

Child Legacy International, Inc.

And Related Entity

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

December 31, 2015

**(with comparative summarized financial information
as of and for the year ended December 31, 2014)**

(with Independent Auditor's Report Thereon)

DARSHAN WADHWA & JOHN LEAVINS
Certified Public Accountants
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Independent Auditors' Report

The Board of Directors
Child Legacy International, Inc.:

We have audited the accompanying consolidated financial statements of Child Legacy International, Inc. and related entity, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We did not audit the financial statements of the related entity Child Legacy International an NGO organized in the Nation of Malawi, in which the organization had an equity interest of 100% as of December 31, 2015 which statements reflect total assets of \$1,124,984 and revenues of \$1,089,006 Those statements were audited by other auditors in Accordance with International Standards on Auditing restated to comply with U.S. generally accepted accounting principles. Our opinion, insofar as it relates to the amounts included for the related entity, is based solely on the report of the other auditors.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Child Legacy International, Inc. and its related entity as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

Information for the year ended December 31, 2014, is presented for comparison purposes only and was derived from the financial statements presented for that year on which an unqualified opinion dated October 19, 2015 was expressed.

Darshan Wadhwa & John Klemm
CPA'S

April 28, 2016

Child Legacy International, Inc. and Related Entity
Consolidated Statement of Financial Position

For the Year Ended December 31, 2015

(with summarized financial information for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents – (Note A)	\$ 562,670	\$632,808
Accounts and grants receivable	374,055	234,355
Supplies Inventory	36,708	43,943
Investments – (Note A)	-0-	33,504
Fixed Assets – (Note D)	<u>1,400,194</u>	<u>1,076,121</u>
Total Assets	<u>\$ 2,373,627</u>	<u>\$ 2,020,731</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 34,265	\$ 76,212
Credit Cards Payable – (Note A)	<u>84,567</u>	<u>71,235</u>
Total Liabilities	<u>118,832</u>	<u>147,447</u>
Net Assets		
Unrestricted	1,884,795	1,676,196
Temporarily Restricted	<u>370,000</u>	<u>197,088</u>
Total Net Assets	<u>2,254,795</u>	<u>\$ 1,873,284</u>
Total Liabilities and Net Assets	<u>\$ 2,373,627</u>	<u>\$ 2,020,731</u>

See accompanying notes to consolidated financial statements.

Child Legacy International, Inc. and Related Entity
Consolidated Statement of Activities
For the Year Ended December 31, 2015

(with summarized financial information for the year ended December 31, 2014)

	2015			
	Unrestricted	Temporarily Restricted	Total	2014
Operating revenue:				
Contributions and private grants	\$2,675,124	\$ 370,000	\$3,045,124	\$2,754,095
Foreign Exchange and investments	<u>4,982</u>	<u>-0-</u>	<u>4,982</u>	<u>8,221</u>
Total operating revenues	2,680,106	370,000	3,050,106	2,762,316
Net assets released from restrictions	<u>120,000</u>	<u>(120,000)</u>	<u>-0-</u>	<u> </u>
Total Revenue	<u>2,800,106</u>	<u>250,000</u>	<u>3,050,106</u>	<u>2,762,316</u>
Operating Expenses:				
Program services:				
Malawi-Program activities	148,022		148,022	117,782
Malawi- Pump and well activities	261,078		261,078	161,463
Malawi-Capital activities	69,903		69,903	57,345
Malawi-Other activities	133,769		133,769	132,511
Malawi-Hospital activities	1,553,723		1,553,723	1,088,783
Zimbabwe-Program activities	75,170		75,170	70,995
USA-Program Expenses	<u>54,276</u>		<u>54,276</u>	<u>33,621</u>
Total program services	<u>2,295,941</u>		<u>2,295,941</u>	<u>1,662,500</u>
Supporting Services:				
Management and general	276,113		276,113	271,131
Fundraising	<u>96,541</u>		<u>96,541</u>	<u>69,215</u>
Total Supporting services	<u>372,654</u>		<u>372,654</u>	<u>340,346</u>
Total Expenses	<u>2,668,595</u>	<u>-0-</u>	<u>2,668,595</u>	<u>2,002,846</u>
Excess of operating revenue over expenses	131,511	250,000	381,511	759,470
Non-operating activities				
Foreign currency exchange (loss) gain -(Note A)	-0-	-0-	-0-	(45,511)
Net assets at beginning of year	1,753,284	120,000	1,873,284	1,159,325
Net assets at end of year	<u>\$1,884,795</u>	<u>\$370,000</u>	<u>\$2,254,795</u>	<u>\$1,873,284</u>

See accompanying notes to consolidated financial statements

Child Legacy International, Inc. and Related Entity
Consolidated Statement of Cash Flows

For the Year Ended December 31, 2015

(with summarized financial information for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash Flows from operating activities:		
Increase in net assets	\$ 381,511	\$713,962
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation	72,528	58,884
Accounts Receivable	(139,700)	(59,150)
Inventory	7,235	-0-
Accounts Payable	(28,615)	(4,373)
Exchange difference (note A)	<u>-0-</u>	<u>45,511</u>
Net cash provided by operating activities	<u>292,959</u>	<u>139,381</u>
Cash Flows from Investing Activities:		
Purchases of fixed assets – (Note D)	(396,601)	(521,952)
Investments	<u>33,504</u>	<u>19,981</u>
Net cash from investing activities	<u>(363,097)</u>	<u>(541,933)</u>
Cash Flows from Financing Activities:	-0-	-0-
Net Change in cash and cash equivalents	(70,138)	(212,901)
Cash and cash equivalents at beginning of year	<u>632,808</u>	<u>419,907</u>
Cash and cash equivalents at end of year	\$ <u>562,670</u>	\$ <u>632,808</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of functional Expenses
For the year ended December 31, 2015
(With summarized financial information for the year ended December 31, 2014)

	Malawi-Program Activities	Pumps/Well Repair Malawi	Malawi Capital	Malawi Other Activities	Malawi Hospital	Zimbabwe (Program Expenses)	Boerne (Program Expenses)	Administration USA	Administration Malawi	Fund Developmen t	2015 Total	2014 Total
Program Costs-Malawi	97,518	222,899			1,072,702	\$ 75,170				\$	1,468,289	\$ 842,625
Payroll Expenses	38,520	32,100			430,142			109,141	12,840	\$ 19,260	642,003	637,292
Travel and Meetings - Other				56,522			13,939	5,222	200	15,378	91,261	76,524
Contract Services				3,592	4,404		22,167	46,709	15	8,781	85,668	44,189
Depreciation			69,903					2,625			72,528	58,884
Gasoline	2,285	17		27,594	11,578		30	4,080	5,399	228	51,211	40,545
Fundraising Fees							450	294		41,290	42,034	-
Administration - Other				516			5,179	28,287		2,054	36,036	48,026
Business Expenses - Other		269			3,168		499	17,995			21,931	14,333
Facilities and Equipment - Other							7,235	13,207			20,442	33,728
Other Costs				6,637	2,595				231	9,001	18,464	23,243
Equip Rental and Maintenance	1,372			11,012	3,776				1,886		18,046	30,397
Rent, Parking, Utilities	2,890	2,890		2,890	3,440				2,890		15,000	16,908
Other Types of Expenses - Other	2,144			4,581			258	4,900	414		12,297	11,029
Telephone, Telecommunications	1,357	1,405		1,774	2,178				2,193		8,907	11,198
Expense Allowance Director				8,887					6		8,893	16,541
Travel	11	81			7,701						7,793	8,043
Medical	385			50	3,778			869	1,573		6,655	34,220
Business Meals	117			1,636		686	3,525	116	549		6,629	6,114
Insurance	1,244	1,244		1,244	1,244				1,244		6,220	4,358
Printing and Copying		155		1,827	2,552				1,273		5,807	3,535
Supplies	161			1,601	2,802				484		5,048	16,016
Cash Awards and Grants				2,491			500	669			3,660	3,109
Volunteer Program Activities							3,333				3,333	2,379
Accounting Fees									3,214		3,214	-
Utilities									1,943		1,943	679
Banking Fees				523					1,252		1,775	12,420
Memberships and Dues					1,281						1,281	75
Storage Facility								840			840	440
Books, Subscriptions, Reference				90					483		573	444
Miscellaneous expense				24	364						388	-
Security				260					76		336	4,850
Postage, Mailing Service	18	18		18	18				18		90	340
Bad Debts											-	362
Total Expense	\$ 148,022	\$ 261,078	\$ 69,903	\$ 133,769	\$ 1,553,723	\$ 75,170	\$ 54,276	\$ 238,363	\$ 37,750	\$ 96,541	\$ 2,668,595	\$ 2,002,846

Child Legacy International, Inc. and Related Entity
Notes to Consolidated Financial Statement
December 31, 2015
(with summarized financial information as of and
for the year ended December 31, 2014)

Note A - Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Child Legacy International, Inc. hereinafter referred to as "Child Legacy" or the Organization is a non-profit corporation formed in the State of Texas on February 6, 1992 as a nonprofit corporation or exempt entity. Child Legacy International, Inc. is recognized as an exempt organization, as described in the Internal Revenue Code Section 501(c)(3). The organization provides human services in the form of medical services, training, water wells, farming, and fishing in the nation of Malawi through its related entity NGO incorporated in the nation of Malawi.

Basis of Accounting

The financial statements of Child Legacy International, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standard Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, Child Legacy is required to report 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. Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation. Temporarily restricted net assets include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

There were no permanently restricted assets as of December 31, 2015 and 2014. There were \$ 1,884,795 in unrestricted net assets and \$370,000 in temporarily restricted net assets at December 2015. There were \$ 1,676,196 in unrestricted net assets and \$197,088 restricted net assets at December 31, 2014.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Organization and its related entity, Child Legacy International (Malawi). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses and the allocation of expenses among various functions. Accordingly, actual results could differ from those estimates.

Use of audited financial statements

The organization has engaged an independent accounting firm in Lilongwe – Malawi to audit the financial statements of its operations in Malawi. This audit was prepared in accordance with International Standards on Auditing and encompassed 60% of the consolidated net worth of the organization at December 31, 2015 and 57% at December 31, 2014. The reports were restated from International Standards on Auditing and the use of fund accounting in order to comply with generally accepted accounting principles as generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the organization considers all short-term debt securities purchased with a maturity of 3 months or less to be cash equivalents. At December 31, 2015 and 2014 all cash was in demand deposits and money market accounts.

Investments

The organization's investments consist of public equities in the form of public equities and fixed income in the form of bonds and mutual funds. The organization's investment strategy comprises investments principally in publically traded mutual funds.

Donations Receivable

Donations and grants receivable are recorded when commitments are received. At December 31, 2015 donations and grants receivable were \$374,055 and in 2014 donations and grants receivable were \$234,355.

Investments and Investment Income (Loss)

Investments in trading securities are carried at market. Investment income, including unrealized gains and losses, are recognized in the period incurred. Investment gains of \$4,982 were recognized for the year ended December 31, 2015 and investment gains of \$8,221 were recognized for the year ended December 31, 2014.

Foreign Currency

Child Legacy has significant investments in the nation of Malawi including cash deposits with Malawi financial institutions not insured by the United States Federal Deposit Insurance Corporation and subject to exchange rate profits and losses. No gains or losses on the exchange difference were recognized in the year 2015. Losses recognized on retranslation for the year 2014 were \$45,511.

Foreign Political Risk

The organization has invested approximately 60% of its net assets and the majority of its operations in the Country of Malawi. Political instability is common in many African nations and even seemingly stable democratic countries can experience financial shock due to political instability caused by regime changes or policy shifts. The organization has no reason to believe its assets and operations are at risk from foreign political risk at this time or in the near future except for exchange differences which are often experienced due to high inflation in Malawi described in the note captioned as Foreign Currency.

Fixed Assets and Depreciation

The organization's equipment is recorded at cost and depreciated over the straight-line method for three to fifteen years. Maintenance and repairs are charged to expense as incurred including prepaid maintenance agreements.

Contributed Services

The organization receives a substantial amount of services donated by volunteers. The organization records contributed services if they meet the criteria for recognition under SFAS No. 116, Accounting for Contributions Received and Contributions Made.

Goods in Kind - The organization receives goods in kind donated by donors. The organization records goods in kind if they meet the criteria for recognition under SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received were recorded in the amount of \$395,007 in 2015 and \$398,399 in 2014.

Credit Lines and Trade Payables – The organization accrues trade payables as liabilities are incurred and uses two credit cards for most of its trade credit. The total credit card balance was \$84,567 at December 31, 2015.

Income Taxes

The organization is exempt from federal income taxes under various provision of the Internal Revenue Code pertaining to exempt organizations. The organization is subject to federal income tax on unrelated business income under section 511 of the Internal Revenue Code. The organization had no unrelated business income for the period ending December 31, 2015.

Fair Value Measurements

The organization defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non – performance risk including the organization’s own credit risk.

The fair values of all assets recognized or disclosed at fair value are classified based on the lowest level of significant inputs. The organization used the following methods to determine fair value:

Level 1 – Pricing inputs include quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived from or corroborated by observable market data as of the reporting date.

Level 3 – Pricing inputs include those that are unobservable for the asset or liability and reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability. The inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

At December 31, 2015 and 2014 the summary of the inputs used are as follows:

Level 1 –	<u>2015</u>	<u>2014</u>
Money Market funds	\$ <u>-0-</u>	<u>\$33,504</u>
Total	\$ <u>-0-</u>	<u>\$,33,504</u>

Note B - Related Party Transactions

The organization had no significant related party transactions beyond expense advances to or expenses payable to officers and/or employees incurred in the ordinary course of business.

Note C – Temporarily Restricted Net Assets

Pledges in the amount of \$ 370,000 and \$ 197,088 were outstanding at December 31, 2015 and 2014 respectively. Restrictions are removed as payments are made on the pledges or grants and the purpose for the donation has been satisfied. Management receives funds for various activities from donors and uses them for the activities from separate bank accounts and for other activities if excess funds remain or funds the activity with unrestricted funds if insufficient funds are available.

Note D – Property

Property consists of the following:

	<u>2015</u>	<u>2014</u>
Total Property at Cost January 1	\$1,774,724	\$1,296,808
Purchases	397,685	477,916
Disposals	(1,084)	-0-
Total Property at Cost December 31	\$2,171,325	\$1,774,724
Depreciation Expense	(72,528)	(58,884)
Accumulated Depreciation	(184,744)	(125,860)
Property at book value	\$1,914,053	\$1,589,980
Exchange Difference	(513,859)	(513,859)
Net Books less Exchange Difference	<u>\$1,400,194</u>	<u>\$ 1,076,121</u>

Depreciation expense recorded for the year ended December 31, 2015 and 2014 was \$72,528 and \$58,884 respectively.

Note E - Lease Payable

The organization leases office space in Boerne Texas for the sum of \$950 per month. The lease expiration date is February 1, 2017.

Following are estimated annual lease payments on this property under this lease agreement:

Year ending December 31:

2016	\$	11,400
2017	\$	950
Total minimum lease payments	\$	12,350
Less amount representing interest		-0-
Present value of net minimum lease	\$	12,350

Note F – Other Significant Matters

In early 2013 the organization entered into a Clinical Coverage and Health Training Agreement with Baylor College of Medicine. The agreement provided for the provision of physician coverage and training experiences at the organization's Malawi facility to provide clinical services to the local populace and training for the providers and to augment education in obstetrics and gynecology. The agreement required best efforts by the organization to raise sufficient funds to complete the construction, equipping and staffing of the Malawi facility and to fund those costs and expenses of the faculty and learners that were not covered by the funds provided by Baylor College of Medicine. The agreement concluded in November 2015. No further activity is contemplated at this time.

Note G – Subsequent Events

Management has evaluated subsequent events through April 28, 2016, the date on which the financial statements were available to be issued. No subsequent events were identified that would require disclosure or adjustment to the financial statements.