



**HEALING WATERS**  
INTERNATIONAL

**Healing Waters International, Inc.  
And Affiliates**

Year Ended June 30, 2020  
with  
Independent Auditor's Report

**Healing Waters International, Inc.  
And Affiliates**

Year Ended June 30, 2020  
(See Independent Auditor's Report)

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Board of Directors  
Healing Waters International, Inc. and Affiliates  
Golden, Colorado

## Independent Auditor's Report

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Healing Waters International, Inc. and Affiliates which comprise the consolidated statement of financial position as of June 30, 2020 and the related consolidated statement of activities and change in net assets, functional expenses and cash flows for the year then ended and the related notes to consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the 2020 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Healing Waters International, Inc. and Affiliates as of June 30, 2020 and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

## ***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities and change in net assets as of June 30, 2020 and for the year then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Wipfli LLP*

Lakewood, Colorado

September 17, 2020

**Healing Waters International, Inc.  
And Affiliates**

Consolidated Statement of Financial Position  
June 30, 2020  
(See Independent Auditor's Report)

Assets

Current assets:		
Cash and cash equivalents	\$	821,644
Investments held to maturity		123,378
Accounts receivable, net of allowance for doubtful accounts (\$10,632)		111,716
Inventory		107,787
Prepaid expenses and other		<u>19,929</u>
Total current assets		1,184,454
Property, equipment and improvements, at cost:		
Computer equipment		32,214
Leasehold improvements		10,623
Office furniture		7,751
Vehicles		<u>143,039</u>
		193,627
Less accumulated depreciation and amortization		<u>158,368</u>
Net property, equipment and improvements		<u>35,259</u>
Total assets	\$	<u>1,219,713</u>

(See Notes to Consolidated Financial Statements)

**Healing Waters International, Inc.  
And Affiliates**

Consolidated Statement of Financial Position  
June 30, 2020  
(See Independent Auditor's Report)

Liabilities and Net Assets

Current and total liabilities:	
Accounts payable	\$ 35,162
Accrued expenses	77,263
Refundable advance	<u>138,400</u>
Total liabilities	<u>250,825</u>
Net assets:	
Without donor restrictions:	
Operating	463,823
Net investment in property, equipment, and improvements	<u>35,259</u>
Total without donor restrictions	499,082
With donor restrictions:	
Purpose restrictions	<u>469,806</u>
Total net assets	<u>968,888</u>
Total liabilities and net assets	<u>\$ 1,219,713</u>

(See Notes to Consolidated Financial Statements)

**Healing Waters International, Inc.  
And Affiliates**

Consolidated Statement of Activities and Change in Net Assets  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total	Percent of Total Support
Support and revenue:				
Contributions	\$ 803,914	\$ 1,043,768	\$ 1,847,682	93.8 %
Water sales	106,435	-	106,435	5.4
Other sales income	6,933	-	6,933	0.4
Other income	8,278	-	8,278	0.4
Net assets released from restrictions:				
Satisfaction of program restrictions	960,242	(960,242)	-	-
Total support and revenue	<u>1,885,802</u>	<u>83,526</u>	<u>1,969,328</u>	<u>100.0</u>
Expenses:				
Program	1,738,032	-	1,738,032	88.3
General and administrative	87,210	-	87,210	4.4
Fundraising	337,877	-	337,877	17.3
Total expenses before depreciation	<u>2,163,119</u>	<u>-</u>	<u>2,163,119</u>	<u>110.0</u>
Change in net assets before depreciation	(277,317)	83,526	(193,791)	(10.0)
Other expense:				
Depreciation	(7,665)	-	(7,665)	(0.4)
Change in net assets	(284,982)	83,526	(201,456)	<u>(10.4) %</u>
Net assets, beginning of year	<u>784,064</u>	<u>386,280</u>	<u>1,170,344</u>	
Net assets, end of year	<u>\$ 499,082</u>	<u>\$ 469,806</u>	<u>\$ 968,888</u>	

(See Notes to Consolidated Financial Statements)

**Healing Waters International, Inc.  
And Affiliates**

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

	Program	General and Administrative	Fund- Raising	Total	Percentage of Total Revenue - \$1,969,328
Salaries and benefits	\$ 581,945	\$ 55,885	\$ 202,574	\$ 840,404	42.7 %
Program expense	1,000,130	-	-	1,000,130	50.8
Office expense	88,060	5,543	18,344	111,947	5.7
Travel	22,805	991	34,312	58,108	3.0
Development, marketing, and promotion	4,621	4,621	68,480	77,722	4.0
Technology expense	19,868	1,485	4,654	26,007	1.3
Professional fees	8,704	14,276	2,371	25,351	1.3
Other expense	11,899	4,409	7,142	23,450	1.2
 Total expenses before depreciation	 1,738,032	 87,210	 337,877	 2,163,119	 110.0
Depreciation expense	7,665	-	-	7,665	0.4
 Total expenses	 <u>\$ 1,745,697</u>	 <u>\$ 87,210</u>	 <u>\$ 337,877</u>	 <u>\$ 2,170,784</u>	 <u>110.4 %</u>
 Percentage of total expenses	 <u>80.4%</u>	 <u>4.0%</u>	 <u>15.6%</u>	 <u>100.0%</u>	

(See Notes to Consolidated Financial Statements)



**Healing Waters International, Inc.  
And Affiliates**

Consolidated Statement of Cash Flows  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

Cash flows from operating activities:	
Cash received from sponsors, donors and others	\$ 1,985,809
Cash paid to suppliers and employees	(2,151,433)
Interest received	<u>2,942</u>
Net cash used by operating activities	<u>(162,682)</u>
Cash flows from investing activities:	
Proceeds from investments held to maturity	40,000
Purchases of property and equipment	<u>(24,000)</u>
Net cash provided by investing activities	<u>16,000</u>
Cash flows from financing activities:	
Proceeds from refundable advance	<u>138,400</u>
Net cash provided by financing activities	<u>138,400</u>
Net decrease in cash and cash equivalents	(8,282)
Cash and cash equivalents, beginning	<u>829,926</u>
Cash and cash equivalents, ending	<u><u>\$ 821,644</u></u>

(continued)  
(See Notes to Consolidated Financial Statements)

**Healing Waters International, Inc.  
And Affiliates**

Consolidated Statement of Cash Flows (continued)  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

Cash flows from operating activities:	
Change in net assets	\$ (201,456)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	7,665
Interest income reinvested	(3,949)
Change in allowance for doubtful accounts	10,632
(Increase) decrease in:	
Accounts receivable	12,740
Inventory	10,201
Prepaid expenses and other	939
Increase (decrease) in:	
Accounts payable	3,086
Accrued expenses	<u>(2,540)</u>
Net cash used by operating activities	<u>\$ (162,682)</u>

(See Notes to Consolidated Financial Statements)

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies**

Nature of operations

Healing Waters International (“HWI”) is on a mission to end the global water crisis. HWI custom engineers and builds holistic clean water solutions and spreads God’s love in at-risk communities around the world, empowering people not just to survive, but to thrive – physically, socially, and spiritually.

It starts with providing safe water, but water alone is not enough. Teaching health & hygiene classes and business management skills provides an integrated solution. The interdependence of these elements is the key to changing lives and communities.

HWI begins with an assessment of a community’s WASH (water, sanitation and hygiene) needs and then works with local leaders to develop the knowledge, tools and economic resources they need to ensure sustainable access to safe water. HWI then designs a Holistic WASH Solution with three primary components: water purification technology, sanitation & hygiene education and water micro-businesses.

*Water Purification Systems*

HWI’s engineering team designs and implements water purification systems custom designed for each community. They leverage reliable and powerful tools to provide a lasting supply of safe water and train the site partner in systems operation and maintenance.

*Sanitation & Hygiene Education*

Education has the power to transform people exponentially. Sanitation & hygiene education teaches families and communities about the long-lasting effects of living healthy lives: from drinking safe water to hand washing, to properly cleaning food, as well as the health risks and alternatives to open defecation.

*Water Micro-Businesses*

HWI works with site partners to develop and implement a community-appropriate water distribution and sales model that when executed, produces income that covers system maintenance costs, supports sustainability, and that may also provide additional profit for reinvestment in the community.

HWI places the right equipment, tools, and resources into the hands of local partners in order to equip them to serve the tangible needs of their communities. All holistic transformation water systems are locally owned and operated by an accountable site leadership team and is designed to have, at minimum, a 10-year life.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

Nature of operations (continued)

HWI is exempt from income taxes under Internal Revenue Code (the "Code") Section 501(c)(3) and is not a private foundation under Section 509(a) of the Code. Contributions are HWI's primary source of support and revenue.

In connection with its overseas ministry, HWI maintains operations in countries outside the United States ("Foreign Affiliates"). The assets, liabilities, and activities of the foreign operations in Guatemala, Dominican Republic, Mexico, and Haiti are included in these consolidated financial statements.

Principles of consolidation

Due to the influence of control by HWI, foreign affiliates are considered to be controlled affiliates of HWI. The consolidated financial statements include the consolidated financial sources and activities of HWI and foreign affiliates. The financial sources and activities related to foreign affiliates have been identified under the "Foreign operations" section at the end of Note 1. All significant inter-entity balances and transactions have been eliminated.

Basis of presentation

The consolidated financial statements are prepared using the accrual method of accounting under accounting principles generally accepted in the United States of America ("U.S. GAAP") whereby income is reported as earned and expenses reported as incurred.

The consolidated financial statements of HWI have been prepared in accordance with U.S. GAAP, which require HWI to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended to perform the primary objectives of HWI in accordance with the limitations of its charter and bylaws. These net assets may be used at the discretion of HWI's management and the Board of Directors to achieve the mission of HWI. Decreases in net assets without donor restrictions generally result from expenses incurred for program and supporting services conducted by HWI.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of HWI or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. HWI has no funds held in perpetuity as of June 30, 2020.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

Basis of presentation (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities and change in net assets.

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

HWI considers currency on hand, demand deposits with banks or other financial institutions, treasury bills, commercial paper, money market funds or other investments with original maturities of three months or less to be cash and cash equivalents. At June 30, 2020, cash and cash equivalents consisted of currency on hand and demand deposits with banks and other financial institutions in which the deposits are guaranteed by the Federal Deposit Insurance Corporation ("FDIC").

The operating accounts of HWI are held at an institution that provides insurance up to \$250,000 per FDIC-insured depository institution. Topic 825 of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), Financial Instruments, identifies such accounts as a concentration of credit risk requiring disclosure regardless of the degree of risk. Risk related to deposits held outside of institutions participating in the above FDIC program is managed by maintaining deposits with high quality financial institutions. As of June 30, 2020, the cash accounts maintained exceeded federally insured limits by approximately \$241,000. HWI has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

Accounts receivable consists primarily of amounts due from the water systems. The allowance is based on management's conservative analysis of the collectability of accounts based on current business conditions. As of June 30, 2020, the allowance for doubtful accounts was approximately \$10,600.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

Inventory

Inventory consists of water bottles and caps, maintenance parts, and water system equipment which is recorded at net realizable value on the first-in, first-out ("FIFO") method.

Property, equipment and improvements

Property, equipment and improvements are stated at cost, or if donated, at the fair market value on the date of the gift. Property donated with restrictions regarding its use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from net assets with donor restrictions to net assets without donor restrictions at that time. HWI capitalizes all fixed assets greater than \$2,500. Depreciation is computed on the straight-line basis over estimated useful lives ranging from two to five years for all equipment and vehicles.

Depreciation expense was \$7,665 for the year ended June 30, 2020. There was no amortization expense related to website development, computer software and leasehold improvements for the year ended June 30, 2020, as all amounts are fully amortized.

Management has reviewed the assets in other countries and has determined that they are under the control and ownership of HWI. While such items are recognized as assets of HWI, it should be noted that the political situation in many countries is subject to rapid change. Therefore, the reader should be aware that while HWI believes the assets are properly stated at the date of this report, subsequent changes could occur that would adversely affect the realizable value of the assets in other countries. In addition, it should be understood that the carrying value of the assets in other countries may not be representative of the amount that would be realized should the asset be sold.

Long-lived assets

HWI reviews the recoverability of long-lived asset when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. During the year ended June 30, 2020, no impairments occurred.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

Contributions

Contributions are recorded when made, which may be when cash is received or unconditionally promised, or when ownership of donated assets is transferred to HWI. Contributions restricted by the donor for a specific purpose are recorded as support net assets with donor restrictions until the funds have been expended by HWI for the purpose specified. Upon satisfaction of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and change in net assets as net assets released from restrictions. Donated assets are recorded as contributions at their estimated fair value on the date of donation. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Revenue recognition

Contributions are recognized when cash, securities or other assets, or unconditional promises to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Water sales are exchange transactions and are accounted for in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). The contract agreements entered into typically have two performance obligations, which are both satisfied on a monthly basis. For the first performance obligation, HWI will receive variable consideration based on a percentage of monthly water sales sold by the customer (percentage is defined in each customer contract) in exchange for overall water storage and maintenance. For the second performance obligation, HWI receives a monthly fixed fee to cover system repairs and upgrades. Payments are typically received monthly. HWI rarely has unsatisfied or partially unsatisfied performance obligations at year-end. There are no warranties, financing options, rebates, discounts, refunds, or concessions for additional consideration under Topic 606.

The key factor affecting the amount, timing and uncertainty of HWI's revenue is its concentration of revenue attributed to contributions.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

Functional allocation of expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated statement of functional expenses provides a detail of the natural classifications of those functional expenses and are determined on an equitable and rational basis. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, office expense, travel and entertainment, promotion and advertising, technology expense, professional fees, and other expense that are allocated on the basis of use and time for the expenses, as well as personnel costs that are allocated on the basis of estimates of time and effort.

Foreign operations

In connection with its foreign affiliates, HWI has certain supporting facilities outside the United States. The account balances relating to foreign operations are reflected in the consolidated financial statements in United States dollars. Assets and liabilities on the consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position. Income and expenses on the consolidated statement of activities and change in net assets are translated at exchange rates at the dates of the transactions. Changes in exchange rates subsequent to the date of the consolidated financial statements could have an impact on asset valuation and HWI's foreign operations.

Included in the consolidated statement of financial position are foreign affiliate assets of approximately \$71,000 and liabilities of \$57,000 as of June 30, 2020. Included in the consolidated statement of activities and change in net assets is foreign affiliate support and revenue of approximately \$113,400 and program service expense of \$352,300 for the year ended June 30, 2020.



**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

Changes in accounting principle

During 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU, as amended, provides guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. This framework is intended to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the amendments require expanded disclosures to enable the users of the consolidated financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Management has adopted the guidance on a full retrospective basis to all periods presented and feels this method is most appropriate as there is no material change in revenue recognized. There was no cumulative effect on beginning net assets of applying the new standard and its amendments for the year ended June 30, 2020.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. HWI adopted this guidance as of July 1, 2019, with no effect on its recognition of contributions received.

Subsequent events

Subsequent events have been evaluated by management as of the date of these consolidated financial statements. This date represents the date the consolidated financial statements were available to be issued.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**2. Availability and Liquidity**

Financial assets:

Cash and cash equivalents	\$ 821,644
Investments held to maturity	123,378
Accounts receivable, net	111,716
Inventory	<u>107,787</u>
Total financial assets	1,164,525
Less donor restrictions amounts	<u>469,806</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 694,719</u>

HWI's goal is generally to maintain financial assets to meet four to six months of operating expenses (approximately \$440,000 to \$660,000). As part of its liquidity plan, excess cash is invested in short-term investments, including time deposits with maturities of twelve months or less, money market accounts, and cash accounts.

**3. Investments Held to Maturity**

During 2017, HWI invested in an investment fund through the purchase of two notes receivable which are classified as held to maturity and carried at amortized cost.

The first note has an outstanding balance of \$100,000, a fixed interest rate of 3.31% payable monthly with an original maturity date of June 15, 2018, which has been renewed annually. During 2019, the note was renewed with a fixed interest rate of 2.87% payable monthly with a maturity date of July 15, 2020. During 2020, the note was renewed with a fixed interest rate of 2.46% with a maturity date of July 24, 2021.

The second note had an outstanding balance of \$50,000, a variable interest rate based on the three month LIBOR rate, adjusted monthly (0.34% as of June 30, 2020) with a maturity date of June 2023. However, the agreement with the investment fund allows for HWI to redeem this investment upon its' request without prepayment penalty, in whole or in part. During the year ended June 30, 2020, HWI withdrew \$40,000 of the principal. Subsequent to the year ended June 30, 2020, HWI withdrew the remaining balance of approximately \$13,600 and closed the investment account. Given that HWI utilized this provision, management has determined that the classification as a current asset is appropriate as of June 30, 2020.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
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**3. Investments Held to Maturity (continued)**

At the election of HWI, unpaid interest has been deferred and added to the principal balance and accrues interest based on the terms of the original notes. The underlying investments of the investment fund consists of mortgage loans to religious organizations for the acquisition, development, and/or renovation of churches or church-related properties. As of June 30, 2020, the balance of the notes, including unpaid interest, was \$123,378.

As of June 30, 2020, the estimated fair value of the investments approximated their amortized cost, therefore, no significant unrealized gains or losses are reflected.

**4. Conditional Grant Awards**

At June 30, 2020, HWI had a refundable advance liability of \$138,400. This amount resulted from the issuance of a Paycheck Protection Program award as a result of legislation passed to assist businesses in navigation the Coronavirus pandemic. HWI has determined that this is a conditional grant award and has applied the policy as described in Note 1, which says that conditional contributions and grants shall be reported as a refundable advance liability until the conditions are substantially met.

The conditions of this award include incurring eligible expenditures during the covered period of eight weeks and a formal review and approval of the forgiveness application by the lending institution. Should the lending institution choose not to forgive the refundable advance, it bears interest at 1% and is repayable in principal and interest payments every month, beginning May 1, 2020, with final maturity of April 1, 2022. HWI anticipates that the full amount of the award will be forgiven at which time the conditions will be deemed substantially met and revenue will be recognized.

**5. Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of donations restricted by the donors and are available for the following purposes as of June 30, 2020:

Water Systems	\$ 397,772
Supplemental Projects and Grants	<u>72,034</u>
	<u>\$ 469,806</u>

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**6. Retirement Plan**

HWI sponsors a simple IRA retirement plan (the "Plan") covering substantially all employees who meet specified service requirements as defined in the Plan document. The Plan allows for employee contributions up to the maximum allowable by the Code. Matching contributions by HWI are up to 3% of employee deferrals and totaled approximately \$18,000 for the year ended June 30, 2020.

**7. Commitments**

In May 2011, HWI entered into a lease agreement for office space in Golden, Colorado which was amended to extend the lease to September 2021. The agreement, as amended, requires initial base rent of \$4,024, increasing to \$4,397 in the final year of the agreement.

The future minimum lease payments for fiscal years ending after June 30, 2020, are as follows:

<u>Year Ended June 30,</u>		
2021	\$	52,380
2022		<u>13,191</u>
	\$	<u><u>65,571</u></u>

Total rent expense for the year ended June 30, 2020 was approximately \$77,500.

**8. Income Taxes**

FASB ASC Topic 740, *Income Taxes*, clarifies the accounting for uncertainty in income tax positions and defines the threshold for recognizing the tax benefits of tax return filing positions in the consolidated financial statements as "more likely than not" to be sustained upon examination, based on the technical merits of the positions. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized. Tax positions which previously would have failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which the threshold is met. Conversely, previously recognized tax positions which no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which the threshold is no longer met.

As HWI is qualified as a nonprofit under the Code, any income tax position would be primarily related to unrelated business activities outside the core mission of the HWI. Based on prior examinations of contractual arrangements of HWI and correspondence received from the Internal Revenue Service, management believes there to be no potential income tax positions that would result in related tax liability for HWI. Management will continue to evaluate any future contractual arrangements with respect to potential income tax positions under this guidance.

**Healing Waters International, Inc.  
And Affiliates**

Notes to Consolidated Financial Statements  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

**9. Business Conditions and Uncertainties**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide and the full outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on HWI's condition, liquidity, and future results of operations. As of the date of this report, HWI's operations have been impacted in both the United States and in the countries where it has staff. Funding from individuals and strategic partners were reduced or delayed, which negatively impacted both program goals and financial performance. HWI has made adjustments to operations to reduce expenses and continues to monitor the situation in order to inform any further adjustments as management deems necessary. Management believes HWI has taken appropriate actions in response to the pandemic. Given the daily evolution of the COVID-19 crisis and the global responses to curb its spread, HWI is not able to estimate the effects of the COVID-19 crisis on future operations; however, should it continue, it may have an adverse effect on future consolidated operations, financial position, and liquidity in fiscal year 2021 if funding is depressed or continues to be delayed.

Supplemental Information  
(See Independent Auditor's Report)

**Healing Waters International, Inc.  
And Affiliates**

Consolidating Statements of Financial Position  
June 30, 2020  
(See Independent Auditor's Report)

Assets

	U.S.	Foreign Affiliates	Total
Cash and cash equivalents	\$ 803,819	\$ 17,825	\$ 821,644
Investments held to maturity	123,378	-	123,378
Accounts receivable, net of allowance for doubtful accounts (\$10,632)	96,366	15,350	111,716
Inventory	69,940	37,847	107,787
Prepaid expenses and other	19,929	-	19,929
Net property, equipment and improvements	35,259	-	35,259
Total assets	\$ 1,148,691	\$ 71,022	\$ 1,219,713

Liabilities and Net Assets

	U.S.	Foreign Affiliates	Total
Current and total liabilities:			
Accounts payable	\$ 35,148	\$ 14	\$ 35,162
Accrued expenses	20,316	56,947	77,263
Refundable advance	138,400	-	138,400
Total liabilities	193,864	56,961	250,825
Net assets:			
Without donor restrictions:			
Operating	449,762	14,061	463,823
Net investment in property, equipment and improvements	35,259	-	35,259
Total without donor restrictions	485,021	14,061	499,082
With donor restrictions:			
Purpose restrictions	469,806	-	469,806
Total net assets	954,827	14,061	968,888
Total liabilities and net assets	\$ 1,148,691	\$ 71,022	\$ 1,219,713

**Healing Waters International, Inc.  
And Affiliates**

Consolidating Statements of Activities and Change in Net Assets  
Year Ended June 30, 2020  
(See Independent Auditor's Report)

	U.S.	Foreign Affiliates	Total
Support and revenue:			
Contributions	\$ 1,847,682	\$ -	\$ 1,847,682
Water sales	-	106,435	106,435
Other sales income	-	6,933	6,933
Other income	8,235	43	8,278
<b>Total support and revenue</b>	<b>1,855,917</b>	<b>113,411</b>	<b>1,969,328</b>
Expenses:			
Program:			
Salaries and benefits	497,321	84,624	581,945
Program expense	780,772	219,358	1,000,130
Office expense	70,901	17,159	88,060
Travel	8,933	13,872	22,805
Development, marketing, and promotion	4,621	-	4,621
Technology expense	15,123	4,745	19,868
Professional fees	2,458	6,246	8,704
Other expense	5,594	6,305	11,899
<b>Total program expenses</b>	<b>1,385,723</b>	<b>352,309</b>	<b>1,738,032</b>
General and administrative:			
Salaries and benefits	55,885	-	55,885
Office expense	5,543	-	5,543
Travel	991	-	991
Development, marketing, and promotion	4,621	-	4,621
Technology expense	1,485	-	1,485
Professional fees	14,276	-	14,276
Other expense	4,409	-	4,409
<b>Total general and administrative expenses</b>	<b>87,210</b>	<b>-</b>	<b>87,210</b>
Fundraising:			
Salaries and benefits	202,574	-	202,574
Office expense	18,344	-	18,344
Travel	34,312	-	34,312
Development, marketing, and promotion	68,480	-	68,480
Technology expense	4,654	-	4,654
Professional fees	2,371	-	2,371
Other expense	7,142	-	7,142
<b>Total fundraising expenses</b>	<b>337,877</b>	<b>-</b>	<b>337,877</b>
<b>Total expenses before depreciation</b>	<b>1,810,810</b>	<b>352,309</b>	<b>2,163,119</b>
Transfer of funds to foreign affiliates	(234,235)	234,235	-
<b>Change in net assets before depreciation</b>	<b>(189,128)</b>	<b>(4,663)</b>	<b>(193,791)</b>
Other expense:			
Depreciation	-	(7,665)	(7,665)
<b>Change in net assets</b>	<b>(189,128)</b>	<b>(12,328)</b>	<b>(201,456)</b>
<b>Net assets, beginning of year</b>	<b>1,143,955</b>	<b>26,389</b>	<b>1,170,344</b>
<b>Net assets, end of year</b>	<b>\$ 954,827</b>	<b>\$ 14,061</b>	<b>\$ 968,888</b>