

# Healing Waters International, Inc. And Affiliates

Consolidated Financial Statements and  
Accompanying Supplemental Information with  
Independent Auditor's Report

Years Ended June 30, 2023 and 2022



**HEALING WATERS**  
INTERNATIONAL

**WIPFLI**

## **Independent Auditor's Report**

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

### ***Opinion***

We have audited the accompanying consolidated financial statements of Healing Waters International, Inc. and Affiliates ("HWI"), a nonprofit organization, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying 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, 2023 and 2022, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Healing Waters International, Inc. and Affiliates and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Healing Waters International, Inc. and Affiliates' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Healing Waters International, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Healing Waters International, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Supplemental Information***

Our audits were 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 changes in net assets as of June 30, 2023 and 2022, and for the years then ended, are presented for the purpose 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 States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Wipfli LLP". The script is cursive and fluid, with the letters "W", "i", "p", "f", and "l" being particularly prominent.

Wipfli LLP

Lakewood, Colorado

October 2, 2023

# Healing Waters International, Inc. and Affiliates

## Consolidated Statements of Financial Position

<i>June 30,</i>	2023	2022
Current assets:		
Cash and cash equivalents	\$ 986,605	\$ 771,981
Investments	118,735	115,156
Accounts receivable, net of allowance for doubtful accounts (2023 - \$10,446; 2022 - \$10,550)	9,501	194,366
Inventory	191,475	109,860
Prepaid expenses and other	34,933	37,394
Total current assets	1,341,249	1,228,757
Property, equipment and improvements, at cost:		
Computer equipment and software	15,936	15,936
Leasehold improvements	3,803	3,803
Office furniture	7,751	7,751
Vehicles	151,375	171,150
Total property, equipment and improvements, at cost	178,865	198,640
Less accumulated depreciation and amortization	138,605	141,406
Net property, equipment and improvements	40,260	57,234
Other assets:		
Operating lease - right of use asset, net	64,381	-
Total assets	\$ 1,445,890	\$ 1,285,991

See accompanying notes to the consolidated financial statements.

# Healing Waters International, Inc. and Affiliates

## Consolidated Statements of Financial Position

<i>June 30,</i>	2023	2022
Current liabilities:		
Accounts payable	\$ 42,620	\$ 58,401
Accrued expenses	118,906	101,461
Operating lease liability, current portion	43,102	-
Current liabilities	204,628	159,862
Long-term liability, net of current portion:		
Operating lease liability	18,989	-
Total liabilities	223,617	159,862
Net assets:		
Without donor restrictions:		
Operating	777,952	452,087
Net investment in property, equipment and improvements	40,260	57,234
Total without donor restrictions	818,212	509,321
With donor restrictions:		
Purpose restrictions	404,061	616,808
Total net assets	1,222,273	1,126,129
Total liabilities and net assets	\$ 1,445,890	\$ 1,285,991

See accompanying notes to the consolidated financial statements.

# Healing Waters International, Inc. and Affiliates

## Consolidated Statement of Activities and Changes in Net Assets

<i>Year Ended June 30,</i>	2023			Percent of Total Support
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions	\$ 1,506,065	\$ 774,284	\$ 2,280,349	87.4 %
Water system sales	233,951	-	233,951	9.0
Water sales	76,195	-	76,195	2.9
Other sales income	4,617	-	4,617	0.2
Other income	14,382	-	14,382	0.6
Net assets released from restrictions:				
Satisfaction of program restrictions	987,031	(987,031)	-	-
<b>Total support and revenue</b>	<b>2,822,241</b>	<b>(212,747)</b>	<b>2,609,494</b>	<b>100.0</b>
Expenses:				
Program	2,013,679	-	2,013,679	77.2
General and administrative	108,269	-	108,269	4.1
Fundraising	374,428	-	374,428	14.3
<b>Total expenses before depreciation</b>	<b>2,496,376</b>	<b>-</b>	<b>2,496,376</b>	<b>95.6</b>
Changes in net assets before depreciation	325,865	(212,747)	113,118	4.4
Other expense:				
Depreciation	(16,974)	-	(16,974)	(0.7)
Changes in net assets	308,891	(212,747)	96,144	<u>3.7 %</u>
<b>Net assets, beginning of year</b>	<b>509,321</b>	<b>616,808</b>	<b>1,126,129</b>	
<b>Net assets, end of year</b>	<b>\$ 818,212</b>	<b>\$ 404,061</b>	<b>\$ 1,222,273</b>	

See accompanying notes to the consolidated financial statements.

# Healing Waters International, Inc. and Affiliates

## Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30,	2022			Percent of Total Support
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions	\$ 842,289	\$ 898,642	\$ 1,740,931	75.5 %
Water system sales	464,593	-	464,593	20.1
Water sales	82,097	-	82,097	3.6
Other sales income	8,462	-	8,462	0.4
Other income	10,525	-	10,525	0.4
Net assets released from restrictions:				
Satisfaction of program restrictions	820,810	(820,810)	-	-
<b>Total support and revenue</b>	<b>2,228,776</b>	<b>77,832</b>	<b>2,306,608</b>	<b>100.0</b>
Expenses:				
Program	1,941,510	-	1,941,510	84.2
General and administrative	99,270	-	99,270	4.3
Fundraising	325,065	-	325,065	14.1
<b>Total expenses before depreciation</b>	<b>2,365,845</b>	<b>-</b>	<b>2,365,845</b>	<b>102.6</b>
Changes in net assets before depreciation	(137,069)	77,832	(59,237)	(2.6)
Other expense:				
Depreciation	(16,883)	-	(16,883)	(0.7)
Changes in net assets	(153,952)	77,832	(76,120)	<u>(3.3)%</u>
<b>Net assets, beginning of year</b>	<b>663,273</b>	<b>538,976</b>	<b>1,202,249</b>	
<b>Net assets, end of year</b>	<b>\$ 509,321</b>	<b>\$ 616,808</b>	<b>\$ 1,126,129</b>	

See accompanying notes to the consolidated financial statements.



# Healing Waters International, Inc. and Affiliates

## Consolidated Statement of Functional Expenses

<i>Year Ended June 30, 2023</i>	Program	General and Administrative	Fundraising	Total	Percentage of Total Revenue- \$2,602,624
Salaries and benefits	\$ 612,542	\$ 50,031	\$ 202,334	\$ 864,907	33.1 %
Program expense	1,147,099	-	-	1,147,099	44.0
Office expense	92,372	2,998	16,028	111,398	4.3
Travel	45,878	-	17,749	63,627	2.4
Development, marketing, and promotion	26,564	-	123,507	150,071	5.8
Technology expense	20,900	1,636	6,614	29,150	1.1
Professional fees	27,022	46,786	3,030	76,838	2.9
Other expense	41,302	6,818	5,166	53,286	2.0
Total expenses before depreciation	2,013,679	108,269	374,428	2,496,376	95.6
Depreciation	16,701	78	195	16,974	0.6
Total expenses	\$ 2,030,380	\$ 108,347	\$ 374,623	\$ 2,513,350	96.2 %
Percentage of total expenses	80.8 %	4.3 %	15.0 %	100.0 %	

See accompanying notes to the consolidated financial statements.

# Healing Waters International, Inc. and Affiliates

## Consolidated Statement of Functional Expenses

<i>Year Ended June 30, 2022</i>	Program	General and Administrative	Fundraising	Total	Percentage of Total Revenue- \$2,306,608
Salaries and benefits	\$ 544,030	\$ 53,457	\$ 205,404	\$ 802,891	34.8 %
Program expense	1,196,235	-	-	1,196,235	51.9
Office expense	86,574	3,654	12,944	103,172	4.5
Travel	38,269	-	7,730	45,999	2.0
Development, marketing, and promotion	7,760	5,027	79,418	92,205	4.0
Technology expense	20,483	1,372	4,800	26,655	1.2
Professional fees	13,633	29,541	2,414	45,588	2.0
Other expense	34,526	6,219	12,355	53,100	2.3
Total expenses before depreciation	1,941,510	99,270	325,065	2,365,845	102.7
Depreciation	16,883	-	-	16,883	0.7
Total expenses	\$ 1,958,393	\$ 99,270	\$ 325,065	\$ 2,382,728	103.4 %
Percentage of total expenses	82.2 %	4.2 %	13.6 %	100.0 %	

See accompanying notes to the consolidated financial statements.

# Healing Waters International, Inc. and Affiliates

## Consolidated Statements of Cash Flows

<i>Years Ended June 30,</i>	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 96,144	\$ (76,120)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	16,974	16,883
Gain on sale of assets	-	(6,533)
Interest income reinvested	(3,579)	(2,686)
Non-cash lease expense	37,620	-
Change in allowance for doubtful accounts	(104)	(50)
Changes in operating assets and liabilities:		
Accounts receivable	184,969	(33,421)
Inventory	(81,615)	13,483
Prepaid expenses and other	2,461	(18,937)
Accounts payable	(15,781)	23,489
Accrued expenses	17,445	14,234
Operating lease liability	(39,910)	-
Net cash provided (used) by operating activities	214,624	(69,658)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	20,700
Purchases of property and equipment	-	(56,522)
Net cash used by investing activities	-	(35,822)
Net increase (decrease) in cash and cash equivalents	214,624	(105,480)
Cash and cash equivalents, beginning	771,981	877,461
Cash and cash equivalents, ending	\$ 986,605	\$ 771,981

See accompanying notes to the consolidated financial statements.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### **Nature of Operations**

Healing Waters International, Inc. ("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.

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.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

#### **Nature of Operations** (Continued)

##### *Water Micro-Businesses (Continued)*

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, 2023 and 2022.

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 statements of activities and changes in net assets.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

#### **Use of Estimates in Preparation of Consolidated Financial Statements**

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, 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, 2023 and 2022, 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 institutions 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, 2023 and 2022, the cash accounts maintained exceeded federally insured limits by approximately \$459,000 and \$253,000, respectively. 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 of amounts due from water system sales, amounts due from water stores serving urban communities in Guatemala, and pledges receivable. As of June 30, 2023 and 2022, receivables from water system sales were \$2,638 and \$124,807, respectively. As of June 30, 2023 and 2022, amounts due from foreign water stores were \$17,309 and \$20,109, respectively. As of June 30, 2023 and 2022, pledges receivable were \$0 and \$60,000, respectively.

As of June 30, 2023 and 2022, the allowance for doubtful accounts for water store revenues from foreign affiliates was \$10,446 and \$10,550, respectively. The allowance is based on management's conservative analysis of the collectability of accounts based on current business conditions. Management monitors outstanding balances and writes off, as of year-end, all balances that are not considered collectible. Pledges receivable are recognized as revenue and as assets in the period the unconditional promises are received.

#### **Inventory**

Inventory consists of water system equipment, filters, pumps, components, maintenance parts, and water store consumables which is recorded at the lower of cost or net realizable value on the first-in, first-out ("FIFO") method.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

#### **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, and the shorter of the estimated useful life or the related lease term for leasehold improvements.

Depreciation expense was \$14,547 and \$14,592 for the years ended June 30, 2023 and 2022, respectively. Amortization expense related to website development, computer software and leasehold improvements was \$2,427 and \$2,291 for the years ended June 30, 2023 and 2022, respectively.

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 a 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 years ended June 30, 2023 and 2022, no impairments occurred.

#### **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 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 statements of activities and changes 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.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

#### **Revenue Recognition**

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

Water system sales are exchange transactions and are accounted for in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). HWI has a supply agreement with an organization in which it supplies water systems and parts. HWI invoices for water systems and parts supplied, payments are then 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. Accounts receivable related to contracts was approximately \$2,600, \$116,000 and \$0 at June 30, 2023, June 30, 2022 and July 1, 2021, respectively.

Water sales are exchange transactions and are accounted for in accordance with FASB ASC 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. For the years ended June 30, 2023 and 2022, accounts receivable related to contracts was insignificant.

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

#### **Functional Allocation of Expenses**

The costs of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated statements 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 expenses, 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. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.



# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

#### **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 statements 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 statements of activities and changes 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 statements of financial position are foreign affiliate assets of \$85,563 and \$81,066 and liabilities of \$96,188 and \$77,656 as of June 30, 2023 and 2022, respectively. Included in the consolidated statements of activities and changes in net assets is foreign affiliate support and revenue of \$79,650 and \$91,496 and program service expense of \$732,583 and \$531,555 for the years ended June 30, 2023 and 2022, respectively.

#### **Accounting Pronouncement Adopted**

##### **ASU No 2016-02 - Leases (Topic 842)**

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842). ASU 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases on the consolidated statements of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. HWI adopted this guidance for the year ended June 30, 2023 with modified retrospective application to July 1, 2022. HWI has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, HWI accounted for its existing operating leases as operating leases and capital leases as finance leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether the classification of the leases would be different in accordance with ASC Topic 842, or (c) whether any unamortized initial direct costs before transition adjustments (as of July 1, 2022) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Similarly, HWI did not reassess service contracts evaluated for lease treatment under ASC 840 for embedded leases under ASC 842.

As a result of the adoption of the new lease accounting guidance, HWI recognized an right-of-use ("ROU") asset of \$105,806 and a lease liability of \$102,278 as of July 1, 2022.

This standard did not have a material impact on HWI's consolidated net assets or cash flows from operations and had an immaterial impact on HWI's operating results. The most significant impact was the recognition of the ROU asset and lease obligation for its operating lease. The ROU asset includes prepaid rent of \$3,528 at adoption on July 1, 2022.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

#### **ASC 842 Lease Accounting**

HWI is a lessee in a noncancelable operating lease. If the contract provides HWI the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

HWI has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

For all underlying classes of assets, HWI has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that HWI is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. HWI recognizes short-term lease cost on a straight-line basis over the lease term.

#### **Subsequent Events**

Subsequent event 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

### Note 2: Liquidity and Availability

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

<i>June 30,</i>	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 986,605	\$ 771,981
Investments held to maturity	118,735	115,156
Accounts receivable, net	9,501	194,366
 Total financial assets	 1,114,841	 1,081,503
 Less donor restrictions amounts	 404,061	 616,808
 Financial assets available to meet general expenditures over the next twelve months	 \$ 710,780	 \$ 464,695

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. The liquidity management plan of HWI is structured to cover operating expenses and obligations as they come due.

### Note 3: Investments Held to Maturity

During 2017, HWI invested in an investment fund through the purchase of a note receivable which is 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 2021, the note was renewed with a fixed interest rate of 2.46% with a maturity date of July 26, 2022. In August 2022, the note was renewed with a fixed interest rate of 3.28% payable monthly with a maturity date of August 12, 2023. In August 2023, the note was renewed with a fixed interest rate of 5.57% payable monthly with a maturity date of August 22, 2024.

At the election of HWI, unpaid interest has been deferred and added to the principal balance and accrued interest based on the terms of the original note. 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, 2023 and 2022, the balance of the note, including unpaid interest, was \$118,735 and \$115,156, respectively.

As of June 30, 2023 and 2022, the estimated fair value of the investment approximated its amortized cost, therefore, no significant unrealized gains or losses are reflected.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Note 4: Net Assets with Donor Restriction

Net assets with donor restrictions consist of donations restricted by the donors and are available for the following purposes as of June 30, 2023 and 2022:

	2023	2022
Water Systems	\$ 389,061	\$ 326,564
Supplemental Projects and Grants	15,000	290,244
Total	\$ 404,061	\$ 616,808

### Note 5: 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 \$17,551 and \$10,658 for the years ended June 30, 2023 and 2022, respectively.

### Note 6: Operating Leases

In May 2021, HWI entered into a lease agreement for office space in Golden, Colorado which expires in December 2024. The agreement requires initial monthly base rent of \$3,384, which increases annually up to \$3,816 per month in the final year of the agreement and includes additional common area maintenance charges.

The exercise of lease renewal options is at HWI's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur, as determined by management.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

HWI's lease agreement does not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contract includes fixed payments plus variable payments. HWI's office space lease requires it to make variable payments for HWI's proportionate share of the buildings property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Note 6: Operating Leases (Continued)

Components of lease expense were as follows for the year ended June 30, 2023:

Lease cost:		
Operating lease cost	\$	41,425
Variable lease cost		23,990
Total lease cost	\$	65,415

Supplemental cash flow info related to leases is as follows for the year ended June 30, 2023:

Other information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$	42,480
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The following is other information that related to leases as of, and for the year ended, June 30, 2023:

Remaining lease term - Months	18
Discount Rate	2.85 %

Future minimum lease payments are as follows:

<i>Years Ended June 30,</i>		
2024	\$	44,208
2025		19,080
Total lease payments		63,288
Less imputed interest		(1,197)
Total	\$	62,091

# Healing Waters International, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Note 7: Lease Commitments

As discussed in Note 6, HWI leased office space under the terms of an operating lease agreement. Before the adoption of ASU 2016-02 (Topic 842) on July 1, 2022, under ASC 840, the minimum future rental payments due under the lease agreement were as follows for the years ending after June 30, 2022:

<i>Year Ended June 30,</i>		
2023	\$	42,336
2024		44,064
2025		22,896
<hr/>		
Total	\$	109,296

Rent expense paid under the operating lease totaled \$65,415 and \$61,963 for the years ended June 30, 2023 and 2022, respectively.

### Note 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 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.

**Supplemental Information**  
**(See Independent Auditor's Report)**

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# Healing Waters International, Inc. and Affiliates

## Consolidating Statements of Financial Position

Assets			
<i>June 30, 2023</i>	U.S.	Foreign Affiliates	Total
Cash and cash equivalents	\$ 960,418	\$ 26,187	\$ 986,605
Investments held to maturity	118,735	-	118,735
Accounts receivable, net of allowance for doubtful accounts (\$10,446)	2,638	6,863	9,501
Inventory	138,962	52,513	191,475
Prepaid expenses and other	34,933	-	34,933
Net property, equipment and improvements	40,260	-	40,260
Operating lease - right of use asset, net	64,381	-	64,381
<b>Total assets</b>	<b>\$ 1,360,327</b>	<b>\$ 85,563</b>	<b>\$ 1,445,890</b>
Liabilities and Net Assets			
	U.S.	Foreign Affiliates	Total
Current and total liabilities:			
Accounts payable	\$ 42,620	\$ -	\$ 42,620
Accrued expenses	22,718	96,188	118,906
Operating lease liability	62,091	-	62,091
<b>Total liabilities</b>	<b>127,429</b>	<b>96,188</b>	<b>223,617</b>
Net assets:			
Without donor restrictions:			
Operating	767,327	10,625	777,952
Net investment in property, equipment and improvements	40,260	-	40,260
<b>Total without donor restrictions</b>	<b>807,587</b>	<b>10,625</b>	<b>818,212</b>
With donor restrictions:			
Purpose restrictions	404,061	-	404,061
<b>Total net assets</b>	<b>1,211,648</b>	<b>10,625</b>	<b>1,222,273</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,339,077</b>	<b>\$ 106,813</b>	<b>\$ 1,445,890</b>

See Independent Auditor's Report on Supplemental Information



# Healing Waters International, Inc. and Affiliates

## Consolidating Statements of Financial Position

Assets			
<i>June 30, 2022</i>	U.S.	Foreign Affiliates	Total
Cash and cash equivalents	\$ 735,364	\$ 36,617	\$ 771,981
Investment held to maturity	115,156	-	115,156
Accounts receivable, net of allowance for doubtful accounts (\$10,550)	184,807	9,559	194,366
Inventory	74,970	34,890	109,860
Prepaid expenses and other	37,394	-	37,394
Net property, equipment and improvements	57,234	-	57,234
<b>Total assets</b>	<b>\$ 1,204,925</b>	<b>\$ 81,066</b>	<b>\$ 1,285,991</b>
Liabilities and Net Assets			
	U.S.	Foreign Affiliates	Total
Current and total liabilities:			
Accounts payable	\$ 58,401	\$ -	\$ 58,401
Accrued expenses	23,805	77,656	101,461
<b>Total liabilities</b>	<b>82,206</b>	<b>77,656</b>	<b>159,862</b>
Net assets:			
Without donor restrictions:			
Operating	448,677	3,410	452,087
Net investment in property, equipment and improvements	57,234	-	57,234
<b>Total without donor restrictions</b>	<b>505,911</b>	<b>3,410</b>	<b>509,321</b>
With donor restrictions:			
Purpose restrictions	616,808	-	616,808
<b>Total net assets</b>	<b>1,122,719</b>	<b>3,410</b>	<b>1,126,129</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,204,925</b>	<b>\$ 81,066</b>	<b>\$ 1,285,991</b>

See Independent Auditor's Report on Supplemental Information

# Healing Waters International, Inc. and Affiliates

## Consolidating Statements of Activities and Changes in Net Assets

Year Ended June 30, 2023	U.S.	Foreign Affiliates	Total
Support and revenue:			
Contributions	\$ 2,280,349	\$ -	\$ 2,280,349
Water system sales	233,951	-	233,951
Water sales	-	76,195	76,195
Other sales income	1,642	2,975	4,617
Other income	13,902	480	14,382
<b>Total support and revenue</b>	<b>2,529,844</b>	<b>79,650</b>	<b>2,609,494</b>
Expenses:			
Program:			
Salaries and benefits	488,955	123,587	612,542
Program expense	532,178	614,921	1,147,099
Office expense	71,505	20,867	92,372
Travel	25,826	20,052	45,878
Development, marketing, and promotion	23,820	2,744	26,564
Technology expense	16,275	4,625	20,900
Professional fees	21,536	5,486	27,022
Other expense	101,001	(59,699)	41,302
<b>Total program expenses</b>	<b>1,281,096</b>	<b>732,583</b>	<b>2,013,679</b>
General and administrative:			
Salaries and benefits	50,031	-	50,031
Office expense	2,998	-	2,998
Technology expense	1,636	-	1,636
Professional fees	46,786	-	46,786
Other expense	6,818	-	6,818
<b>Total general and administrative expenses</b>	<b>108,269</b>	<b>-</b>	<b>108,269</b>
Fundraising:			
Salaries and benefits	202,334	-	202,334
Office expense	16,028	-	16,028
Travel	17,749	-	17,749
Development, marketing, and promotion	123,507	-	123,507
Technology expense	6,614	-	6,614
Professional fees	3,030	-	3,030
Other expense	5,166	-	5,166
<b>Total fundraising expenses</b>	<b>374,428</b>	<b>-</b>	<b>374,428</b>
<b>Total expenses before depreciation</b>	<b>1,763,793</b>	<b>732,583</b>	<b>2,496,376</b>
Transfer of funds to foreign affiliates	(660,148)	660,148	-
Changes in net assets before depreciation	105,903	7,215	113,118
Other expense:			
Depreciation	(16,974)	-	(16,974)
Changes in net assets	88,929	7,215	96,144
Net assets, beginning of year	1,122,719	3,410	1,126,129
<b>Net assets, end of year</b>	<b>\$ 1,211,648</b>	<b>\$ 10,625</b>	<b>\$ 1,222,273</b>

See Independent Auditor's Report on Supplemental Information

# Healing Waters International, Inc. and Affiliates

## Consolidating Statements of Activities and Changes in Net Assets

Year Ended June 30, 2022	U.S.	Foreign Affiliates	Total
Support and revenue:			
Contributions	\$ 1,740,931	\$ -	\$ 1,740,931
Water system sales	464,593	-	464,593
Water sales	-	82,097	82,097
Other sales income	-	8,462	8,462
Other income	9,588	937	10,525
<b>Total support and revenue</b>	<b>2,215,112</b>	<b>91,496</b>	<b>2,306,608</b>
Expenses:			
Program:			
Salaries and benefits	441,555	102,475	544,030
Program expense	831,437	364,798	1,196,235
Office expense	65,735	20,839	86,574
Travel	21,319	16,950	38,269
Development, marketing, and promotion	5,027	2,733	7,760
Technology expense	15,401	5,082	20,483
Professional fees	9,498	4,135	13,633
Other expense	19,983	14,543	34,526
<b>Total program expenses</b>	<b>1,409,955</b>	<b>531,555</b>	<b>1,941,510</b>
General and administrative:			
Salaries and benefits	53,457	-	53,457
Office expense	3,654	-	3,654
Development, marketing, and promotion	5,027	-	5,027
Technology expense	1,372	-	1,372
Professional fees	29,541	-	29,541
Other expense	6,219	-	6,219
<b>Total general and administrative expenses</b>	<b>99,270</b>	<b>-</b>	<b>99,270</b>
Fundraising:			
Salaries and benefits	205,404	-	205,404
Office expense	12,944	-	12,944
Travel	7,730	-	7,730
Development, marketing, and promotion	79,418	-	79,418
Technology expense	4,800	-	4,800
Professional fees	2,414	-	2,414
Other expense	12,355	-	12,355
<b>Total fundraising expenses</b>	<b>325,065</b>	<b>-</b>	<b>325,065</b>
<b>Total expenses before depreciation</b>	<b>1,834,290</b>	<b>531,555</b>	<b>2,365,845</b>
Transfer of funds to foreign affiliates	(461,743)	461,743	-
Changes in net assets before depreciation	(80,921)	21,684	(59,237)
Other expense:			
Depreciation	(6,861)	(10,022)	(16,883)
Changes in net assets	(87,782)	11,662	(76,120)
<b>Net assets, beginning of year</b>	<b>1,210,501</b>	<b>(8,252)</b>	<b>1,202,249</b>
<b>Net assets, end of year</b>	<b>\$ 1,122,719</b>	<b>\$ 3,410</b>	<b>\$ 1,126,129</b>

See Independent Auditor's Report on Supplemental Information