

Child Legacy International, Inc.

And Related Entity

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

December 31, 2014

(with comparative summarized financial information
as of and for the year ended December 31, 2013)

(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, 2014, 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, 2014 which statements reflect total assets of \$1,132,513 and revenues of \$1,126,705. 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, 2014, 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, 2013, is presented for comparison purposes only and was derived from the financial statements presented for that year on which an unqualified opinion dated November 24, 2014 was expressed.

*Darshan Wadhwa &
John Kevins, CPA's*
October 19, 2015

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

For the Year Ended December 31, 2014

(with summarized financial information for the year ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents – (Note A)	\$ 632,808	\$419,907
Accounts and grants receivable	234,355	175,205
Supplies Inventory	43,943	-0-
Investments – (Note A)	33,504	13,523
Fixed Assets – (Note D)	<u>1,076,121</u>	<u>702,510</u>
Total Assets	<u>\$ 2,020,731</u>	<u>\$ 1,311,145</u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 76,212	\$ 104,908
Credit Cards Payable – (Note A)	<u>71,235</u>	<u>46,912</u>
Total Liabilities	<u>147,447</u>	<u>151,820</u>
Net Assets		
Unrestricted	1,676,196	1,039,325
Temporarily Restricted	<u>197,088</u>	<u>120,000</u>
Total Net Assets	<u>1,873,284</u>	<u>\$ 1,159,325</u>
Total Liabilities and Net Assets	<u>\$ 2,020,731</u>	<u>\$ 1,311,145</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, 2014

(with summarized financial information for the year ended December 31, 2013)

	2014			<u>2013</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
Operating revenue:				
Contributions and private grants	\$2,557,007	\$ 197,088	\$2,754,095	\$2,210,862
Foreign Exchange and investments	<u>8,221</u>	<u>-0-</u>	<u>8,221</u>	<u>9,086</u>
Total operating revenues	2,565,228	197,088	2,762,316	2,219,945
Net assets released from restrictions	<u>120,000</u>	<u>(120,000)</u>	<u>-0-</u>	<u> </u>
Total Revenue	<u>2,685,228</u>	<u>77,088</u>	<u>2,762,316</u>	<u>2,219,945</u>
Operating Expenses:				
Program services:				
Malawi-Program activities	117,782		117,782	788,581
Malawi- Pump and well activities	161,463		161,463	253,975
Malawi-Capital activities	57,345		57,345	44,287
Malawi-Other activities	132,511		132,511	180,799
Malawi-Hospital activities	1,088,783		1,088,783	155,079
Zimbabwe-Program activities	70,995		70,995	61,675
USA-Program Expenses	<u>33,621</u>		<u>33,621</u>	<u>76,500</u>
Total program services	<u>1,662,500</u>		<u>1,662,500</u>	<u>1,560,896</u>
Supporting Services:				
Management and general	271,131		271,131	244,205
Fundraising	<u>69,215</u>		<u>69,215</u>	<u>116,747</u>
Total Supporting services	<u>340,346</u>		<u>340,346</u>	<u>360,952</u>
Total Expenses	<u>2,002,846</u>	<u>-0-</u>	<u>2,002,846</u>	<u>1,921,848</u>
Excess of operating revenue over expenses	682,382	77,088	759,470	298,100
Non-operating activities				
Foreign currency exchange (loss) gain -(Note A)	(45,511)	-0-	(45,511)	(112,070)
Net assets at beginning of year	1,039,325	120,000	1,159,325	973,295
Net assets at end of year	<u>\$1,676,196</u>	<u>\$197,088</u>	<u>\$1,873,284</u>	<u>\$1,159,325</u>

See accompanying notes to consolidated financial statements

Child Legacy International, Inc.
 Consolidated Statement of functional Expenses
 For the year ended December 31, 2014
 (With summarized financial information for the year ended December 31, 2013)

	Malawi-Program Activities	Pumps/Well Malawi	Malawi Capital	Malawi Other Activities	Malawi Hospital	Zimbabwe (Program Expenses)	Boerne (Program Expenses)	Administration USA	Administration Malawi	Fund Development	2014 Total	2013 Total
Program Costs-Malawi	56,686	123,440			591,504	\$ 70,995		110,019	17,483	\$ 17,044	\$ 842,625	\$ 681,835
Payroll Expenses	35,880	30,420			426,446			26,280			637,292	366,423
Facilities and Equipment - Other					1,679		5,769	14,236			33,728	150,086
Contract Services				2,046	888		10,857	14,236	627	15,535	44,189	123,345
Travel and Meetings - Other				41,131	5,075		5,030		758	24,530	76,524	112,520
Administration - Other		86			4,130		1,654	31,668		3,496	48,026	91,913
Other Types of Expenses - Other	6,992			9,584					5,183		11,029	45,566
Gasoline	1,445	43		25,540	3,861		3,076	1,705		52	40,545	38,085
Supplies	1,085			850	7,034			4,066	516		16,016	36,737
Travel	7,616	72		812					2,139		8,043	33,451
Depreciation	954										56,884	29,431
Business Expenses - Other		454			893		1,081	11,405		500	14,333	27,368
Other Costs	86			11,830	500			8,198			23,243	26,106
Equip Rental and Maintenance	1,437	860		14,217	4,289				2,629	4,797	30,397	18,903
Medical				138	32,973		446	450	30	183	34,220	17,185
Telephone, Telecommunications	1,805	1,350		3,342	3,007				1,694		11,198	17,173
Rent, Parking, Utilities	2,580	3,587		3,587	3,587				3,587		16,908	16,746
Expense Allowance Director				14,649					1,892		16,541	15,592
Furnishings												13,483
Postage, Mailing Service	39	39		39	78				145		340	13,228
Volunteer Program Activities										2,379	2,379	7,894
Business Meals		13		798			3,768	1,217		318	6,114	7,442
Storage Facility							440				440	6,996
Security	627	56		2,222	889				1,056		4,850	6,334
Printing and Copying		98		736	928				1,775		3,535	3,604
Insurance	570	947		947	947				947		4,358	3,488
Utilities									679		679	2,373
Accounting Fees												2,086
Cash Awards and Grants				43			1,500	720	646	200	3,109	2,054
Banking Fees								11,320	1,100		12,420	1,784
Books, Subscriptions, Reference									444		444	684
Bad Debts									181	181	362	571
Memberships and Dues												517
Miscellaneous expense						75					75	135
Program Costs-Zimbabwe												-
Aviation Insurance/Admin.												-
Solar Equipment												-
Donor Software												-
Fundraising Fees												-
Legal Fees												-
Tot	\$ 117,782	\$ 161,463	\$ 57,345	\$ 132,511	\$ 1,088,783	\$ 70,995	\$ 33,621	\$ 222,823	\$ 48,308	\$ 69,215	\$ 2,002,846	\$ 1,921,848

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

For the Year Ended December 31, 2014

(with summarized financial information for the year ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows from operating activities:		
Increase in net assets	\$ 713,962	\$186,030
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation	58,884	29,431
Accounts Receivable	(59,150)	(175,205)
Accounts Payable	(4,373)	(9,801)
Exchange difference (note A)	<u>45,511</u>	<u>112,070</u>
Net cash provided by operating activities		
<u>754,834</u>	<u>139,381</u>	
Cash Flows from Investing Activities:		
Purchases of fixed assets – (Note D)	(521,952)	(199,386)
Investments	<u>(19,981)</u>	<u>36,965</u>
Net cash from investing activities	<u>(541,933)</u>	<u>(162,424)</u>
Cash Flows from Financing Activities:	-0-	-0-
Net Change in cash and cash equivalents	212,901	(23,043)
Cash and cash equivalents at beginning of year	<u>419,907</u>	<u>442,950</u>
Cash and cash equivalents at end of year	\$ <u>632,808</u>	\$ <u>419,907</u>

See accompanying notes to consolidated financial statements.

Child Legacy International, Inc. and Related Entity
Notes to Consolidated Financial Statement
December 31, 2014
(with summarized financial information as of and
for the year ended December 31, 2013)

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 thru its related entity NGO incorporated in the nation of Malawi.

Basis of Accounting

The financial statements of the Child Legacy 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, 2014 and 2013. There were \$ 1,676,196 in unrestricted net assets and \$197,088 in temporarily restricted net assets at December 2014. There were \$,1,039,325 in unrestricted net assets and \$120,000 restricted net assets at December 31, 2013.

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 57% of the consolidated net worth of the organization at December 31, 2014 and 54% at December 31, 2013. 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, 2014 and 2013 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, 2014 donations and grants receivable were \$234,355 and in 2013 donations and grants receivable were \$175,205.

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 \$8,221 were recognized for the year ended December 31, 2014 and investment gains of \$736 were recognized for the year ended December 31, 2013.

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 were recognized in the year 2014. Losses were recognized on the exchange difference translating the investment in net fixed assets in Malawi currency to the US dollar in the amount of \$ 45,511 in 2014. Losses recognized on retranslation for the year 2013 were \$112,070.

Foreign Political Risk

The organization has invested approximately 57% 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 the exchange difference losses experienced in 2014 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. There were no contributed services meeting those criteria reflected in the accompanying financial statements.

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 \$398,399 in 2014 and \$211,870 in 2013.

Credit Lines and Trade Payables – The organization accrues trade payables as liabilities are incurred and uses credit cards for most of its trade credit. One credit card has a balance of \$68,770 and the second card has a balance of \$ 2,465 at December 31, 2014.

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, 2014.

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, 2013 and 2012 the summary of the inputs used are as follows:

Level 1 –	<u>2014</u>	<u>2013</u>
Money Market funds	\$ <u>33,504</u>	<u>\$13,523</u>
Total	\$ <u>33,504</u>	<u>\$,13,523</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 occurred in the ordinary course of business.

Note C – Temporarily Restricted Net Assets

Pledges in the amount of \$ 197,088 and \$ 120,000 were outstanding at December 31, 2014 and 2013 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>2014</u>	<u>2013</u>
Total Property at Cost January 1	\$1,296,808	\$959,437
Purchases	477,916	337,371
Disposals	-0-	-0-
Total Property at Cost December 31	\$1,774,724	\$1,296,808
Depreciation Expense	(58,884)	(29,431)
Depreciation on Disposal of Assets	-0-	-0-
Accumulated Depreciation	<u>(125,860)</u>	<u>(96,519)</u>
Property at original cost	\$1,589,980	\$1,170,858
Exchange Difference	<u>(513,859)</u>	<u>(468,348)</u>
Net Books less Exchange Difference	<u>\$1,076,121</u>	<u>\$ 702,510</u>

Depreciation expense recorded for the year ended December 31, 2014 and 2013 was \$58,884 and \$29,431 respectively.

Note E - Lease Payable

The organization leases office space in Boerne Texas for the sum of \$950 per month. Following are estimated annual lease payments on this property:

Year ending December 31:

2015	\$ 11,400
2016	\$ 11,400
Total minimum lease payments	\$ 22,800
Less amount representing interest	-0-
Present value of net minimum lease	\$ 22,800

Note F - Subsequent Events

In early 2013 the organization entered into a Clinical Coverage and Health Training Agreement with Baylor College of Medicine. The agreement provides for the provision of physician coverage and training experiences at the organizations 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 requires best efforts by the organization to raise sufficient funds to the complete the construction, equipping and staffing of the Malawi facility and to fund those costs and expenses of the faculty and learners that are not covered by the funds provided by Baylor College of Medicine.

The organization has continued expansion of its facilities which commenced in 2008 in which \$1,062,348 was invested thru December 31, 2013 and expended an additional \$329,259 thru December 31, 2014 using unrestricted funds. Budgeted expenditures for 2015 are \$ 1,055,961

Note G – Audit Report for the Malawi Entity

The 2014 audit report for the Malawi entity contained a qualification that the entity had not transferred some of the buildings completed during the period from the work in process account to the completed buildings account. Management does not believe that this causes the financial statements to be misleading. The Malawa audit report goes on to state that except for this matter, the financial statements give a “true and fair view” of the financial position, financial performance, and cash flows for the entity.