

Child Legacy International, Inc.

And Related Entity

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

December 31, 2016

(with comparative summarized financial information
as of and for the year ended December 31, 2015)

(with Independent Auditor's Report Thereon)

DARSHAN WADHWA & JOHN LEAVINS
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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, 2016, 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, 2016 which statements reflect total assets of \$1,445,877 and revenues of \$1,316,434 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, 2016, 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, 2015, is presented for comparison purposes only and was derived from the financial statements presented for that year on which an unqualified opinion dated April 28, 2016 was expressed.

As described in Note F, Child Legacy International, Inc. did not recognize the foreign currency exchange loss of \$320,804 for the year ended December 31, 2015. Child Legacy International, Inc. has restated its 2015 financial statements for the correction of this misstatement. Our opinions on the 2016 and 2015 financial statements are not modified with respect to this matter.

Ravshan Wadhwa +
John Kearns, CPA'S

April 28, 2017

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

For the Year Ended December 31, 2016

(with summarized financial information for the year ended December 31, 2015)

ASSETS	<u>2016</u>	<u>2015</u> (Restated)
Cash and cash equivalents – (Note A)	\$ 644,006	\$562,670
Accounts and grants receivable	55,066	374,055
Supplies Inventory	57,811	36,707
Investments – (Note A)	6,889	-0-
Fixed Assets – (Note D)	<u>1,361,155</u>	<u>1,079,390</u>
Total Assets	<u>\$ 2,124,927</u>	<u>\$ 2,052,822</u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 66,048	\$ 34,265
Credit Cards Payable – (Note A)	<u>101,354</u>	<u>84,566</u>
Total Liabilities	<u>167,402</u>	<u>118,831</u>
Net Assets		
Unrestricted	1,909,525	1,563,991
Temporarily Restricted	<u>48,000</u>	<u>370,000</u>
Total Net Assets	<u>1,957,525</u>	<u>\$ 1,933,991</u>
Total Liabilities and Net Assets	<u>\$ 2,124,927</u>	<u>\$ 2,052,822</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, 2016

(with summarized financial information for the year ended December 31, 2015)

	2016			
	Unrestricted	Temporarily Restricted	Total	2015 (Restated)
Operating revenue:				
Contributions and private grants	\$2,374,512	\$ 48,000	\$2,422,512	\$3,045,124
Foreign Exchange and investments	<u>1,968</u>	<u>-0-</u>	<u>1,968</u>	<u>4,982</u>
Total operating revenues	2,376,480	48,000	2,424,480	3,050,106
Net assets released from restrictions	<u>370,000</u>	<u>(370,000)</u>	<u>-0-</u>	<u>-0-</u>
Total Revenue	<u>2,376,480</u>	<u>(322,000)</u>	<u>2,424,480</u>	<u>3,050,106</u>
Operating Expenses:				
Program services:				
Malawi-Program activities	125,396		125,396	202,298
Malawi- Pump and well activities	108,868		108,868	261,078
Malawi-Capital activities	96,220		96,220	69,903
Malawi-Other activities	98,357		98,357	133,769
Malawi-Hospital activities	1,414,350		1,414,350	1,553,723
Zimbabwe-Program activities	<u>87,782</u>		<u>87,782</u>	<u>75,170</u>
Total program services	<u>1,930,973</u>		<u>1,930,973</u>	<u>2,295,941</u>
Supporting Services:				
Management and general	307,907		307,907	276,113
Fundraising	<u>112,299</u>		<u>112,299</u>	<u>96,541</u>
Total Supporting services	<u>420,206</u>		<u>420,206</u>	<u>372,654</u>
Total Expenses	<u>2,351,179</u>	<u>-0-</u>	<u>2,351,179</u>	<u>2,668,595</u>
Excess of operating revenue over expenses	25,301	(322,000)	73,301	381,511
Non-operating activities				
Foreign currency exchange (loss) gain -(Note A)	(49,767)	-0-	(49,767)	(320,804)
Net assets at beginning of year	1,563,991	370,000	1,933,991	1,873,284
Net assets at end of year	<u>\$1,539,525</u>	<u>\$48,000</u>	<u>\$1,957,525</u>	<u>\$1,933,991</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, 2016

(with summarized financial information for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u> (Restated)
Cash Flows from operating activities:		
Increase in net assets	\$ 23,534	\$ 60,707
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation	96,220	72,528
Accounts Receivable	318,989	(139,700)
Inventory	(21,103)	7,235
Accounts Payable	48,571	(28,615)
Exchange difference (note A)	<u>49,767</u>	<u>320,804</u>
Net cash provided by operating activities	<u>515,978</u>	<u>292,959</u>
Cash Flows from Investing Activities:		
Purchases of fixed assets – (Note D)	(427,789)	(396,601)
Investments	<u>(6,853)</u>	<u>33,504</u>
Net cash from investing activities	<u>(434,642)</u>	<u>(363,097)</u>
Cash Flows from Financing Activities:	-0-	-0-
Net Change in cash and cash equivalents	(81,336)	(70,138)
Cash and cash equivalents at beginning of year	<u>562,670</u>	<u>632,808</u>
Cash and cash equivalents at end of year	<u>\$ 644,006</u>	<u>\$ 562,670</u>

See accompanying notes to consolidated financial statements.

Child Legacy International, Inc.
 Consolidated Statement of functional Expenses
 For the year ended December 31, 2016
 (With summarized financial information for the year ended December 31, 2015)

	Malawi-Program Activities	Pumps/Well Malawi	Malawi Capital	Malawi Other Activities	Malawi Hospital	Zimbabwe (Program Expenses)	Administration USA	Administration Malawi	Fund Development	2016 Total	2015 Total
Program Costs-Malawi											
Payroll Expenses	45,988	78,176			910,760	\$ 87,649	79,965	32,707	\$ 89,934	\$ 1,122,573	\$ 1,468,289
Depreciation	26,484	22,401	96,220		409,142		2,897			660,633	684,037
Travel and Meetings - Other				47,410	6,571		9,592	243		63,573	91,261
Contract Services	28,724				6,510		9,881		13,285	58,643	85,668
Gasoline	4,094	115			23,173		4,355	22		33,332	51,211
Administration - Other	5,888			6,194	7,231		11,263	1,028		31,604	36,036
Accounting Fees							28,519	1,635		30,154	3,214
Rent, Parking, Utilities		4,178		4,178	5,211		12,373	4,178		30,118	15,000
Printing and Copying	1	144		1,545	4,829		18,015	1,590	725	26,849	5,807
Equip Rental and Maintenance	9,228	27		8,193	2,859	88	1,402	1,642		23,023	18,046
Banking Fees							17,564	1,642		19,294	1,775
Other Costs				2,951	4,145		13,051	1,055		17,057	18,464
Other Types of Expenses - Other				3,039	7,966	45	4,346	5,298		16,828	12,297
Business Expenses - Other				8,332						16,343	21,931
Telephone, Telecommunications	2,153	2,180		1,901	13,547		9,014	2,605	125	15,952	8,907
Supplies		9			2,601			156	7,785	15,738	5,048
Travel	992	11		1,570	1,606			412		11,801	7,793
Insurance	1,570	1,570		5,832			762	3,752	42	10,830	6,220
Business Meals				43			4,184	230		10,288	6,629
Postage, Mailing Service	19	18		5,454			5,244	51	142	5,517	90
Expense Allowance Director								42		5,496	8,893
Books, Subscriptions, Reference							1,410	775	239	5,130	573
Facilities and Equipment - Other							5,118			5,118	20,442
Miscellaneous expense				503	4132		2	27		4,793	388
Medical	94	35					3,778			3,778	-
Medical	155			127	909		1,305	144		2,640	6,655
Storage Facility							995	1,937		1,937	1,943
Cash Awards and Grants				933						933	840
Security	6	4		152				478		640	3,660
Memberships and Dues										452	336
Volunteer Program Activities					452					452	1,281
	\$ 125,395	\$ 108,868	\$ 96,220	\$ 98,357	\$ 1,414,350	\$ 87,782	\$ 245,035	\$ 62,872	\$ 112,299	\$ 2,351,179	\$ 2,668,595

Child Legacy International, Inc. and Related Entity
Notes to Consolidated Financial Statement
December 31, 2016
(with summarized financial information, as of and
for the year ended December 31, 2015)

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, 2016 and 2015. There were \$ 1,909,525 in unrestricted net assets and \$ 48,000 in temporarily restricted net assets at December 2016. There were \$ 1,563,991 in unrestricted net assets and \$370,000 in temporarily restricted net assets at December 31, 2015.

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 consolidated net worth of the organization at December 31, 2016 and 60% at December 31, 2015. 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, 2016 and 2015 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 publicly traded mutual funds.

Donations Receivable

Donations and grants receivable are recorded when commitments are received. At December 31, 2016 donations and grants receivable were \$55,066 and in 2015 donations and grants receivable were \$374,055.

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. Investments gains of \$1,968 were recognized for the year ended December 31, 2016 and investment gains of \$4,982 were recognized for the year ended December 31, 2015.

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. Losses recognized on the retranslation were \$49,767 and \$320,804 for 2016 and 2015 respectively.

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 \$23,013 in 2016 and \$395,007 in 2015.

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 \$ 101,354 at December 31, 2016.

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, 2016.

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, 2016 and 2015 the summary of the inputs used are as follows:

Level 1 –	<u>2016</u>	<u>2015</u>
Money Market/ Mutual Funds	\$ <u>6,889</u>	\$ <u>-0-</u>
Total	\$ <u>6,889</u>	\$ <u>-0-</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 \$ 48, 000 and \$ 370,000 were outstanding at December 31, 2016 and 2015 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>2016</u>	<u>2015</u>
Total Property at Cost January 1	\$2,171,325	\$1,774,724
Purchases	427,789	397,685
Disposals	-0-	(1,084)
Total Property at Cost December 31	\$2,599,114	\$2,171,325
Depreciation Expense	(96,220)	(72,528)
Accumulated Depreciation	<u>(257,272)</u>	<u>(184,744)</u>
Property at book value	\$2,245,622	\$1,914,053
Exchange Difference	(884,467)	(513,859)
Prior Period Exchange Adjustment	-0-	(320,804)
Net Books less Exchange Difference	<u>\$1,361,155</u>	<u>\$ 1,079,390</u>

Depreciation expense recorded for the year ended December 31, 2016 and 2015 was \$96,220 and \$72,528 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 January 31, 2018.

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

Year ending December 31:

2016	\$	11,400
2017	\$	11,400
2018	\$	950
Total minimum lease payments	\$	23,750
Less amount representing interest		-0-
Present value of net minimum lease	\$	23,750

Note F – Prior Period Adjustment

During the calendar year ended December 31, 2016, Child Legacy Inc. discovered that it had not recognized a foreign currency loss for the calendar year ended December 31, 2015. The foreign currency loss for 2015 was \$320,804 and required a restatement of calendar year 2015 financial statements as reflected in the Statement of Financial Position, Activities, and Cash Flows.

Note G – Subsequent Events

Management has evaluated subsequent events through April 28, 2017, 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.