

LIFESONG FOR ORPHANS, INC.

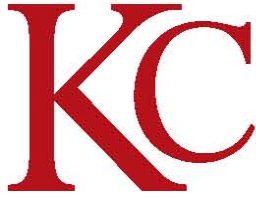
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011



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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, 2011, 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, 2011, 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 22, 2012

Koch Consultants, Ltd.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Cash	\$ 1,545,167
Mission field advances	87,774
Certificates of deposit	500,000
Receivable from TMG Foundation (a related party)	156,721
Prepaid expenses and other	34,752
Notes receivable	474,354
Property and equipment, net	<u>2,758,660</u>
	<u>\$ 5,557,428</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and other	<u>\$ 79,616</u>
Net assets	
Unrestricted	2,679,945
Temporarily restricted	<u>2,797,867</u>
	<u>5,477,812</u>
	<u>\$ 5,557,428</u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
General contributions	\$ 839,608	\$ 5,784,470	\$ 6,624,078
Contributions from TMG Foundation	406,961	38,453	445,414
Other income	5,283	628	5,911
NET ASSETS RELEASED FROM RESTRICTIONS	4,906,068	(4,906,068)	-
	<u>6,157,920</u>	<u>917,483</u>	<u>7,075,403</u>
EXPENSES			
Program services	5,191,308	-	5,191,308
Supporting activities			
Management and general	213,305	-	213,305
Fund raising	182,767	-	182,767
	<u>396,072</u>	<u>-</u>	<u>396,072</u>
	<u>5,587,380</u>	<u>-</u>	<u>5,587,380</u>
CHANGE IN NET ASSETS	570,540	917,483	1,488,023
NET ASSETS - BEGINNING	<u>2,109,405</u>	<u>1,880,384</u>	<u>3,989,789</u>
NET ASSETS - ENDING	<u><u>\$ 2,679,945</u></u>	<u><u>\$ 2,797,867</u></u>	<u><u>\$ 5,477,812</u></u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	Orphan Care Africa	Orphan Care Asia	Orphan Care Central America	Orphan Care Europe	Other General Orphan Care
Salaries and wages	\$ 146,590	\$ 59,203	\$ -	\$ 152,739	\$ 47,689
Employee benefits	17,859	50	-	-	610
Payroll taxes	3,195	3,439	-	2,628	3,524
	<u>167,644</u>	<u>62,692</u>	<u>-</u>	<u>155,367</u>	<u>51,823</u>
Grants and allocations	12,228	-	393,871	-	31,794
Specific assistance	-	-	-	-	-
Professional fees	3,599	-	-	9,185	635
Office expenses	7,792	928	-	7,282	1,607
Ministry supplies	133,428	67,381	26,609	203,391	11,557
Occupancy	36,348	2,824	-	44,642	1,178
Conferences and training	177	995	-	1,866	81
Travel	56,830	-	289	45,291	6,328
Marketing and development	-	-	-	1,419	-
Miscellaneous	13,053	30,682	510	17,268	315
Depreciation	25,230	19,452	-	93,163	1,173
	<u>\$ 456,329</u>	<u>\$ 184,954</u>	<u>\$ 421,279</u>	<u>\$ 578,874</u>	<u>\$ 106,491</u>

See accompanying notes.

Adoption Grants	Mission Trips	Endowment Fund	Total Program Services	Management and General	Fund Raising	Total Supporting Activities	Total Expenses
\$ 90,819	\$ -	\$ -	\$ 497,040	\$ 108,125	\$ 64,137	\$ 172,262	\$ 669,302
12,374	-	-	30,893	10,276	6,483	16,759	47,652
8,206	-	-	20,992	11,071	4,772	15,843	36,835
111,399	-	-	548,925	129,472	75,392	204,864	753,789
62,648	-	45,799	546,340	-	-	-	546,340
2,886,630	-	-	2,886,630	-	-	-	2,886,630
2,301	-	-	15,720	30,665	18,527	49,192	64,912
10,432	140	-	28,181	19,518	21,438	40,956	69,137
3,351	-	-	445,717	-	-	-	445,717
4,544	454	-	89,990	11,881	2,968	14,849	104,839
10,260	-	-	13,379	3,631	4,900	8,531	21,910
18,440	279,458	-	406,636	5,474	18,334	23,808	430,444
1,394	-	-	2,813	30	38,029	38,059	40,872
360	410	-	62,598	4,592	1,001	5,593	68,191
5,361	-	-	144,379	8,042	2,178	10,220	154,599
<u>\$ 3,117,120</u>	<u>\$ 280,462</u>	<u>\$ 45,799</u>	<u>\$ 5,191,308</u>	<u>\$ 213,305</u>	<u>\$ 182,767</u>	<u>\$ 396,072</u>	<u>\$ 5,587,380</u>

LIFESONG FOR ORPHANS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,488,023
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	154,599
Forgiveness of notes receivable	14,550
Contributions restricted for property and equipment	(188,416)
Non-cash contributions received	(140,500)
(Increase) decrease in operating assets	
Receivable from TMG Foundation	(156,721)
Prepaid expenses and other	22,168
Advances to field missions	(1,746,589)
Advances used by field missions	1,765,751
Increase (decrease) in operating liabilities	
Accounts payable and other	37,972
Payable to TMG Foundation	(123,493)
	1,127,344

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of property and equipment	(476,695)
Purchases of certificates of deposit	(500,000)
Notes receivable advances	(335,395)
Notes receivable repayments received	191,619
	(1,120,471)

See accompanying notes.

LIFESONG FOR ORPHANS, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for property and equipment	<u>\$ 188,416</u>
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Net cash provided by financing activities	<u>188,416</u>
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INCREASE IN CASH	195,289
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CASH AT BEGINNING OF YEAR	<u>1,349,878</u>
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CASH AT END OF YEAR	<u><u>\$ 1,545,167</u></u>
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SUPPLEMENTAL DATA

In-kind contributions of property received	<u><u>\$ 140,500</u></u>
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See accompanying notes.

LIFESONG FOR ORPHANS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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
- Providing support to orphans in Ethiopia, 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
 - Job skill training to prepare orphans for their future role in society
- 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, 2011, Lifesong maintained deposits with financial institutions that collectively exceeded the FDIC insured limit by approximately \$410,000. 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, 2011, 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, 2011 totaled \$87,774.

Certificates of deposit are recorded at cost which approximates fair value. The certificates of deposit held by Lifesong at June 30, 2011 had initial maturities of one year or less.

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 \$12,200; management believes all other agreements are fully collectible. When an agreement is deemed uncollectible, it is simply forgiven. During the year ended June 30, 2011, agreements totaling \$14,550 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, 2011, these agreements are expected to be collected as follows:

During the year ended June 30, 2012	\$ 448,604
After June 30, 2012 through June 30, 2017	<u>25,750</u>
	<u>\$ 474,354</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 \$154,599 for the year ended June 30, 2011.

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, 2011.

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 2007.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2011 consists of:

	United States	Ethiopia	India	Liberia	Ukraine	Zambia	Total
Land	\$ -	\$ 11,322	\$ -	\$ 52,500	\$ 346,599	\$ 154,089	\$ 564,510
Land improvements	-	28,535	-	3,420	66,260	-	98,215
Buildings and improvements	-	209,587	378,970	75,000	1,123,252	174,357	1,961,166
Transportation equipment	-	-	25,258	-	270,279	28,947	324,484
Office equipment	88,544	17,311	24,634	7,790	49,215	21,084	208,578
Construction in progress	-	-	-	-	44,099	-	44,099
Accumulated depreciation	(46,020)	(9,730)	(51,051)	(4,522)	(308,045)	(23,024)	(442,392)
Total	<u>\$ 42,524</u>	<u>\$ 257,025</u>	<u>\$ 377,811</u>	<u>\$ 134,188</u>	<u>\$ 1,591,659</u>	<u>\$ 355,453</u>	<u>\$ 2,758,660</u>

NOTE 3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 are restricted for the following purposes:

Adoption grants - specific Church and family funds	\$ 2,195,755
Orphan care - Africa	22,001
Orphan care - Asia	38,647
Orphan care - Europe	28,695
Other general orphan care	2,769
For payment of management, general and fund raising costs in future years	<u>510,000</u>
	<u>\$ 2,797,867</u>

During the year ended June 30, 2011, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

Orphan care - Africa	\$ 550,248
Orphan care - Asia	174,969
Orphan care - Central America	320,649
Orphan care - Europe	236,784
Orphan care - general	44,224
Adoption grants	3,288,830
Mission trips	145,407
Endowment fund	41,250
Specific missionary support	100,408
Payment of management, general and fund raising costs	<u>3,299</u>
	<u><u>\$ 4,906,068</u></u>

NOTE 4. ENDOWMENT FUND

Over several years, donors within the same extended family have contributed a total of \$316,305 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, 2011, Lifesong received \$41,250 from family members and transferred \$45,799 to NCF. Also during the year, NCF (through this donor-advised fund) contributed \$43,000 back to Lifesong for the adoption grant program. As of June 30, 2011, there are no remaining restricted funds on hand at Lifesong that are to be transferred to NCF. Also as of June 30, 2011 the value of the endowment fund totaled \$264,986 and was invested in money market and mutual funds.

NOTE 5. 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, 2011 follows:

Supporting activities	
Management and general	\$ 213,305
Fund raising	<u>182,767</u>
Total supporting activities	396,072
Other revenues dedicated to pay for these costs	<u>(7,616)</u>
Remaining amount	<u>\$ 388,456</u>

Unrestricted contributions from TMG during the year ended June 30, 2011 totaled \$406,961. TMG also contributed \$38,453 during the year and restricted these funds to pay for the personnel costs of an individual missionary (\$11,536 of these personnel costs are included in supporting activities).

Receivable from TMG Foundation as of June 30, 2011 was \$156,721.

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. During the year, Lifesong granted \$54,799 to Legacy in furtherance of its mission. Also, 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 6. 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, Honduras, India, Liberia, Ukraine and Zambia.

In Honduras, Lifesong provides grants and supplies to 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, India, Liberia, Ukraine and Zambia, Lifesong works with established, indigenous non-profit organizations to facilitate property ownership, employment of local personnel and other needs. Each of these organizations 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 \$187,196 including \$140,500 of in-kind property received. Properties under the control of Lifesong in these foreign countries are indicated in Note 2 above.

NOTE 7. 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, 2011, Lifesong has committed to \$36,381 of matching grants for which grant conditions have not yet been met.

Subsequent Events

Lifesong has evaluated subsequent events through February 22, 2012 the date which the financial statements were available to be issued. Lifesong has not identified any subsequent events requiring disclosure in these financial statements.