

FAMILY LEGACY MISSIONS INTERNATIONAL

Irving, Texas

Financial Statements

Year Ended December 31, 2017

FAMILY LEGACY MISSIONS INTERNATIONAL

Financial Statements

Year Ended December 31, 2017

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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, 2017, 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, 2017, 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
December 18, 2018

FAMILY LEGACY MISSIONS INTERNATIONAL
Statement of Financial Position
December 31, 2017

ASSETS

Cash	\$ 2,935,480
Due from Affiliate	10,872,679
Property and Equipment	
Furniture	132,331
Equipment	65,334
Leasehold improvements	36,956
Less: Accumulated depreciation	<u>(66,783)</u>
Property and equipment, net	<u>167,838</u>
Total Assets	<u>\$ 13,975,997</u>

LIABILITIES AND NET ASSETS

Accounts Payable and Accrued Expenses	\$ 295,143
Notes Payable	<u>10,872,685</u>
Total Liabilities	11,167,828
Unrestricted Net Assets	<u>2,808,169</u>
Total Liabilities and Net Assets	<u>\$ 13,975,997</u>

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

FAMILY LEGACY MISSIONS INTERNATIONAL

Statement of Activities

Year Ended December 31, 2017

Changes in Unrestricted Net Assets:

Revenues and Other Support

Contributions	\$ 21,942,144
Program service revenues	1,735,877
In-kind contributions	2,100,977
Other income, gains, and losses	<u>(14,990)</u>
Total revenues and other support	<u>25,764,008</u>

Expenses

Program service expenses	23,135,951
Management and general expenses	1,382,760
Fundraising expenses	<u>908,628</u>

Total expenses	<u>25,427,339</u>
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Change in Net Assets	336,669
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Net Assets at Beginning of Year	<u>2,471,500</u>
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Net Assets at End of Year	<u>\$ 2,808,169</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, 2017

	Program Service Expenses	Management and General Expenses	Fundraising Expenses	Total
Grants to domestic organizations	\$ 115,530	\$ -	\$ -	\$ 115,530
Grants to foreign organizations	16,463,920	-	-	16,463,920
Salaries and wages	1,893,707	582,713	349,790	2,826,210
Other employee benefits	47,459	14,604	8,766	70,829
Payroll taxes	140,764	43,314	26,001	210,079
Fees	211,364	79,039	39,041	329,444
Advertising and promotions	213,548	65,711	364,126	643,385
Office expenses	141,577	43,376	26,650	211,603
Information technology	339,734	174,544	20,384	534,662
Occupancy	126,761	39,006	23,414	189,181
Travel	3,030,439	-	36,321	3,066,760
Conferences, conventions, meetings	11,508	3,541	2,126	17,175
Interest	-	257,779	-	257,779
Depreciation	31,436	9,673	5,806	46,915
Insurance	-	33,406	-	33,406
Donation processing fees	334,619	25,719	-	360,338
Other	33,585	10,335	6,203	50,123
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 23,135,951</u>	<u>\$ 1,382,760</u>	<u>\$ 908,628</u>	<u>\$ 25,427,339</u>

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

FAMILY LEGACY MISSIONS INTERNATIONALStatement of Cash Flows
Year Ended December 31, 2017

Cash Flows From Operating Activities:	
Change in net assets	\$ 336,669
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	46,915
Loss on disposal of property and equipment	14,619
Donated stock	(628,533)
Loss on sale of stock	841
(Increase) decrease in assets:	
Due from affiliate	(5,360,743)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>(676,679)</u>
Net cash used in operating activities	<u>(6,266,911)</u>
Cash Flows From Investing Activities:	
Proceeds from sale of stock	627,692
Purchases of property and equipment	<u>(151,232)</u>
Net cash provided by investing activities	<u>476,460</u>
Cash Flows From Financing Activities:	
Payments on notes payable	(198,375)
Borrowings on notes payable	<u>6,250,000</u>
Net cash provided by financing activities	<u>6,051,625</u>
Change in Cash	261,174
Cash at Beginning of Year	<u>2,674,306</u>
Cash at End of Year	<u>\$ 2,935,480</u>
Supplemental Disclosures:	
Cash Paid for Interest	<u>\$ 196,622</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 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 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 recorded 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, 2017.

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, 2017 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 primarily 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 2017, in-kind contributions of \$2,100,977 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.

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

Leasehold improvements are depreciated over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Depreciation expense for the year ended December 31, 2017 amounted to \$46,915.

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, 2017, 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 2014 through 2017 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 nonprofit 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 \$42,572,436, in the country of Zambia through a wholly-owned subsidiary, Lifeline Enterprises, as of December 31, 2017:

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 \$4,392,973

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 \$7,567,092

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

Construction of the Summit at Legacy Lodge with a cost of \$9,603,356

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, 2017, the Organization provided operating grants to FLMZ as follows:

Direct funding	\$ 8,444,329
Payments to vendors	4,939,700
Purchases of supplies	1,062,853
In-kind support	2,017,038
	<u>\$ 16,463,920</u>

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

4 - Related Party Transactions (continued)

During the year ended December 31, 2017, the Organization also advanced funding of \$5,559,118 to FLMZ as a loan and forgave previous loan funding to FLMZ of \$198,375 as an operating grant. Total outstanding loans to FLMZ, recorded as Due from Affiliate on the Organization's statement of financial position, amounted to \$10,872,679 as of December 31, 2017. All loans to FLMZ are interest-free with no specific repayment provisions.

The Organization is obligated under notes payable to certain members of the Board of Directors with a combined total outstanding principal balance of \$4,921,625 at December 31, 2017.

5 - Notes Payable

The Organization has 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, 2017:

	Original Principal	Original Date	Payment Amount	Payment Frequency	Payment Start Date	Interest Rate	Maturity Date	Outstanding Principal
1	\$ 500,000	Apr 2014	\$ 33,333	Yearly	Dec 2015	0.00%	Dec 2029	\$ 433,333
2	250,000	May 2014	16,667	Yearly	Dec 2015	0.00%	Dec 2029	216,667
3	700,000	Jan 2015	140,000	Yearly	Jul 2015	0.00%	Jul 2019	280,000
4	250,000	May 2015	16,667	Yearly	May 2016	0.00%	May 2030	216,667
5	1,017,727	Jan 2016	1,017,727	Lump	Jun 2018	0.00%	Jun 2018	1,017,727
6	500,000	Jun 2016	22,741	Quarterly	Oct 2017	7.00%	Sept 2024	500,000
7	500,000	Jun 2016	22,741	Quarterly	Oct 2017	7.00%	Sept 2024	500,000
8	250,000	Jul 2016	250,000	Lump	Sept 2024	0.00%	Sept 2024	250,000
9	250,000	Jul 2016	250,000	Lump	Sept 2024	0.00%	Sept 2024	250,000
10	250,000	Sept 2016	8,929	Quarterly	Oct 2017	0.00%	Sept 2024	250,000
11	250,000	Sept 2016	8,929	Quarterly	Oct 2017	0.00%	Sept 2024	250,000
12	250,000	Sept 2016	12,500	Quarterly	Oct 2017	0.00%	Sept 2022	250,000
13	250,000	Oct 2016	250,000	Lump	Sept 2024	0.00%	Sept 2024	250,000
14	1,500,000	Feb 2017	78,947	Quarterly	Mar 2020	Prime + 2.25%	Sept 2024	1,500,000
15	1,000,000	Feb 2017	17,230	Monthly	Jan 2020	8.00%	Sept 2024	982,101
16	1,000,000	Feb 2017	17,126	Monthly	Jan 2020	8.00%	Sept 2024	976,190
17	500,000	Feb 2017	17,857	Quarterly	Oct 2017	0.00%	Sept 2024	500,000
18	500,000	Apr 2017	500,000	Lump	Sept 2024	0.00%	Sept 2024	500,000
19	500,000	May 2017	17,857	Quarterly	Oct 2017	0.00%	Sept 2024	500,000
20	100,000	Jun 2017	5,263	Quarterly	Mar 2020	4.00%	Sept 2024	100,000
21	500,000	Jun 2017	26,316	Quarterly	Mar 2020	5.00%	Sept 2024	500,000
22	200,000	Aug 2017	10,526	Quarterly	Mar 2020	4.00%	Sept 2024	200,000
23	250,000	Aug 2017	8,929	Quarterly	Oct 2017	0.00%	Sept 2024	250,000
24	200,000	Sept 2017	200,000	Lump	Sept 2022	0.00%	Sept 2022	200,000
								\$ 10,872,685

FAMILY LEGACY MISSIONS INTERNATIONAL
Notes to Financial Statements

5 - Notes Payable (continued)

Future maturities on notes payable are scheduled as follows:

<u>Year Ending December 31,</u>	
2018	\$ 1,757,381
2019	631,979
2020	1,397,463
2021	1,407,115
2022	1,604,961
Thereafter	<u>4,073,786</u>
	<u>\$ 10,872,685</u>

6 - Operating Leases

The Organization leases office facilities under a month-to-month operating lease agreement. Lease expense under this lease was \$189,181 for the year ended December 31, 2017.

The Organization leases office equipment under a non-cancelable operating lease. Lease expense under this lease was \$20,143 for the year ended December 31, 2017. As of December 31, 2017, future minimum rentals due under this lease agreement during the year ending December 31, 2018 are \$22,490.

7 - Subsequent Events

Subsequent events have been evaluated through December 18, 2018, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization executed several amendments to the notes payable. Below are the amended notes and terms:

	<u>Original Principal</u>	<u>Amended Date</u>	<u>Payment Amount</u>	<u>Principal Payment Frequency</u>	<u>Principal Payment Start Date</u>	<u>Interest Payment Start Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
1	\$ 500,000	Jan 2018	\$ 86,667	Yearly	Dec 2020	Dec 2020	0.00%	Dec 2024
3	700,000	Jan 2018	140,000	Yearly	Jul 2020	Jul 2020	0.00%	Jul 2021
4	250,000	Jan 2018	43,333	Yearly	Dec 2020	Dec 2020	0.00%	Dec 2024
5	1,017,727	Jan 2018	1,017,727	Lump	Jan 2020	Jan 2020	0.00%	Jan 2020
8	250,000	Jan 2018	250,000	Lump	Sept 2024	Mar 2020	4.00%	Sept 2024
9	250,000	Jan 2018	250,000	Lump	Sept 2024	Mar 2020	4.00%	Sept 2024
11	250,000	Jan 2018	13,158	Quarterly	Mar 2020	Mar 2020	4.00%	Sept 2024
12	250,000	Jan 2018	22,727	Quarterly	Mar 2020	Mar 2020	4.00%	Sept 2022
13	250,000	Jan 2018	250,000	Lump	Sept 2024	Mar 2020	4.00%	Sept 2024
17	500,000	Jan 2018	26,316	Quarterly	Mar 2020	Mar 2020	5.00%	Sept 2024
18	500,000	Apr 2018	500,000	Lump	Sept 2024	Mar 2020	5.00%	Sept 2024
19	500,000	Jan 2018	26,316	Quarterly	Mar 2020	Mar 2020	5.00%	Sept 2024
23	250,000	Jan 2018	13,158	Quarterly	Mar 2020	Mar 2020	4.00%	Sept 2024
24	200,000	Jan 2018	200,000	Lump	Sept 2024	Mar 2020	4.00%	Sept 2024