

Hope Springs Water
Statement of Financial Position
Date of Inception February 24, 2010 through
December 31, 2010

Assets

	<u>2010</u>
Current Unrestricted Assets	
Cash	\$2,569
Accounts Receivable-Hope Springs, Inc.	<u>\$500</u>
Total Current Unrestricted Assets	<u>\$3,069</u>
Investments	
Equipment	\$750
1000 Shares Hope Springs, Inc. (See Notes)	<u>\$0</u>
Total Investments	<u><u>\$750</u></u>
Total Assets	\$3,819

Liabilities and Net Assets

Liabilities	\$0
Net Assets	\$3,819
Total Unrestricted net assets	<u><u>\$3,819</u></u>

Hope Springs Water
Statement of Activities
Date of Inception February 24, 2010 through
Year Ended December 31, 2010

Revenues

Value of Services donated	\$311
Value of donated Forklift	\$750
Contributions	\$10,887

Total Revenue

\$11,948

Expenses

Organizational costs	\$851
Marketing and Promotional Expense	\$688
Other Expense	\$112
Contract Services-Logo and Web Page Design	\$1,867
Water well, pump and installation expenditures	\$4,300
Equity loss in Hope Springs, Inc. Investment	\$311
	<u>\$8,129</u>

Change in Net Assets

\$3,819

**Hope Springs Water
Statement of Cash Flows
For the Year Ended December 31, 2010**

Operating Activities

Change in Net Assets	\$ 3,819
Account Receivable-Hope Springs, Inc.	\$ (500)
Equipment	\$ (750)
Investment-1000 Shares of Hope Springs, Inc.	\$ (311)
Equity loss in Hope Springs, Inc. Investment	\$ 311
Net cash provided by Operating Activities	<u>\$ 2,569</u>
Net cash increase for period	\$ 2,569
Cash at beginning of period	\$ -
Cash at end of period	<u><u>\$ 2,569</u></u>

Hope Springs Water
A Texas Non-Profit Organization
Notes to Financial Statements
February 24, 2010 through December 31, 2010

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

Hope Springs Water is a not-for-profit organization whose primary purpose is to partner with communities in developing countries to provide sources of pure drinking water. Hope Springs Water maintains its headquarters in Athens, Texas.

Significant Accounting Policies

The financial statements of Hope Springs Water have been prepared on an accrual basis. Hope Springs Water recognizes contributions of materials and services only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of operations and would otherwise have been purchased.

Generally, when an entity has control over another entity the financials are consolidated. Hope Springs Water (HSW) owns 100% of the voting stock of Hope Springs Inc. (HSI). However, the nature of the businesses are materially different as HSW is a 501 (c) (3) not-for-profit and HSI is a for-profit C Corp. The objectives of the operations are significantly different. Therefore, under GAAP, HSW shows different statements than HSI. An example is Net Assets in HSW instead of Stockholder's Equity in HSI. We believe it would be confusing and misleading to the readers of the Financials Statements to attempt to consolidate these GAAP mandated different statements and have found no guidance in the guidelines that addressed a for-profit being consolidated in a nonprofit. Therefore, we adopted the equity method of accounting for HSI as the fairest presentation of the financial position of HSW. HSI's website is www.hopespringsinc.com.

Cash

The financial institution holding Hope Springs Water's cash account is participating in the FDIC's Transaction Account Guarantee Program which insures the cash account up to \$250,000. At December 31, 2010, Hope Springs Water is insured through this program.

Accounts Receivable

All accounts receivable are current. An advance of \$500 was disbursed to Hope Springs, Inc. for working capital.

Equipment

A forklift was donated to Hope Springs Water with a value of \$750.

1000 Shares Hope Springs, Inc.

Hope Springs Water owns all the voting stock of Hope Springs, Inc., a for-profit entity. This allows the not-for-profit entity to elect all board members of Hope Springs, Inc. There are no common board members shared by the two entities, and all aspects of the two entities are kept separate. The net loss of \$1,200 incurred by Hope Springs, Inc., is reported under the equity method of accounting as an investment loss that offsets the \$311 investment, but only to the extent that it reduces the investment balance to zero. The difference is an unrealized loss on the investment, as shown in the following reconciliation:

Investment—Hope Springs, Inc.	\$311
Deduct: 2010 Investment Loss—Hope Springs, Inc.	<u>(1,200)</u>
Unrealized loss on investment	(\$889)

The investment retains a zero balance until subsequent investee (Hope Springs, Inc.) profits eliminate all unrealized losses. See Hope Springs, Inc. website at www.hopespringsinc.com for detailed financial statements.

Liabilities and Net Assets

Hope Springs Water is not liable for any contractual arrangements, liabilities or contingent liabilities of Hope Springs, Inc.

Hope Springs Water has no permanent employees.

Water Well, Pump and Installation Expenditures

Hope Springs Water is organized exclusively for charitable, religious, educational, and scientific purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501 (c) (3) of the Internal Revenue Code, or corresponding section of any future federal tax code. In May 2010, \$4300 was given to Jim Palmer, Palmer Ministries, a Non-profit 501 (c) (3) organization located in Mesquite, Texas and Puerto Cabezas, Nicaragua. The money was used to purchase a pump and install it in a water well in Santa Rosa, Nicaragua. This well and pump provide a constant water source for over 45 families of Santa Rosa. The second well project was underway at the end of 2010 in the community of Kisalaya on the Coco River of Nicaragua. The well which helps provide safe drinking water for 150 families was completed in 2011.

Related Party Transactions

During 2010, \$4,300 was donated to Palmer Ministries, a non-profit 501 (c) (3) organization, to purchase a pump and install it in a water well in Santa Rosa, Nicaragua. Jim Palmer, a Director of Hope Springs Water abstained from voting in the Trustee decision to donate this money.