

Living Water International

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2013 and 2012

Living Water International

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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 (Living Water), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012 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 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 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 Living Water as of December 31, 2013 and 2012 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.

Blazek & Vetterling

May 30, 2014

Living Water International

Consolidated Statements of Financial Position as of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 1,648,818	\$ 2,278,482
Accounts receivable	39,199	190,310
Investments (Note 3)	4,186,627	2,664,534
Pledges receivable (Note 4)	1,489,795	549,425
Prepaid expenses and other assets	320,779	493,995
Property and equipment, net (Note 5)	<u>4,238,155</u>	<u>3,976,937</u>
TOTAL ASSETS	<u>\$ 11,923,373</u>	<u>\$ 10,153,683</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 447,288	\$ 306,357
Accrued expenses	<u>794,834</u>	<u>532,319</u>
Total liabilities	<u>1,242,122</u>	<u>838,676</u>
Net assets:		
Unrestricted	9,097,679	8,240,575
Temporarily restricted (Note 7)	<u>1,583,572</u>	<u>1,074,432</u>
Total net assets	<u>10,681,251</u>	<u>9,315,007</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,923,373</u>	<u>\$ 10,153,683</u>

See accompanying notes to consolidated financial statements.

Living Water International

Consolidated Statement of Activities for the year ended December 31, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 8,094,749	\$ 13,353,339	\$ 21,448,088
Special events	2,704,109		2,704,109
Water program contracts	371,287		371,287
Training fees	39,586		39,586
Investment return, net <i>(Note 3)</i>	(92,482)		(92,482)
Gain on sale of property	555,017		555,017
Other income	7,747		7,747
	<u>11,680,013</u>	<u>13,353,339</u>	<u>25,033,352</u>
Net assets released from restrictions:			
Program expenditures	<u>12,844,199</u>	<u>(12,844,199)</u>	
Total	<u>24,524,212</u>	<u>509,140</u>	<u>25,033,352</u>
EXPENSES:			
Program expenses <i>(Note 9)</i> :			
WASH* and Christian Witness	14,948,128		14,948,128
Short-term mission trips	<u>4,109,458</u>		<u>4,109,458</u>
Total program expenses	<u>19,057,586</u>		<u>19,057,586</u>
Management and general	1,353,250		1,353,250
Fundraising	3,100,098		3,100,098
Direct donor benefits – special events	<u>194,499</u>		<u>194,499</u>
Total expenses	<u>23,705,433</u>		<u>23,705,433</u>
Changes in net assets before other changes	818,779	509,140	1,327,919
OTHER CHANGES IN NET ASSETS:			
Consolidation of affiliates <i>(Note 1)</i>	<u>38,325</u>		<u>38,325</u>
CHANGES IN NET ASSETS	857,104	509,140	1,366,244
Net assets, beginning of year	<u>8,240,575</u>	<u>1,074,432</u>	<u>9,315,007</u>
Net assets, end of year	<u>\$ 9,097,679</u>	<u>\$ 1,583,572</u>	<u>\$ 10,681,251</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, 2012

	<u>UNRESTRICTED</u>	TEMPORARILY <u>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 return, net (<i>Note 3</i>)	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 Functional Expenses for the year ended December 31, 2013

<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	\$ 5,286,366	\$ 802,140	\$ 6,088,506	\$ 977,325	\$ 1,944,354	\$ 9,010,185
Travel, meals, and lodging	1,615,188	2,786,242	4,401,430	71,962	349,058	4,822,450
Water drilling and equipment project costs	3,179,412		3,179,412			3,179,412
Materials and supplies	1,610,667	252,751	1,863,418			1,863,418
Contract labor	715,618	37,822	753,440	17,291	127,068	897,799
Depreciation	562,313	36,736	599,049	45,784	21,229	666,062
Professional fees	165,936	30	165,966	88,098	243,336	497,400
Leases and rentals	345,638	59,638	405,276	3,380	9,024	417,680
Grants for WASH programs	390,814	2,807	393,621			393,621
License permits and fees	137,803	55,953	193,756	27,407	171,265	392,428
Repairs and maintenance	280,583	17,259	297,842	5,646	7,250	310,738
Insurance	197,249	2,536	199,785	27,289	31,206	258,280
Telephone	154,097	7,100	161,197	14,694	30,626	206,517
Office supplies	56,865		56,865	11,334	116,364	184,563
Printing and reproduction	37,444	17,468	54,912	4,209	116,644	175,765
Utilities	68,786	18,940	87,726	25,668	14,654	128,048
Advertising and promotion	37,702		37,702	1,925	63,106	102,733
Postage and shipping	63,168	12,036	75,204	3,676	20,870	99,750
Dues and subscriptions	30,971		30,971	13,163	26,714	70,848
Other	<u>11,508</u>	<u> </u>	<u>11,508</u>	<u>14,399</u>	<u>1,829</u>	<u>27,736</u>
Total expenses	<u>\$14,948,128</u>	<u>\$ 4,109,458</u>	<u>\$19,057,586</u>	<u>\$ 1,353,250</u>	<u>\$ 3,294,597</u>	<u>\$23,705,433</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
Travel, meals, and lodging	1,270,580	2,431,510	3,702,090	50,762	345,707	4,098,559
Water drilling and equipment project costs	4,785,363		4,785,363			4,785,363
Materials and supplies	1,620,261	16,155	1,636,416			1,636,416
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
Professional fees	158,279	9,264	167,543	132,039	381,656	681,238
Leases and rentals	243,272	1,200	244,472	3,259	13,566	261,297
Grants for WASH programs	344,706		344,706			344,706
License permits and fees	203,813	7,007	210,820	33,977	157,496	402,293
Repairs and maintenance	263,170	464	263,634	7,019	7,265	277,918
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
Office supplies	27,973		27,973	24,337	75,243	127,553
Printing and reproduction	18,199	194	18,393	3,726	131,978	154,097
Utilities	45,302	15	45,317	27,732	11,322	84,371
Advertising and promotion	17,488		17,488	646	30,367	48,501
Postage and shipping	64,301	26	64,327	6,023	41,624	111,974
Dues and subscriptions	22,807		22,807	24,830	23,487	71,124
Other	<u>33,377</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 Statements of Cash Flows for the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,366,244	\$ (225,317)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	666,062	504,706
Assets acquired through consolidation of affiliates	(38,325)	(377,640)
Equipment transferred to unconsolidated affiliates	24,000	86,862
Net realized and unrealized (gain) loss on investments	187,324	(781)
Gain on sale of property	(555,017)	
Changes in operating assets and liabilities:		
Pledges receivable	(940,370)	559,775
Accounts receivable	151,111	(190,310)
Prepaid expenses and other assets	59,216	(80,870)
Accounts payable	140,931	(14,508)
Accrued expenses	<u>262,515</u>	<u>(50,113)</u>
Net cash provided by operating activities	<u>1,323,691</u>	<u>211,804</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,241,947	1,915,941
Purchase of investments	(2,152,774)	(3,073,466)
Net change in cash or money market funds held as investments	(1,798,590)	1,447,249
Purchase of property and equipment	(912,955)	(516,980)
Proceeds from sale of property	<u>669,017</u>	<u> </u>
Net cash used by investing activities	<u>(1,953,355)</u>	<u>(227,256)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit (<i>Note 6</i>)	1,800,000	750,000
Repayments of line of credit (<i>Note 6</i>)	<u>(1,800,000)</u>	<u>(750,000)</u>
Net cash used by financing activities	<u>0</u>	<u>0</u>
NET CHANGE IN CASH	(629,664)	(15,452)
Cash, beginning of year	<u>2,278,482</u>	<u>2,293,934</u>
Cash, end of year	<u>\$ 1,648,818</u>	<u>\$ 2,278,482</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$425,980	\$79,488

See accompanying notes to consolidated financial statements.

Living Water International

Notes to Consolidated Financial Statements for the years ended December 31, 2013 and 2012

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 2013, Living Water celebrated its 23rd year of ministry and completed its 14,105th water project, which included drilling new water wells, harvesting water, and the rehabilitation of non-working wells. Living Water is currently active in 23 developing countries. Well projects in 2013 and 2012 total 1,812 and 1,736, respectively. 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 2,339 volunteers into the field in 2013 and 2,051 in 2012 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 has been in the process of restructuring its global activities by establishing international non-profit branch offices organized as non-governmental 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. The following international affiliates which met the criteria for consolidation became subsidiaries of Living Water in the following years:

2011

Living Water International Zambia
Living Water Service Centre (Kenya)
Living Water Africa Region (Kenya)
Living Water International (Burundi)
Living Water International Canada
Foundation Living Water International (Haiti)

2012

LW Internacional AC Puebla MX (Mexico)
Living Water International (Liberia)
LWI Uganda
Living Water International Rwanda
Living Water International – Sierra Leone

2013

Living Water International (Nicaragua)
Living Water (India Central)
Living Water International India (India North)
Living Water International (India South)

The net assets of these international affiliates, at the time they became subsidiaries of Living Water, were \$386,794 (affiliates consolidated in 2011), \$714,803 (affiliates consolidated in 2012), and \$38,325 (affiliates consolidated in 2013).

Prior to consolidation, Living Water's funding of these non-controlled affiliates was 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 International 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 International believes it is no longer subject to examinations of returns for tax years ended before December 31, 2010. Living Water's international 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.

Investments are reported at fair value.

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.

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 or in a consolidated foreign country affiliate. 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, using a half-year convention, 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 years ended December 31, 2013 or 2012.

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. 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

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, 2013 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds	\$ 2,384,953	_____	_____	\$ 2,384,953
Total investments	<u>\$ 2,384,953</u>	<u>\$ 0</u>	<u>\$ 0</u>	2,384,953
Cash held as investments				<u>1,801,674</u>
Total assets measured at fair value				<u>\$ 4,186,627</u>

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>

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.

Investment return includes earnings on cash and consists of the following:

	<u>2013</u>	<u>2012</u>
Realized and unrealized gain (loss)	\$ (187,324)	\$ 781
Interest and dividends	<u>94,842</u>	<u>132,945</u>
Investment return, net	<u>\$ (92,482)</u>	<u>\$ 133,726</u>

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable at December 31, 2013 are expected to be collected as follows:

2014	\$ 1,189,795
2015	100,000
2016	100,000
2017	<u>100,000</u>
Total pledges receivable	<u>\$ 1,489,795</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 416,738	\$ 416,738
Building and improvements	2,870,107	2,852,803
Drilling equipment	1,295,570	705,569
Equipment pending assignment	100,968	275,066
Office and computer equipment	175,834	175,834
Furniture and fixtures	179,447	183,968
Vehicles	<u>2,038,906</u>	<u>1,638,323</u>
Total property and equipment, at cost	7,077,570	6,248,301
Accumulated depreciation	<u>(2,839,415)</u>	<u>(2,271,364)</u>
Property and equipment, net	<u>\$ 4,238,155</u>	<u>\$ 3,976,937</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 2014. Draws on the line bear interest at 1.25% above the bank's prime lending rate. There were \$1,800,000 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, 2013.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Water well programs:		
El Salvador	\$ 293,053	\$ 173,198
Ethiopia	184,000	330,715
Honduras	118,137	67,367
Guatemala	68,313	
Sudan	25,125	25,025
Burkina Faso	21,862	34,105
School projects	19,288	25,000
Uganda	18,794	170,000
Rwanda		76,679
Nicaragua		45,214
Angola		25,223
Haiti		23,050
Restricted for future periods	565,000	
Church engagement	270,000	
Equipment		<u>78,856</u>
Total temporarily restricted net assets	<u>\$ 1,583,572</u>	<u>\$ 1,074,432</u>

NOTE 8 – UNCONSOLIDATED AFFILIATES

At December 31, 2013, Living Water has three affiliates in which it has an economic interest without direct control, and therefore do not consolidate in these financial statements. These three affiliates are Agua Viva Internacional (El Salvador), Asociación Pozos Agua Viva (Guatemala), and Living Water Medical Ministries (Honduras). During 2013, Living Water's funding of these affiliates totaled \$1,410,100 and is included in Living Water's financial statements as program expenses. Summarized financial information for the year ended December 31, 2013 related to these affiliates is presented as follows:

	<u>EL SALVADOR</u>	<u>GUATEMALA</u>	<u>HONDURAS</u>
Total assets and net assets	\$180,834	\$280,981	\$129,270
Total revenue	\$457,969	\$480,813	\$439,604
Total expenses	\$512,378	\$517,591	\$441,321

At December 31, 2013, accrued expenses of Living Water include approximately \$124,000 in amounts payable to these entities.

At December 31, 2012, Living Water had 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>NICARAGUA</u>	<u>EL SALVADOR</u>	<u>GUATEMALA</u>	<u>HONDURAS</u>
Total assets and net assets	\$107,142	\$234,643	\$204,014	\$141,183
Total revenue	\$610,584	\$453,898	\$485,853	\$409,179
Total expenses	\$756,816	\$403,857	\$449,848	\$417,780

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>2013</u>	<u>2012</u>
Africa	\$ 8,879,376	\$ 8,813,019
Americas	9,067,805	7,509,479
Asia	<u>1,110,405</u>	<u>777,302</u>
Total program expenses	<u>\$ 19,057,586</u>	<u>\$ 17,099,800</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
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; Thalappala Malayil House
Kenya	Serve International
Namibia	By Provision
Nigeria	Relief Network Ministries
Peru	Asociacion Ministerios Fuentes de Agua
Sierra Leone	Mariatu's Hope
Uganda	Life Giving Water
Zimbabwe	Global Water Partners; Evangelical Fellowship of Zimbabwe

*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 \$72,000 and \$101,000 in 2013 and 2012, in which the principal contractor is an immediate family member of the Executive Vice President of Living Water. Additionally in 2012, approximately \$44,000 was paid to an in-country implementing contractor who is an immediate family member of a Vice President of Living Water. Also, approximately \$150,000 and \$345,000 in 2013 and 2012 was paid to an in-country implementing contractor who is an immediate family member of two 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 \$217,000 and \$210,000 to the plan in 2013 and 2012.

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:

2014	\$ 262,402
2015	182,579
2016	90,802
2017	<u>31,739</u>
Total	<u>\$ 567,522</u>

Lease expense was approximately \$418,000 and \$260,000 in 2013 and 2012.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 30, 2014, 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.
