

FAMILY LEGACY MISSIONS INTERNATIONAL

Irving, Texas

Financial Statements

Year Ended December 31, 2014

FAMILY LEGACY MISSIONS INTERNATIONAL

Financial Statements

Year Ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Family Legacy Missions International (the "Organization"), a nonprofit organization, as of December 31, 2014, and the related 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 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, 2014, and the results of its operations 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
March 16, 2015

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Financial Position

December 31, 2014

ASSETS

Cash	\$ 3,595,355
Prepaid Expenses	12,627
Due from Affiliate	1,450,500
Property and Equipment	
Furniture	49,656
Equipment	5,624
Vehicle	42,278
Less: Accumulated depreciation	<u>(22,254)</u>
Total property and equipment	<u>75,304</u>
Total Assets	<u>\$ 5,133,786</u>

LIABILITIES AND NET ASSETS

Accounts Payable and Accrued Expenses	\$ 152,300
Notes Payable	<u>1,450,500</u>
Total Liabilities	<u>1,602,800</u>
Unrestricted Net Assets	
Undesignated net assets	1,523,202
Designated net assets	<u>2,007,784</u>
Total unrestricted net assets	<u>3,530,986</u>
Total Liabilities and Net Assets	<u>\$ 5,133,786</u>

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

FAMILY LEGACY MISSIONS INTERNATIONALStatement of Activities
Year Ended December 31, 2014

Changes in Unrestricted Net Assets:	
Revenues and Other Support	
Cash contributions	\$ 19,838,003
Program service revenues	655,939
In-kind contributions	1,377,087
Other income	<u>103</u>
Total revenues and other support	<u>21,871,132</u>
Expenses	
Program service expenses	18,976,922
Management and general expenses	808,772
Fundraising expenses	<u>1,275,736</u>
Total expenses	<u>21,061,430</u>
Change in Net Assets	809,702
Net Assets at Beginning of Year	<u>2,721,284</u>
Net Assets at End of Year	<u><u>\$ 3,530,986</u></u>

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

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Cash Flows
Year Ended December 31, 2014

Cash Flows From Operating Activities:	
Change in net assets	\$ 809,702
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	18,224
Donated stock	(830,522)
(Increase) decrease in assets:	
Prepaid expenses	4,228
Due from affiliate	(1,450,500)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>(7,770)</u>
Net cash used in operating activities	(1,456,638)
Cash Flows From Investing Activities:	
Proceeds from sale of stock	830,522
Purchase of property and equipment	<u>(23,831)</u>
Net cash provided by investing activities	<u>806,691</u>
Cash Flows From Financing Activities:	
Borrowings on notes payable	<u>1,450,500</u>
Change in Cash	800,553
Cash at Beginning of Year	<u>2,794,802</u>
Cash at End of Year	<u><u>\$ 3,595,355</u></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.

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, 2014.

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, 2014 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 2014, in-kind contributions of \$1,377,087 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.

Father's Heart - 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, 2014.

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, 2014 amounted to \$18,224.

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 tax 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, 2014, 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 2011 through 2014 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.

Subsequent Events - Subsequent events have been evaluated through March 16, 2015, which was the date the financial statements were available to be issued.

3 - 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, 2014:

Note payable in the original principal amount of \$700,000, bearing no interest, with annual principal payments of \$140,000 due on July 1st of each year until maturity in July 2019. The outstanding balance of this note was \$700,000 at December 31, 2014.

Note payable in the original principal amount of \$500,000, bearing no interest, with annual principal payments of \$33,333 due on December 1st of each year until maturity in December 2029. The outstanding balance of this note was \$500,000 at December 31, 2014.

Note payable in the original principal amount of \$250,000, bearing no interest, with annual principal payments of \$16,667 due on December 31st of each year until maturity in December 2029. The outstanding balance of this note was \$250,000 at December 31, 2014.

Note payable in the original principal amount of \$500 bearing no interest, with annual principal payments of \$33 due on December 31st of each year until maturity in December 2029. The outstanding balance of this note was \$500 at December 31, 2014.

Future maturities on notes payable are scheduled as follows:

<u>Year Ending December 31,</u>	
2015	\$ 190,033
2016	190,033
2017	190,033
2018	190,033
2019	190,033
Thereafter	<u>500,335</u>
	<u>\$ 1,450,500</u>

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

4 - Designated Funds

The Organization's management has set aside certain unrestricted net assets for various future expenditures. These designated net assets are available for the following purposes:

FLMZ Operating Grants	\$ 2,007,784
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5 - Operating Leases

The Organization leases office equipment under a non-cancelable operating lease. Lease expense under this lease was \$15,600 for the year ended December 31, 2014. Future minimum rentals are scheduled as follows:

<u>Year Ending</u> <u>December 31,</u>	
2015	\$ 14,300

6 - Related Party Transactions

The Organization is obligated under notes payable to certain members of the Board of Directors with a combined total outstanding principal balance of \$250,500 at December 31, 2014.

As described in Note 1, the Organization fulfils the operations of its major programs through the direct financial support of FLMZ. During the year ended December 31, 2014, the Organization provided Operating Grants to FLMZ as follows:

Direct funding	\$ 6,828,700
Payments to vendors	4,809,444
Purchases of supplies	685,514
In-kind support	<u>997,214</u>
	<u>\$ 13,320,872</u>

During the year ended December 31, 2014, the Organization also advanced funding of \$1,450,500 to FLMZ as a loan. This amount is recorded on the Organization's statement of financial position as Due from Affiliate as of December 31, 2014.