

**LIFESONG FOR ORPHANS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**



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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 financial statements of **Lifesong for Orphans, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform 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, 2018 and 2017, 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.

*Koch Consultants, Ltd.*

January 4, 2019

LIFESONG FOR ORPHANS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2018 AND 2017

	2018	2017
<b>ASSETS</b>		
Cash	\$ 1,368,152	\$ 4,682,895
Mission field advances	553,705	419,284
Investments	7,537,458	3,000,000
Contributions receivable	115,253	-
Receivable from TMG Foundation (a related party)	-	123,123
Prepaid expenses and other	296,166	180,170
Notes receivable	436,123	254,147
Property and equipment, net	12,753,963	11,241,507
	<u>\$ 23,060,820</u>	<u>\$ 19,901,126</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 140,826	\$ 167,082
Accrued expenses and other	160,425	56,761
Notes payable	-	81,441
	<u>301,251</u>	<u>305,284</u>
<b>Net assets</b>		
Unrestricted	14,689,805	11,800,780
Temporarily restricted	8,069,764	7,795,062
	<u>22,759,569</u>	<u>19,595,842</u>
	<u>\$ 23,060,820</u>	<u>\$ 19,901,126</u>

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2018 AND 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
General contributions	\$ 2,888,875	\$ 17,659,756	\$ 20,548,631
Contributions from TMG Foundation	395,021	-	395,021
Sustainable business income	536,769	-	536,769
Other income (loss)	176,889	240	177,129
NET ASSETS RELEASED FROM RESTRICTIONS	17,385,294	(17,385,294)	-
	<u>21,382,848</u>	<u>274,702</u>	<u>21,657,550</u>
<b>EXPENSES</b>			
Program services	16,757,448	-	16,757,448
Supporting activities			
Management and general	794,581	-	794,581
Fund raising	941,794	-	941,794
	<u>1,736,375</u>	<u>-</u>	<u>1,736,375</u>
	<u>18,493,823</u>	<u>-</u>	<u>18,493,823</u>
CHANGE IN NET ASSETS	2,889,025	274,702	3,163,727
NET ASSETS - BEGINNING	<u>11,800,780</u>	<u>7,795,062</u>	<u>19,595,842</u>
NET ASSETS - ENDING	<u>\$ 14,689,805</u>	<u>\$ 8,069,764</u>	<u>\$ 22,759,569</u>

See accompanying notes.

2017

Unrestricted	Temporarily Restricted	Total
\$ 2,178,836	\$ 16,477,925	\$ 18,656,761
563,947	-	563,947
343,143	-	343,143
81,067	391	81,458
16,263,656	(16,263,656)	-
<hr/>		
19,430,649	214,660	19,645,309
<hr/>		
14,610,050	-	14,610,050
739,888	-	739,888
925,532	-	925,532
<hr/>		
1,665,420	-	1,665,420
<hr/>		
16,275,470	-	16,275,470
<hr/>		
3,155,179	214,660	3,369,839
8,645,601	7,580,402	16,226,003
<hr/>		
\$ 11,800,780	\$ 7,795,062	\$ 19,595,842
<hr/>		

LIFESONG FOR ORPHANS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2018

	Adoption Assistance	Orphan and Vulnerable Children Care	Foster Care Support	Sustainable Business
Salaries and wages	\$ 199,984	\$ 2,630,230	\$ 95,798	\$ 278,468
Employee benefits	21,092	72,360	7,754	-
Payroll taxes	12,367	78,699	7,158	-
	<u>233,443</u>	<u>2,781,289</u>	<u>110,710</u>	<u>278,468</u>
Grants and allocations	26,090	1,731,008	10,500	-
Specific assistance	6,189,698	-	-	-
Professional fees	87,321	81,974	122	6,560
Office expenses	14,354	63,383	3,019	22,784
Ministry supplies and services	78,313	2,097,747	106,153	535,024
Occupancy	16,678	230,904	4,743	52,716
Conferences and training	29,791	3,620	2,135	-
Travel	30,925	272,113	9,000	87,064
Marketing and development	991	1,322	3,047	-
Miscellaneous	-	85,366	4,361	6,704
Depreciation	16,030	546,173	1,263	312,402
	<u>\$ 6,723,634</u>	<u>\$ 7,894,899</u>	<u>\$ 255,053</u>	<u>\$ 1,301,722</u>

See accompanying notes.



Mission Trips	Total Program Services	Management and General	Fund Raising	Total Supporting Activities	Total Expenses
\$ 31,216	\$ 3,235,696	\$ 511,281	\$ 373,219	\$ 884,500	\$ 4,120,196
-	101,206	32,989	54,122	87,111	188,317
1,691	99,915	37,145	26,460	63,605	163,520
32,907	3,436,817	581,415	453,801	1,035,216	4,472,033
4,180	1,771,778	-	-	-	1,771,778
-	6,189,698	-	-	-	6,189,698
-	175,977	58,082	28,873	86,955	262,932
4,761	108,301	97,967	80,389	178,356	286,657
26,421	2,843,658	-	-	-	2,843,658
1,010	306,051	16,582	16,595	33,177	339,228
-	35,546	7,188	22,364	29,552	65,098
493,518	892,620	15,960	257,365	273,325	1,165,945
-	5,360	3,425	74,392	77,817	83,177
19,343	115,774	-	-	-	115,774
-	875,868	13,962	8,015	21,977	897,845
<u>\$ 582,140</u>	<u>\$ 16,757,448</u>	<u>\$ 794,581</u>	<u>\$ 941,794</u>	<u>\$ 1,736,375</u>	<u>\$ 18,493,823</u>

LIFESONG FOR ORPHANS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2017

	Adoption Assistance	Orphan and Vulnerable Children Care	Foster Care Support	Sustainable Business
Salaries and wages	\$ 186,665	\$ 2,137,243	\$ 49,140	\$ 226,386
Employee benefits	19,618	60,981	3,655	-
Payroll taxes	11,588	62,018	2,639	2,447
	<u>217,871</u>	<u>2,260,242</u>	<u>55,434</u>	<u>228,833</u>
Grants and allocations	34,717	1,070,006	28,694	-
Specific assistance	6,640,887	-	-	-
Professional fees	119,984	107,026	1,864	47,570
Office expenses	13,192	56,066	3,410	41,226
Ministry supplies and services	51,793	1,500,429	106,428	238,771
Occupancy	16,845	210,133	28,470	20,483
Conferences and training	11,429	9,891	9,409	-
Travel	26,904	190,671	9,856	33,646
Marketing and development	3,623	1,930	4,714	-
Miscellaneous	-	77,252	779	8,099
Depreciation	14,957	694,326	-	-
	<u>\$ 7,152,202</u>	<u>\$ 6,177,972</u>	<u>\$ 249,058</u>	<u>\$ 618,628</u>

See accompanying notes.

Mission Trips	Total Program Services	Management and General	Fund Raising	Total Supporting Activities	Total Expenses
\$ 23,651	\$ 2,623,085	\$ 464,542	\$ 350,112	\$ 814,654	\$ 3,437,739
-	84,254	48,093	58,025	106,118	190,372
618	79,310	39,076	24,970	64,046	143,356
24,269	2,786,649	551,711	433,107	984,818	3,771,467
14,452	1,147,869	-	-	-	1,147,869
-	6,640,887	-	-	-	6,640,887
180	276,624	66,587	39,346	105,933	382,557
2,569	116,463	58,259	75,548	133,807	250,270
34,694	1,932,115	-	-	-	1,932,115
356	276,287	17,961	16,235	34,196	310,483
-	30,729	11,763	1,018	12,781	43,510
332,346	593,423	14,060	250,941	265,001	858,424
3,324	13,591	6,834	101,859	108,693	122,284
-	86,130	-	-	-	86,130
-	709,283	12,713	7,478	20,191	729,474
<u>\$ 412,190</u>	<u>\$ 14,610,050</u>	<u>\$ 739,888</u>	<u>\$ 925,532</u>	<u>\$ 1,665,420</u>	<u>\$ 16,275,470</u>

LIFESONG FOR ORPHANS, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,163,727	\$ 3,369,839
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	897,845	729,474
Contributions restricted for property and equipment	(1,776,373)	(1,968,545)
(Gain) loss on disposal of property and equipment	(4,450)	(9,445)
Unrealized (gain) loss on investments	(6,873)	-
Forgiveness of notes receivable	7,550	18,700
In-kind donations received	(867,304)	(244,054)
In-kind donations used in programs	168,016	174,979
(Increase) decrease in operating assets		
Contributions receivable	(115,253)	250,000
Receivable from TMG Foundation	123,123	29,512
Prepaid expenses and other	(115,996)	(36,079)
Advances for field missions	(6,687,021)	(5,479,364)
Advances used in field missions	6,552,600	5,408,381
Increase (decrease) in operating liabilities		
Accounts payable	27,538	14,728
Accrued expenses and other	103,664	9,669
	1,470,793	2,267,795
Net cash provided by operating activities	1,470,793	2,267,795
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment	(2,317,360)	(3,511,966)
Proceeds from disposal of property and equipment	289,096	114,755
Purchases of investments	(4,530,585)	(500,000)
Maturities of investments	-	750,092
Notes receivable advances	(63,130)	(171,163)
Notes receivable repayments received	141,511	94,582
	(6,480,468)	(3,223,700)
Net cash used in investing activities	(6,480,468)	(3,223,700)

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for property and equipment	\$ 1,776,373	\$ 1,968,545
Repayments made on notes payable	<u>(81,441)</u>	<u>(173,881)</u>
Net cash provided by financing activities	<u>1,694,932</u>	<u>1,794,664</u>
INCREASE (DECREASE) IN CASH	(3,314,743)	838,759
CASH AT BEGINNING OF YEAR	<u>4,682,895</u>	<u>3,844,106</u>
CASH AT END OF YEAR	<u>\$ 1,368,152</u>	<u>\$ 4,682,865</u>
 <b>SUPPLEMENTAL DATA</b>		
In-kind contributions of property received	\$ 431,381	\$ 69,075
Property acquired through issuance of notes payable and accounts payable	-	136,719
In-kind contributions of notes receivable received	267,907	-

See accompanying notes.

LIFESONG FOR ORPHANS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2018 AND 2017

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 post-adoption assistance including literature, counseling and training
- Providing support to orphan and vulnerable children throughout the world, including –
  - Humanitarian aid to orphanages and to other organizations that provide assistance to orphan and vulnerable children
  - Establishing schools, transition homes and other living quarters for orphans
  - Assisting families and training fathers to help preserve and sustain families
  - Biblical training in schools, homes, and orphanages
  - Currently, locations include Bolivia, Cambodia, Ethiopia, Guatemala, Haiti, India, Kenya, Liberia, Mexico, Southeast Asia, Tanzania, Uganda, Ukraine, and Zambia
- Providing administrative support to other charitable organizations whose ministries are focused on at-risk children
- 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 and, accordingly, reflect all significant receivables, payables, and other liabilities. 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 Support and Revenue

Contributions are recognized as revenue when the donor makes a promise to give to Lifesong that is, in substance, unconditional. 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 and Mission Field Advances

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. As of June 30, 2018 and 2017, Lifesong held no cash equivalents. Lifesong maintained deposits with financial institutions that collectively exceeded the FDIC insured limit by approximately \$5,400 and \$208,300 as of June 30, 2018 and 2017, respectively. Management has determined collateral protection above the FDIC insurance limit is not necessary.

Periodically, Lifesong advances cash to missionary employees serving 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, 2018 and 2017 totaled \$553,705 and \$419,284, respectively.

## Investments

Investments in certificates of deposit are recorded at cost, which approximates fair value. Investments in mutual funds are recorded at fair value. Investments that do not have readily determinable fair values are recorded at cost. When management becomes aware of circumstances under which cost basis investments are permanently impaired, the value of such investments is reduced by the amount that is considered permanently impaired.

## Fair Value Measurements

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. Fair value is calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

Lifesong reports all financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) in one of the following three levels which are determined by the lowest level input that is significant to the fair value measurements in its entirety. The levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

#### Promises to Give

Unconditional promises to give are recognized as contribution receivables and revenues in the period in which Lifesong is notified by the donor (or the donor’s estate) of his or her commitment to contribute. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Lifesong uses the allowance method to determine uncollectible unconditional promises to give. The allowance is evaluated on a regular basis by management and is based on historical experience and analysis of specific promises made. Contributions receivable of \$115,253 and \$0 as of June 30, 2018 and 2017, respectively, represent unconditional promises to give to Lifesong. Management considers contributions receivable to be fully collectible within one year.

#### 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 \$27,291 and \$16,100 as of June 30, 2018 and 2017, respectively. Management believes all other agreements are fully collectible. When an agreement is deemed uncollectible, it is simply forgiven. During the years ended June 30, 2018 and 2017, agreements totaling \$7,550 and \$18,700, respectively, were forgiven. Management bases its decisions regarding collectability on historical experience and specific knowledge regarding individual agreements.



As of June 30, 2018 and 2017, these agreements are expected to be collected as follows:

	2018	2017
During the year ended -		
June 30, 2018	\$ -	\$ 121,935
June 30, 2019	273,588	148,312
June 30, 2020	189,826	-
Less allowance for doubtful accounts	<u>(27,291)</u>	<u>(16,100)</u>
	<u>\$ 436,123</u>	<u>\$ 254,147</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 \$897,845 and \$729,474 during the years ended June 30, 2018 and 2017, respectively.

#### 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 activities. 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 positions as of June 30, 2018 or 2017. 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 2015.

## Subsequent Events

Lifesong has evaluated subsequent events through January 4, 2019, the date which the financial statements were available to be issued. Lifesong has not identified any subsequent events requiring disclosure in these financial statements.

## NOTE 2. INVESTMENTS

Investments consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Certificates of deposit, at cost	\$ 5,023,235	\$ 2,500,000
Investment in real estate income fund, at cost	1,000,000	500,000
Mutual funds, at fair value	1,005,487	-
Cash held in brokerage account	508,736	-
	<u>\$ 7,537,458</u>	<u>\$ 3,000,000</u>

Certificates of deposit have the following maturity dates as of June 30, 2018 and 2017:

	2018	2017
During the year ended -		
June 30, 2018	\$ -	\$ -
June 30, 2019	3,714,672	2,500,000
June 30, 2020	809,775	-
June 30, 2021	498,788	-
	<u>\$ 5,023,235</u>	<u>\$ 2,500,000</u>

Investment income is included in other income (loss) on the statements of activities and consisted of the following for the years ended June 30, 2018 and 2017, respectively:

	2018	2017
Interest and dividends	\$ 122,045	\$ 71,137
Unrealized gain (loss) on investments	6,873	-
	<u>\$ 128,918</u>	<u>\$ 71,137</u>

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and 2017 consists of:

	2018	2017
Land	\$ 2,239,727	\$ 2,295,169
Land improvements	1,425,910	1,153,917
Buildings and improvements	7,797,956	6,470,359
Transportation equipment	1,441,238	1,195,558
Other equipment	3,167,888	2,570,029
Leasehold improvements	356,033	356,033
Accumulated depreciation	<u>(3,674,789)</u>	<u>(2,799,558)</u>
	<u>\$ 12,753,963</u>	<u>\$ 11,241,507</u>

As of June 30, 2018 and 2017, property and equipment (net of accumulated depreciation) is held at various project locations as follows:

	2018	2017
United States	\$ 372,906	\$ 385,675
Bolivia	19,538	26,972
Ethiopia	572,311	601,235
Guatemala	1,409,296	1,252,326
Haiti	3,065,378	2,272,038
India	334,321	347,250
Liberia	173,324	184,324
Uganda	163,727	54,540
Ukraine	3,768,534	3,359,608
Zambia	<u>2,874,628</u>	<u>2,757,539</u>
	<u>\$ 12,753,963</u>	<u>\$ 11,241,507</u>

NOTE 4. NOTES PAYABLE

Lifesong entered two separate rent-to-own agreements to acquire property in Guatemala. Under the agreements, Lifesong made annual payments towards the principal (notes payable) and annual rental payments for use of the property. Principal payments were \$81,441 and \$173,881 during the years ended June 30, 2018 and 2017, respectively. Remaining notes payable balances were \$0 and \$81,441 as of June 30, 2018 and 2017, respectively.

NOTE 5. DONOR-ADVISED FUND

Over several years, donors within the same extended family have contributed to Lifesong with the restriction of establishing a donor-advised 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; thus, the fund is not presented in Lifesong's financial statements. As of June 30, 2018 and 2017, the value of the donor-advised fund totaled \$140,114 and \$142,157, respectively, and was invested in money market and mutual funds.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Net assets as of June 30, 2018 and 2017 are temporarily restricted for the following purposes:

	2018	2017
Adoption assistance - specific Church, group, and family funds	\$ 5,785,518	\$ 5,839,822
Orphan and vulnerable children care	2,032,365	1,814,292
Foster care	209,343	116,548
Mission trips	42,538	24,400
	<u>\$ 8,069,764</u>	<u>\$ 7,795,062</u>

During the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

	2018	2017
Adoption assistance - specific Church, group, and family funds	\$ 6,562,705	\$ 6,841,642
Orphan and vulnerable children care	7,824,341	6,513,732
Sustainable business development	860,994	1,169,907
Foster care	302,770	252,870
Mission trips	728,247	424,331
Donor-advised fund	25,978	7,823
Payment of management, general and fund raising costs	1,080,259	1,053,351
	<u>\$ 17,385,294</u>	<u>\$ 16,263,656</u>

NOTE 7. RELATED PARTY

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 agreed to contribute 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 years ended June 30, 2018 and 2017 follows:

	2018	2017
Supporting activities		
Management and general	\$ 794,581	\$ 739,888
Fund raising	<u>941,794</u>	<u>925,532</u>
Total supporting activities	1,736,375	1,665,420
Other net revenues dedicated to pay for these costs	<u>(1,341,354)</u>	<u>(1,101,473)</u>
Remaining amount	<u>\$ 395,021</u>	<u>\$ 563,947</u>

Unrestricted contributions from TMG during the years ended June 30, 2018 and 2017 totaled \$395,021 and \$563,947, respectively – funding the “remaining amounts” above.

As of June 30, 2018 and 2017, receivable from TMG Foundation totaled \$0 and \$123,123, respectively.

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.

TMG has outstanding notes payable to an individual totaling \$325,000 as of both June 30, 2018 and 2017. These notes were issued in conjunction with sustainable business activities by Lifesong at the Bercy, Haiti project location. The notes are secured (guaranteed) by Lifesong property in Bercy, Haiti with a net book value of \$930,208 and \$953,888 as of June 30, 2018 and 2017, respectively.

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 years ended June 30, 2018 and 2017 totaled \$38,320 and \$30,992, respectively.

#### NOTE 9. 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. During the years ended June 30, 2018 and 2017, Lifesong conducted operations in Bolivia, Cambodia, Ethiopia, Guatemala, Haiti, India, Kenya, Liberia, Mexico, Southeast Asia, Tanzania, Uganda, Ukraine and Zambia. Generally, Lifesong works with established, indigenous non-governmental organizations to facilitate property ownership, employment of local personnel and other needs. On occasion (for example – during a "trial period" at a project location), Lifesong may provide support through other U.S. charitable organizations operating in the same location.

Each of these project locations is controlled by Lifesong through Lifesong's establishment and approval of project location annual budgets and the provision of funding. Lifesong provides significant operating and capital funding for each of these project locations. Thus, all such foreign activity is included in these financial statements. Foreign source income of \$749,837 and \$509,552 was received during the years ended June 30, 2018 and 2017, respectively. Foreign currency translation losses totaling \$22,639 and \$619 are included in miscellaneous expense as of June 30, 2018 and 2017, respectively.

Foreign location assets and liabilities as of June 30, 2018 and 2017, respectively, are as follows:

	2018	2017
Mission field advances (disclosed in Note 1)		
Prepaid expenses and other	\$ 38,048	\$ 60,807
Property and equipment (disclosed in Note 3)		
Accounts payable	70,217	35,230
Notes payable (disclosed in Note 4)		

#### NOTE 10. 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, 2018 and 2017, Lifesong had committed to matching grants of \$215,630 and \$187,762, respectively, for which grant conditions had not yet been met.

#### NOTE 11. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis as of June 30, 2018 are as follows (there were none as of June 30, 2017):

##### Level 1 – Quoted Prices in Active Markets for Identical Assets

Mutual funds	\$1,005,487
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