

FAMILY LEGACY MISSIONS INTERNATIONAL

Irving, Texas

Financial Statements

Year Ended December 31, 2016

FAMILY LEGACY MISSIONS INTERNATIONAL

Financial Statements

Year Ended December 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Family Legacy Missions International
Irving, Texas

We have audited the accompanying financial statements of Family Legacy Missions International (the "Organization"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2016, 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Family Legacy Missions International as of December 31, 2016, 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.

PSK LLP

Arlington, Texas
April 24, 2017

FAMILY LEGACY MISSIONS INTERNATIONAL
Statement of Financial Position
December 31, 2016

ASSETS

Cash	\$ 2,674,306
Due from Affiliate	5,511,936
Property and Equipment	
Furniture	82,950
Equipment	26,264
Vehicle	42,278
Less: Accumulated depreciation	<u>(73,352)</u>
Total property and equipment	<u>78,140</u>
Total Assets	<u>\$ 8,264,382</u>

LIABILITIES AND NET ASSETS

Accounts Payable and Accrued Expenses	\$ 971,822
Notes Payable	<u>4,821,060</u>
Total Liabilities	5,792,882
Unrestricted Net Assets	<u>2,471,500</u>
Total Liabilities and Net Assets	<u>\$ 8,264,382</u>

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

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Activities

Year Ended December 31, 2016

Changes in Unrestricted Net Assets:

Revenues and Other Support

Cash contributions	\$ 20,289,826
Program service revenues	1,124,777
In-kind contributions	3,378,303
Other income, gains, and losses	<u>(5,658)</u>

Total revenues and other support	<u>24,787,248</u>
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Expenses

Program service expenses	22,549,647
Management and general expenses	951,128
Fundraising expenses	<u>1,089,646</u>

Total expenses	<u>24,590,421</u>
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Change in Net Assets	196,827
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Net Assets at Beginning of Year	<u>2,274,673</u>
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Net Assets at End of Year	<u>\$ 2,471,500</u>
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The accompanying notes are an integral part of these financial statements.

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Functional Expenses

Year Ended December 31, 2016

	Program Service Expenses	Management and General Expenses	Fundraising Expenses	Total
Grants to domestic organizations	\$ 170,658	\$ -	\$ -	\$ 170,658
Grants to foreign organizations	16,916,843	-	-	16,916,843
Salaries and wages	1,522,108	483,070	382,562	2,387,740
Other employee benefits	67,244	21,341	16,901	105,486
Payroll taxes	114,506	36,341	28,779	179,626
Fees	111,488	48,883	28,021	188,392
Advertising and promotions	502,935	39,895	506,195	1,049,025
Office expenses	151,008	46,071	42,327	239,406
Information technology	297,491	147,430	24,572	469,493
Occupancy	108,007	34,278	27,146	169,431
Travel	2,263,759	-	23,715	2,287,474
Conferences, conventions, meetings	8,385	2,661	2,107	13,153
Interest	-	35,000	-	35,000
Depreciation	19,119	6,068	4,805	29,992
Insurance	-	26,116	-	26,116
Donation processing fees	286,084	20,796	-	306,880
Other	10,012	3,178	2,516	15,706
	<u>\$22,549,647</u>	<u>\$ 951,128</u>	<u>\$ 1,089,646</u>	<u>\$ 24,590,421</u>
Totals				

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

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Cash Flows
Year Ended December 31, 2016

Cash Flows From Operating Activities:	
Change in net assets	\$ 196,827
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	29,992
Donated stock	(840,429)
Loss on sale of stock	5,738
(Increase) decrease in assets:	
Due from affiliate	(4,001,936)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>740,092</u>
Net cash used in operating activities	<u>(3,869,716)</u>
Cash Flows From Investing Activities:	
Proceeds from sale of stock	834,691
Purchases of property and equipment	<u>(31,502)</u>
Net cash provided by investing activities	<u>803,189</u>
Cash Flows From Financing Activities:	
Payments on notes payable	(206,667)
Borrowings on notes payable	<u>3,517,727</u>
Net cash provided by financing activities	<u>3,311,060</u>
Change in Cash	244,533
Cash at Beginning of Year	<u>2,429,773</u>
Cash at End of Year	<u><u>\$ 2,674,306</u></u>
Supplemental Disclosures:	
Cash Paid for Interest	<u>\$ 35,000</u>

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

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

1 - Historical Background

Family Legacy Missions International (the “Organization”) is incorporated in the state of Texas as a nonprofit organization. The Organization’s mission is to connect American families with the orphaned and vulnerable children of Zambia, Africa to proclaim the gospel, transform lives, and rescue orphans. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation.

The Organization fulfils the operations of its major programs through the direct financial support of a separate nonprofit organization, Family Legacy Missions Zambia (“FLMZ”), located in Zambia, Africa. FLMZ is separately incorporated and the Organization lacks both control and an economic interest in FLMZ; accordingly, the financial statements of the Organization do not include the financial activities of FLMZ. Expenses reported on the Organization’s statement of activities include operating grants provided to FLMZ for the execution of the Organization’s major programs. See Notes 3 and 4 for more information on FLMZ.

2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when the obligation is incurred. The financial statements of the Organization have been prepared using accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Basis of Presentation - As required by the Not-for-Profit Entities Classification of Net Assets topic of the Financial Accounting Standards Board *Accounting Standards Codification* (“FASB ASC”), the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All of the Organization’s net assets are unrestricted at December 31, 2016.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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. All contributions received by the Organization during the year ended December 31, 2016 were unrestricted.

Revenues and Support - Revenues and support for the Organization are primarily derived from contributions from individuals, churches, foundations and businesses.

In-kind Contributions - In-kind contributions, which are donations of materials, supplies, and facilities, are recognized as support and expenses in the statement of activities. In-kind contributions are recorded at their estimated fair market values at date of receipt. In 2016, in-kind contributions of \$3,378,303 have been recorded as both in-kind revenues and expenses.

Donated Services - No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. A large number of people have contributed significant amounts of time to the activities of the Organization without compensation. The financial statements do not reflect the value of those contributed services.

Donated Assets - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of the donation.

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Use of Estimates - Management used estimates and assumptions in preparing these financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Compensated Absences - Employees of the Organization are entitled to paid time off depending on length of service and other factors. The Organization cannot reasonably estimate the amount of compensation for future absences; accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when paid to employees.

Programs - The Organization pursues its objectives through the execution of the following major programs:

Camp LIFE - proclaims the good news of the gospel to Zambian children through American counselors who build relationships and reinforce biblical teaching.

Legacy Academy - transforms the lives of Zambia's orphaned and vulnerable children and caretakers by meeting comprehensive needs to facilitate lasting change.

Tree of Life - rescues children from severe cases of abuse and poverty by placing them in the Children's Village that provides a safe haven for hope and healing.

Cash and Cash Equivalents - The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2016.

Property and Equipment - Property and equipment are recorded at cost, if purchased, and fair market value at date of donation, if contributed. Additions, improvements and major renewals in excess of \$5,000 are capitalized. Maintenance, repairs and replacements, which do not extend the lives of the respective assets, are charged to expense when incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Furniture	5 years
Equipment	3 years
Vehicle	5 years

Depreciation expense for the year ended December 31, 2016 amounted to \$29,992.

Functional Allocation of Expenses - The costs of providing the programs of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Income Taxes - The Organization follows the Income Taxes topic of the FASB ASC, which prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Organization files a Form 990 information return on an annual basis to report its activities to the Internal Revenue Service. The Organization is not aware of any activities that would jeopardize its tax-exempt status and is not aware of any activities that are subject to tax on unrelated business income. As of December 31, 2016, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and does not expect this to change in the next twelve months. The 2013 through 2016 tax years remain subject to examination by the Internal Revenue Service.

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk - The Organization, at times, maintains deposits with financial institutions in excess of federally insured limits. The Organization has not experienced losses in such accounts, and management does not believe the Organization is exposed to any significant credit risk.

3 - Family Legacy Missions Zambia (Unaudited)

Family legacy Missions Zambia Limited (FLMZ) is a company limited by Guarantee incorporated in Zambia as a non-profit organization. FLMZ's calling is to foster a dynamic and growing relationship between the families of America and the orphaned and vulnerable children of Zambia. FLMZ has also been approved as a Public Benefit Organization (PBO) by the Minister of Finance under Section 41 of the Income Tax Act, Chapter 323 of the Laws of Zambia.

Substantially all of FLMZ's revenue is received in the form of grants paid by Family Legacy Missions International. FLMZ owns the following assets, with a combined cost of \$32,153,583, in the country of Zambia through a wholly-owned subsidiary, Lifeline Enterprises, as of December 31, 2016:

45.8 acres of land and land improvements across 14 Legacy Academy private school properties with a cost of \$4,504,592

170 classrooms at 13 Legacy Academy private school locations with a cost of \$5,308,800

295 acres of land and land improvements for two Tree of Life Children's Villages with a cost of \$3,905,476

59 Homes and 40 classrooms, library, cafeteria, clinic and offices at the Legacy Academy located at the Tree of Life Children's Villages with a cost of \$7,239,092

5 Legacy Lodge Villas and Conference Center with a cost of \$10,995,623

4 acres of land and land improvements in city center with a cost of \$200,000

This information has been added for additional disclosure purposes. FLMZ's financial statements have not been audited.

4 - Related Party Transactions

As described in Note 1, the Organization fulfills the operations of its major programs through the direct financial support of FLMZ. During the year ended December 31, 2016, the Organization provided Operating Grants to FLMZ as follows:

Direct funding	\$ 8,395,217
Payments to vendors	4,272,411
Purchases of supplies	870,912
In-kind support	<u>3,378,303</u>
	<u>\$ 16,916,843</u>

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

4 - Related Party Transactions (continued)

During the year ended December 31, 2016, the Organization also advanced funding of \$4,208,603 to FLMZ as a loan and forgave previous loan funding to FLMZ of \$206,667 as an operating grant. Total outstanding loans to FLMZ, recorded as Due from Affiliate on the Organization's statement of financial position, amounted to \$5,511,936 as of December 31, 2016.

The Organization is obligated under notes payable to certain members of the Board of Directors with a combined total outstanding principal balance of \$1,483,333 at December 31, 2016.

5 - Notes Payable

The Organization entered into several note agreements to assist in the timing of cash requirements related to several construction projects that FLMZ is a party to. Each of the notes is payable to individual constituents of the Organization or their related trusts. Each of these loans is unsecured.

The Organization's notes payable are comprised of the following at December 31, 2016:

Original Principal	Original Date	Payment Amount	Payment Frequency	Interest Rate	Maturity Date	Outstanding Principal
\$ 500,000	Apr 2014	\$ 33,333	Yearly	0.00%	Dec 2029	\$ 433,333
250,000	May 2014	16,667	Yearly	0.00%	Dec 2029	216,667
700,000	Jan 2015	140,000	Yearly	0.00%	Jul 2019	420,000
250,000	May 2015	16,667	Yearly	0.00%	May 2030	233,333
1,017,727	Jan 2016	1,017,727	Lump	0.00%	Jun 2018	1,017,727
500,000	Jun 2016	22,741	Quarterly	7.00%	Sept 2024	500,000
500,000	Jun 2016	22,741	Quarterly	7.00%	Sept 2024	500,000
250,000	Jul 2016	250,000	Lump	0.00%	Sept 2024	250,000
250,000	Jul 2016	250,000	Lump	0.00%	Sept 2024	250,000
250,000	Sept 2016	8,929	Quarterly	0.00%	Sept 2024	250,000
250,000	Sept 2016	8,929	Quarterly	0.00%	Sept 2024	250,000
250,000	Sept 2016	12,500	Quarterly	0.00%	Sept 2022	250,000
250,000	Oct 2016	250,000	Lump	0.00%	Sept 2024	250,000
						<u>\$ 4,821,060</u>

Future maturities on notes payable are scheduled as follows:

Year Ending December 31,	
2017	\$ 265,006
2018	1,462,732
2019	453,407
2020	322,409
2021	332,061
Thereafter	<u>1,985,445</u>
	<u>\$ 4,821,060</u>

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

6 - Operating Leases

The Organization leases office equipment under a non-cancelable operating lease. Lease expense under this lease was \$24,535 for the year ended December 31, 2016. Future minimum rentals are scheduled as follows:

<u>Year Ending December 31,</u>	
2017	\$ 24,535
2018	22,490

7 - Subsequent Events

Subsequent events have been evaluated through April 24, 2017, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization obtained the following notes payable:

<u>Original Principal</u>	<u>Original Date</u>	<u>Payment Amount</u>	<u>Payment Frequency</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$ 1,500,000	Feb 2017	\$ 68,222	Quarterly	Prime + 3.25%	Sept 2024
1,000,000	Feb 2017	11,905	Monthly	0.00%	Sept 2024
1,000,000	Feb 2017	15,586	Monthly	8.00%	Sept 2024
500,000	Feb 2017	17,857	Quarterly	0.00%	Sept 2024