

# Water Missions International †

**WATER MISSIONS INTERNATIONAL**

FINANCIAL STATEMENTS  
With Independent Auditors' Report

December 31, 2009 and 2008

# WATER MISSIONS INTERNATIONAL

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses–2009	4
Statement of Functional Expenses–2008	5
Statements of Cash Flows	6
Notes to Financial Statements	7

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Water Missions International  
Charleston, South Carolina

We have audited the accompanying statements of financial position of Water Missions International as of December 31, 2009 and 2008, 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, 2009 and 2008, 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  
June 29, 2010

# WATER MISSIONS INTERNATIONAL

## Statements of Financial Position

	December 31,	
	2009	2008
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,033,602	\$ 1,689,527
Contributions receivable–net	223,094	220,964
Prepaid expenses and other assets	152,685	102,071
Inventory–net	537,743	617,560
Total current assets	<u>2,947,124</u>	<u>2,630,122</u>
Property and equipment–net	315,167	322,346
Contribution receivable–net current portion and discount	<u>376,074</u>	<u>529,950</u>
Total noncurrent assets	<u>691,241</u>	<u>852,296</u>
Total Assets	<u>\$ 3,638,365</u>	<u>\$ 3,482,418</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 63,280	\$ 39,555
Accrued expenses	<u>20,702</u>	<u>24,561</u>
Total current liabilities	<u>83,982</u>	<u>64,116</u>
Net assets:		
Unrestricted	2,021,341	1,952,726
Temporarily restricted	<u>1,533,042</u>	<u>1,465,576</u>
Total net assets	<u>3,554,383</u>	<u>3,418,302</u>
Total Liabilities and Net Assets	<u>\$ 3,638,365</u>	<u>\$ 3,482,418</u>

See notes to financial statements

# WATER MISSIONS INTERNATIONAL

## Statements of Activities

	Year Ended December 31,					
	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$1,295,595	\$2,832,326	\$4,127,921	\$1,074,009	\$3,140,126	\$4,214,135
Gifts-in-kind	692,971	-	692,971	1,107,393	-	1,107,393
Sales revenue	77,395	-	77,395	163,924	-	163,924
Special events revenues	374,015	-	374,015	296,029	-	296,029
Special events direct cost	(170,567)	-	(170,567)	(107,204)	-	(107,204)
Interest income	16,936	-	16,936	21,199	-	21,199
Other income	32,480	-	32,480	9,452	-	9,452
<b>Total Support and Revenue</b>	<b>2,318,825</b>	<b>2,832,326</b>	<b>5,151,151</b>	<b>2,564,802</b>	<b>3,140,126</b>	<b>5,704,928</b>
<b>RECLASSIFICATIONS:</b>						
Net assets released from restrictions by satisfaction of purpose restrictions	2,764,860	(2,764,860)	-	2,334,138	(2,334,138)	-
<b>EXPENSES:</b>						
Program services:						
Community development	3,494,060	-	3,494,060	2,939,795	-	2,939,795
Disaster response	256,457	-	256,457	1,148,237	-	1,148,237
Research and development	362,263	-	362,263	278,416	-	278,416
Advocacy	73,571	-	73,571	85,335	-	85,335
	4,186,351	-	4,186,351	4,451,783	-	4,451,783
Supporting activities:						
Management and general	429,857	-	429,857	383,086	-	383,086
Fund-raising	398,862	-	398,862	232,270	-	232,270
	828,719	-	828,719	615,356	-	615,356
<b>Total Expenses</b>	<b>5,015,070</b>	<b>-</b>	<b>5,015,070</b>	<b>5,067,139</b>	<b>-</b>	<b>5,067,139</b>
Change in Net Assets	68,615	67,466	136,081	(168,199)	805,988	637,789
Net Assets, Beginning of Year	1,952,726	1,465,576	3,418,302	2,120,925	659,588	2,780,513
Net Assets, End of Year	\$2,021,341	\$1,533,042	\$3,554,383	\$1,952,726	\$1,465,576	\$3,418,302

See notes to financial statements

# WATER MISSIONS INTERNATIONAL

## Statement of Functional Expenses

Year Ended December 31, 2009

	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	\$ 701,521	\$ 31,441	\$ 17,923	\$ 56,502	\$ 807,387	\$ 257,181	\$ 143,807	\$ 400,988	\$1,208,375
Professional services	417,199	1,114	311,201	4,519	734,033	52,493	72,768	125,261	859,294
Supplies	227,818	6,390	32,793	9,112	276,113	35,143	96,489	131,632	407,745
Occupancy	116,092	-	-	-	116,092	20,139	-	20,139	136,231
Vehicle	140,189	1,622	-	51	141,862	999	974	1,973	143,835
Depreciation	92,417	-	-	-	92,417	29,096	-	29,096	121,513
Travel	307,289	11,077	256	3,322	321,944	15,398	32,916	48,314	370,258
Product, supplies, and transport	1,406,842	148,434	-	-	1,555,276	-	40,453	40,453	1,595,729
Grant	43,350	-	-	-	43,350	-	-	-	43,350
Cost of sales	-	56,039	-	-	56,039	-	-	-	56,039
Other expenses	41,343	340	90	65	41,838	19,408	11,455	30,863	72,701
	<u>\$3,494,060</u>	<u>\$ 256,457</u>	<u>\$ 362,263</u>	<u>\$ 73,571</u>	<u>\$4,186,351</u>	<u>\$ 429,857</u>	<u>\$ 398,862</u>	<u>\$ 828,719</u>	<u>\$5,015,070</u>

See notes to financial statement

# 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	1,267,495	857,116	71,220	-	2,195,831	-	-	-	2,195,831
Cost of sales	-	131,242	-	4,764	136,006	-	-	-	136,006
Other expenses	27,493	116	100	30	27,739	12,729	2,971	15,700	43,439
	<u>\$2,939,795</u>	<u>\$1,148,237</u>	<u>\$ 278,416</u>	<u>\$ 85,335</u>	<u>\$4,451,783</u>	<u>\$ 383,086</u>	<u>\$ 232,270</u>	<u>\$ 615,356</u>	<u>\$5,067,139</u>

See notes to financial statements

# WATER MISSIONS INTERNATIONAL

## Statements of Cash Flows

	Year Ended December 31,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 136,081	\$ 637,789
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	121,514	114,781
Transfer of property and equipment	21,500	32,500
Loss on disposal of property and equipment	-	72
Noncash contributions of property and equipment	(1,635)	(77,999)
Changes in operating assets and liabilities:		
Contributions receivable	151,746	(521,521)
Prepaid expenses	(50,614)	33,517
Inventory	79,817	24,558
Accounts payable	23,725	(47,547)
Accrued expenses	(3,859)	(13,999)
	478,275	182,151
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(134,200)	(63,337)
Proceeds on sale of property and equipment	-	3,000
	(134,200)	(60,337)
Net Cash Used by Investing Activities	(134,200)	(60,337)
Net Change in Cash and Cash Equivalents	344,075	121,814
Cash and Cash Equivalents, Beginning of Year	1,689,527	1,567,713
Cash and Cash Equivalents, End of Year	\$ 2,033,602	\$ 1,689,527
<b>SUPPLEMENTAL DISCLOSURES</b>		
Noncash investing activities:		
Donated property and equipment	\$ 1,635	\$ 77,999

See notes to financial statements

# WATER MISSIONS INTERNATIONAL

## Notes to Financial Statements

December 31, 2009 and 2008

### 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.

#### ESTIMATES

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.

#### RECLASSIFICATIONS

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

# WATER MISSIONS INTERNATIONAL

## Notes to Financial Statements

December 31, 2009 and 2008

### 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 \$37,000 and \$4,700 at December 31, 2009 and 2008, respectively. Currency translation adjustments of \$(1,148) and \$(2,561) for the years ended December 31, 2009 and 2008, 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.

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 established a \$5,000 allowance for uncollectibility for certain pledges receivable at December 31, 2009.

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

#### INVENTORY

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 year end 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, 2009 and 2008

### 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, 2009 and 2008, 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, 2009 and 2008

### 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 annual events to raise funds and awareness for the global water crisis and the solutions WMI provides. Revenue and expenses 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.

### 3. CONTRIBUTIONS RECEIVABLE-NET:

Contributions receivable consist of:

	December 31,	
	2009	2008
Contributions receivable from third party organizations	\$ 2,955	\$ 35,205
Conditional promises to give—substantial conditions met	-	37,665
Unconditional promises to give	617,141	720,243
Less unamortized discount	(20,928)	(42,199)
	<u>\$ 599,168</u>	<u>\$ 750,914</u>

# WATER MISSIONS INTERNATIONAL

## Notes to Financial Statements

December 31, 2009 and 2008

3. CONTRIBUTIONS RECEIVABLE–NET, continued:

Contributions receivable consist of amounts due in:

	December 31,	
	2009	2008
Less than one year	\$ 223,094	\$ 220,964
One to five years	376,074	529,950
	\$ 599,168	\$ 750,914

Risk-free interest rates range from 1.14% to 5.07%.

4. INVENTORY–NET:

Inventory consists of:

	December 31,	
	2009	2008
Raw material and Work in Progress–U.S.	\$ 508,068	\$ 576,701
Finished goods–International	39,797	57,784
	547,865	634,485
Obsolescence Reserve	(10,122)	(16,925)
	\$ 537,743	\$ 617,560

5. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

	December 31,	
	2009	2008
Leasehold improvements–U.S.	\$ 237,938	\$ 237,938
Furniture and equipment–U.S.	166,567	135,867
Vehicles–U.S.	24,048	24,048
Vehicles–International	165,501	195,501
Manufacturing equipment (in process)	105,134	-
	699,188	593,354
Less accumulated depreciation	(384,021)	(271,008)
	\$ 315,167	\$ 322,346

Depreciation in the amounts of \$121,514 and \$114,781 for the years ended December 31, 2009 and 2008, respectively, has been allocated to program services and supporting activities in the statements of activities.

# WATER MISSIONS INTERNATIONAL

## Notes to Financial Statements

December 31, 2009 and 2008

6. LINE OF CREDIT:

WMI maintains a \$500,000 revolving line of credit, secured by security interest in its accounts and equipment. The credit facility carries a variable interest rate of prime plus 1% or a minimum of 5%, whichever is greater. WMI made no borrowings on the line of credit during the year ended December 31, 2009. The line of credit matures July 10, 2010.

7. NET ASSETS:

Net assets consist of:

	December 31,	
	2009	2008
Unrestricted:		
Undesignated	\$ 1,168,431	\$ 1,012,820
Net equity in inventory	537,743	617,560
Net equity in property and equipment	315,167	322,346
	<u>2,021,341</u>	<u>1,952,726</u>
Temporarily restricted:		
Project restrictions	933,874	714,662
Time restrictions	599,168	750,914
	<u>1,533,042</u>	<u>1,465,576</u>
	<u>\$ 3,554,383</u>	<u>\$ 3,418,302</u>

8. DONATED MATERIALS AND SERVICES:

Donated materials and inventory are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. The value of donated materials and inventory received during the fiscal years ended December 31, 2009 and 2008, was \$155,059 and \$357,675, 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, 2009 and 2008, were \$522,037 and \$808,061, respectively.

# WATER MISSIONS INTERNATIONAL

## Notes to Financial Statements

December 31, 2009 and 2008

9. SPECIAL EVENTS:

During the years ended December 31, 2009 and 2008, WMI hosted two special events, "Water for Life—Gala and Walk for Water. These events are designed to inform supporters about its ministry and promote the ministry to potential new donors. Support received from these events totaled \$374,015 less \$170,567 in costs for the benefits provided during the year ended December 31, 2009. For the year ended December 31, 2008, support received from these events totaled \$296,029 less \$107,204 in costs for the benefits provided.

10. RELATED PARTY TRANSACTIONS:

During 2009 and 2008, WMI recorded \$180,000, respectively, as gifts-in-kind and professional services expense for professional engineering services provided by its Chairman and CEO.

11. 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>
2010	\$ 20,250
2011	10,125
	<u>\$ 30,375</u>

Differences between minimum lease payments and rent expense consist of donated rent. The amount of donated rent expense is \$48,094 for 2009 and 2008.

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, 2009 and 2008, total rent expense was \$114,275 and \$102,718, respectively.

12. DONOR CONCENTRATIONS:

For the year ended December 31, 2009, WMI received 21% of its contributions from one donor. In 2008, WMI received 25% of its contributions from one donor.

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

# WATER MISSIONS INTERNATIONAL

## Notes to Financial Statements

December 31, 2009 and 2008

### 14. NEW ACCOUNTING PRONOUNCEMENTS:

The FASB Accounting Standards Codification™ (ASC) became the single source of authoritative non-SEC U.S. GAAP for nongovernmental entities with the issuance of FASB Statement 168 (SFAS 168), *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*—a replacement of FASB Statement No. 162 (SFAS 162). SFAS 168 modified the hierarchy of GAAP into two levels, authoritative and nonauthoritative. Following SFAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to update the ASC.

On January 1, 2009, WMI adopted the new provisions of the *Income Tax* topic of the ASC. These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2009, WMI had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.