

DEEP SPRINGS INTERNATIONAL, INC.

Financial Statements
With Independent Auditors' Report

December 31, 2012 and 2011

DEEP SPRINGS INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Deep Springs International, Inc.
Grove City, Pennsylvania

We have audited the accompanying financial statements of Deep Springs International, Inc. (Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
Deep Springs International, Inc.
Grove City, Pennsylvania

Basis for Qualified Opinion

We were unable to obtain sufficient audit evidence to support the amount of inventory stated of \$24,484 in the accompanying statement of financial position as of December 31, 2012.

Qualified Opinion

In our opinion, except for the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Deep Springs International, Inc. as of December 31, 2012, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - 2011 Financial Statements

The financial statements of the Organization as of December 31, 2011, were audited by other auditors. Their report, dated November 9, 2012, expressed a qualified opinion on those financial statements, and indicated that they were unable to obtain sufficient audit evidence to support the amount of inventory stated of \$24,638 in the statement of financial position as of December 31, 2011.

Capin Crouse LLP

Greenwood, Indiana
November 14, 2013

DEEP SPRINGS INTERNATIONAL, INC.

Statements of Financial Position

| | December 31, | |
|----------------------------------|-------------------|-------------------|
| | 2012 | 2011 |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 100,508 | \$ 608,095 |
| Short-term deposit | 388,581 | - |
| Accounts receivable | 43,400 | 63,789 |
| Pledges receivable | 20,000 | 20,000 |
| Inventory | 24,284 | 24,638 |
| Prepaid expenses | 5,756 | 6,096 |
| Total current assets | <u>582,529</u> | <u>722,618</u> |
| Property and equipment—net | <u>31,788</u> | <u>27,872</u> |
| Total Assets | <u>\$ 614,317</u> | <u>\$ 750,490</u> |
| LIABILITIES AND NET ASSETS: | | |
| Current liabilities: | | |
| Accounts payable | \$ 14,152 | \$ 19,180 |
| Accrued payroll and taxes | 7,129 | 7,376 |
| Deferred revenue | 850 | 8,118 |
| Total current liabilities | <u>22,131</u> | <u>34,674</u> |
| Total liabilities | <u>22,131</u> | <u>34,674</u> |
| Net assets: | | |
| Unrestricted | 550,900 | 695,816 |
| Temporarily restricted | 41,286 | 20,000 |
| Total net assets | <u>592,186</u> | <u>715,816</u> |
| Total Liabilities and Net Assets | <u>\$ 614,317</u> | <u>\$ 750,490</u> |

See notes to financial statements

DEEP SPRINGS INTERNATIONAL, INC.

Statements of Activities

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------------------|-----------|--------------|---------------------------|------------|
| | 2012 | | | 2011 | | |
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| SUPPORT, REVENUE, AND RECLASSIFICATIONS: | | | | | | |
| Support: | | | | | | |
| Contributions | \$ 50,837 | \$ 42,574 | \$ 93,411 | \$ 85,173 | \$ 20,000 | \$ 105,173 |
| Gifts-in-kind | 20,133 | - | 20,133 | - | - | - |
| | 70,970 | 42,574 | 113,544 | 85,173 | 20,000 | 105,173 |
| Revenue: | | | | | | |
| Sales | 105,459 | - | 105,459 | 231,073 | - | 231,073 |
| Grant income | 125,561 | - | 125,561 | 5,000 | - | 5,000 |
| Program services | 18,702 | - | 18,702 | 610,382 | - | 610,382 |
| Other income | 8,661 | - | 8,661 | 60 | - | 60 |
| | 258,383 | - | 258,383 | 846,515 | - | 846,515 |
| Reclassifications: | | | | | | |
| Satisfaction of purpose restrictions | 21,288 | (21,288) | - | 40,598 | (40,598) | - |
| Total Support, Revenue, and Reclassifications | 350,641 | 21,286 | 371,927 | 972,286 | (20,598) | 951,688 |

(continued)

See notes to financial statements

DEEP SPRINGS INTERNATIONAL, INC.

Statements of Activities
(continued)

| | Year Ended December 31, | | | | | |
|-------------------------------|-------------------------|---------------------------|------------|--------------|---------------------------|------------|
| | 2012 | | | 2011 | | |
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| EXPENSES: | | | | | | |
| Compensation | 126,459 | - | 126,459 | 117,511 | - | 117,511 |
| Payroll taxes | 5,707 | - | 5,707 | 4,961 | - | 4,961 |
| Employee benefits | 7,172 | - | 7,172 | 4,269 | - | 4,269 |
| Cost of sales | 47,857 | - | 47,857 | 141,476 | - | 141,476 |
| UNICEF bottling project | 35,262 | - | 35,262 | 204,440 | - | 204,440 |
| Office expense | 14,156 | - | 14,156 | 16,032 | - | 16,032 |
| Subcontract labor | 57,970 | - | 57,970 | 49,452 | - | 49,452 |
| Contract services | 17,553 | - | 17,553 | 9,450 | - | 9,450 |
| Travel and meetings | 54,971 | - | 54,971 | 42,039 | - | 42,039 |
| Rent expense | 18,772 | - | 18,772 | 13,878 | - | 13,878 |
| Public relations | 41,138 | - | 41,138 | - | - | - |
| Advertising | 3,000 | - | 3,000 | 9,054 | - | 9,054 |
| Insurance | 15,057 | - | 15,057 | 12,128 | - | 12,128 |
| Depreciation expense | 7,056 | - | 7,056 | 5,959 | - | 5,959 |
| Accounting | 15,350 | - | 15,350 | 14,440 | - | 14,440 |
| Bad debt expense | 13,850 | - | 13,850 | 10,294 | - | 10,294 |
| Other | 14,227 | - | 14,227 | 20,684 | - | 20,684 |
| | 495,557 | - | 495,557 | 676,067 | - | 676,067 |
| Total Expenses | | | | | | |
| Change in Net Assets | (144,916) | 21,286 | (123,630) | 296,219 | (20,598) | 275,621 |
| Net Assets, Beginning of Year | 695,816 | 20,000 | 715,816 | 399,597 | 40,598 | 440,195 |
| Net Assets, End of Year | \$ 550,900 | \$ 41,286 | \$ 592,186 | \$ 695,816 | \$ 20,000 | \$ 715,816 |

See notes to financial statements

DEEP SPRINGS INTERNATIONAL, INC.

Statements of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (123,630) | \$ 275,621 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 7,056 | 5,959 |
| Bad debt expense | 13,850 | - |
| Non-cash contributions of fixed assets and inventory | (20,133) | (3,204) |
| Changes in: | | |
| Accounts receivable | 6,539 | 21,163 |
| Inventory | 20,487 | 30,037 |
| Prepaid expenses | 340 | (733) |
| Pledges receivable | - | (20,000) |
| Accounts payable | (5,028) | 8,310 |
| Accrued payroll and taxes | (247) | (3,963) |
| Deferred revenue | (7,268) | (14,345) |
| Net Cash Provided (Used) by Operating Activities | (108,034) | 298,845 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from investments | 120,080 | - |
| Purchase of investments | (508,661) | - |
| Purchase of property and equipment | (10,972) | (9,820) |
| Net Cash Used by Investing Activities | (399,553) | (9,820) |
| Change in Cash | (507,587) | 289,025 |
| Cash, Beginning of Year | 608,095 | 319,070 |
| Cash, End of Year | \$ 100,508 | \$ 608,095 |
| SUPPLEMENTAL DISCLOSURE: | | |
| Noncash operating activities: | | |
| Gifts-in-kind–property and equipment | \$ - | \$ 3,204 |
| Gifts-in-kind–inventory | \$ 20,133 | \$ - |

See notes to financial statements

DEEP SPRINGS INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

1. NATURE OF ORGANIZATION:

The mission of Deep Springs International, Inc. (Organization) is to improve life in developing nations by identifying and encouraging the use of affordable water purification systems, teaching the importance of proper household water treatment practices, and creating new business opportunities for individuals via the teaching of entrepreneurship principles. With local partners, the Organization provides the mentoring, financing, and business relationships needed by new entrepreneurs. The mission is currently being fulfilled in Haiti.

The Organization qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code (code). It is recognized by the IRS as a publicly supported organization rather than a private foundation described in Section 509(a)(2) of the code. As such, it is exempt from federal and state income tax, and contributions by the public are deductible for income tax purposes.

2. 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. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 AND CREDIT RISK

Cash represents cash on hand and cash in checking accounts. The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At times, these accounts may exceed federally insured limits; however, the Organization has not experienced any losses on these accounts and does not believe it is exposed to any significant risk.

SHORT-TERM DEPOSIT

Short-term deposits represent uninsured funds deposited with a Haitian financial services organization as a certificate of deposit for one year. The Organization earns 3% on the investment as long as the certificate of deposit is greater than \$100,000.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances due from the sale of water purification systems and professional services. The Organization closely monitors outstanding accounts receivable and charges off to expense any balances that are determined to be uncollectible. As of December 31, 2012 and 2011, the Organization considered its accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts was recorded. Bad debt expense for the years ended December 31, 2012 and 2011, was \$13,850 and \$10,294, respectively.

DEEP SPRINGS INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PLEDGES RECEIVABLE

Pledges receivable consist of promises to give to the Organization, that are, in substance, unconditional. Pledges receivable that are expected to be collected in future years are recorded at net realizable value, which is measured as the present value of their future cash flows. The discounts, if expected to be received over multiple years, are discounted using risk adjustment interest rates applicable to the years in which the promises are received. Outstanding pledges as of December 31, 2012 and 2011, are expected to be collected in less than one year.

INVENTORY

Inventory consists of water purification system supplies and is stated at the lower of cost (first-in, first-out basis) or market. Inventory is warehoused in Haiti.

PROPERTY, EQUIPMENT, AND DEPRECIATION

The Organization records property and equipment at cost if purchased or, if donated, at the approximate fair value at the date of donation. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives ranging from five to fifteen years. The majority of property and equipment is located in Haiti.

The Organization reports donated property and equipment and related cash grants to purchase equipment as unrestricted assets, unless the donor has restricted the contribution.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable approximate their fair value due to the short-term maturities of those instruments.

CLASSES OF NET ASSETS

The financial statements report amounts separately by class of net assets.

Unrestricted undesignated net assets are those without donor imposed restrictions.

Temporarily restricted net assets include gifts for which donor imposed restrictions for specific operating purposes have not yet been met or time restrictions.

DEEP SPRINGS INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, AND RECLASSIFICATIONS

Support is reported when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of donated assets to be used directly in operations is transferred to the Organization.

Revenue from program services is recognized when earned. Amounts received or billed in advance but not earned are reported as deferred revenue liabilities.

Reclassifications represent net assets released when expenses have been incurred in satisfaction of those donor restrictions.

CONTRIBUTED MATERIALS AND SERVICES

Donated materials and equipment are reflected as contributions in the statements of activities at their estimated fair value at the date of receipt.

The Organization's ministry could not be fully achieved without the dedicated efforts of many volunteers. These contributed services, however, are not reported in the financial statements as they do not meet the "specialized skills" requirements for recognition under current accounting standards.

CONCENTRATION OF SUPPORT RISK

In 2012 and 2011, approximately 37% and 57% of the contributions, respectively, came from one donor.

A substantial portion of the Organization's sales, approximately 31%, are attributable to one organization.

The Organization's operations are primarily located in Haiti. As such, the Organization's ability to continue operations is based on the ongoing economic conditions in Haiti.

EXPENSES

Expenses are reported when incurred. The Organization includes freight costs in both cost of sales and other expenses depending on the use of the freight. Total freight and shipping expense included in cost of sales relating to inventory was \$0 and \$7,118 for the years end December 31, 2012 and 2011, respectively. The amount recorded in other expenses was \$2,879 and \$6,826 for the years ended December 31, 2012 and 2011, respectively. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2012 and 2011, was \$3,000 and \$9,054, respectively.

DEEP SPRINGS INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES, continued

The costs of providing various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The Organization incurred no joint costs for the years ended December 31, 2012 and 2011.

| | Year Ended December 31, | |
|------------------------|-------------------------|-------------------|
| | 2012 | 2011 |
| Expenses: | | |
| Program services | \$ 397,627 | \$ 572,948 |
| Management and general | 75,097 | 91,100 |
| Fundraising | 22,833 | 12,019 |
| | <u>\$ 495,557</u> | <u>\$ 676,067</u> |

FOREIGN ASSETS

The Organization has reviewed its assets in Haiti and, in its opinion, has determined they are under its control. For this reason, such items are recognized as assets. This includes, but is not limited to, short-term deposits, inventory, property and equipment. It should be noted that the political and economic situation in Haiti is subject to rapid change. Therefore, the reader should be aware that while the Organization believes the assets are properly stated at the date of this report, subsequent changes could occur that adversely affect the value of such assets. In addition, it should be understood that these assets in Haiti may not be representative of the amount that would be realized should the assets be sold. Many of the assets were designed to carry out the specific programs of the Organization and might have limited resale potential.

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 June 30, 2012 and 2011, respectively, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Organization files information tax returns in the U.S. and various states. The Organization is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2008.

DEEP SPRINGS INTERNATIONAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

3. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

| | December 31, | |
|--------------------------|------------------|------------------|
| | 2012 | 2011 |
| Furniture and equipment | \$ 36,717 | \$ 36,717 |
| Vehicles | 10,972 | - |
| Accumulated depreciation | (15,901) | (8,845) |
| | <u>\$ 31,788</u> | <u>\$ 27,872</u> |

4. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

| | December 31, | |
|-------------------|------------------|------------------|
| | 2012 | 2011 |
| Time restrictions | \$ 20,000 | \$ 20,000 |
| Use restrictions | 21,286 | - |
| | <u>\$ 41,286</u> | <u>\$ 20,000</u> |

5. OPERATING LEASES:

The Organization rents office space, housing, and a warehouse in Haiti. The rent of the office space and housing is under a yearly operating lease which expires April 15, 2013, with monthly payments of \$1,000. The rent of the warehouse is a yearly operating lease which expires April 30, 2013, with monthly payments of \$496. Both leases have the option of extending for another year or changing to a month-to-month lease in 2013. Rent expense for the years ended December 31, 2012 and 2011, was \$18,772 and \$13,878, respectively, and is included in rent expense in the statements of activities.

6. RELATED PARTY TRANSACTIONS:

During 2012 and 2011, the Organization received contributions of \$0 and \$60,000, respectively, from a company with which a board member is employed. The Organization also had pledges receivable of \$20,000 for both the years ended December 31, 2012 and 2011, from the same company.

7. 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.