these financial statements as a result. See Note 10.

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$	973,680
Short-term investments		127,680
Contributions receivable		590,220
Other receivables		50,057
	$	1,741,637

Note 3. Contributions Receivable

Contributions receivable as of December 31, 2018 are as follows:

Contributions receivable - current	$	590,220
Other receivables - current		50,057
Contributions receivable - long-term		38,805
	$	679,082

Contributions receivable as of December 31, 2018, are collectible as follows:

Within one year	$	640,277
One to five years		38,805
	$	679,082

Note 4. Property and Equipment

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

Furniture and fixtures	$	16,997
Machinery and equipment		69,966
Software and website		120,297
Fundraising platform		406,246
		613,506
Less accumulated depreciation		(149,095)
Total property and equipment	$	464,411

Depreciation expense for the nine month period from April 1 through December 31, 2018 was $18,728.

Note 5. Accrued Expenses

Accrued expenses consist of the following at December 31, 2018:

Accrued payroll	$	58,607
Accrued employee benefits		2,992
Accrued paid leave		28,807
Accrued payroll taxes		8,652
Accrued expenses - other		1,666
Credit cards payable		29,328
Total accrued expenses	$	130,052

Note 6. Commitments and Contingencies

Operating Leases:

The Organization enters into lease agreements in the countries of operation. The lease payment terms vary and enforceability also varies by country and region. As the payments for leases in foreign countries are not material to the overall financial statements, the payments are recorded on a cash basis, in general, and no future payout schedule is provided even though there is possible future commitment.

The Organization has a lease for the corporate headquarters office building location which commenced on June 10, 2014 and expires on August 31, 2019. The monthly base rent is $6,000. The future minimum lease payments under this lease totals $48,000.

Note 7. Net Assets with Donor Restrictions

As of December 31, 2018, net assets with donor restrictions are restricted for the following purposes or periods:

Contributions receivable - time restricted	$	38,805
Subject to expenditure for specified purpose:		
Ethiopia programs		120,202
Uganda programs		177,121
Tanzania programs		16,144
Capacity building		13,294
Healthy schools		47,550
Software and website development		406,246
	$	819,362

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the nine month period from April 1 through December 31, 2018:

Contributions receivable - time restricted	$	147,638
Satisfaction of purpose restrictions:		
Ethiopia programs		248,733
Uganda programs		80,000
	$	476,371

Note 8. Related Parties

For the nine month period from April 1 through December 31, 2018, the Organization held funds in accounts at a bank where the Audit Committee Chair is an executive. For the nine month period from April 1 through December 31, 2018, the Organization receives donations from board of director members, who are considered related parties.

Note 9. 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 $67,856 for the nine month period from April 1 through December 31, 2018.

Note 10. Change in Accounting Principle

The statement of financial position, statement of activities, and statement of cash flows have been restated for the retrospective application of ASU 2018-08 as discussed in Note 1, resulting in a change in accounting principle for conditional contributions for the year ended March 31, 2018. Upon retrospectively adopting the new accounting standard, management determined that certain pledges as of March 31, 2018 were conditional and should not be recorded until the conditions are removed in future periods. The retrospective application of the change for the year ended March 31, 2018 resulted in the following changes:

	Contributions Receivable	*Contributions*	*Net Assets*
Balance, March 31, 2018, as previously stated	$ 1,493,014	$ 5,053,537	$ 2,668,132
Retrospective application of change in accounting principle for conditional contributions	(912,105)	(912,105)	(912,105)
Balance, March 31, 2018, as restated	$ 580,909	$ 4,141,432	$ 1,756,027

Note 11. Subsequent Events

In 2019, the Organization entered into a new lease for the corporate headquarters office building.

The date to which events occurring after December 31, 2018 have been evaluated for possible adjustment to the financial statements or disclosure is June 12, 2019, which is the date on which the financial statements were available to be issued.