

By D. Jerry Ruddlesden

In the next few pages, we are reprinting the 2012 financial audit conducted by Cherry Bekaert LLP. Each calendar year, we have a financial audit performed by an independent third party auditing firm to review our financial statements and financial internal controls. In the “Report of Independent Auditor” opinion section it states: “In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Living Church of God (International), Inc. and Affiliates as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.”

We reprint these statements in their entirety for your review. They follow a set format each year as determined by good audit practices and standards, which includes a notes section that gives more detail on specific areas of the financial statements.

As we review some excerpts, keep in mind that any financial report is a “snapshot” that compares 2011 and 2012. As such, it look back to show how the Living Church of God used its financial resources to pursue its goals.

In the expense section of the Consolidated Statement of Activities you will note that we categorize the expenses in three main categories. Preaching the Gospel, Feeding the Flock and General and Administrative. In 2012 we spent \$7,780,189—or 45.1 percent of total expense—on Preaching the Gospel. We spent \$8,292,364—or 48.1 percent of total expense—on Feeding the Flock. Just 6.8 percent—\$1,164,225—of our total expense went to the General and Administrative category. General and Administrative expenses include facility costs, accounting, legal, insurance and other costs that cannot be directly attributed to Preaching the Gospel or Feeding the Flock. Overall, total expenses for 2012 increased by \$2,218,932 with the largest increase (\$1,147,132) in Preaching the Gospel.

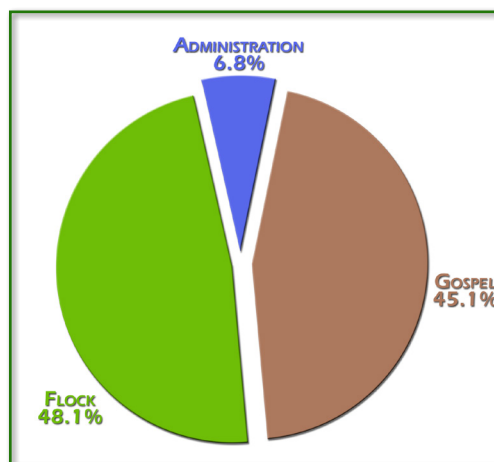
With regard to income, Mr. Dexter Wakefield, our Vice President of Finance and Operations, reports:

“I am glad to report that the regular income is now 1.1 percent above last year—and on an upward trend. Income in December 2012 was especially strong, and to the extent that it was the result of extra tax-related donations for the year-end, it resulted in the unusual dip in January/February 2013 income as compared to last year. For now, we are back to our normal income trend. The offerings for First and Last Days of Unleavened Bread—a good indicator of the trend for the year—were up 3.1 percent over last year, which is encouraging.

In 2012, the Church was blessed with an income increase of 11.9 percent, but some of that increase came from non-recurring sources

such as bequests from estates and special large offerings—which are not part of our normal tithes and offerings. We are extremely thankful for those special blessings. That extra income enabled us to add, among other things, more ministers, television stations and some much-needed equipment. For instance, the envelope labeler in the Mail Processing Department was an older machine that had been running well over 1 million pieces per year. It was on its last legs and the staff was constantly

nursing it to keep it going. We now have replaced the old machine with an industrial-quality labeler that can handle our growing volumes for years to come—and do it at a lower cost. We expect to



NUMBERS BEHIND THE WORK

256,363	TELEVISION RESPONSES
187	TW PRESENTATIONS
4,479	VISITORS TO TW PRESENTATIONS
2,030,000	TW MAGAZINES PRINTED
36,000+	FACEBOOK UNIQUE USERS
9,071	FESTIVAL ATTENDANCE
8,147	AVERAGE WEEKLY ATTENDANCE
366	BAPTISMS
1,350,000	PIECES OF MAIL SENT FROM MAIL PROCESSING

recover the cost of the new labeler in savings over its operational life. We have also acquired HD television cameras for our *Tomorrow's World* production, and our viewers will be seeing the high quality results soon.

As expected, the extra offerings and estate bequests are not being repeated at the same rate in 2013. Therefore, we are being very careful about our higher 2012 “baseline” of expenditures and have made adjustments to match our expected 2013 income trend, by cutting three television stations and postponing some expenditures. This is something for which we made contingency plans last year, and we look forward to replacing the television coverage soon, as income growth permits.

We greatly appreciate God’s generosity to His Work and the faithfulness of the brethren and co-workers in their tithes, offerings and bequests.”—DBW

As Mr. Wakefield mentioned, we received several large bequests in 2012, which allowed for several upgrades of equipment and expansion of Internet and television coverage. We are constantly evaluating Internet advertising and television coverage trying to find the right balance of cost per response. We take seriously the stewardship of your faithful tithes and offerings. In 2012, we more than doubled advertising expense over 2011 from 182,324 to 371,221. You will also note in the Asset purchases chart that we upgraded the main editing software for TV production and added a Tricaster system to prepare for multiple camera shoots of our *Tomorrow's World* program.

An added benefit to careful stewardship of the tithes and offerings is the ability to set aside funds for needed purchases or take advantage of savings. You will note that the replacement roof for the TV building and a portion of the remodel was part of the monies set aside for long term building maintenance. Our main building here in Charlotte was built more than two decades ago, and we began preparing for heating and cooling units, roofs, painting, carpet, windows and office expansion several years ago. If all those items were to need replacing at the same time it could greatly impact us financially. We have been replacing the heating and cooling units for several

2012 SIGNIFICANT ASSET PURCHASES

FLEET VEHICLES	159,024
REMODEL OF HQ BUILDING	132,578
WAVEJET PRINTER FOR MAILING	90,640
UPGRADE AVID TV EDITING SYSTEMS	45,930
REPLACE ROOF FOR TV STUDIO	23,937
TRICASTER SYSTEM FOR MULTIPLE CAMERAS	19,995
STAFF DORMS FOR LYC	8,225
MARK VII FOR MAILING	4,250
TOTAL	\$484,479

years now and in 2011 and 2012 we replaced the roofs on the two buildings. It was logical to consider the carpet when we remodeled the back of the building to add the additional offices and we purchased the carpet in January of 2013 with installation being implemented in stages.

We also try and take advantage of savings while planning for long term needs. An item that was ordered in 2013 and paid for in January of 2013 was an upgrade to server space adding Terabytes of space to our capacity with a several thousand dollar discount because of the special offerings in 2012. We also were able to take advantage of a thorough analysis of fleet car usage and purchase several fleet cars which will save on lease costs.

A closer look at the breakdown of our support shows that in 2012 that donors and co-workers made up 15.6 percent of our total income. Members and prospective members made up the balance of 84.4 percent of the total income. It is personally encouraging to me as a father of two children to see that even many of our youth tithe faithfully on their part time jobs and other blessings.

I hope that we as Church members never lose sight of the important role that our financial support has in the missions



FINANCE/ACCOUNTING STAFF (L-R): LEHMAN LYONS, SUZANNE PYLE, JESSICA HALL, JEANNIE BRAZIL, HALEY RIEF, BONNIE BONJOUR, JERRY RUDDLEDEN, JOSHUA LYONS

of the Church and that we always keep our eye on the goal of preaching the gospel to every nation. The commission that Christ gave to his disciples applies directly to us today. Matthew 28:19 makes very clear that we are to, “Go therefore and make disciples of all the nations, baptizing them in the name of the Father and of the Son and of the Holy Spirit, teaching them to observe all things that I have commanded you; and lo, I am with you always, even to the end of the age.”

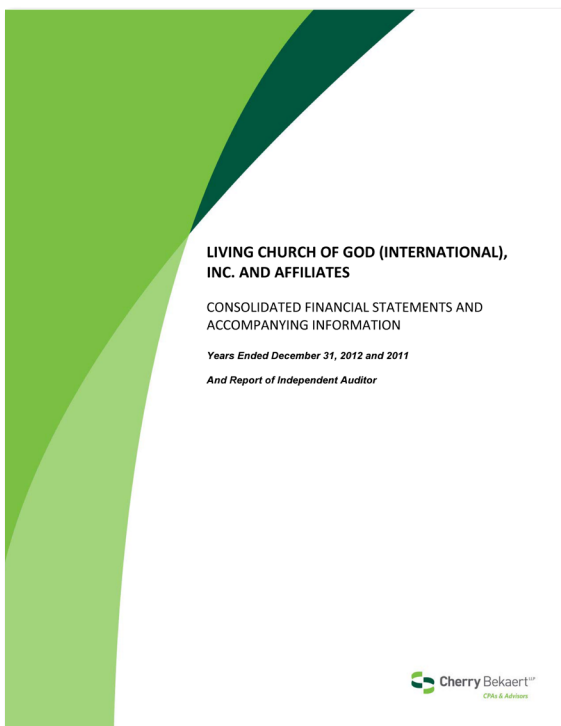
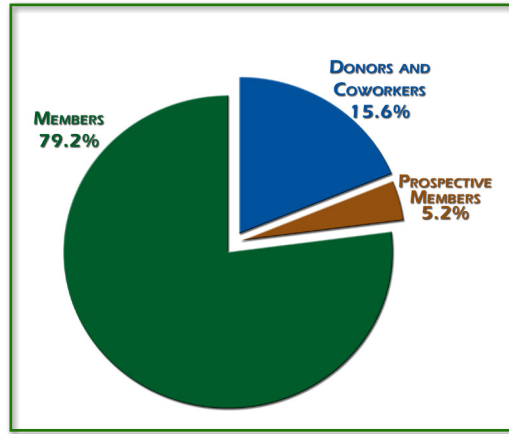
All this work that we do collectively is with those words in mind. Whether it is new high speed printer that can print addresses clearly for the thousands and thousands of letters, booklets and magazines, or a new camera to be able to shoot new television programs or even a reliable fleet car for a minister to be able to visit his congregations and anoint and council those whom God calls; these are all just pieces of an overall work for which your support of prayers, tithes and offerings keep us always moving forward.

When we allow the cares of this world to take away our focus it serves the purpose of taking our eyes off the goal. In the model prayer that Christ gave as an outline in Matthew 6:9–13, after acknowledging the Father, the very first thing that he focused on was the kingdom of God: “...Our Father in Heaven, Hallowed be your name. **Your kingdom come. Your will be done on earth as it is in heaven**” (vv. 9–10). This is not just a bedtime prayer

suggestion. We are to yearn for the kingdom and we are to yearn to share the good news of the kingdom to every nation.

When you hear that statistics of the television response or number of magazines printed or even the number of visitors to a *Tomorrow’s World* presentation, do you rejoice? Your faithful tithes and offerings help to drive this Work forward—and your prayers that God would take those tithes and offerings, increase them and cause them to bear fruit are being answered. I have often asked the following rhetorical question: What is one person’s life actually worth? When we hear a brand new person or even a “lost sheep” coming back to us, can a price be set? The truth is that there is no price. The value is beyond price—they are *priceless!*

As you review the 2012 audit and as we all look forward to 2013 and beyond, let us all rejoice in the impact we are making together as collective body. Our message of warning has made, is making, and will continue to make a difference in the lives of people that it touches. Your example, your prayers and our collective tithes and offerings do make a difference. Isaiah 52:7 says it much better than I ever could: “How beautiful upon the mountains are the feet of him who bring good news, who proclaims peace, who bring glad tidings of good *things*, who proclaim salvation, who say to Zion, ‘your God reigns!’” ■



LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
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Report of Independent Auditor

To the Board of Directors
Living Church of God (International), Inc. and Affiliates
Charlotte, North Carolina

We have audited the consolidated accompanying financial statements of Living Church of God (International), Inc. and Affiliates (the "Church") (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 the audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

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

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information contained in the consolidating statements of financial position and activities (“Accompanying Information”) is presented for purposes of additional analysis and is 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 in the Accompanying Information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the Accompanying Information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Cherry Bekaert LLP

Charlotte, North Carolina
April 18, 2013

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	December 31,	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,021,035	\$ 2,704,467
Investments	315,389	291,751
Receivables, net	655,229	501,509
Inventory	507,512	364,021
Prepaid expenses	362,307	232,026
Deposits	14,820	13,580
Total current assets	<u>3,876,292</u>	<u>4,107,354</u>
Property and equipment, net	3,689,909	3,425,817
Other assets, net	682	1,425
Total Assets	<u>\$ 7,566,883</u>	<u>\$ 7,534,596</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 565,491	\$ 415,947
Accrued wages and other liabilities	334,522	271,368
Mortgage payable, current portion	95,088	118,605
Capital lease obligations, current portion	48,942	54,583
Total current liabilities	<u>1,044,043</u>	<u>860,503</u>
Noncurrent liabilities		
Mortgage payable	1,831,153	1,910,627
Capital lease obligations	16,151	65,094
Total noncurrent liabilities	<u>1,847,304</u>	<u>1,975,721</u>
Total Liabilities	<u>2,891,347</u>	<u>2,836,224</u>
Net assets		
Unrestricted net assets	4,540,985	4,570,684
Temporarily restricted net assets	134,551	127,688
Total Net Assets	<u>4,675,536</u>	<u>4,698,372</u>
Total Liabilities and Net Assets	<u>\$ 7,566,883</u>	<u>\$ 7,534,596</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	Years Ended December 31,	
	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (22,836)	\$ 391,108
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	411,252	389,933
Net unrealized/realized losses on investments	5,189	45,277
(Gain) loss on disposal of property and equipment	(8,230)	2,948
Change in operating assets and liabilities:		
Receivables	(153,720)	(52,263)
Inventory	(143,491)	(101,367)
Prepaid expenses	(130,281)	4,607
Deposits	(1,240)	2,794
Accounts payable	149,544	210,006
Accrued wages and other liabilities	63,154	15,395
Net cash provided by operating activities	<u>169,341</u>	<u>908,438</u>
Cash flows from investing activities		
Purchases of property and equipment	(732,066)	(250,964)
Disposals of property and equipment	65,695	56,853
Proceeds from sale of investments	-	98,880
Purchases of investments	<u>(28,827)</u>	<u>(41,019)</u>
Net cash used in investing activities	<u>(695,198)</u>	<u>(136,250)</u>
Cash flow from financing activities		
Principal payments on mortgage	(102,991)	(113,901)
Principal payments on capital lease obligations	<u>(54,584)</u>	<u>(55,405)</u>
Net cash used in financing activities	<u>(157,575)</u>	<u>(169,306)</u>
(Decrease) increase in cash and cash equivalents	(683,432)	602,882
Cash and cash equivalents		
Beginning of year	<u>2,704,467</u>	<u>2,101,585</u>
End of year	<u>\$ 2,021,035</u>	<u>\$ 2,704,467</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	<u>\$ 67,092</u>	<u>\$ 76,192</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1—Organization and summary of significant accounting policies

Organization and Nature of Activities – The Living Church of God (International), Inc. and Affiliates (the "Church"), a North Carolina nonprofit religious corporation, is involved in preaching the Gospel of the Kingdom of God and providing for the spiritual and material needs of its members. The Church is primarily funded by unrestricted tithes and offerings. Its worldwide headquarters are in Charlotte, North Carolina.

Consideration of Reporting Entity – The Church is comprised of various legal entities in the United States. Entities controlled by the Church have been included in the accompanying consolidated financial statements. These entities include Living Church of God, Inc., Tomorrow's World, Inc., Tomorrow's World, LLC, El Mundo De Manana, LLC and Living University. Tomorrow's World, Inc. and Tomorrow's World, LLC are included in the financial information of Living Church of God, Inc. The operations of foreign affiliates are not included in the accompanying consolidated financial statements as they are independent entities in which the Church does not hold a controlling interest.

Living University (the "University"), its wholly-owned subsidiary, was established in 2007 to offer online course work for the development of the whole person by educating men and women in the skills, concepts, and values that lead to success in life, while helping them prepare for leadership and worthwhile service to God and humanity.

All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation – The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows.

Unrestricted Net Assets - Net assets that are both undesignated and designated in nature. Undesignated unrestricted net assets are those currently available for use in the day-to-day operations of the Church and those resources invested in property and equipment. The Church may designate certain amounts to be utilized/invested to meet specific objectives of the Church.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met by specific actions of the Church and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restriction.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Church. Generally, the donors of these assets permit the Church to use all or part of the income earned on any related investments for general or specific purposes. As of December 31, 2012 and 2011, the Church had no permanently restricted net assets.

Contribution Revenue – Tithes and offerings are recorded as revenue in the year the contribution is paid. Members of the Church practice tithing, the donation of ten percent of one's income for the Church's unrestricted use. These tithes (known as first tithes), plus unrestricted offerings given at each of seven annual Holy Days, comprise the majority of Church support and revenue.

In addition to first tithes and offerings, members save a second tithe for personal use to be able to attend the annual Holy Days. Those who are able give ten percent of this personal second tithe and/or excess second tithe to the Church. The Church uses these funds to help pay for expenses incurred by the Church to conduct the Holy Days and assist the needy members to be able to attend the Church festivals. These contributions are known as second tithes.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1—Organization and summary of significant accounting policies (continued)

Members, who are financially able, also contribute a third tithe in the third and sixth years of every seven year cycle. These contributions are used first to assist widows, orphans and the poor; and secondly, for retirees and missionary support.

Restricted donations are received for the purchase of media time, the operation of the Church's summer youth camps, buildings and facilities maintenance, disaster relief and assistance to foreign affiliates in need.

Cash and Cash Equivalents – The Church considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments – Investments consist of equities, including precious metal equities, preferred stock and mutual funds stated at fair value. Realized and unrealized gains and losses are included as investment income in the Consolidated Statements of Activities.

Receivables – Receivables consist of contributions receivable, amounts due from foreign affiliates, employees, the state of North Carolina for sales tax paid and vendor receivables. Management's determination of the allowance for doubtful accounts is based on an evaluation of the receivable, past experience, current economic conditions, and other risks. Accounts receivable are written off when, in the opinion of management, such receivables are deemed to be uncollectible.

Inventories – Inventories consist of various books and publications and are stated at the lower of cost (first-in, first-out method) or market. A physical inventory of the publications is taken semi-annually (mid-year and year-end).

Prepaid expenses and deposits – Prepaid expenses consist of television time, publications, vehicle leases, Church meeting hall rentals, insurance and other, which includes postage paid in advance. Deposits include funds to secure hall rentals, youth camp and festival sites.

Programming costs of television time are paid in advance of the scheduled air date. The expense is recognized in the month that the program is aired.

Prepaid church meeting hall rentals are expensed in the month the meeting is held. The majority of the church hall rentals are on a month to month basis.

Prepaid vehicle lease costs are paid at the inception of the lease and amortized over the term of the original lease, usually 12 to 48 months.

Property and Equipment – Property and equipment is stated at cost. Depreciation of property is computed on the straight-line method over the estimated useful lives of 30 years for buildings and improvements and 3 to 5 years for office furniture and equipment. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of the respective properties, are expensed when incurred. The cost and accumulated depreciation of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the Consolidated Statements of Activities.

Accrued Wages and Other Liabilities – Accrued liabilities primarily pertain to amounts accrued for compensated absences, salaries and wages.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1—Organization and summary of significant accounting policies (continued)

Income Taxes – The Church and the University are exempt from income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. The Church's assets are held in entities that are non-profit organizations with no taxable activity. The Church and the University are liable for federal and state taxes on any unrelated business income, as defined in the Code. The Church's policy is to record a liability for any tax position taken that is beneficial to the Church, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2012 and 2011 and, accordingly, no liability has been accrued. Tax returns filed subsequent to the year ended December 31, 2009 are subject to examination by the tax authorities.

Donated Services – No amounts have been reflected in the consolidated financial statements for donated services. The Church pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that include assisting the Church with specific programs and service on various committees. Such donated services have not been quantified and do not meet the criteria for recognition in consolidated financial statements.

Tuition and Fees – The University charges tuition and fees for online study courses. Revenue is recognized pro-rata over the time that the online course is offered. Payments received for future study courses are reported as other liabilities in the Consolidated Statements of Financial Position.

Programs and Support Services – The Church sponsors a number of programs and support services. Those programs and services consist of the following:

Support of Local Congregations - Represents the cost incurred and paid by the Church at the local congregation level to provide for the spiritual needs of its members. Included are pastoral expenses such as salaries, health care, vehicles and other travel related costs, as well as weekly meeting hall rentals, mailing of DVD sermons, expenses to conduct the annual Holy Days, youth programs, the direct support of foreign affiliates and other support.

Assistance to the Needy - Provides for the material needs of Church members primarily as assistance for widows, orphans and the poor; including assistance to enable some members to attend the annual Holy Days. Assistance to foreign affiliates in need is also included.

Living University - Includes direct financial support, allocated facility costs, studio time and church employee personnel costs associated with operating the University.

Television and Radio - Primarily represents the cost of purchasing air time for the Church's weekly television program, *Tomorrow's World*. Also included are the production costs associated with creating the program and costs for video tape and answering service.

Publishing and Editorial - Includes editorial and publishing costs of the Church's bi-monthly magazine, *Tomorrow's World*, and an array of booklets, primarily intended for non-members. Also included are costs of printing all other Church materials.

Mail Processing and Distribution - Represents the costs of fulfilling literature, audiotape and compact disk requests generated by preaching the Gospel of the Kingdom of God through television, radio and publishing. Computer support of mailing lists is also included.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1—Organization and summary of significant accounting policies (continued)

Support Services and Other - Includes administrative expenses not directly attributable to specific programs. This includes the full cost of all finance, accounting, purchasing, human resources and legal support. It also includes general insurance and other miscellaneous expenses.

Functional Expenses – The costs of providing programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Expense – Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2012 and 2011 was \$371,221 and \$182,324, respectively.

Use of Estimates – The preparation of 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2—Investments

The fair value of investments at December 31 is summarized below:

	2012	2011
US equities	\$ 7,850	\$ 27,863
International equities	16,647	85,586
US mutual funds	1,443	1,600
Platinum coins	8,466	6,773
Silver shares	45,959	-
Gold shares	235,024	170,229
Total investments	\$ 315,389	\$ 291,751

Investment return on the accompanying Consolidated Statement of Activities consists of the following at December 31:

	2012	2011
Interest and dividends	\$ 7,658	\$ 7,962
Unrealized and realized losses	(5,189)	(45,277)
Total	\$ 2,469	\$ (37,315)

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 3—Receivables

Receivables at December 31 are as follows:

	2012	2011
Contributions receivable	\$ 475,681	\$ 378,156
Other receivables	183,548	137,353
	689,229	515,509
Less allowance for uncollectible receivables	(14,000)	(14,000)
Total receivables	<u>\$ 655,229</u>	<u>\$ 501,509</u>

Note 4—Prepaid expenses

Prepaid expenses at December 31 consist of the following:

	2012	2011
Insurance	\$ 13,639	\$ 13,417
Vehicle lease	8,797	7,058
Building rent	135	1,080
Church hall rent	65,046	52,198
Television	228,280	141,696
Postage	36,500	11,308
Other	9,910	5,069
Total prepaid expenses	<u>\$ 362,307</u>	<u>\$ 232,026</u>

Note 5—Property and equipment

The following is a summary of property and equipment at December 31:

	2012	2011
Land	\$ 517,100	\$ 517,100
Land improvements	10,670	10,670
Building and improvements	3,179,538	3,143,675
Equipment, furniture and software	1,991,346	1,788,189
Vehicles	425,664	313,952
Construction in progress	170,153	11,059
	6,294,471	5,784,645
Less accumulated depreciation	(2,604,562)	(2,358,828)
Property and equipment, net	<u>\$ 3,689,909</u>	<u>\$ 3,425,817</u>

Depreciation expense, including amortization on equipment and vehicles under capital lease, was \$410,509 and \$389,189 for the years ended December 31, 2012 and 2011, respectively.

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LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 6—Other assets

Other assets include "The World Ahead" trademark and "Global Church of God" copyrights, other trademarks, trade names and all intellectual property rights. The intellectual property rights are amortized over 7 years. The costs and respective accumulated amortization follows:

	2012	2011
Copyrights and trademarks	\$ 34,601	\$ 34,601
Less accumulated amortization	(33,919)	(33,176)
	<u>\$ 682</u>	<u>\$ 1,425</u>

Amortization expense for the years ended December 31, 2012 and 2011 amounted to \$743 and \$742, respectively.

Note 7—Capital lease obligations

The Church leases certain equipment and vehicles under agreements that are classified as capital leases. These obligations require monthly payments varying from \$390 to \$652 and extend through April 2014. The cost of equipment and vehicles under capital leases is included as property and equipment and is summarized at December 31, as follows:

	2012	2011
Vehicles and equipment	\$ 251,716	\$ 251,716
Less accumulated amortization	(191,674)	(78,596)
	<u>\$ 60,042</u>	<u>\$ 173,120</u>

Required minimum lease payments as of December 31, 2012 are as follows:

2013	\$ 48,942
2014	16,151
	65,093
Less current maturity	(48,942)
	<u>\$ 16,151</u>

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LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 8—Mortgage payable

The Church has a mortgage outstanding which is summarized below:

	December 31,	
	2012	2011
Mortgage payable - bank; variable interest rate based on 7/8% below the bank's prime rate to a maximum fixed rate of 6.375% and a minimum fixed rate of 3.375%. First year was an interest only loan with a payment of \$6,521. Starting in June of 2012, escalating fixed principal and accrued interest is payable in monthly installments through April 2015 with the final payment of the balance plus accrued interest, if any, due May 2015. The mortgage is collateralized by the Church's headquarters and studio located in Charlotte, North Carolina.	\$ 1,926,241	\$ 2,029,232
Less current portion	(95,088)	(118,605)
	<u>\$ 1,831,153</u>	<u>\$ 1,910,627</u>

Future maturities of the notes payable are as follows:

2013	\$ 95,088
2014	98,058
2015	1,733,095
	<u>\$ 1,926,241</u>

In 2012, the Church entered into an interest rate swap on a bank note. The economic substance of the swap agreement was to effectively convert the variable interest rate on this debt to a fixed rate of 3.03%. The notional amount outstanding under the swap agreement equals the scheduled principal amount outstanding under the debt, through the expiration of the swap agreement. Any payments made or received under the swap agreement are recognized when due as an increase or decrease in the related interest expense. At December 31, 2012, the fair value of the interest rate swap was considered immaterial to the financial statements.

Total interest expense for the years ended December 31, 2012 and 2011 was \$67,092 and \$76,192, respectively. The Church is subject to certain financial covenants under terms of this agreement and was in compliance with all such covenants as of December 31, 2012.

Note 9—Temporarily restricted net assets

Temporarily restricted net assets are restricted for the following purposes at December 31:

	2012	2011
Disaster relief	\$ 118,065	\$ 124,348
International assistance	16,486	3,340
	<u>\$ 134,551</u>	<u>\$ 127,688</u>

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LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 10—Commitments

The Church leases fleet vehicles and equipment under various non-cancelable operating leases. These leases require monthly payments varying from \$327 to \$1,995 and extend through 2015. Lease expense for vehicles and equipment under various operating leases amount to \$139,200 and \$159,113 at December 31, 2012 and 2011, respectively.

Required minimum lease payments on items under operating leases as of December 31, 2012 are as follows:

2013	\$ 198,342
2014	143,494
2015	65,458
	<u>\$ 407,294</u>

Note 11—Benefit plan

The Church has a 403(b) Tax Deferred Annuity Plan for all eligible employees. Eligible employees may elect to exclude up to the maximum contribution permitted by the Internal Revenue Code. The Church does not contribute to this plan.

The Church has a Simplified Employee Pension Plan (SEP) covering all eligible employees. Matching contributions have been at the discretion of the Church and have been 2.5% of eligible participants' compensation. There were no contributions made by the Church for the years ended December 31, 2012 and 2011.

Note 12—Contingencies

The Church provides discretionary post-employment retirement payments and healthcare benefits to select ministers' widows and retired employees that meet certain objective and subjective criteria. Although one of the criteria includes an employee's years of service (with the Church and its predecessors), an accrual for these future benefits has not been recorded due to the Church's ability to deny payments at its sole discretion. For the years ended December 31, 2012 and 2011, the Church expensed payments for this purpose totaling approximately \$237,000 and \$193,000, respectively.

Note 13—Concentration of credit risk

The Church places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. In addition, the FDIC provided unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts through December 31, 2012; however, effective January 1, 2013, the FDIC discontinued the additional unlimited coverage. The Church from time to time may have amounts on deposit in excess of the insured limits.

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LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 14—Related party

The Church has affiliated entities throughout the world that are related by some common board members. For the years ended December 31, 2012 and 2011, the Church expended \$617,437 and \$587,320, respectively, related to these affiliates. In addition, the Church had accounts receivables of \$24,988 and \$57,747 due from affiliated entities at December 31, 2012 and 2011 (included in other receivables as described in Note 3).

Note 15—Fair value measurements of assets and liabilities

The Church utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under the fair value guidance, the Church groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges. The Church has Level 1 assets of \$315,389 and \$291,751 shown as investments in the accompanying Consolidated Statements of Financial Position at December 31, 2012 and 2011, respectively (see Note 2).

Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The Church has no Level 2 assets or liabilities at December 31, 2012 or 2011.

Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value. The Church has no assets or liabilities subject to Level 3 valuations at December 31, 2012 or 2011.

Note 16—Subsequent events

The Church has evaluated subsequent events through April 18, 2013, in connection with the preparation of these consolidated financial statements which is the date the consolidated financial statements were available to be issued.

ACCOMPANYING INFORMATION

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

	Living Church of God	Living University	Eliminations	Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,859,530	\$ 161,505	\$ -	\$ 2,021,035
Investments	613,212	1,693	(299,516)	315,389
Receivables, net	636,354	25,471	(6,596)	655,229
Inventory	507,136	376	-	507,512
Prepaid expenses	362,307	-	-	362,307
Deposits	14,445	375	-	14,820
Total current assets	3,992,984	189,420	(306,112)	3,876,292
Property and equipment, net	3,549,244	140,665	-	3,689,909
Other assets, net	682	-	-	682
Total Assets	\$ 7,542,910	\$ 330,085	\$ (306,112)	\$ 7,566,883
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 559,817	\$ 12,270	\$ (6,596)	\$ 565,491
Accrued wages and other liabilities	316,223	18,299	-	334,522
Mortgage payable, current portion	95,088	-	-	95,088
Capital lease obligations, current portion	48,942	-	-	48,942
Total current liabilities	1,020,070	30,569	(6,596)	1,044,043
Long-term liabilities				
Mortgage payable	1,831,153	-	-	1,831,153
Capital lease obligations	16,151	-	-	16,151
Total long-term liabilities	1,847,304	-	-	1,847,304
Total Liabilities	2,867,374	30,569	(6,596)	2,891,347
Net assets				
Unrestricted net assets	4,540,985	299,516	(299,516)	4,540,985
Temporarily restricted net assets	134,551	-	-	134,551
Total Net Assets	4,675,536	299,516	(299,516)	4,675,536
Total Liabilities and Net Assets	\$ 7,542,910	\$ 330,085	\$ (306,112)	\$ 7,566,883

See report of independent auditor.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Living Church of God		Living University		Consolidated		Eliminations		Totals	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Revenue and support	\$ 13,669,793	\$ -	\$ 13,669,793	\$ -	\$ 13,669,793	\$ -	\$ 13,669,793	\$ -	\$ 13,669,793	\$ -
Contributions	12,992,456	-	12,992,456	-	12,992,456	-	12,992,456	-	12,992,456	-
Holy Day offerings	2,469	-	2,469	-	2,469	-	2,469	-	2,469	-
Investment return	590,844	-	590,844	-	590,844	-	590,844	-	590,844	-
Other revenue	49,304	-	49,304	-	49,304	-	49,304	-	49,304	-
Special projects and donations	-	-	-	-	-	-	-	-	-	-
Tuition and fees, net	17,262,552	49,304	17,331,656	652,140	17,164,639	49,304	68,535	-	17,213,142	68,535
Net assets released from restrictions	49,441	(69,441)	69,441	(49,441)	69,441	(49,441)	69,441	(49,441)	69,441	(49,441)
Other non-restricted purpose	17,352,993	6,633	17,331,656	625,140	17,262,079	6,633	17,268,712	6,633	17,275,342	6,633
Total revenue and support	6,824,612	-	6,824,612	-	6,824,612	-	6,824,612	-	6,824,612	-
Expenses	1,418,469	-	1,418,469	-	1,418,469	-	1,418,469	-	1,418,469	-
Support of local congregations	-	-	-	-	-	-	-	-	-	-
Assistance to the needy	-	-	-	-	-	-	-	-	-	-
Living University	-	-	-	-	-	-	-	-	-	-
Teaching the Gospel:	-	-	-	-	-	-	-	-	-	-
Television and radio	5,159,312	-	5,159,312	-	5,159,312	-	5,159,312	-	5,159,312	-
Publishing and editorial	1,156,897	-	1,156,897	-	1,156,897	-	1,156,897	-	1,156,897	-
Mail processing and distribution	1,463,360	-	1,463,360	-	1,463,360	-	1,463,360	-	1,463,360	-
General and administrative:	-	-	-	-	-	-	-	-	-	-
Support services and other	1,164,225	-	1,164,225	-	1,164,225	-	1,164,225	-	1,164,225	-
Total expenses	17,197,496	-	17,197,496	-	17,197,496	-	17,256,716	-	17,256,716	-
Change in net assets	127,498	6,863	134,361	142,319	(299,516)	(29,699)	6,863	6,863	(22,936)	(22,936)
Net assets:	-	-	-	-	-	-	-	-	-	-
Beginning of year	4,413,487	-	4,413,487	-	4,413,487	-	4,570,684	-	4,570,684	-
End of year	\$ 4,540,985	\$ 134,551	\$ 4,675,536	\$ 299,516	\$ 4,540,985	\$ 299,516	\$ 4,540,985	\$ 134,551	\$ 4,675,536	\$ 134,551

See report of independent auditor.