



FAMILY LEGACY MISSIONS INTERNATIONAL
AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2022 and 2021

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Family Legacy Missions International and Subsidiary
Dallas, Texas

Opinion

We have audited the accompanying consolidated financial statements of Family Legacy Missions International and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Family Legacy Missions International and Subsidiary as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Family Legacy Missions International and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

Family Legacy Missions International and Subsidiary has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). The amendments in this update require organizations that lease assets to recognize on the consolidated statement of financial position the assets and liabilities for the rights and obligations created by the leases. A lessee is required to recognize assets and liabilities for leases with terms of more than 12 months.

As discussed in Note 13, certain amounts in the consolidated financial statements as of and for the year ended December 31, 2021, were restated. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

Board of Directors
Family Legacy Missions International and Subsidiary
Dallas, Texas

Responsibilities of Management for the Consolidated Financial Statements, continued

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Legacy Missions International and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Family Legacy Missions International and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Legacy Missions International and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Irving, Texas
November 14, 2023

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Financial Position

	December 31,	
	2022	2021 (as restated)
ASSETS:		
Cash and cash equivalents	\$ 2,071,736	\$ 6,023,227
Accounts receivables and prepaid expenses	1,556,243	466,600
Grant receivable	266,461	-
Cash held for long-term purposes	589,806	499,168
Interest receivable from related party	1,034,702	521,455
Note receivable from related party	7,222,754	7,147,434
Operating lease right-of-use assets	1,068,155	-
Investment in Lifeline Enterprises	247,879	287,287
Property and equipment–net	484,805	298,290
	<u>\$ 14,542,541</u>	<u>\$ 15,243,461</u>
Total Assets	<u>\$ 14,542,541</u>	<u>\$ 15,243,461</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 179,283	\$ 174,519
Accrued expenses	1,097,947	514,695
Funds payable to related party	3,724	625,000
Operating lease liabilities	1,144,035	-
Notes payable	7,222,754	7,147,434
Total liabilities	<u>9,647,743</u>	<u>8,461,648</u>
Net assets:		
Net assets without donor restrictions	2,424,138	3,965,903
Net assets with donor restrictions	2,470,660	2,815,910
Total net assets	<u>4,894,798</u>	<u>6,781,813</u>
Total Liabilities and Net Assets	<u>\$ 14,542,541</u>	<u>\$ 15,243,461</u>

See notes to consolidated financial statements

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Activities

	Year Ended December 31,					
	2022			2021 (as restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 2,593,678	\$ 14,625,580	\$ 17,219,258	\$ 3,004,412	\$ 15,141,052	\$ 18,145,464
Gift-in-kind contributions	465,766	-	465,766	987,399	-	987,399
Impairment loss on investment in Lifeline Enterprises	(39,408)	-	(39,408)	(6,026)	-	(6,026)
Federal grant revenue	266,461	-	266,461	-	384,470	384,470
Interest revenue	513,247	-	513,247	159,338	-	159,338
Other revenue	181,946	-	181,946	71,915	-	71,915
Total Support and Revenue	3,981,690	14,625,580	18,607,270	4,217,038	15,525,522	19,742,560
NET ASSETS RELEASED:						
Administrative assessments	1,510,072	(1,510,072)	-	1,836,351	(1,836,351)	-
Purpose restrictions	13,460,758	(13,460,758)	-	12,555,234	(12,555,234)	-
	14,970,830	(14,970,830)	-	14,391,585	(14,391,585)	-
EXPENSES:						
Program services	16,847,662	-	16,847,662	15,628,983	-	15,628,983
Support services:						
Management and general	2,951,589	-	2,951,589	3,063,729	-	3,063,729
Fundraising	695,034	-	695,034	815,956	-	815,956
	3,646,623	-	3,646,623	3,879,685	-	3,879,685
Total Expenses	20,494,285	-	20,494,285	19,508,668	-	19,508,668
Change in Net Assets	(1,541,765)	(345,250)	(1,887,015)	(900,045)	1,133,937	233,892
Net Assets, Beginning of Year	3,965,903	2,815,910	6,781,813	4,503,831	1,681,973	6,185,804
Prior period adjustment (Note 13)	-	-	-	362,117	-	362,117
Net Assets, Beginning of Year (as restated)	3,965,903	2,815,910	6,781,813	4,865,948	1,681,973	6,547,921
Net Assets, End of Year	\$ 2,424,138	\$ 2,470,660	\$ 4,894,798	\$ 3,965,903	\$ 2,815,910	\$ 6,781,813

See notes to consolidated financial statements

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2022	2021 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,887,015)	\$ 233,892
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	37,946	49,377
Non-cash lease expense	75,880	-
Debt and interest forgiveness	-	(1,189,621)
Note receivable forgiveness	-	345,151
Gifts received for long-term purposes	(484,100)	(61,019)
Impairment loss on investment in Lifeline Enterprises	39,408	6,026
Changes in operating assets and liabilities:		
Accounts receivables and prepaid expenses	(1,089,643)	(843,310)
Grant receivable	(266,461)	-
Interest receivable from related party	(513,247)	(159,338)
Accounts payable	4,764	(208,641)
Accrued expenses	583,252	(691,081)
Funds payable to others	(621,276)	625,000
Net Cash Used by Operating Activities	(4,120,492)	(1,893,564)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(224,461)	(53,384)
Additions to note receivable from related party	(75,320)	(625,000)
Net Cash Used by Investing Activities	(299,781)	(678,384)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of notes payable	75,320	1,500,000
Gifts received for long-term purposes	484,100	61,019
Net Cash Provided by Financing Activities	559,420	1,561,019
Net Change in Cash, Cash Equivalents and Cash held for Long-term Purposes	(3,860,853)	(1,010,929)
Cash, Cash Equivalents and Cash held for Long-term Purposes, Beginning of Year	6,522,395	7,533,324
Cash, Cash Equivalents and Cash held for Long-term Purposes, End of Year	\$ 2,661,542	\$ 6,522,395
SUPPLEMENTAL DISCLOSURES:		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 1,131,312	\$ -
Loan and accrued interest forgiveness recognized as revenue	\$ -	\$ 1,189,621

See notes to consolidated financial statements

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

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, that would require consolidation.

Lifeline Enterprises (Lifeline) is a for-profit Zambian corporation that is owned by FLMZ and in which FLMI owns a fractional interest of 1.25%. Lifeline owns essentially all of the fixed assets that are used in FLMZ's operations.

In January 2020, FLMI formed a wholly-owned for-profit Texas corporation named Legacy Centre Capital, LLC (LCC). LCC was formed as part of a debt restructuring arrangement. All intercompany transactions and balances have been eliminated for consolidated financial statement purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

FLMI maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated 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 consolidated 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 consolidated financial statements to the reader.

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2022 and 2021, FLMI had cash balances on deposit that exceeded federally insured limits by approximately \$2,200,000 and \$5,900,000, respectively, including cash held for long-term purposes.

The following table provides a reconciliation of cash, cash equivalents and cash held for long-term purposes:

	December 31,	
	2022	2021
Cash and cash equivalents	\$ 2,071,736	\$ 6,023,227
Cash held for long-term purposes	589,806	499,168
	<u>\$ 2,661,542</u>	<u>\$ 6,522,395</u>

ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses consists primarily of approximately \$739,000 of grants advanced to FLMZ to apply against its future costs in 2023. Accounts receivable are stated at the amount management expects to be collected from the outstanding balance. As of December 31, 2022, management has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is considered necessary.

GRANT RECEIVABLE

Grant receivable consists of a tax credit claimed through the Employee Retention Credit (ERC) program offered through the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Note 7). Laws and regulations concerning government programs, including the ERC, established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act are complex and subject to varying interpretation. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge FLMI's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon FLMI. During 2023, FLMI received the full amount of the grant receivable in the amount of \$266,461.

CASH HELD FOR LONG-TERM PURPOSES

Contributions received that are restricted by donors for expenditures related to capital projects have been segregated from cash and cash equivalents, and shown in this category. The amounts for this purpose have also been recorded in net assets with donor restrictions.

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NOTE RECEIVABLE AND INTEREST RECEIVABLE FROM RELATED PARTY

The note receivable is payable by FLMZ and 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 the interest expense that FLMI incurs on the notes payable described in Note 5 is payable by FLMZ.

OPERATING LEASE–RIGHT-OF-USE ASSETS AND LIABILITIES

FLMI adopted Accounting Standards Update (ASU) 2016-02 (see recently adopted accounting standard below) and its related amendments as of January 1, 2022, which resulted in the recognition of operating lease right-of-use assets totaling \$1,068,155 as of December 31, 2022, as well as operating lease liabilities totaling \$1,144,035. FLMI elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of January 1, 2022, without restating prior-year amounts. The additional lease disclosures can be found in Note 8.

INVESTMENT IN LIFELINE ENTERPRISES

Investment in Lifeline Enterprises is carried at cost, less any permanent impairment, and represents FLMI's fractional interest in Lifeline Enterprises.

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.

FUNDS PAYABLE TO RELATED PARTY

During 2021, LCC borrowed \$1,500,000 for the purpose of providing funding for FLMZ. As of December 31, 2022 and 2021, \$3,724 and \$625,000, respectively, of these funds are payable to FLMZ.

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 for general operations under the direction of the board, and those resources invested in property and equipment.

Net assets with donor restrictions are those contributed with donor stipulations for specific purposes or programs, those with time restrictions, or those not currently available for use in FLMI's operations until commitments regarding their use have been fulfilled. All contributions are considered available for general use unless specifically restricted by the donor.

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

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 consolidated statements 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.

Gift-in-kind contributions

Donations of material, equipment, and other non-financial assets are recorded as support at their estimated fair value as of the date of donation.

FLMI recognizes donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills. FLMI would typically need to purchase these specialized services if the services were not donated. In addition, other individuals contribute time and services to FLMI to support accomplishment of its goals, and FLMI would not be as effective without these contributions. However, it is FLMI's policy not to record contributions from these other individuals because their services do not meet the criteria of skilled services required to be recorded.

Total gift-in-kind contributions are as follows:

	Year Ended December 31,	
	2022	2021
Food	\$ 379,310	\$ 845,399
Other	86,456	142,000
	<u>\$ 465,766</u>	<u>\$ 987,399</u>

FLMI recognized gift-in-kind contributions within revenue, which primarily included donated food used in FLMI's programs to provide healthy meals for vulnerable and orphaned children in Zambia. There were no donor restrictions on gift-in-kind contributions. Donated food items are valued based on independent valuations provided by the food distributors, and FLMI determined the accuracy of those valuations by comparing the price per meal to a study performed by a major food distributor. The price per meal was determined to be \$0.28 and \$0.27 in 2022 and 2021, respectively.

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the program services and supporting activities benefited. Depreciation and occupancy-related costs are allocated based on square footage. Costs of other categories were allocated based on estimates of time and effort. FLMI incurred no joint costs during the years ended December 31, 2022 and 2021.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases* (Topic 842). The amendments in this update require organizations that lease assets to recognize on the consolidated statement of financial position the assets and liabilities for the rights and obligations created by the leases. The amendments are effective for fiscal years beginning after December 15, 2021. FLMI adopted this update for the year ended December 31, 2022. Some of FLMI's contracts contain the right to control the use of property or assets and are therefore considered leases. FLMI elected to adopt the transition relief provisions from ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements* and recorded the impact of adoption as of January 1, 2022, without restating any prior-year amounts. FLMI also elected the accounting policy election to exclude short-term leases with lease terms of 12 months or less. The additional lease disclosures can be found in Note 8. There was no required cumulative effect adjustment to the opening balance of net assets.

As of January 1, 2022, FLMI adopted the provisions of the FASB ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 increases the transparency of gift-in-kind contributions for not-for-profit entities through enhancements to presentation and disclosure. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued consolidated financial statements. Additional disclosures with regards to gift-in-kind contributions were added.

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects FLMI's financial assets as of the consolidated statements 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.

	December 31,	
	2022	2021
Financial assets:		
Cash and cash equivalents, including restricted cash	\$ 2,661,542	\$ 6,522,395
Accounts receivable	811,608	433,107
Grant receivable	266,461	-
Interest receivable from related party	1,034,702	521,455
Note receivable from related party	7,222,754	7,147,434
Investment in Lifeline Enterprises	247,879	287,287
Financial assets, at year-end	12,244,946	14,911,678
Less those not available for general expenditure within one year:		
Donor restricted funds for construction	(589,806)	(499,168)
Investment in Lifeline Enterprises	(247,879)	(287,287)
Accounts receivable, not collectible within one year	(655,778)	(382,221)
Note and interest receivable, not collectible within one year	(8,257,456)	(7,668,889)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,494,027	\$ 6,074,113

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.

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	December 31,	
	2022	2021
Furniture and equipment	\$ 169,295	\$ 252,686
Leasehold improvements	-	43,697
Vehicles	49,977	49,977
	219,272	346,360
Less accumulated depreciation	(104,752)	(270,481)
Software in development	370,285	222,411
	\$ 484,805	\$ 298,290

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

5. NOTES PAYABLE:

Notes payable held under FLMI are to individuals and trusts, are unsecured, and consist of the following as of December 31, 2022:

	Loan Date	Maturity Date	Original Principal	Principal Payment Frequency	Interest Rate	Payment Amount	Outstanding Principal
1	1/1/2018	12/31/2024	216,667	At Maturity	0.0%	\$ 43,333	\$ 216,667
2	1/1/2022	1/1/2032	251,637	At Maturity	6.0%	11,379	251,637
3	1/1/2022	1/1/2032	290,350	At Maturity	6.0%	13,011	290,350
4	4/1/2021	3/31/2027	1,500,000	At Maturity	6.0%	1,500,000	1,500,000
5	2/15/2021	2/15/2031	500,000	At Maturity	4.5%	500,000	500,000
6	2/15/2021	2/15/2031	500,000	At Maturity	4.5%	500,000	500,000
							3,258,654

Notes payable held under LCC are to individuals and trusts, are unsecured, and consist of the following as of December 31, 2022:

	Loan Date	Maturity Date	Original Principal	Principal Payment Frequency	Interest Rate	Payment Amount	Outstanding Principal
1	6/1/2021	6/1/2026	500,000	At Maturity	10.0%	500,000	500,000
2	6/1/2021	6/1/2026	500,000	At Maturity	10.0%	500,000	500,000
3	6/1/2021	6/1/2026	500,000	At Maturity	10.0%	500,000	500,000
4	6/1/2021	6/1/2031	50,000	At Maturity	5.0%	1,250	50,000
5	6/1/2021	6/1/2031	83,000	At Maturity	5.0%	83,000	83,000
6	6/1/2021	6/1/2031	66,000	At Maturity	5.0%	66,000	66,000
7	6/1/2021	6/1/2031	433,333	At Maturity	5.0%	43,333	433,333
8	6/1/2021	6/1/2031	976,190	At Maturity	5.0%	24,405	976,190
9	6/1/2021	6/1/2031	672,576	At Maturity	5.0%	5,605	672,577
10	6/1/2021	6/1/2031	83,000	At Maturity	5.0%	83,000	83,000
11	6/1/2021	6/1/2031	100,000	At Maturity	5.0%	2,500	100,000
							3,964,100
							\$ 7,222,754

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

5. NOTES PAYABLE, continued:

Notes payable held under FLMI are to individuals and trusts, are unsecured, and consist of the following as of December 31, 2021:

	Loan Date	Maturity Date	Original Principal	Principal Payment Frequency	Interest Rate	Payment Amount	Outstanding Principal
1	1/1/2018	12/31/2024	216,667	At Maturity	0.0%	\$ 43,333	\$ 216,667
2	5/3/2014	12/31/2029	216,667	At Maturity	0.0%	16,667	216,667
3	9/30/2016	9/30/2024	250,000	At Maturity	0.0%	8,929	250,000
4	4/1/2021	3/31/2027	1,500,000	At Maturity	6.0%	1,500,000	1,500,000
5	2/15/2021	2/15/2031	500,000	At Maturity	4.5%	500,000	500,000
6	2/15/2021	2/15/2031	500,000	At Maturity	4.5%	500,000	500,000
							3,183,334

Notes payable held under LCC are to individuals and trusts, are unsecured, and consist of the following as of December 31, 2021:

	Loan Date	Maturity Date	Original Principal	Principal Payment Frequency	Interest Rate	Payment Amount	Outstanding Principal
1	6/1/2021	6/1/2026	500,000	At Maturity	10.0%	500,000	500,000
2	6/1/2021	6/1/2026	500,000	At Maturity	10.0%	500,000	500,000
3	6/1/2021	6/1/2026	500,000	At Maturity	10.0%	500,000	500,000
4	6/1/2021	6/1/2031	50,000	At Maturity	5.0%	1,250	50,000
5	6/1/2021	6/1/2031	83,000	At Maturity	5.0%	83,000	83,000
6	6/1/2021	6/1/2031	66,000	At Maturity	5.0%	66,000	66,000
7	6/1/2021	6/1/2031	433,333	At Maturity	5.0%	43,333	433,333
8	6/1/2021	6/1/2031	976,190	At Maturity	5.0%	24,405	976,190
9	6/1/2021	6/1/2031	672,576	At Maturity	5.0%	5,605	672,577
10	6/1/2021	6/1/2031	83,000	At Maturity	5.0%	83,000	83,000
11	6/1/2021	6/1/2031	100,000	At Maturity	5.0%	2,500	100,000
							3,964,100
							\$ 7,147,434

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Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

5. NOTES PAYABLE, continued:

Future minimum payments for all note payables are:

<u>Year Ending December 31,</u>	
2023	\$ -
2024	216,667
2025	-
2026	1,500,000
2027	1,500,000
Thereafter	<u>4,006,087</u>
	<u><u>\$ 7,222,754</u></u>

As of December 31, 2022 and 2021, \$66,000 and \$1,172,576, respectively, of outstanding notes payable are due to members of the board of directors. During the year ended December 31, 2021, \$345,151 of debt was forgiven and \$460,000 of accrued interest was forgiven by note holders.

6. PAYCHECK PROTECTION PROGRAM LOAN:

As part of the response to the impact of COVID-19, FLMI applied for a Paycheck Protection Program (PPP) Loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. FLMI was approved for a loan in the amount of \$384,470 on May 17, 2020. The PPP loan provided for potential loan forgiveness up to the full amount of the loan if FLMI overcame certain loan stipulations. As of December 31, 2021, FLMI had received official forgiveness of the loan. The amount of the recognized grant income is included in federal grant revenue with donor restrictions on the consolidated statement of activities.

7. EMPLOYEE RETENTION CREDIT:

FLMI claimed a tax credit of \$266,461 through the Employee Retention Credit program offered through the CARES Act. The credit is claimed in relation to qualified wages owed for the year ended December 31, 2021. The full amount of the credit was recognized as federal grant revenue without donor restrictions on the consolidated statement of activities.

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8. RIGHT-OF-USE ASSETS AND LIABILITIES:

FLMI leases office space under an operating lease agreement expiring in January 2028. The discount rate represents the risk-free discount rate using a period comparable with that of the individual lease term on the inception date of the lease. Monthly lease payments are fixed at \$18,503 through January 31, 2024, and increase each year thereafter up to \$20,477 on February 1, 2027. Nonlease components, such as payments required under the lease for common area maintenance, are not included in the measurement of the lease liability. These are expensed as incurred. FLMI also leases office equipment under an operating lease agreement expiring in December 2027. The discount rate represents the risk-free discount rate using a period comparable with that of the individual lease term on the inception date of the lease. Monthly lease payments are fixed at \$1,371.

Short-term leases with a term of 12 or fewer months are not reflected on the consolidated statement of financial position, and costs are expensed as incurred. Components of all right-of-use assets and lease liabilities are as follows at and for the year ended December 31, 2022:

Operating lease right-of-use assets	<u>\$ 1,068,155</u>
Operating lease liabilities	<u>\$ 1,144,035</u>
Operating lease costs	<u>\$ 75,880</u>
Weighted-average discount rate:	3.42%
Weighted-average remaining lease term:	4.64

Future minimum lease payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 219,986
2024	243,917
2025	249,838
2026	255,759
2027	261,680
Thereafter	<u>20,477</u>
	1,251,657
Less imputed interest	<u>(107,622)</u>
	<u>\$ 1,144,035</u>

FAMILY LEGACY MISSIONS INTERNATIONAL AND SUBSIDIARY

Notes to Consolidated Financial Statements

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9. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes:

	December 31,	
	2022	2021
Program activities in Zambia	\$ 1,880,854	\$ 2,316,742
Construction projects in Zambia	589,806	499,168
	\$ 2,470,660	\$ 2,815,910

10. FUNCTIONAL CLASSIFICATION OF EXPENSES:

For the year ended December 31, 2022, expenses have been allocated on a functional basis as follows:

	Program Services	Management and General	Fundraising	Total
Grant expense	\$ 14,113,351	\$ -	\$ -	\$ 14,113,351
Salaries and benefits	1,156,406	1,585,519	427,516	3,169,441
Food expense	-	22,541	-	22,541
Professional fees	-	321,682	106,334	428,016
Technology	2,850	297,630	7,010	307,490
Office expenses and supplies	5,598	236,152	2,201	243,951
Travel expenses	792,101	130,804	58,351	981,256
Supplies	38,210	-	-	38,210
Rent expense	86,057	50,200	7,171	143,428
Bank charges and fees	-	209,948	-	209,948
Miscellaneous	1,467	2,569	2,009	6,045
Shipping costs	105,393	-	-	105,393
Marketing and promotion	10,214	81,263	82,545	174,022
Depreciation and amortization expense	22,768	13,281	1,897	37,946
Interest expense	513,247	-	-	513,247
	\$ 16,847,662	\$ 2,951,589	\$ 695,034	\$ 20,494,285

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Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

10. FUNCTIONAL CLASSIFICATION OF EXPENSES, continued:

For the year ended December 31, 2021, expenses have been allocated on a functional basis as follows:

	Program Services	Management and General	Fundraising	Total
Grant expense	\$ 14,011,850	\$ -	\$ -	\$ 14,011,850
Salaries and benefits	1,077,669	1,574,182	482,484	3,134,335
Food expense	-	187	107,967	108,154
Professional fees	-	366,807	88,941	455,748
Technology	-	248,061	4,038	252,099
Office expenses and supplies	5,291	200,682	51,774	257,747
Travel expenses	226,295	25,719	34,594	286,608
Supplies	42,983	27,982	769	71,734
Rent expense	228,850	65,386	32,693	326,929
Bank charges and fees	-	267,443	-	267,443
Miscellaneous	1,387	131,533	7,758	140,678
Training expense	-	4,243	-	4,243
Marketing and promotion	94	79,681	-	79,775
Depreciation expense	34,564	9,875	4,938	49,377
Interest expense	-	61,948	-	61,948
	\$ 15,628,983	\$ 3,063,729	\$ 815,956	\$ 19,508,668

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11. RELATED PARTY TRANSACTIONS:

As described in Note 2, FLMI fulfills the operations of its major programs through the direct financial support of FLMZ. One FLMI board member and two FLMI officers are also FLMZ board members. During the years ended December 31, 2022 and 2021, FLMI provided grants to FLMZ as follows:

	Year Ended December 31,	
	2022	2021
Direct program funding	\$ 13,256,287	\$ 12,564,652
Construction funding	392,754	438,897
Note forgiveness	-	345,151
In-kind support	464,310	1,008,301
	<u>\$ 14,113,351</u>	<u>\$ 14,357,001</u>

Additionally, in prior years, FLMI funded FLMZ construction projects. As of December 31, 2022 and 2021, FLMZ owes FLMI \$7,222,754 and \$7,147,434, respectively, as it relates to this funding and this is reported as a note receivable on the consolidated statements of financial position. As of December 31, 2022 and 2021, interest receivable payable by FLMZ to FLMI totaled \$1,034,702 and \$521,455, respectively. During the years ended December 31, 2022 and 2021, FLMI also advanced \$1,395,110 and \$432,667, respectively, of funds to FLMZ to help fund operating expenses, which has been included in accounts receivables and prepaid expenses in the consolidated statements of financial position as of December 31, 2022 and 2021. As of December 31, 2022 and 2021, funds payable to FLMZ totaled \$3,724 and \$625,000, respectively.

FLMI received approximately \$312,000 and \$390,000, respectively, of contributions from board members during the years ended December 31, 2022 and 2021.

12. COMMITMENT AND CONTINGENCIES:

During the year ended December 31, 2018, a Company in Zambia filed a lawsuit against FLMI 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 AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

13. PRIOR PERIOD ADJUSTMENT:

The previously issued consolidated financial statements for the year ended December 31, 2021, included an error in the balance for notes receivable, interest receivable, funds payable to related party, investment in Lifeline Enterprises, and net assets with and without donor restrictions. These errors occurred during prior years. Accordingly, a prior period adjustment has been recorded to correct the errors. The effects of this adjustment on 2021 opening net assets, change in net assets and 2021 ending balances were as follows:

	As Previously Stated	Prior Period Adjustment	As Restated
January 1, 2020:			
Consolidated statement of activities::			
Net assets:			
Without donor restrictions	\$ 4,503,831	\$ 362,117	\$ 4,865,948
December 31, 2021:			
Consolidated statement of financial position:			
Assets:			
Accounts receivables and prepaid expenses	\$ 1,341,600	\$ (875,000)	\$ 466,600
Interest receivable from related party	\$ -	\$ 521,455	\$ 521,455
Note receivable from related party	\$ 5,647,434	\$ 1,500,000	\$ 7,147,434
Investment in Lifeline Enterprises	\$ 521,080	\$ (233,793)	\$ 287,287
Liabilities:			
Funds payable to related party	\$ -	\$ 625,000	\$ 625,000
Net assets:			
Net assets without donor restrictions	\$ 3,406,668	\$ 559,235	\$ 3,965,903
Net assets with donor restrictions	\$ 3,087,483	\$ (271,573)	\$ 2,815,910

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Notes to Consolidated Financial Statements

December 31, 2022 and 2021 (as restated)

13. PRIOR PERIOD ADJUSTMENT, continued:

	As Previously Stated	Prior Period Adjustment	As Restated
Year ended December 31, 2021:			
Consolidated statement of activities:			
Support and revenue:			
Interest revenue	\$ -	\$ 159,338	\$ 159,338
Net assets released:			
Purpose restrictions (without donor restrictions)	\$ 12,283,661	\$ 271,573	\$ 12,555,234
Purpose restrictions (with donor restrictions)	\$ (12,283,661)	\$ (271,573)	\$ (12,555,234)
Change in net assets:			
Without donor restrictions	\$ (1,097,163)	\$ 197,118	\$ (900,045)
With donor restrictions	\$ 1,405,510	\$ (271,573)	\$ 1,133,937
Consolidated statement of cash flows:			
Cash flows from operating activities:			
Change in net assets	\$ 308,347	\$ (74,455)	\$ 233,892
Debt and interest forgiveness	\$ (904,621)	\$ (285,000)	\$ (1,189,621)
Loss on investment in Lifeline Enterprises	\$ (227,767)	\$ 233,793	\$ 6,026
Interest receivable from related party	\$ -	\$ (159,338)	\$ (159,338)
Accrued expenses	\$ (901,081)	\$ 210,000	\$ (691,081)
Funds payable to others	\$ -	\$ 625,000	\$ 625,000
Cash flows from investing activities:			
Additions to note receivable from related party	\$ -	\$ (625,000)	\$ (625,000)
Cash flows from financing activities:			
Issuance of notes payable	\$ 1,425,000	\$ 75,000	\$ 1,500,000

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Notes to Consolidated Financial Statements

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14. FINANCIAL CONDITION:

As FLMI fulfills the operations of its major programs through the direct financial support of ministries in Zambia, FLMI is affected by changes in Zambian national and regional economies, governmental policies, and geopolitical, public health and other conditions and events in Zambia. For the year ended December 31, 2022, FLMI reported a net loss on its consolidated statement of activities in the amount of \$1,887,015. Such loss was attributable to the lingering effects and impact of the COVID-19 pandemic on operations and financial results, and increased grant costs due to significant fluctuations in the currency exchange rate.

The COVID-19 pandemic resulted in a two-year interruption in 2020 and 2021 of FLMI's annual Camp Life program, the primary vehicle for acquiring sponsorship support. As a result of such interruption, support from sponsorship gifts declined by approximately \$1,258,000 from \$13,328,000 in 2021 to \$12,069,000 in 2022. Cost savings in 2022 at both FLMI and FLMZ offset in part the shortfall in sponsorship gifts. FLMI resumed its CampLife program in 2022 and expanded the program in 2023 to accommodate increasing interest and participation.

Zambia's monetary policies and the international community's response to the 2022 agreement with the International Monetary Fund (IMF) to restructure Zambia's national debt with a 38-month loan of \$1.3 billion resulted in a 13.4% devaluation of the U.S. dollar against the kwacha in 2022. As a result, FLMI's grant costs related to direct financial support of FLMZ increased in 2022 by approximately \$1,083,000, in direct proportion to the dip in the currency exchange rate at the time of funding, from an average kwacha rate of 18.65 in 2021 to 16.98 in 2022. In 2023, the U.S. dollar has strengthened against the kwacha, as the weighted average currency exchange rate from January through September 2023 has risen to 19.31.

Because FLMI monitors carefully the fluctuations in the currency exchange rate, FLMI, to mitigate risk, advances grant funds to FLMZ for its future use during periods when the currency exchange rate favors the U.S. dollar. As of December 31, 2022, FLMZ had set aside \$739,000 of such funds for use in 2023. These funds are included in accounts receivable and prepaid expenses in the consolidated statements of financial position.

Management has implemented during Q2 2023 a cost containment plan, reducing FLMI administrative costs by 10% and FLMZ grant costs by more than 5%. Management intends to incorporate such plans into the 2024 financial plan and, if deemed necessary, is committed to instituting more stringent cost containment measures during the year.

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 14, 2023, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.