



FAMILY LEGACY MISSIONS INTERNATIONAL

Financial Statements
With Independent Auditors' Report

December 31, 2018

FAMILY LEGACY MISSIONS INTERNATIONAL

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Family Legacy Missions International
Dallas, Texas

We have audited the accompanying financial statements of Family Legacy Missions International, which comprise the statement of financial position as of December 31, 2018, the statements of activities 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 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.

Board of Directors
Family Legacy Missions International
Dallas, Texas

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, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Family Legacy Missions International has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. This has had a material effect on the presentation of the December 31, 2018 financial statements. Our opinion has not been modified with respect to this matter.

As discussed in Note 10 to the financial statements, management identified adjustments pertaining to amounts previously reported in prior year financial statements. Accordingly, the net assets as of January 1, 2018, have been restated. Our opinion has not been modified with respect to this matter.

Capin Crouse LLP

Grapevine, Texas
November 27, 2019

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Financial Position

December 31, 2018

ASSETS:

Cash and cash equivalents	\$ 3,814,588
Note receivable	10,872,679
Investment in Lifeline Enterprises	466,795
Property and equipment–net	<u>200,862</u>

Total Assets \$ 15,354,924

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable	\$ 108,872
Accrued expenses	862,706
Notes payable	<u>10,622,686</u>
	<u>11,594,264</u>

Net Assets:

Net assets without donor restrictions:	
Undesignated	1,603,148
Net assets with donor restrictions	<u>2,157,512</u>
	<u>3,760,660</u>

Total Liabilities and Net Assets \$ 15,354,924

See notes to financial statements

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:			
Contributions	\$ 1,872,300	\$ 19,124,904	\$ 20,997,204
Gift-in-kind contributions	1,270,368	-	1,270,368
Other income	1,219,851	-	1,219,851
Total Support and Revenue	4,362,519	19,124,904	23,487,423
NET ASSETS RELEASED:			
Administrative assessments	2,328,857	(2,328,857)	-
Purpose restrictions	17,171,618	(17,171,618)	-
	19,500,475	(19,500,475)	-
EXPENSES:			
Program services	19,632,204	-	19,632,204
Support services:			
Management and general	2,836,128	-	2,836,128
Fundraising	360,993	-	360,993
	3,197,121	-	3,197,121
Total Expenses	22,829,325	-	22,829,325
Change in Net Assets	1,033,669	(375,571)	658,098
Net Assets, Beginning of Year:			
As previously stated	2,808,169	-	2,808,169
Prior period adjustments (Note 10)	(2,238,690)	2,533,083	294,393
As restated	569,479	2,533,083	3,102,562
Net Assets, End of Year	\$ 1,603,148	\$ 2,157,512	\$ 3,760,660

See notes to financial statements

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Cash Flows

December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 658,098
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	52,402
Debt forgiveness	(260,000)
Gifts received for long-term purposes	(2,882,596)
Changes in operating assets and liabilities:	
Accounts payable	(87,077)
Accrued expenses and other liabilities	601,110
Net Cash Used by Operating Activities	<u>(1,918,063)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(85,425)
Net Cash Used by Investing Activities	<u>(85,425)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Gifts received for long-term purposes	2,882,596
Net Cash provided by Financing Activities	<u>2,882,596</u>

Net Change in Cash and Cash Equivalents 879,108

Cash and Cash Equivalents, Beginning of Year 2,935,480

Cash and Cash Equivalents, End of Year \$ 3,814,588

See notes to financial statements

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

1. NATURE OF ORGANIZATION:

Family Legacy Missions International (FLMI) is incorporated in the state of Texas as a nonprofit organization. FLMI'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. FLMI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not a private foundation under Section 509(a) of the Code. Income for FLMI is primarily generated by cash contributions from individuals and other organizations.

FLMI fulfills 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 in Zambia and is not controlled by FLMI.

Lifeline Enterprises (Lifeline) is a for-profit Zambian corporation that is owned by FLMZ and in which FLMI has a fractional interest in. Lifeline owns all of the fixed assets that are used in FLMZ's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

FLMI maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings, and money market accounts. These accounts may, at times, exceed federally insured limits. As of December 31, 2018, FLMI had cash balances that exceeded federally insured limits by approximately \$3,500,000. FLMI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE RECEIVABLE

Note receivable is recorded at estimated net realizable value. An allowance has not been recorded on the note receivable as management believes the note is fully collectible. The note receivable is unsecured and bears no interest.

INVESTMENT IN LIFELINE ENTERPRISES

Investment in Lifeline Enterprises is carried at cost and represents FLMI's fractional interest in Lifeline Enterprises.

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT—NET

Property and equipment are capitalized at cost or, if donated, at fair value at the date of the gift. FLMI capitalizes purchases in excess of \$5,000 with lesser amounts expensed in the year purchased. Depreciation is calculated using the straight-line method over estimated useful lives, ranging from 3-5 years.

CLASSES OF NET ASSETS

The financial statement report amounts separately by class of net assets as follows:

Net assets without donor restrictions are those currently available at the discretion of the board for use in FLMI's operations and those resources invested in property and equipment.

Net assets with donor restrictions are those which are stipulated by donors for specific operating purposes and capital projects.

All contributions are considered available for general use unless specifically restricted by the donor.

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when made, which may be when cash or other assets are received or unconditionally promised. FLMI reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. FLMI reports gifts of property and equipment as general support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, FLMI reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the program services and supporting activities benefited. Depreciation is allocated based on square footage. Costs of other categories were allocated based on estimates of time and effort. FLMI incurred no joint costs as of December 31, 2018.

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. FLMI adopted the provisions of this new standard during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 3), and disclosures related to functional allocation of expenses were expanded (Note 7).

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects FLMI's financial assets as of the statement of financial position date, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year for various reasons.

Financial Assets:

Cash and cash equivalents	\$ 3,814,588
Note receivable	<u>10,622,686</u>
Financial Assets, at year-end	<u>14,437,274</u>
Less those not available for general expenditure within one year:	
Note receivable, not collectible within one year	<u>(10,622,686)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,814,588</u>

As part of FLMI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. FLMI has \$995,387 of restricted funds that are expected to be expended on operations in the next fiscal year.

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

4. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net at December 31, 2018, consist of:

Leasehold improvements	\$ 43,697
Furniture and equipment	207,523
Vehicles	<u>27,566</u>
	278,786
Less accumulated depreciation	<u>(119,184)</u>
	159,602
Construction in progress	<u>41,260</u>
	<u><u>\$ 200,862</u></u>

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

5. NOTES PAYABLE:

Notes payable are to individuals and consists of the following at December 31, 2018:

	Loan Date	Maturity Date	Original Principal	Principal Payment Frequency	Interest Rate	Payment Amount	Outstanding Principal
1	1/1/2018	9/30/2024	\$ 500,000	Quarterly	5.0%	\$ 26,316	\$ 500,000
2	1/1/2018	9/30/2024	250,000	Lump	4.0%	250,000	250,000
3	1/1/2018	12/31/2024	216,667	Yearly	0.0%	43,333	216,667
4	10/1/2017	9/30/2024	500,000	Quarterly	5.0%	26,316	500,000
5	5/3/2014	12/31/2029	216,667	Yearly	0.0%	16,667	216,667
6	9/30/2016	9/30/2024	250,000	Quarterly	0.0%	8,929	250,000
7	1/1/2018	9/30/2024	250,000	Quarterly	4.0%	13,158	250,000
8	10/1/2017	9/30/2024	200,000	Quarterly	4.0%	10,526	200,000
9	1/1/2018	9/30/2024	250,000	Lump	4.0%	250,000	250,000
10	10/1/2017	9/30/2024	1,500,000	Quarterly	Prime + 2.25%	78,947	1,500,000
11	6/30/2016	9/30/2024	500,000	Quarterly	7.0%	22,741	500,000
12	6/30/2016	9/30/2024	500,000	Quarterly	7.0%	22,741	500,000
13	1/1/2018	9/30/2024	250,000	Lump	4.0%	250,000	250,000
14	1/1/2018	9/30/2024	500,000	Quarterly	5.0%	26,316	500,000
15	4/16/2018	9/30/2024	500,000	Lump	5.0%	500,000	500,000
16	1/1/2018	9/30/2024	200,000	Lump	4.0%	200,000	200,000
17	1/1/2018	12/31/2024	433,333	Yearly	0.0%	86,667	433,333
18	10/1/2017	9/30/2024	100,000	Quarterly	4.0%	5,263	100,000
19	1/1/2018	7/1/2021	280,000	Yearly	0.0%	140,000	280,000
20	12/1/2017	9/30/2024	982,101	Monthly	8.0%	17,230	982,101
21	12/1/2017	9/30/2024	976,190	Monthly	8.0%	17,126	976,190
22	1/1/2018	1/15/2020	1,017,727	Lump	0.0%	1,017,728	1,017,728
23	1/1/2018	9/30/2022	250,000	Quarterly	4.0%	22,727	250,000
							<u>\$ 10,622,686</u>

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

5. NOTES PAYABLE, continued:

Future minimum payments for all note payables are:

Year Ending December 31,

2019	\$ 217,642
2020	1,382,972
2021	1,382,972
2022	1,473,881
2023	1,613,881
Thereafter	<u>4,551,338</u>
	<u><u>\$10,622,686</u></u>

Notes payable are not secured and \$4,421,624 of outstanding notes payable are due to members of the board of directors.

6. NET ASSETS WITH DONOR RESTRICTIONS:

As of December 31, 2018, net assets with donor restrictions are restricted for the following purposes:

Program activities in Zambia	\$ 995,387
Construction projects in Zambia	<u>1,162,125</u>
	<u><u>\$ 2,157,512</u></u>

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

7. NATURAL CLASSIFICATION OF EXPENSES:

For the year ended December 31, 2018, expenses have been allocated on a functional basis as follows:

	Program Services	General and Administrative	Fundraising	Total
Grant expense	\$ 12,990,433	\$ -	\$ -	\$ 12,990,433
Salaries and benefits	1,976,425	1,624,715	228,305	3,829,445
Travel expenses	2,439,505	119,618	2,254	2,561,377
Interest expense	549,872	-	-	549,872
Shipping costs	461,700	13,257	-	474,957
Rent expense	320,722	90,901	-	411,623
Bank charges and fees	-	332,889	-	332,889
Marketing and advertising	120,372	26,880	123,362	270,614
Equipment	206,204	43,197	-	249,401
Professional fees	74,043	260,086	7,072	341,201
Supplies	197,728	19,652	-	217,380
Clothes	173,369	-	-	173,369
Technology	3,776	143,567	-	147,343
Office expenses and supplies	9,341	83,239	-	92,580
Miscellaneous	19,476	51,774	-	71,250
Depreciation expense	36,681	15,721	-	52,402
Food expense	46,185	-	-	46,185
Repairs and maintenance	6,372	10,632	-	17,004
	\$ 19,632,204	\$ 2,836,128	\$ 360,993	\$ 22,829,325

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

8. RELATED PARTY TRANSACTIONS:

As described in Note 2, FLMI fulfills the operations of its major programs through the direct financial support of FLMZ. During the year ended December 31, 2018, FLMI provided grants to FMLZ as follows:

Direct program funding	\$ 9,621,831
Payments to vendors	1,789,218
Purchases of supplies	434,016
In-kind support	1,145,368
	<hr/>
	\$ 12,990,433
	<hr/>

Additionally, in prior years, FLMI funded FLMZ construction projects. As of December 31, 2018, FMLZ owes FLMI \$10,872,679 as it relates to this funding and is reported as a note receivable on the statement of financial position.

9. COMMITMENT AND CONTINGENCIES:

During the year ended December 31, 2018, a Company in Zambia filed a lawsuit against FMLI for breach of contract seeking damages for nonpayment, loss of business, and other damages. FLMI has filed a counterclaim for breach of contract and damages. While the amounts claimed and counterclaimed are significant, the ultimate liability or receivable cannot be determined based on the information available to date. Management believes that the ultimate outcome will be favorable.

FAMILY LEGACY MISSIONS INTERNATIONAL

Notes to Financial Statements

December 31, 2018

10. PRIOR PERIOD ADJUSTMENTS:

During the year ended December 31, 2018, FLMI reviewed its net asset classifications and determined that net assets with donor restrictions were understated and net assets without donor restrictions were overstated as of January 1, 2018. Additionally, FLMI determined that accrued expenses were understated and net assets without donor restrictions were overstated as of January 1, 2018. Also, it was determined that FLMI's Investment in Lifeline Enterprises and related net assets without donor restrictions were understated as of January 1, 2018. Prior period adjustments were made to correct these errors and had the following effect on previously reported balances:

	As Previously Stated	Restatement of Investment in Lifeline Enterprises	Restatement of Net Asset Classification	Restatement of Accrued Expenses	Restated
Net assets beginning of year, as restated					
Net assets without donor restrictions	\$ 2,808,169	\$ 466,795	\$(2,533,083)	\$ (172,402)	\$ 569,479
Net assets with donor restrictions	-	-	2,533,083	-	2,533,083
Total net assets	\$ 2,808,169	\$ 466,795	\$ -	\$ (172,402)	\$ 3,102,562
Statement of activities for the year ended December 31, 2017:					
Change in net assets	\$ 336,669	\$ 466,795	\$ -	\$ (172,402)	\$ 631,062

The effect of the prior period adjustment on the prior year change in net asset by class has not been disclosed, due to the inability to determine the amount.

11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 27, 2019, which represents the date the financial statement were available to be issued. Subsequent events after that date have not been evaluated.

Subsequent to year-end, \$500,000 of debt existing at December 31, 2018, was forgiven, and approximately \$3,500,000 of debt existing at December 31, 2018, was elected to be forgiven by creditors during calendar year 2019.