

**LIFESONG FOR ORPHANS, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **Lifesong for Orphans, Inc.** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year 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.

### **Auditor's Responsibility**

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 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 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 financial position of Lifesong for Orphans, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Koch Consultants, Ltd.*

January 29, 2014

LIFESONG FOR ORPHANS, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2013

ASSETS

Cash	\$ 1,231,023
Mission field advances	209,852
Certificates of deposit	3,502,711
Prepaid expenses and other	38,829
Notes receivable	342,613
Property and equipment, net	<u>4,667,131</u>
	<u>\$ 9,992,159</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 55,510
Accrued expenses	<u>91,239</u>
	<u>146,749</u>
Net assets	
Unrestricted	4,766,988
Temporarily restricted	<u>5,078,422</u>
	<u>9,845,410</u>
	<u>\$ 9,992,159</u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
General contributions	\$ 1,251,259	\$ 10,564,473	\$ 11,815,732
Contributions from TMG Foundation	126,486	47,525	174,011
Special events - revenue	130,173	-	130,173
Special events - related costs	(93,486)	-	(93,486)
Other income	110,581	416	110,997
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>10,083,017</b>	<b>(10,083,017)</b>	<b>-</b>
	<hr/>		
	11,608,030	529,397	12,137,427
	<hr/>		
<b>EXPENSES</b>			
Program services	9,347,023	-	9,347,023
Supporting activities			
Management and general	444,584	-	444,584
Fund raising	391,186	-	391,186
	<hr/>		
	835,770	-	835,770
	<hr/>		
	10,182,793	-	10,182,793
	<hr/>		
<b>CHANGE IN NET ASSETS</b>	<b>1,425,237</b>	<b>529,397</b>	<b>1,954,634</b>
<b>NET ASSETS - BEGINNING</b>	<b>3,341,751</b>	<b>4,549,025</b>	<b>7,890,776</b>
	<hr/>		
<b>NET ASSETS - ENDING</b>	<b>\$ 4,766,988</b>	<b>\$ 5,078,422</b>	<b>\$ 9,845,410</b>
	<hr/>		

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2013

	Adoption Grants	Orphan Care	Foster Care	Business Development
Salaries and wages	\$ 132,639	\$ 772,705	\$ 44,304	\$ 75,717
Employee benefits	11,453	70,155	5,753	2,371
Payroll taxes	9,325	23,487	3,048	2,122
	<hr/>			
	153,417	866,347	53,105	80,210
Grants and allocations	-	779,594	-	-
Specific assistance	5,602,799	-	-	-
Professional fees	22,285	20,201	-	2,066
Office expenses	17,148	27,213	765	2,201
Ministry supplies	-	642,104	33,979	54,283
Occupancy	7,414	87,622	6,083	1,968
Conferences and training	20,073	12,591	3,217	1,600
Travel	43,397	121,215	11,164	29,499
Marketing and development	4,431	1,166	125	-
Miscellaneous	136	34,698	428	5,119
Depreciation	8,248	217,946	1,085	-
	<hr/>			
	\$ 5,879,348	\$ 2,810,697	\$ 109,951	\$ 176,946
	<hr/>			

See accompanying notes.

Mission Trips	Endowment Fund	Total Program Services	Management and General	Fund Raising	Total Supporting Activities	Total Expenses
\$ 636	\$ -	\$ 1,026,001	\$ 276,615	\$ 154,671	\$ 431,286	\$ 1,457,287
-	-	89,732	33,501	13,955	47,456	137,188
-	-	37,982	19,888	11,163	31,051	69,033
636	-	1,153,715	330,004	179,789	509,793	1,663,508
20,970	30,624	831,188	-	-	-	831,188
-	-	5,602,799	-	-	-	5,602,799
-	-	44,552	35,333	7,091	42,424	86,976
1,487	-	48,814	26,230	45,025	71,255	120,069
6,992	-	737,358	-	-	-	737,358
589	-	103,676	11,929	9,354	21,283	124,959
-	-	37,481	5,531	16,221	21,752	59,233
303,855	-	509,130	11,005	66,197	77,202	586,332
-	-	5,722	410	62,472	62,882	68,604
4,928	-	45,309	4,256	696	4,952	50,261
-	-	227,279	19,886	4,341	24,227	251,506
<u>\$ 339,457</u>	<u>\$ 30,624</u>	<u>\$ 9,347,023</u>	<u>\$ 444,584</u>	<u>\$ 391,186</u>	<u>\$ 835,770</u>	<u>\$ 10,182,793</u>



LIFESONG FOR ORPHANS, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,954,634
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	251,506
Contributions restricted for property and equipment	(1,079,527)
Loss on sale of property and equipment	2,572
Forgiveness of notes receivable	57,356
Non-cash contributions received	(202,588)
(Increase) decrease in operating assets	
Prepaid expenses and other	(26,445)
Advances to field missions	(3,482,206)
Advances used by field missions	3,433,702
Increase (decrease) in operating liabilities	
Accounts payable	(105,933)
Accrued expenses	51,595
	854,666
Net cash provided by operating activities	854,666

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of property and equipment	(1,411,106)
Proceeds from sale of property and equipment	8,500
Purchases of certificates of deposit	(2,747,014)
Maturities of certificates of deposit	1,250,904
Notes receivable advances	(205,569)
Notes receivable repayments received	248,675
	(2,855,610)
Net cash used in investing activities	(2,855,610)

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM FINANCING ACTIVITIES

Advances from related party	298,000
Contributions restricted for property and equipment	<u>1,079,527</u>
Net cash provided by financing activities	<u>1,377,527</u>
INCREASE IN CASH	(623,417)
CASH AT BEGINNING OF YEAR	<u>1,854,440</u>
CASH AT END OF YEAR	<u><u>\$ 1,231,023</u></u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

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 Bolivia, Ethiopia, Guatemala, Honduras, India, Liberia, 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
- Develop sustainable businesses to provide job opportunities for orphans and their caretakers and 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, 2013, Lifesong maintained deposits with financial institutions that collectively exceeded the FDIC insured limit by approximately \$92,500. 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, 2013, 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, 2013 totaled \$209,852.

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, 2013, agreements totaling \$57,356 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, 2013, these agreements are expected to be collected as follows:

During the year ended June 30, 2014	\$ 340,613
After June 30, 2014 through June 30, 2019	<u>2,000</u>
	<u>\$ 342,613</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
Leasehold improvements	40 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 \$251,506 for the year ended June 30, 2013.

#### 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.

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 effect 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, 2013.

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 2009.

NOTE 2. CERTIFICATES OF DEPOSIT

Certificates of deposit have the following maturity dates as of June 30, 2013:

During the year ended -	
June 30, 2014	\$ 500,000
June 30, 2015	752,711
June 30, 2016	<u>2,250,000</u>
	<u><u>\$ 3,502,711</u></u>

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2013 consists of:

	United States	Ethiopia	Guatemala	India
Land	\$ -	\$ 34,740	\$ 56,914	\$ -
Land improvements	-	84,554	125,608	-
Buildings and improvements	-	501,930	102,438	379,849
Transportation equipment	14,000	34,506	21,974	25,258
Other equipment	153,561	68,648	19,915	25,579
Leasehold improvements	271,979	-	-	-
Accumulated depreciation	(103,035)	(59,229)	(16,820)	(90,145)
Total	<u>\$ 336,505</u>	<u>\$ 665,149</u>	<u>\$ 310,029</u>	<u>\$ 340,541</u>
	Liberia	Ukraine	Zambia	Total
Land	\$ 52,500	\$ 416,680	\$ 335,202	\$ 896,036
Land improvements	18,903	113,962	61,742	404,769
Buildings and improvements	89,571	1,414,659	581,522	3,069,969
Transportation equipment	6,000	270,872	53,728	426,338
Other equipment	17,943	97,310	60,560	443,516
Leasehold improvements	-	-	-	271,979
Accumulated depreciation	(17,758)	(479,937)	(78,552)	(845,476)
Total	<u>\$ 167,159</u>	<u>\$ 1,833,546</u>	<u>\$ 1,014,202</u>	<u>\$ 4,667,131</u>

NOTE 4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2013 are restricted for the following purposes:

Adoption grants - specific Church and family funds	\$ 4,284,745
Orphan care - Bolivia	32,730
Orphan care - Ethiopia	184,219
Orphan care - Guatemala	115,526
Orphan care - India	14,513
Orphan care - Ivory Coast	11,291
Orphan care - Ukraine	9,615
Orphan care - Zambia	137,588
Business development	27,409
Mission trips	5,013
Endowment fund	15,000
For payment of management, general and fund raising costs in future years	<u>240,773</u>
	<u><u>\$ 5,078,422</u></u>

During the year ended June 30, 2013, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

Adoption grants	\$ 5,552,698
Orphan care - Ethiopia	424,318
Orphan care - Guatemala	505,010
Orphan care - Honduras	373,398
Orphan care - India	172,885
Orphan care - Liberia	133,851
Orphan care - Peru	52,208
Orphan care - Ukraine	696,110
Orphan care - Zambia	918,600
Orphan care - general	20,816
Business development	148,824
Foster care	80,656
Mission trips	215,357
Endowment fund	30,624
Specific missionary support	28,603
Leasehold improvements - US office	18,922
Payment of management, general and fund raising costs	<u>710,137</u>
	<u><u>\$ 10,083,017</u></u>

NOTE 5. ENDOWMENT FUND

Over several years, donors within the same extended family have contributed a total of \$382,804 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 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, 2013, Lifesong received \$29,749 from family members and transferred \$30,624 to NCF. Also during the year, NCF (through this donor-advised fund) contributed \$38,500 back to Lifesong for the adoption grant program. As of June 30, 2013, \$15,000 of restricted funds is on hand at Lifesong that is to be transferred to NCF. Also as of June 30, 2013 the value of the endowment fund totaled \$214,160 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, 2013 follows:

Supporting activities	
Management and general	\$ 444,584
Fund raising	<u>391,186</u>
Total supporting activities	835,770
Other net revenues dedicated to pay for these costs	<u>(425,302)</u>
Remaining amount	<u>\$ 410,468</u>

Unrestricted contributions from TMG during the year ended June 30, 2013 totaled \$126,486. TMG also contributed \$28,603 during the year and restricted these funds to pay for the personnel costs of individual missionaries (\$14,755 of these personnel costs are included in supporting activities). In addition, \$269,227 of temporarily restricted net assets (restricted for payment of future management, general and fund raising costs) were used during the year.



There was no receivable from or payable to TMG Foundation as of June 30, 2013.

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 Bolivia, Ethiopia, Guatemala, Honduras, India, Liberia, 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 \$109,572. 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. Contributions to the plan during the year ended June 30, 2013 totaled \$7,712.

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, 2013, Lifesong has committed to \$129,361 of matching grants for which grant conditions have not yet been met.

Subsequent Events

Lifesong has evaluated subsequent events through January 29, 2014 the date which the financial statements were available to be issued. Lifesong has not identified any subsequent events requiring disclosure in these financial statements.