

LIFESONG FOR ORPHANS, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012



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Koch Consultants, Ltd.
P.O. Box 1400
Tremont, IL 61568
Phone 309.267.3796
Fax 309.216.3796
www.kochconsultants.com
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifesong for Orphans, Inc.
Gridley, Illinois

We have audited the accompanying statement of financial position of **Lifesong for Orphans, Inc.** (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifesong for Orphans, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

February 20, 2013

Koch Consultants, Ltd.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

Cash	\$ 1,854,440
Mission field advances	161,348
Certificates of deposit	2,006,601
Receivable from TMG Foundation (a related party)	95,412
Prepaid expenses and other	12,384
Notes receivable	443,075
Property and equipment, net	<u>3,503,156</u>
	<u>\$ 8,076,416</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 145,996
Accrued expenses	<u>39,644</u>
	<u>185,640</u>
Net assets	
Unrestricted	3,341,751
Temporarily restricted	<u>4,549,025</u>
	<u>7,890,776</u>
	<u>\$ 8,076,416</u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
General contributions	\$ 981,931	\$ 7,672,636	\$ 8,654,567
Contributions from TMG Foundation	435,685	293,960	729,645
Other income	51,668	504	52,172
NET ASSETS RELEASED FROM RESTRICTIONS	<u>6,215,942</u>	<u>(6,215,942)</u>	<u>-</u>
	<u>7,685,226</u>	<u>1,751,158</u>	<u>9,436,384</u>
EXPENSES			
Program services	6,475,382	-	6,475,382
Supporting activities			
Management and general	259,305	-	259,305
Fund raising	288,733	-	288,733
	<u>548,038</u>	<u>-</u>	<u>548,038</u>
	<u>7,023,420</u>	<u>-</u>	<u>7,023,420</u>
CHANGE IN NET ASSETS	661,806	1,751,158	2,412,964
NET ASSETS - BEGINNING	<u>2,679,945</u>	<u>2,797,867</u>	<u>5,477,812</u>
NET ASSETS - ENDING	<u><u>\$ 3,341,751</u></u>	<u><u>\$ 4,549,025</u></u>	<u><u>\$ 7,890,776</u></u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	Adoption Grants	Orphan Care	The Forgotten Initiative	Mission Trips
Salaries and wages	\$ 113,386	\$ 567,067	\$ 24,013	\$ -
Employee benefits	11,134	30,140	2,339	-
Payroll taxes	4,229	13,842	2,676	-
	128,749	611,049	29,028	-
Grants and allocations	500	336,140	-	-
Specific assistance	3,780,252	-	-	-
Professional fees	45,509	13,269	-	-
Office expenses	12,640	28,832	240	379
Ministry supplies	11,507	590,787	25,188	1,802
Occupancy	6,646	87,832	1,867	606
Conferences and training	15,481	7,857	-	-
Travel	27,280	121,420	750	366,223
Marketing and development	538	1,857	45	-
Miscellaneous	559	44,648	720	4,220
Depreciation	2,658	158,054	-	-
	<u>\$ 4,032,319</u>	<u>\$ 2,001,745</u>	<u>\$ 57,838</u>	<u>\$ 373,230</u>

See accompanying notes.

Endowment Fund	Total Program Services	Management and General	Fund Raising	Total Supporting Activities	Total Expenses
\$ -	\$ 704,466	\$ 143,408	\$ 89,996	\$ 233,404	\$ 937,870
-	43,613	13,368	7,041	20,409	64,022
-	20,747	5,568	6,060	11,628	32,375
-	768,826	162,344	103,097	265,441	1,034,267
10,250	346,890	-	-	-	346,890
-	3,780,252	-	-	-	3,780,252
-	58,778	35,461	12,682	48,143	106,921
-	42,091	17,057	41,059	58,116	100,207
-	629,284	-	-	-	629,284
-	96,951	8,216	8,056	16,272	113,223
-	23,338	7,803	7,618	15,421	38,759
-	515,673	3,675	37,768	41,443	557,116
-	2,440	183	78,186	78,369	80,809
-	50,147	3,147	267	3,414	53,561
-	160,712	21,419	-	21,419	182,131
<u>\$ 10,250</u>	<u>\$ 6,475,382</u>	<u>\$ 259,305</u>	<u>\$ 288,733</u>	<u>\$ 548,038</u>	<u>\$ 7,023,420</u>

LIFESONG FOR ORPHANS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,412,964
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	182,131
Change in notes receivable reserve account	(1,100)
Contributions restricted for property and equipment	(905,525)
Gain on sale of property and equipment	(14,000)
Non-cash contributions received	(729,645)
(Increase) decrease in operating assets	
Prepaid expenses and other	22,368
Advances to field missions	(2,134,240)
Advances used by field missions	2,060,666
Increase (decrease) in operating liabilities	
Accounts payable	65,727
Accrued expenses	<u>(23,307)</u>
Net cash provided by operating activities	<u>936,039</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of property and equipment	(863,023)
Proceeds from sale of property and equipment	14,000
Purchases of certificates of deposit	(2,006,601)
Maturities of certificates of deposit	500,000
Notes receivable advances	(194,153)
Notes receivable repayments received	<u>226,532</u>
Net cash used in investing activities	<u>(2,323,245)</u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM FINANCING ACTIVITIES

Advances from related party	812,000
Repayments to related party	(21,046)
Contributions restricted for property and equipment	<u>905,525</u>

Net cash provided by financing activities 1,696,479

INCREASE IN CASH 309,273

CASH AT BEGINNING OF YEAR 1,545,167

CASH AT END OF YEAR \$ 1,854,440

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Lifesong for Orphans, Inc. (Lifesong) is a nonprofit organization formed to advance the extension of the Kingdom of God throughout the world; to provide charitable assistance to orphans; and to assist other religious and charitable organizations in the fulfillment of similar purposes. Currently, Lifesong's work is focused on the following:

- Providing grants and loans to assist in the adoption of orphans by Christian families; provide post-adoption assistance including literature, counseling and training
- Providing support to orphans in Ethiopia, Guatemala, Honduras, India, Ivory Coast, Liberia, Peru, Ukraine and Zambia including –
 - Humanitarian aid to orphanages and to other organizations supporting orphans
 - Establishing schools, transition homes and other living quarters
 - Biblical training in orphanages
 - Business activities to provide job opportunities for orphans and their caretakers
 - Job skill training to prepare orphans for their future role in society
- Educating, equipping and supporting mentors to meet the needs of the foster care community
- Coordination of short-term mission trips to project locations

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

Basis of Presentation

The financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred. Lifesong's financial statement presentation reports information regarding its net assets and changes therein according to three classes: unrestricted, temporarily restricted, and permanently restricted. Lifesong currently has no permanently restricted net assets.

Restricted and Unrestricted Revenue and Support

Contributions are recognized as revenue when the donor makes a promise to give to Lifesong that is, in substance, unconditional. Gifts of cash and other assets are reported as restricted support if they are received with donor restrictions that limit the use of the donated assets. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

When a restriction expires, (that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

When received, gifts of land, buildings and equipment are reported as unrestricted support unless donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with donor restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor restrictions regarding the length of time those long-lived assets must be maintained, Lifesong reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash, Mission Field Advances and Certificates of Deposit

At June 30, 2012, Lifesong maintained deposits with financial institutions that collectively exceeded the FDIC insured limit by approximately \$7,400. Management has determined collateral protection above the FDIC insurance limit is not necessary.

For purposes of the statement of cash flows, Lifesong considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2012, Lifesong held no cash equivalents.

Periodically, Lifesong advances cash to missionary employees serving orphans at project locations. The missionaries file monthly reports with Lifesong's USA office showing uses of the funds and provide documentation for purchases following guidelines established by Lifesong management. All such foreign activity is included in these financial statements. Advances outstanding as of June 30, 2012 totaled \$161,348.

Certificates of deposit are recorded at cost which approximates fair value.

Notes Receivable

Lifesong has entered "covenant agreements" with Christian families who have adopted orphans. The agreements (recorded at face value) are unsecured, interest-free loans that assist the families with paying adoption expenses; repayment terms are on a covenant basis, as the Lord provides for the families. However, in establishing the covenant amounts, Lifesong management is aware of the federal tax refunds each family can reasonably expect (because of the federal adoption tax credit) and believes these refunds will provide the families with readily available resources for repayment.

Because of the nature of these agreements, a relatively small allowance for doubtful accounts has been established totaling \$4,200; management believes all other agreements are fully collectible. When an agreement is deemed uncollectible, it is simply forgiven. During the year ended June 30, 2012, agreements totaling \$8,540 were forgiven. Management bases its decisions regarding collectability on historical experience and specific knowledge regarding the finances of the families involved.

As of June 30, 2012, these agreements are expected to be collected as follows:

During the year ended June 30, 2013	\$ 432,591
After June 30, 2013 through June 30, 2018	<u>10,484</u>
	<u>\$ 443,075</u>

Property and Equipment

Property and equipment is stated at cost. When received, donated assets are capitalized at their estimated fair values at the date of receipt. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis as follows:

Office equipment	5 to 7 years
Transportation equipment	5 years
Buildings and improvements	40 years
Land improvements	10 to 20 years

Management reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition.

The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Depreciation was \$182,131 for the year ended June 30, 2012.

Income Taxes

Lifesong is a charitable organization as defined in Internal Revenue Code Section 501(c)(3) and is therefore exempt from the payment of income taxes. Lifesong is subject to a tax on income from any unrelated business.

Lifesong has adopted the recognition requirements for uncertain income tax positions. Management has analyzed tax positions taken and believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on Lifesong's financial position, activities or cash flows. Accordingly, Lifesong has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax position as of June 30, 2012.

Lifesong is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Lifesong believes it is no longer subject to income tax examinations for years prior to 2008.

NOTE 2. CERTIFICATES OF DEPOSIT

Certificates of deposit have the following maturity dates as of June 30, 2012:

During the year ended -	
June 30, 2013	\$ 1,256,601
June 30, 2014	250,000
June 30, 2015	<u>500,000</u>
	<u><u>\$ 2,006,601</u></u>

At June 30, 2012, none of the certificates of deposit exceeded the FDIC limits at the respective financial institutions.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2012 consists of:

	United States	Ethiopia	Guatemala	India
Land	\$ -	\$ 31,136	\$ 750	\$ -
Land improvements	-	28,535	-	-
Buildings and improvements	-	382,108	12,437	378,970
Transportation equipment	14,000	-	-	25,258
Other equipment	118,692	29,911	3,000	24,634
Leasehold improvements	271,979	-	-	-
Accumulated depreciation	<u>(68,607)</u>	<u>(25,030)</u>	<u>(740)</u>	<u>(70,503)</u>
Total	<u>\$ 336,064</u>	<u>\$ 446,660</u>	<u>\$ 15,447</u>	<u>\$ 358,359</u>
	Liberia	Ukraine	Zambia	Total
Land	\$ 52,500	\$ 381,680	\$ 171,508	\$ 637,574
Land improvements	18,903	72,164	10,056	129,658
Buildings and improvements	75,000	1,289,201	284,945	2,422,661
Transportation equipment	-	248,599	50,113	337,970
Other equipment	16,480	76,721	35,229	304,667
Leasehold improvements	-	-	-	271,979
Accumulated depreciation	<u>(10,227)</u>	<u>(380,156)</u>	<u>(46,090)</u>	<u>(601,353)</u>
Total	<u>\$ 152,656</u>	<u>\$ 1,688,209</u>	<u>\$ 505,761</u>	<u>\$ 3,503,156</u>

NOTE 4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2012 are restricted for the following purposes:

Adoption grants - specific Church and family funds	\$ 3,426,105
Orphan care - Ethiopia	182,261
Orphan care - India	14,513
Orphan care - Ivory Coast	9,111
Orphan care - Peru	8,871
Orphan care - Ukraine	47,867
Orphan care - Zambia	318,242
Mission trips	16,180
Endowment fund	15,875
For payment of management, general and fund raising costs in future years	<u>510,000</u>
	<u><u>\$ 4,549,025</u></u>

During the year ended June 30, 2012, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

Adoption grants	\$ 3,773,856
Orphan care - Ethiopia	301,358
Orphan care - Guatemala	34,038
Orphan care - Honduras	237,308
Orphan care - India	150,657
Orphan care - Ivory Coast	5,128
Orphan care - Liberia	118,597
Orphan care - Peru	17,207
Orphan care - Ukraine	367,100
Orphan care - Zambia	493,791
Orphan care - general	8,247
The Forgotten Initiative (foster care)	59,123
Mission trips	257,035
Endowment fund	20,000
Specific missionary support	66,978
Leasehold improvements - US office	226,982
Payment of management, general and fund raising costs	<u>78,537</u>
	<u><u>\$ 6,215,942</u></u>

NOTE 5. ENDOWMENT FUND

Over several years, donors within the same extended family have contributed a total of \$352,179 to Lifesong with the restriction of establishing an endowment fund in the name of the family. According to the family's wishes, Lifesong forwards money received to a donor-advised fund at National Christian Charitable Foundation, Inc. (NCF), a charitable organization as defined in Internal Revenue Code Section 501(c)(3). A member of this family and Lifesong's board president serve jointly as advisors of this donor-advised fund. This fund is established in furtherance of NCF's mission which is to enable faithful stewards to give wisely to further the Gospel of Jesus Christ.

Although Lifesong's board president is an advisor of this endowment fund, the fund is under the auspices of NCF and could be used for other charitable purposes in accordance with NCF's mission statement. Therefore, management of Lifesong has determined information regarding the endowment fund should be disclosed, but the fund should not be presented in these financial statements.

During the year ended June 30, 2012, Lifesong received \$35,875 from family members and transferred \$10,250 to NCF. Also during the year, NCF (through this donor-advised fund) contributed \$45,000 back to Lifesong for the adoption grant program. As of June 30, 2012, \$15,875 of restricted funds is on hand at Lifesong that is to be transferred to NCF. Also as of June 30, 2012 the value of the endowment fund totaled \$217,255 and was invested in money market and mutual funds.

NOTE 6. RELATED PARTIES

TMG Foundation

The president of Lifesong's board of directors is also president of the board of TMG Foundation (TMG), a charitable organization as defined in Internal Revenue Code Section 501(c)(3). As part of its mission, TMG has contributed funds to Lifesong sufficient to pay for all supporting activity costs that have not already been paid for by other revenue dedicated for this same purpose. An analysis of activity during the year ended June 30, 2012 follows:

Supporting activities	
Management and general	\$ 259,305
Fund raising	<u>288,733</u>
Total supporting activities	548,038
Other net revenues dedicated to pay for these costs	<u>(83,071)</u>
Remaining amount	<u><u>\$ 464,967</u></u>

Unrestricted contributions from TMG during the year ended June 30, 2012 totaled \$435,685. TMG also contributed \$66,978 during the year and restricted these funds to pay for the personnel costs of individual missionaries (\$29,282 of these personnel costs are included in supporting activities).

Receivable from TMG Foundation as of June 30, 2012 was \$95,412.

Also, Lifesong provides TMG with services (management and fund raising), supplies, and use of facilities free of charge. Management has determined that the value of these items is not significant and therefore is not included in these financial statements.

Lifesong Legacy Fund, Inc.

The president of Lifesong Legacy Fund, Inc.'s (Legacy) board of directors is also a member of Lifesong's board of directors. Legacy is a charitable organization as defined by Internal Revenue Code Section 501(c)(3) that provides interest-free loans to adoptive couples. Through a formal agreement of association, the two organizations operate under separate boards of directors, but their relationship combines the strengths of both organizations for marketing and fundraising purposes. Lifesong provides Legacy with services (management and fund raising), supplies, and use of facilities free of charge. Management has determined that the value of these items is not significant and therefore is not included in these financial statements.

NOTE 7. FOREIGN OPERATIONS

Lifesong's program operations conducted in foreign countries are subject to various political, economic and other risks and uncertainties inherent to those countries. Lifesong currently conducts operations in Ethiopia, Guatemala, Honduras, India, Ivory Coast, Liberia, Peru, Ukraine and Zambia.

In Honduras, Lifesong provides support through Tree of Life Missions, a charitable organization as defined in Internal Revenue Code Section 501(c)(3) that provides support to orphans in Honduras. In Ethiopia, Lifesong provides support through Misgana Ministries, NFP, a charitable organization as defined in Internal Revenue Code Section 501(c)(3) that provides support to orphans in Ethiopia. In the other project locations, Lifesong works with established, indigenous non-profit organizations to facilitate property ownership, employment of local personnel and other needs.

Each of these project locations is controlled through Lifesong's establishment and approval of their annual budgets and the provision of funding. Lifesong provides significant operating and capital funding for each of these organizations. Thus, all such foreign activity is included in these financial statements. Foreign source income recorded totaled \$74,123. Properties under the control of Lifesong in these foreign countries are indicated in Note 3 above.

NOTE 8. RETIREMENT PLAN

Lifesong maintains a defined contribution retirement plan covering all employees that meet certain eligibility requirements. At the discretion of the board of directors, Lifesong may contribute an amount up to 3% of the annual compensation of each plan participant. The board of directors did not authorize any payments to the plan during the year ended June 30, 2012.

NOTE 9. COMMITMENTS AND SUBSEQUENT EVENTS

Commitments

Lifesong provides matching grants for the adoption of orphans by Christian families. Families must satisfy all conditions of the grant, including raising an equal or greater amount of funds, prior to the money being disbursed. As of June 30, 2012, Lifesong has committed to \$88,453 of matching grants for which grant conditions have not yet been met.

Subsequent Events

Lifesong has evaluated subsequent events through February 20, 2013 the date which the financial statements were available to be issued. Lifesong has not identified any subsequent events requiring disclosure in these financial statements.