

Living Water International

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2012 and 2011

Independent Auditors' Report

To the Board of Directors of
Living Water International:

We have audited the accompanying financial statements of Living Water International and subsidiaries (LWI) which comprise the consolidated statements of financial position as of December 31, 2012 and 2011 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years 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

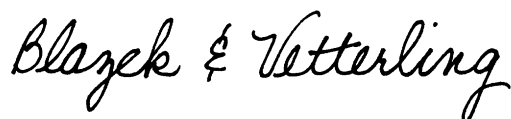
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LWI as of December 31, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



May 29, 2013

Living Water International

Consolidated Statements of Financial Position as of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 2,278,482	\$ 2,293,934
Investments (Note 3)	2,664,534	2,953,477
Pledges receivable (Note 4)	549,425	1,109,200
Accounts receivable	190,310	
Prepaid expenses and other assets	493,995	413,125
Property and equipment, net (Note 5)	<u>3,976,937</u>	<u>3,673,885</u>
TOTAL ASSETS	<u>\$ 10,153,683</u>	<u>\$ 10,443,621</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 306,357	\$ 320,865
Accrued expenses	<u>532,319</u>	<u>582,432</u>
Total liabilities	<u>838,676</u>	<u>903,297</u>
Net assets:		
Unrestricted	8,240,575	6,217,139
Temporarily restricted (Note 7)	<u>1,074,432</u>	<u>3,323,185</u>
Total net assets	<u>9,315,007</u>	<u>9,540,324</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,153,683</u>	<u>\$ 10,443,621</u>

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the year ended December 31, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 7,574,234	\$ 9,923,319	\$ 17,497,553
Special events	2,151,815	500,000	2,651,815
Water program contracts	380,564		380,564
Training fees	51,070		51,070
Investment income	133,726		133,726
Other income	<u>24,546</u>		<u>24,546</u>
Total revenue	10,315,955	10,423,319	20,739,274
Net assets released from restrictions:			
Program expenditures	<u>12,672,072</u>	<u>(12,672,072)</u>	
Total	<u>22,988,027</u>	<u>(2,248,753)</u>	<u>20,739,274</u>
EXPENSES:			
Program expenses (<i>Note 9</i>):			
WASH* and Christian Witness	14,205,701		14,205,701
Short-term mission trips	<u>2,894,099</u>		<u>2,894,099</u>
Total program expenses	<u>17,099,800</u>		<u>17,099,800</u>
Management and general	1,378,663		1,378,663
Fundraising	3,004,638		3,004,638
Direct donor benefits – special events	<u>196,293</u>		<u>196,293</u>
Total expenses	<u>21,679,394</u>		<u>21,679,394</u>
Changes in net assets before other changes	1,308,633	(2,248,753)	(940,120)
OTHER CHANGES IN NET ASSETS:			
Consolidation of affiliates (<i>Note 1</i>)	<u>714,803</u>		<u>714,803</u>
CHANGES IN NET ASSETS	2,023,436	(2,248,753)	(225,317)
Net assets, beginning of year	<u>6,217,139</u>	<u>3,323,185</u>	<u>9,540,324</u>
Net assets, end of year	<u>\$ 8,240,575</u>	<u>\$ 1,074,432</u>	<u>\$ 9,315,007</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the year ended December 31, 2011

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 8,868,344	\$ 9,178,653	\$ 18,046,997
Special events	1,612,138	540,300	2,152,438
Water program contracts	143,000		143,000
Training fees	52,855		52,855
Investment income	6,979		6,979
Other income	<u>53,680</u>		<u>53,680</u>
Total revenue	10,736,996	9,718,953	20,455,949
Net assets released from restrictions:			
Program expenditures	<u>8,317,687</u>	<u>(8,317,687)</u>	
Total	<u>19,054,683</u>	<u>1,401,266</u>	<u>20,455,949</u>
EXPENSES:			
Program expenses (<i>Note 9</i>):			
WASH* and Christian Witness	12,153,421		12,153,421
Short-term mission trips	<u>2,132,716</u>		<u>2,132,716</u>
Total program expenses	<u>14,286,137</u>		<u>14,286,137</u>
Management and general	1,144,617		1,144,617
Fundraising	2,832,586		2,832,586
Direct donor benefits – special events	<u>195,334</u>		<u>195,334</u>
Total expenses	<u>18,458,674</u>		<u>18,458,674</u>
Changes in net assets before other changes	596,009	1,401,266	1,997,275
OTHER CHANGES IN NET ASSETS:			
Consolidation of affiliates (<i>Note 1</i>)	<u>386,794</u>		<u>386,794</u>
CHANGES IN NET ASSETS	982,803	1,401,266	2,384,069
Net assets, beginning of year	<u>5,234,336</u>	<u>1,921,919</u>	<u>7,156,255</u>
Net assets, end of year	<u>\$ 6,217,139</u>	<u>\$ 3,323,185</u>	<u>\$ 9,540,324</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Functional Expenses for the year ended December 31, 2012

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>SHORT-TERM MISSION TRIPS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING AND DIRECT DONOR BENEFITS</u>	<u>TOTAL EXPENSES</u>
Salaries and related benefits	\$ 3,925,875	\$ 400,322	\$ 4,326,197	\$ 962,403	\$ 1,773,637	\$ 7,062,237
Water drilling and equipment project costs	5,223,572		5,223,572			5,223,572
Travel, meals, and lodging	1,270,580	2,431,510	3,702,090	50,762	345,707	4,098,559
Materials and supplies	1,210,025	16,155	1,226,180	24,337	75,243	1,325,760
Professional fees	158,279	9,264	167,543	132,039	381,656	681,238
Contract labor	497,974	1,850	499,824	10,384	114,411	624,619
Depreciation	432,690		432,690	47,869	24,147	504,706
License permits and fees	203,813	7,007	210,820	33,977	157,496	402,293
Grants	344,706		344,706			344,706
Repairs and maintenance	263,170	464	263,634	7,019	7,265	277,918
Leases and rentals	243,272	1,200	244,472	3,259	13,566	261,297
Insurance	111,412	25,926	137,338	24,154	28,836	190,328
Telephone	118,859	166	119,025	13,629	29,267	161,921
Printing and reproduction	18,199	194	18,393	3,726	131,978	154,097
Postage and shipping	64,301	26	64,327	6,023	41,624	111,974
Utilities	45,302	15	45,317	27,732	11,322	84,371
Dues and subscriptions	22,807		22,807	24,830	23,487	71,124
Advertising and promotion	17,488		17,488	646	30,367	48,501
Other	<u>33,377</u>	<u> </u>	<u>33,377</u>	<u>5,874</u>	<u>10,922</u>	<u>50,173</u>
Total expenses	<u>\$14,205,701</u>	<u>\$ 2,894,099</u>	<u>\$17,099,800</u>	<u>\$ 1,378,663</u>	<u>\$ 3,200,931</u>	<u>\$21,679,394</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Functional Expenses for the year ended December 31, 2011

<u>EXPENSES</u>	<u>WASH* AND CHRISTIAN WITNESS</u>	<u>SHORT-TERM MISSION TRIPS</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING AND DIRECT DONOR BENEFITS</u>	<u>TOTAL EXPENSES</u>
Salaries and related benefits	\$ 2,018,217	\$ 382,929	\$ 2,401,146	\$ 756,241	\$ 1,402,221	\$ 4,559,608
Water drilling and equipment project costs	5,789,443		5,789,443			5,789,443
Travel, meals, and lodging	751,572	1,711,515	2,463,087	34,639	354,447	2,852,173
Materials and supplies	767,326	11,709	779,035	24,663	113,517	917,215
Professional fees	462,929		462,929	105,649	361,945	930,523
Contract labor	781,703	2,285	783,988	9,319	129,839	923,146
Depreciation	173,635		173,635	50,563	26,905	251,103
License permits and fees	195,598	81	195,679	33,311	171,468	400,458
Grants	547,631		547,631			547,631
Repairs and maintenance	106,402	238	106,640	20,092	20,108	146,840
Leases and rentals	217,434		217,434	6,185	16,933	240,552
Insurance	112,783	23,344	136,127	20,070	27,413	183,610
Telephone	59,824	77	59,901	14,875	30,477	105,253
Printing and reproduction	9,954	15	9,969	2,352	154,271	166,592
Postage and shipping	102,991	128	103,119	5,160	81,094	189,373
Utilities	23,949	395	24,344	33,041	14,723	72,108
Dues and subscriptions	17,780		17,780	7,823	21,372	46,975
Advertising and promotion				696	97,304	98,000
Interest and finance charges				13,760		13,760
Other	<u>14,250</u>	<u> </u>	<u>14,250</u>	<u>6,178</u>	<u>3,883</u>	<u>24,311</u>
Total expenses	<u>\$12,153,421</u>	<u>\$ 2,132,716</u>	<u>\$14,286,137</u>	<u>\$ 1,144,617</u>	<u>\$ 3,027,920</u>	<u>\$18,458,674</u>

*Water Access, Sanitation and Hygiene

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (225,317)	\$ 2,384,069
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	504,706	251,103
Assets acquired through consolidation of affiliates	(377,640)	(233,466)
Equipment transferred to unconsolidated affiliates	86,862	120,430
Changes in operating assets and liabilities:		
Pledges receivable	559,775	(877,012)
Accounts receivable	(190,310)	
Prepaid expenses and other assets	(80,870)	94,077
Accounts payable	(14,508)	(114,557)
Accrued expenses	<u>(50,113)</u>	<u>304,579</u>
Net cash provided by operating activities	<u>212,585</u>	<u>1,929,223</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,915,941	
Purchase of investments	(3,074,247)	(1,503,145)
Net change in money market mutual funds held as investments	1,447,249	(1,200,204)
Purchase of property and equipment	<u>(516,980)</u>	<u>(824,625)</u>
Net cash used by investing activities	<u>(228,037)</u>	<u>(3,527,974)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit (<i>Note 6</i>)	750,000	
Repayments of line of credit (<i>Note 6</i>)	(750,000)	
Repayments of notes payable	<u> </u>	<u>(231,579)</u>
Net cash used by financing activities	<u>0</u>	<u>(231,579)</u>
NET CHANGE IN CASH	(15,452)	(1,830,330)
Cash, beginning of year	<u>2,293,934</u>	<u>4,124,264</u>
Cash, end of year	<u>\$ 2,278,482</u>	<u>\$ 2,293,934</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$79,488	\$344,000

See accompanying notes to consolidated financial statements.

Living Water International

Notes to Consolidated Financial Statements for the years ended December 31, 2012 and 2011

NOTE 1 – ORGANIZATION

Organization – Living Water International (Living Water) was organized as a Texas nonprofit corporation in 1990. Living Water exists to demonstrate the love of God by providing desperately needed clean water and health and hygiene training, along with the Living Water of the Gospel of Jesus Christ, which alone satisfies the deepest thirst. Living Water serves all people, regardless of religion, race, ethnicity or gender. Living Water’s services are provided in developing countries.

The work of Living Water can be summarized in two inter-related programs as follows:

- *Water Access, Sanitation and Hygiene (WASH) and Christian Witness* – In 2012, Living Water celebrated its 22nd year of ministry and completed its 12,796th water project, which included drilling new water wells, harvesting water, and the rehabilitation of non-working wells in 27 under-developed countries. The organization believes that proper health and hygiene practices multiply the benefits of clean water. Living Water staff and volunteers teach Christian Witness strategies and hygiene and sanitation practices in developing countries and provide training to empower and inspire people to serve the thirsty.
- *Short-term mission trips* – Living Water led 2,051 volunteers into the field in 2012 and 1,354 in 2011 to assist in drilling wells, teaching health and hygiene, and sharing their faith. The contributions given for mission trips, which are included in contribution revenue, cover the volunteer costs for travel, meals, and lodging.

Living Water is in the process of restructuring its international activities by establishing international branch offices as non-profit tax-exempt organizations (NGO) in the countries in which they are located. Living Water consolidates affiliates where both control of the Board of Directors of the NGO and an economic interest exists. Effective January 1, 2011, Living Water had five international affiliates which became subsidiaries with net assets totaling \$386,794 which met the criteria for consolidation (Living Water International Zambia, Living Water Service Centre (Kenya), Living Water International (Burundi), Living Water International Canada, and Foundation Living Water International (Haiti)). Effective January 1, 2012, Living Water added five additional international affiliates which became subsidiaries with net assets totaling \$714,803 which met the criteria for consolidation (LW Internacional AC Puebla MX (Mexico), Living Water International (Liberia), LWI Uganda, Living Water International Rwanda, and Living Water International – Sierra Leone. Prior to consolidation, Living Water’s funding of these non-controlled affiliates are reported primarily as water drilling costs and contract labor. On a consolidated basis, all expenses are reported based on the natural expense classifications shown on the consolidated statement of functional expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets, and activities of Living Water’s Houston operations as well as of its international subsidiaries operations. Significant intercompany transactions and balances have been eliminated in consolidation. Gains and losses from the transaction of foreign currency financial statements are recognized in the consolidated statement of activities.

Federal income tax status – Living Water Houston is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). Living Water files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. Living Water Houston believes it is no longer subject to examinations of returns for tax years ended before December 31, 2009. Living Water Houston’s subsidiaries are tax-exempt in the countries in which they are incorporated.

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution. Management evaluates their banking relationships routinely to mitigate the risk of the bank deposits.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected after one year are discounted to estimate the present value of future cash flows, if material.

Investments are reported at fair value.

Property and equipment is reported at cost, if purchased, or at fair value at the date of gift, if donated. Property and equipment purchases over \$5,000 are capitalized for purchases made in Houston. A \$1,000 threshold is used for any purchases made at the consolidated foreign country affiliate level. Equipment purchased for unconsolidated foreign country affiliates and partners is expensed at the time the equipment and its title are transferred. Depreciation is calculated on a straight-line basis over estimated useful lives of 3 to 40 years. Management evaluates property for impairment on a routine basis. No impairment losses have been recognized during the year ended December 31, 2012 or 2011.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

In-kind contributions are recognized at fair value when an unconditional commitment is received from the donor. The related expense is recognized as materials are used. Living Water received approximately \$44,000 in 2012 and \$197,000 in 2011 in contributed program supplies and materials. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with mission trips for which no amount has been recognized in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Water program contracts and training fees are recognized in the period in which the related services are provided.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENT

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2012 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds	\$ 2,661,450			\$ 2,661,450
Money market mutual funds	<u>3,084</u>			<u>3,084</u>
Total assets measured at fair value	<u>\$ 2,664,534</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,664,534</u>

Assets measured at fair value at December 31, 2011 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds	\$ 1,503,144			\$ 1,503,144
Money market mutual funds	<u>1,450,333</u>			<u>1,450,333</u>
Total assets measured at fair value	<u>\$ 2,953,477</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,953,477</u>

Mutual funds are valued at the net asset value of shares held at year end. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Living Water believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 4 – PLEDGES RECEIVABLE

Pledges at December 31, 2012 receivable are expected to be collected as follows:

2013	\$ 365,425
2014	<u>184,000</u>
Total pledges receivable	<u>\$ 549,425</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 416,738	\$ 404,738
Building and improvements	2,852,803	2,650,663
Drilling equipment	705,569	427,710
Equipment pending assignment	275,066	445,838
Office and computer equipment	175,834	136,622
Furniture and fixtures	183,968	129,949
Vehicles	<u>1,638,323</u>	<u>477,687</u>
Total property and equipment, at cost	6,248,301	4,673,207
Accumulated depreciation	<u>(2,271,364)</u>	<u>(999,322)</u>
Property and equipment, net	<u>\$ 3,976,937</u>	<u>\$ 3,673,885</u>

NOTE 6 – DEBT

Line of credit – Living Water has a \$2,000,000 unsecured revolving line of credit with a bank expiring in December 2013. Draws on the line bear interest at 1.25% above the bank's prime lending rate. There were \$750,000 of draws during the year which were repaid within the same month, resulting in no outstanding balance on the line of credit at December 31, 2012.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Water well programs:		
Ethiopia	\$ 330,715	\$ 936,600
El Salvador	173,198	104,885
Uganda	170,000	280,066
Rwanda	76,679	365,682
Honduras	67,367	105,151
Nicaragua	45,214	
Burkina Faso	34,105	30,000
Angola	25,223	
Sudan	25,025	
School projects	25,000	
Haiti	23,000	716,858
Other countries	50	
Sierra Leone		87,000
Peru		61,000
India		44,668
Equipment	78,856	138,075
Restricted for future periods		453,200
Total temporarily restricted net assets	<u>\$ 1,074,432</u>	<u>\$ 3,323,185</u>

NOTE 8 – UNCONSOLIDATED AFFILIATES

At December 31, 2012, Living Water has four affiliates in which it has an economic interest without direct control and therefore do not consolidate in these financial statements. These four affiliates are Agua Viva Internacional (El Salvador), Asociación Pozos Agua Viva (Guatemala), Living Water Medical Ministries (Honduras), and Water Solutions (Nicaragua). During 2012, Living Water's funding of these affiliates totaled \$1,925,984 and is included in Living Water's financial statements as program expenses. Summarized financial information for the year ended December 31, 2012 related to these affiliates is presented as follows:

	<u>EL SALVADOR</u>	<u>GUATEMALA</u>	<u>HONDURAS</u>	<u>NICARAGUA</u>
Total assets and net assets	\$234,643	\$204,014	\$141,183	\$107,142
Total revenue	\$453,898	\$485,853	\$409,179	\$610,584
Total expenses	\$403,857	\$449,848	\$417,780	\$756,816

At December 31, 2012, accrued expenses of Living Water include approximately \$74,000 in amounts payable to these entities.

NOTE 9 – EXPENDITURES IN DEVELOPING COUNTRIES

A summary of program expenses by geographic region is as follows:

	<u>2012</u>	<u>2011</u>
Africa	\$ 9,060,656	\$ 8,385,576
Americas	7,239,950	5,381,371
Asia	<u>799,194</u>	<u>519,190</u>
Total program expenses	<u>\$ 17,099,800</u>	<u>\$ 14,286,137</u>

Living Water provides services in developing countries by providing support to independent non-profit and other organizations that have missions and goals similar to those of Living Water. A list of these non-profit and other organizations is as follows:

<u>Country</u>	<u>Name of Organizations</u>
Angola*	By Provision
Brazil	Amazon Outreach
Burkina Faso	Streams in Burkina
Central African Republic	Integrated Community Development International
Ethiopia	Ethiopian Kale Heywet Church; Water is Life International
Ghana	African Assistance Plan
India*	Sampurn Development India; Living Water India
Kenya	Serve International
Mexico	Mission Resource International
Namibia	By Provision
Nigeria	Relief Network Ministries
Peru	Tommy Head Peru Ministries
Zimbabwe	Global Water Partners

*These are in the process of being organized corporately to become a controlled affiliate of Living Water.

NOTE 10 – RELATED PARTY TRANSACTIONS

Living Water entered into a contracting agreement with a vendor with payments totaling approximately \$101,000 and \$73,000 in 2012 and 2011, in which the principal contractor is an immediate family member of the Executive Vice President of Living Water. Additionally in 2012 and 2011, approximately \$44,000 and \$48,000 was paid to an in-country implementing contractor who is an immediate family member of a Vice President of Living Water. Also, approximately \$345,000 and \$515,000 in 2012 and 2011 was paid to an in-country implementing contractor who is an immediate family member of Living Water employees.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Living Water maintains a defined-contribution §403(b) plan. Living Water matches employee contributions up to 5% of compensation. Employees are fully vested in Living Water's contributions after one year. Living Water contributed approximately \$210,000 and \$105,000 to the plan in 2012 and 2011.

NOTE 12 – LEASE COMMITMENTS

Living Water leases office space, housing, and equipment, primarily at its international locations, under noncancelable operating leases. Future minimum lease payments are payable as follows:

2013	\$ 221,980
2014	144,715
2015	108,135
2016	65,131
2017	<u>32,659</u>
Total	<u>\$ 572,620</u>

Lease expense was approximately \$260,000 and \$240,000 in 2012 and 2011.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 29, 2013, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
