

Water Missions
International †

WATER MISSIONS INTERNATIONAL

Financial Statements
With Independent Auditors' Report

Year Ended September 30, 2011
and Nine Months Ended September 30, 2010

WATER MISSIONS INTERNATIONAL

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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 September 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the year and the nine months then ended, respectively. 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 September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year and nine months then ended in conformity with accounting principles generally accepted in the United States.

Capin Crouse LLP

Atlanta, Georgia
November 22, 2011

WATER MISSIONS INTERNATIONAL

Statements of Financial Position

	September 30,	
	2011	2010
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,392,125	\$ 4,960,141
Contributions receivable–net	155,879	271,605
Prepaid expenses and other assets	391,783	141,424
Inventory–net	1,373,762	698,541
	<u>5,313,549</u>	<u>6,071,711</u>
Property and equipment–net	317,072	460,029
Contribution receivable–net of current portion and discount	-	105,152
	<u>317,072</u>	<u>565,181</u>
Total Assets	<u>\$ 5,630,621</u>	<u>\$ 6,636,892</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 170,899	\$ 96,738
Accrued expenses	47,728	25,719
	<u>218,627</u>	<u>122,457</u>
Net assets:		
Unrestricted	3,190,145	2,530,599
Temporarily restricted	2,221,849	3,983,836
	<u>5,411,994</u>	<u>6,514,435</u>
Total Liabilities and Net Assets	<u>\$ 5,630,621</u>	<u>\$ 6,636,892</u>

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statements of Activities

	Year Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$1,840,500	\$2,239,943	\$4,080,443	\$ 727,413	\$6,287,365	\$7,014,778
Gifts-in-kind	1,861,798	-	1,861,798	1,322,975	-	1,322,975
Sales revenue	1,045,511	-	1,045,511	872,041	-	872,041
Special events revenues	190,722	-	190,722	369,098	-	369,098
Special events direct cost	(107,944)	-	(107,944)	(150,700)	-	(150,700)
Interest income	15,626	-	15,626	8,505	-	8,505
Other income	315	-	315	1,366	-	1,366
Total Support and Revenue	4,846,528	2,239,943	7,086,471	3,150,698	6,287,365	9,438,063
RECLASSIFICATIONS:						
Net assets released from restriction	4,001,930	(4,001,930)	-	3,836,571	(3,836,571)	-
EXPENSES:						
Program services:						
Community development	5,836,597	-	5,836,597	2,964,809	-	2,964,809
Disaster response	662,936	-	662,936	2,424,531	-	2,424,531
Research and development	434,423	-	434,423	261,712	-	261,712
Advocacy	9,743	-	9,743	15,262	-	15,262
	6,943,699	-	6,943,699	5,666,314	-	5,666,314
Supporting activities:						
Management and general	467,474	-	467,474	313,865	-	313,865
Fund-raising	777,739	-	777,739	497,832	-	497,832
	1,245,213	-	1,245,213	811,697	-	811,697
Total Expenses	8,188,912	-	8,188,912	6,478,011	-	6,478,011
Change in Net Assets	659,546	(1,761,987)	(1,102,441)	509,258	2,450,794	2,960,052
Net Assets, Beginning of Year	2,530,599	3,983,836	6,514,435	2,021,341	1,533,042	3,554,383
Net Assets, End of Year	\$3,190,145	\$2,221,849	\$5,411,994	\$2,530,599	\$3,983,836	\$6,514,435

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statement of Functional Expenses

Year Ended September 30, 2011

	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	\$ 962,649	\$ 16,478	\$ 42,635	\$ 8,822	\$1,030,584	\$ 266,046	\$ 357,404	\$ 623,450	\$1,654,034
Professional services	761,844	10,862	294,230	795	1,067,731	88,300	233,989	322,289	1,390,020
Supplies	367,447	7,253	51,226	-	425,926	30,153	78,294	108,447	534,373
Occupancy	226,786	259	-	-	227,045	20,587	400	20,987	248,032
Vehicle	353,736	748	4	-	354,488	1,248	40	1,288	355,776
Depreciation	132,526	-	1,162	-	133,688	21,420	11,514	32,934	166,622
Travel	500,353	10,256	4,704	-	515,313	15,597	47,354	62,951	578,264
Product, supplies, and transport	2,233,629	165,307	40,207	119	2,439,262	-	9,563	9,563	2,448,825
Grant	2,840	-	-	-	2,840	-	750	750	3,590
Cost of sales	252,805	451,756	-	-	704,561	-	-	-	704,561
Other expenses	41,982	17	255	7	42,261	24,123	38,431	62,554	104,815
	<u>\$5,836,597</u>	<u>\$ 662,936</u>	<u>\$ 434,423</u>	<u>\$ 9,743</u>	<u>\$6,943,699</u>	<u>\$ 467,474</u>	<u>\$ 777,739</u>	<u>\$1,245,213</u>	<u>\$8,188,912</u>

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statement of Functional Expenses

Nine Months Ended September 30, 2010

	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	\$ 559,602	\$ 82,575	\$ 8,976	\$ 13,230	\$ 664,383	\$ 176,743	\$ 187,736	\$ 364,479	\$1,028,862
Professional services	537,768	48,121	242,325	-	828,214	55,102	136,200	191,302	1,019,516
Supplies	256,677	80,531	7,930	1,476	346,614	25,180	109,953	135,133	481,747
Occupancy	230,248	34,942	-	-	265,190	15,428	-	15,428	280,618
Vehicle	90,567	197,133	-	-	287,700	901	-	901	288,601
Depreciation	100,189	-	-	-	100,189	18,827	177	19,004	119,193
Travel	300,116	169,468	127	556	470,267	4,348	36,872	41,220	511,487
Product, supplies, and transport	822,758	841,470	2,166	-	1,666,394	-	-	-	1,666,394
Grant	-	220,000	-	-	220,000	-	-	-	220,000
Cost of sales	21,543	746,232	38	-	767,813	-	-	-	767,813
Other expenses	45,341	4,059	150	-	49,550	17,336	26,894	44,230	93,780
	<u>\$2,964,809</u>	<u>\$2,424,531</u>	<u>\$ 261,712</u>	<u>\$ 15,262</u>	<u>\$5,666,314</u>	<u>\$ 313,865</u>	<u>\$ 497,832</u>	<u>\$ 811,697</u>	<u>\$6,478,011</u>

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Statements of Cash Flows

	Year Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,102,441)	\$ 2,960,052
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	166,622	119,193
Loss on disposals	8,405	-
Noncash contributions of property and equipment	(23,050)	(59,970)
Changes in operating assets and liabilities:		
Contributions receivable	220,878	222,411
Prepaid expenses	(250,359)	11,261
Inventory	(675,221)	(160,798)
Accounts payable	74,161	33,458
Accrued expenses	22,009	5,017
 Net Cash (Used) Provided by Operating Activities	 (1,558,996)	 3,130,624
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposals	3,750	-
Purchase of property and equipment	(12,770)	(204,085)
 Net Cash Used by Investing Activities	 (9,020)	 (204,085)
 Net Change in Cash and Cash Equivalents	 (1,568,016)	 2,926,539
 Cash and Cash Equivalents, Beginning of Year	 4,960,141	 2,033,602
 Cash and Cash Equivalents, End of Year	 \$ 3,392,125	 \$ 4,960,141
 SUPPLEMENTAL DISCLOSURES		
Noncash investing activities:		
Donated property and equipment	\$ 23,050	\$ 59,970

See notes to financial statements

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

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.

During 2010, WMI changed its fiscal year end to September 30. Accordingly, the statements and cash flows reflect nine months of operations for the period ended September 30, 2010.

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.

WMI depends on cash contributions and gifts-in-kind primarily received from individuals, churches, foundations, and corporations. WMI 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 financial 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.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECLASSIFICATIONS

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

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 the 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 \$17,000 and \$26,000 at September 30, 2011 and 2010, respectively. Currency translation adjustments of \$(6,615) and \$(236) for the year ended September 30, 2011, and the nine months ended September 30, 2010, 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 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 an allowance of \$-0- and \$-0-, respectively, for uncollectibility of certain pledges receivable at September 30, 2011 and 2010.

Contributions receivable also include amounts due from outside organizations who process credit card donations and marketable security donations on behalf of WMI.

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. Inventory includes an allocation of volunteer labor and manufacturing overhead. 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

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

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 time off (PTO). WMI's policy allows employees to carry over unused PTO beyond the end of a calendar year. Accrued PTO as of September 30, 2011 and 2010, is included in accrued liabilities in the statements of financial position.

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 stipulations 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

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

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.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of September 30, 2011 and 2010, WMI had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

3. CONTRIBUTIONS RECEIVABLE–NET:

Contributions receivable consist of:

	September 30,	
	2011	2010
Contributions receivable from third party organizations	\$ 850	\$ 635
Unconditional promises to give	155,100	380,970
Less unamortized discount	(71)	(4,848)
	\$ 155,879	\$ 376,757

Contributions receivable consist of amounts due in:

	September 30,	
	2011	2010
Less than one year	\$ 155,879	\$ 271,605
One to five years	-	105,152
	\$ 155,879	\$ 376,757

Risk-free interest rates range from 0.72% to 2.87%.

4. INVENTORY–NET:

Inventory consists of:

	September 30,	
	2011	2010
Raw material, Work in Progress, and finished goods–U.S.	\$ 1,167,413	\$ 667,568
Finished goods–International	234,651	39,797
	1,402,064	707,365
Obsolescence Reserve	(28,302)	(8,824)
	\$ 1,373,762	\$ 698,541

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

5. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consist of:

	September 30,	
	2011	2010
Leasehold improvements—U.S.	\$ 237,938	\$ 237,938
Furniture and equipment—U.S.	71,742	104,005
Software	151,359	131,009
Vehicles—U.S.	24,048	24,048
Vehicles—International	156,464	165,501
Manufacturing equipment	287,623	287,623
	<u>929,174</u>	<u>950,124</u>
Less accumulated depreciation	<u>(612,102)</u>	<u>(490,095)</u>
	<u>\$ 317,072</u>	<u>\$ 460,029</u>

Depreciation in the amounts of \$166,622 and \$119,193 for the year ended September 30, 2011, and the nine months ended September 30, 2010, respectively, has been allocated to program services and supporting activities in the statements of activities.

6. LINE OF CREDIT:

WMI maintained a \$500,000 revolving line of credit, secured by security interest in its accounts and equipment. The credit facility carried 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 September 30, 2011, and the nine months ended September 30, 2010. The line of credit will mature March 10, 2012.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

7. NET ASSETS:

Net assets consist of:

	September 30,	
	2011	2010
Unrestricted:		
Undesignated	\$ 1,499,311	\$ 1,372,029
Net equity in inventory	1,373,762	698,541
Net equity in property and equipment	317,072	460,029
	<u>3,190,145</u>	<u>2,530,599</u>
Temporarily restricted:		
Purpose restrictions	2,066,819	3,607,079
Time restrictions	155,030	376,757
	<u>2,221,849</u>	<u>3,983,836</u>
	<u>\$ 5,411,994</u>	<u>\$ 6,514,435</u>

8. DONATED MATERIALS AND SERVICES:

Donated materials are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. 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 materials and services received during the year ended September 30, 2011, and the nine months ended September 30, 2010, were \$1,861,798 and \$1,322,975, respectively.

9. SPECIAL EVENTS:

During the year ended September 30, 2011, and nine months ended September 30, 2010, WMI hosted 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 \$190,722 less \$107,944 in costs for the benefits provided during the year ended September 30, 2011. For the nine months ended September 30, 2010, support received from these events totaled \$369,098 less \$150,700 in costs for the benefits provided.

WATER MISSIONS INTERNATIONAL

Notes to Financial Statements

Year Ended September 30, 2011 and Nine Months Ended September 30, 2010

10. RELATED PARTY TRANSACTIONS:

During the year ended September 30, 2011, and the nine months ended September 30, 2010, WMI recorded \$180,000 and \$135,000, respectively, as gifts-in-kind and professional services expense for professional engineering services provided by its 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 expired June 30, 2011, included monthly rent payments of \$1,688 and a reimbursement for utilities. Differences between minimum lease payments and rent expense consisted of donated rent. The amount of donated rent was \$48,094 for the year ended September 30, 2011, and the nine months ended September 30, 2010, respectively.

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

During the year ended September 30, 2011, and the nine months ended September 30, 2010, total rent expense was \$174,873 and \$243,359, respectively.

12. DONOR CONCENTRATIONS:

For the year ended September 30, 2011, WMI had no significant concentrations of its contributions from one donor. For the nine months ended September 30, 2010, WMI received 16% 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.