

Water Missions

International †

WATER MISSIONS INTERNATIONAL

FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2008 and 2007

WATER MISSIONS INTERNATIONAL

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INDEPENDENT AUDITORS' REPORT

Water Missions International
Charleston, South Carolina

We have audited the accompanying statements of financial position of Water Missions International as of December 31, 2008, and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water Missions International, as of December 31, 2008, and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Capin Crouse LLP

Atlanta, Georgia
March 4, 2009

WATER MISSIONS INTERNATIONAL

Statements of Financial Position

	December 31,	
	2008	2007
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,689,527	\$ 1,567,713
Contributions receivable	220,964	124,636
Prepaid expenses and other assets	102,071	135,588
Inventory–net	617,560	642,118
Total current assets	<u>2,630,122</u>	<u>2,470,055</u>
Property and equipment–net	322,346	331,363
Contribution receivable–net current portion and discount	<u>529,950</u>	<u>104,757</u>
Total noncurrent assets	<u>852,296</u>	<u>436,120</u>
Total Assets	<u>\$ 3,482,418</u>	<u>\$ 2,906,175</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 39,555	\$ 87,102
Accrued expenses	<u>24,561</u>	<u>38,560</u>
Total current liabilities	<u>64,116</u>	<u>125,662</u>
Net assets:		
Unrestricted	1,952,726	2,120,925
Temporarily restricted	<u>1,465,576</u>	<u>659,588</u>
Total net assets	<u>3,418,302</u>	<u>2,780,513</u>
Total Liabilities and Net Assets	<u>\$ 3,482,418</u>	<u>\$ 2,906,175</u>

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statements of Activities

	Year Ended December 31,					
	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$1,131,690	\$3,140,126	\$4,271,816	\$ 933,686	\$1,262,935	\$2,196,621
Gifts-in-kind	1,173,721	-	1,173,721	628,322	-	628,322
Government grant revenue	-	-	-	182,635	-	182,635
Sales revenue	163,924	-	163,924	60,322	-	60,322
Special events revenues	172,020	-	172,020	129,924	-	129,924
Special events direct cost	(107,204)	-	(107,204)	(89,229)	-	(89,229)
Interest income	21,199	-	21,199	87,036	-	87,036
Other income	9,452	-	9,452	7,453	-	7,453
Total Support and Revenue	2,564,802	3,140,126	5,704,928	1,940,149	1,262,935	3,203,084
RECLASSIFICATIONS:						
Net assets released from restrictions by satisfaction of purpose restrictions	2,334,138	(2,334,138)	-	1,010,535	(1,010,535)	-
EXPENSES:						
Program services:						
Community development	2,939,795	-	2,939,795	2,066,981	-	2,066,981
Disaster response	1,148,237	-	1,148,237	435,728	-	435,728
Research and development	278,416	-	278,416	185,029	-	185,029
Advocacy	85,335	-	85,335	36,445	-	36,445
	4,451,783	-	4,451,783	2,724,183	-	2,724,183
Supporting activities:						
Management and general	383,086	-	383,086	432,659	-	432,659
Fund-raising	232,270	-	232,270	124,758	-	124,758
	615,356	-	615,356	557,417	-	557,417
Total Expenses	5,067,139	-	5,067,139	3,281,600	-	3,281,600
Change in Net Assets	(168,199)	805,988	637,789	(330,916)	252,400	(78,516)
Net Assets, Beginning of Year	2,120,925	659,588	2,780,513	2,451,841	407,188	2,859,029
Net Assets, End of Year	\$1,952,726	\$1,465,576	\$3,418,302	\$2,120,925	\$ 659,588	\$2,780,513

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statement of Functional Expenses

Year Ended December 31, 2008

	Program Services				Total Program Services	Supporting Activities			Total Expenses
	Community Development	Disaster Response	Research and Development	Advocacy		Management and General	Fund- raising	Total Supporting Activities	
Salaries and benefits	\$ 546,682	\$ 84,502	\$ 6,331	\$ 30,489	\$ 668,004	\$ 245,647	\$ 104,448	\$ 350,095	\$1,018,099
Professional services	366,964	27,842	169,215	8,967	572,988	42,768	67,174	109,942	682,930
Supplies	199,817	15,681	30,260	39,882	285,640	23,760	48,297	72,057	357,697
Occupancy	102,848	170	-	-	103,018	20,174	-	20,174	123,192
Vehicle	155,078	3,131	-	288	158,497	3,037	958	3,995	162,492
Depreciation	87,439	-	-	-	87,439	27,342	-	27,342	114,781
Travel	185,979	28,437	1,290	915	216,621	7,629	8,422	16,051	232,672
Product, supplies, and transport	1,234,995	857,116	71,220	-	2,163,331	-	-	-	2,163,331
Loss on disposal of property and equipment	32,572	-	-	-	32,572	-	-	-	32,572
Cost of sales	-	131,242	-	4,764	136,006	-	-	-	136,006
Other expenses	27,421	116	100	30	27,667	12,729	2,971	15,700	43,367
	\$2,939,795	\$1,148,237	\$ 278,416	\$ 85,335	\$4,451,783	\$ 383,086	\$ 232,270	\$ 615,356	\$5,067,139

See notes to financial statement

WATER MISSIONS INTERNATIONAL

Statement of Functional Expenses

Year Ended December 31, 2007

	Program Services				Total Program Services	Supporting Activities			Total Expenses
	Community Development	Disaster Response	Research and Development	Advocacy		Management and General	Fund- raising	Total Supporting Activities	
Salaries and benefits	\$ 401,392	\$ 18,412	\$ 10,751	\$ 29,896	\$ 460,451	\$ 259,578	\$ 69,397	\$ 328,975	\$ 789,426
Professional services	234,084	2,225	55,870	3,353	295,532	63,658	27,022	90,680	386,212
Supplies	300,192	1,829	60,814	2,757	365,592	25,718	20,614	46,332	411,924
Occupancy	84,952	-	-	-	84,952	19,992	-	19,992	104,944
Vehicle	159,922	213	-	-	160,135	3,094	-	3,094	163,229
Depreciation	56,582	-	833	-	57,415	37,062	-	37,062	94,477
Travel	148,526	18,819	4,356	439	172,140	12,136	4,294	16,430	188,570
Product, supplies, and transport	659,227	363,325	43,239	-	1,065,791	3,264	12	3,276	1,069,067
Loss on disposal of property and equipment	240	498	5,469	-	6,207	900	1,492	2,392	8,599
Cost of sales	4,358	30,330	3,498	-	38,186	-	-	-	38,186
Other expenses	17,506	77	199	-	17,782	7,257	1,927	9,184	26,966
	<u>\$2,066,981</u>	<u>\$ 435,728</u>	<u>\$ 185,029</u>	<u>\$ 36,445</u>	<u>\$2,724,183</u>	<u>\$ 432,659</u>	<u>\$ 124,758</u>	<u>\$ 557,417</u>	<u>\$3,281,600</u>

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 637,789	\$ (78,516)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	114,781	94,477
Loss on disposal of property and equipment	32,572	8,599
Non-cash contributions of property and equipment	(77,999)	(12,075)
Changes in operating assets and liabilities:		
Contributions receivable	(521,521)	50,058
Prepaid expenses	33,517	(125,493)
Inventory	24,558	(107,815)
Accounts payable	(47,547)	2,474
Accrued expenses	(13,999)	33,483
	<u>182,151</u>	<u>(134,808)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(63,337)	(172,563)
Proceeds on sale of property and equipment	3,000	9,280
	<u>(60,337)</u>	<u>(163,283)</u>
Net Cash Used by Investing Activities		
Net Change in Cash and Cash Equivalents	121,814	(298,091)
Cash and Cash Equivalents, Beginning of Year	<u>1,567,713</u>	<u>1,865,804</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,689,527</u>	<u>\$ 1,567,713</u>
SUPPLEMENTAL DISCLOSURES		
Noncash investing activities:		
Donated property and equipment	<u>\$ 77,999</u>	<u>\$ 12,075</u>

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

1. NATURE OF ORGANIZATION:

Water Missions International (WMI) is a nonprofit, Christian engineering organization formed under the laws of South Carolina in 2001. The mission of WMI is to provide sustainable access to safe water and an opportunity to hear the “Living Water” message in developing countries and disaster areas.

WMI accomplishes its ministry through the following programs:

Community Development—WMI’s community development projects provide clean water and/or sanitation for rural villages, schools, hospitals, and orphanages in developing countries. WMI works in collaboration with Christian ministries who share WMI’s ministry focus to meet physical and spiritual needs. Community Development projects include the following essential components: system installation and startup, sustainability training (operation, maintenance, and micro enterprise), health and hygiene training, 12-month monitoring and evaluation, and evangelism.

Disaster Response—WMI’s disaster response projects provide safe water aid and a Christian witness worldwide in response to natural and man-made disasters.

Research and Development—WMI conducts product and process research and development for water and sanitation technologies.

Advocacy—WMI provides services to increase awareness about global water crisis and actions that can be taken to provide solutions.

Water Missions International depends on cash contributions and gifts-in-kind primarily received from individuals, churches, foundations, and corporations. Water Missions International is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. Significant estimates in these financial statements include the allocation of expenses on a functional basis and the estimated useful lives of long-lived assets.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in checking and savings accounts, money market accounts, and certificates of deposit with original maturities of less than 90 days. These accounts are located in United States and in foreign countries. Accounts in the United States may, at times, exceed federally insured limits. WMI has not experienced any losses in such accounts.

Cash balances of foreign subsidiaries are under the control of WMI, and management believes the assets are properly stated at the date of this report. Total cash and cash equivalents held in foreign accounts amounted to \$4,700 and \$50,800 at December 31, 2008, and 2007, respectively. Currency translation adjustments of \$(2,561) and \$0 for the years ended December 31, 2008, and 2007, respectively, are included in the statements of activities. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

CONTRIBUTIONS RECEIVABLE

Contributions receivable are composed, in part, of amounts due from outside organizations who process credit card donations and marketable security donations on behalf of WMI. Management has not established an allowance for doubtful accounts as it believes all amounts are fully collectible.

Contributions receivable also include unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are reported at net realizable value. Those expected to be collected in more than one year are reported at the present value of their estimated future cash flows using a risk-free interest rate at the date of pledge to determine the discounts. Amortization of discounts is included in contribution revenue. Management believes all pledges receivable are collectible; therefore no allowance has been recorded at December 31, 2008, and 2007.

Conditional promises to give are not included as support until the conditions are substantially met.

INVENTORY/DONATED MATERIALS

Inventory consists of purchased and donated parts used in the assembly of water treatment equipment. Inventory purchased by WMI is stated at weighted average cost. Donated inventory is recorded at fair market value as gifts in-kind support and inventory. Shipping and handling costs related to inventory on hand at yearend is included in the value of inventory on the statements of financial position. Transportation of finished goods inventory from the assembly facility to overseas warehouse locations are included in program services on the statements of activities and changes in net assets.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Property and equipment valued at \$1,000 or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Leasehold improvements	4 - 15
Office and shop equipment	5 - 7
Computer equipment/software	3 - 5
Vehicles	5

COMPENSATED ABSENCES

Employees of WMI are entitled to paid vacation and sick days. WMI's policy allows employees to carry over unused vacation beyond the end of a fiscal year. Accrued vacation as of December 31, 2008, and 2007 is included in accrued liabilities in the statements of financial position. Sick leave may not be carried over and, accordingly, no liability has been recorded in the accompanying financial statements.

CLASSES OF NET ASSETS

The financial statements report amounts by class of net assets.

Unrestricted net assets are amounts currently available at the direction of the board for use in operations. Equity in property and equipment represents amounts invested in property and equipment.

Temporarily restricted net assets are contributions with donor stipulation for specific operating purposes, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

SUPPORT AND REVENUE

Support is recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of assets is transferred. Revenue is recognized when earned.

Contributed services are recognized as support if the services received (a) create or enhance a nonfinancial asset, or (b) require specialized skills, which are provided by individuals possessing those skills, and those services would typically be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as gifts-in-kind support are offset by like amounts included in inventory, property and equipment, or expenses.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

Contributions of tangible assets are recognized at fair market value as unrestricted support, when received, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, WMI reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

WMI hosts an annual Water for Life—Gala and Walk to raise funds and awareness for the global water crisis and the solutions WMI provides. Revenue and event expense related to these events are reported in the statements of activities as special event revenue and expense.

EXPENSES

Functional Allocation of Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities are summarized on a functional basis in the statements of activities. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to program and supporting services based on various factors determined by management. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Research and Development costs are expensed as incurred.

RECLASSIFICATIONS

Certain information from the prior year financial statements has been reclassified to conform to the current year presentation format.

3. CONTRIBUTIONS RECEIVABLE—NET:

Contributions receivable consist of:

	December 31,	
	2008	2007
Contributions receivable from third party organizations	\$ 35,205	\$ 40,614
Conditional promises to give—substantial conditions met	37,665	35,928
Unconditional promises to give	720,243	168,328
Less unamortized discount	(42,199)	(15,477)
	<u>\$ 750,914</u>	<u>\$ 229,393</u>

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

3. CONTRIBUTIONS RECEIVABLE–NET, continued:

Contributions receivable consist of amounts due in:

	December 31,	
	2008	2007
Less than one year	\$ 220,964	\$ 124,636
One to five years	529,950	104,757
	\$ 750,914	\$ 229,393

Risk-free interest rates range from 2.42% to 5.07%.

4. INVENTORY:

Inventory consists of:

	December 31,	
	2008	2007
Raw material and Work in Progress–U.S.	\$ 576,701	\$ 473,051
Finished goods–International	57,784	193,914
	634,485	666,965
Obsolescence Reserve	(16,925)	(24,847)
	\$ 617,560	\$ 642,118

5. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

	December 31,	
	2008	2007
Leasehold improvements–U.S.	\$ 237,938	\$ 238,770
Furniture and equipment–U.S.	135,867	115,769
Vehicles–U.S.	24,048	41,296
Vehicles–International	195,501	116,142
	593,354	511,977
Less accumulated depreciation	(271,008)	(180,614)
	\$ 322,346	\$ 331,363

Depreciation in the amounts of \$114,781 and \$94,477 for the years ended December 31, 2008, and 2007, respectively, has been allocated to program services and supporting activities in the statements of activities.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

6. NET ASSETS:

Net assets consist of:

	December 31,	
	2008	2007
Unrestricted:		
Undesignated	\$ 1,012,820	\$ 1,147,444
Net equity in inventory	617,560	642,118
Net equity in property and equipment	322,346	331,363
Total unrestricted	<u>1,952,726</u>	<u>2,120,925</u>
Temporarily restricted:		
Project restrictions	714,662	430,195
Time restrictions	750,914	229,393
Total temporarily restricted	<u>1,465,576</u>	<u>659,588</u>
Total Net assets	<u>\$ 3,418,302</u>	<u>\$ 2,780,513</u>

7. DONATED MATERIALS AND SERVICES:

Donated materials and equipment are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. The value of donated materials and equipment received during the fiscal years ended December 31, 2008, and 2007, was \$357,675 and \$199,890, respectively.

Donated services include services provided by volunteers to assemble water treatment systems, skilled services provided by professionals, and other specialized services that would typically have to be purchased if not provided by donation. Donated services were valued using equivalent compensation amounts for comparable services or published rates based on studies available for type and location of service. The values of donated services received during the fiscal years ended December 31, 2008, and 2007 were \$808,061 and \$418,847, respectively.

8. RELATED PARTY TRANSACTIONS:

During 2008 and 2007, WMI recorded \$180,000 and \$112,500, respectively, as gifts-in-kind and professional services expense for professional engineering services provided by its Chairman and CEO.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2008 and 2007

9. OPERATING LEASES:

WMI leases office and warehouse space in Charleston, South Carolina. The terms of the operating lease, which began May 1, 2006, and expires June 30, 2011, include monthly rent payments of \$1,688 and a reimbursement for utilities. The future minimum lease payments follow:

<u>Years Ending December 31,</u>	<u>Amounts</u>
2009	\$ 20,250
2010	20,250
2011	10,125
	<u>\$ 50,625</u>

Differences between minimum lease payments and rent expense consist of donated rent. The amount of donated rent expense is \$48,094 for 2008 and 2007.

Other rent expense is incurred from short-term or month-to-month agreements and discount amortization of promised future rents.

During the years ended December 31, 2008, and 2007, total rent expense was \$102,718 and \$87,320, respectively.

10. DONOR CONCENTRATIONS:

For the year ended December 31, 2008, WMI received 25% of its contributions from one donor. In 2007, WMI received 33% of its contributions from two donors.