

Child Legacy International, Inc. and Related Entity

Consolidated Financial Statements and
Independent Auditor's Report

December 31, 2018 and 2017



CPA SERVICES

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December 31, 2018 and 2017

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Independent Auditor's Report

For the Board of Directors
Child Legacy International Inc.
Boerne, Texas

We have audited the consolidated financial statements of Child Legacy International, Inc. (a Texas not-for-profit corporation) (the Organization) and related entity, which comprise the consolidated statements of financial position as of December 31, 2018, and the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's 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 of 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 auditor's judgement, 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 of Child Legacy International, Inc., an NGO organized in the nation of Malawi, in which the Organization had an equity interest of 100% as of December 31, 2018 which statements reflect total assets of \$1,811,021 and revenues of \$1,655,569. 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, 2018, and the changes in their net assets, cash flows, and functional expenses for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

Information for the year ended December 31, 2017, is presented for comparative purposes only and was derived from the financial statements presented for that year on which an unqualified opinion dated April 28, 2018 was expressed.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2018 the Organization adopted new accounting guidance affecting financial statement presentation and disclosures for not-for-profit entities. Our opinion is not modified with respect to this matter.

mp cpa services, P.C.

The Woodlands, Texas
April 30, 2019

Child Legacy International, Inc. and Related Entity

Statement of Financial Position (Consolidated)

December 31,

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 680,708	\$ 641,809
Accounts receivables	18,282	22,744
Supplies inventory	167,509	79,739
Investments	2,872	300,044
Prepays and other assets	7,500	-
Total current assets	876,871	1,044,336
Property and equipment, net	1,609,559	1,607,104
Total assets	\$ 2,486,430	\$ 2,651,440
Liabilities and Net Assets		
Accounts payable	\$ 101,838	\$ 39,548
Credit card payable	\$ 85,817	75,170
Total liabilities	187,655	114,718
Net Assets		
Without donor restrictions	2,298,775	2,488,722
With donor restrictions	-	48,000
Total net assets	2,298,775	2,536,722
Total liabilities and net assets	\$ 2,486,430	\$ 2,651,440

Child Legacy International, Inc. and Related Entity

Statement of Activities (Consolidated)

December 31,

	2018	2017
Changes in funds without donor restrictions		
Revenues, gains and other support:		
Contributions and private grants	\$ 2,728,228	\$ 3,073,815
Investment income (losses)	2,578	(683)
Net assets released from restriction	48,000	-
Total revenues, gains and other support	<u>2,778,806</u>	<u>3,073,132</u>
Expenses:		
Program services	2,538,660	2,178,645
Supporting services:		
Management and general	303,775	257,197
Fundraising	126,318	106,095
Total expenses	<u>2,968,753</u>	<u>2,541,937</u>
Increase (decrease) in net assets without donor restriction	<u>(189,947)</u>	<u>531,195</u>
Changes in funds with donor restrictions		
Contributions	-	48,000
Net assets released from restriction	(48,000)	-
Increase (decrease) in net assets with donor restriction	<u>(48,000)</u>	<u>48,000</u>
Increase (decrease) in net assets	<u>(237,947)</u>	<u>579,195</u>
Net assets, beginning of year	<u>2,536,722</u>	<u>1,957,525</u>
Net assets, end of year	<u>\$ 2,298,775</u>	<u>\$ 2,536,722</u>

Child Legacy International, Inc. and Related Entity

Statement of Functional Expenses (Consolidated)

December 31,

	Programs	Management and General	Fundraising	2018	2017
Special Projects	\$ 876,332	\$ 107,863	\$ 44,851	\$ 1,029,046	\$ 820,511
Salaries & Benefits	659,280	77,698	32,310	769,288	685,453
Depreciation Expense	121,036	14,264	5,932	141,232	132,853
Medical Supplies	105,516	12,435	5,171	123,122	98,783
Travel and Transportation	102,764	12,111	5,036	119,911	102,827
Labor Costs	86,214	10,161	4,225	100,600	95,068
Agriculture	76,623	9,030	3,755	89,408	82,783
Accessories	72,553	8,551	3,556	84,660	61,290
Patient Costs	55,311	6,519	2,711	64,541	54,369
Fuel & Lubricants	50,797	5,987	2,489	59,273	36,434
Allowances	44,213	5,211	2,167	51,591	51,115
Utilities	39,088	4,607	1,916	45,611	39,792
Repair & Maintenance	30,231	3,563	1,482	35,276	21,245
Professional Services	28,095	3,311	1,377	32,783	27,926
Security Services	26,474	3,120	1,297	30,891	29,756
Rents & Leasing	21,406	2,523	1,049	24,978	22,822
Postage & Printing	20,043	2,362	982	23,387	29,097
Bank Charges	18,331	2,160	898	21,389	23,271
Subscriptions	17,543	2,068	860	20,471	6,654
Food Supplies	17,088	2,014	837	19,939	18,960
Other Costs	15,642	1,843	767	18,252	20,179
Cleaning Materials	12,474	1,470	611	14,555	13,945
Interest Expense	11,972	1,411	587	13,970	10,049
Uniforms & Clothing	9,485	1,118	465	11,068	7,491
Office Expense	9,305	1,097	456	10,858	21,681
Advertising	7,085	835	347	8,267	21,881
Awards & Scholarships	3,759	443	184	4,386	5,703
Total Expenses	\$ 2,538,660	\$ 303,775	\$ 126,318	\$ 2,968,753	\$ 2,541,937

Child Legacy International, Inc. and Related Entity

Statement of Cash Flows (Consolidated)

December 31,

	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (237,947)	\$ 579,195
Adjustments to reconcile netassets to net cash provided by (used in) operating activities:		
Depreciation and amortization	141,232	132,853
(Increase) decrease in:		
Accounts receivables	4,462	32,332
Supplies inventory	(87,770)	(21,998)
Prepays and other assets	(7,500)	
Increase (decrease) in:		
Accounts payable	62,290	(26,500)
Credit card payable	10,647	(26,184)
Net cash provided by operating activites:	<u>(114,586)</u>	<u>669,698</u>
Cash flows from investing activities		
Purchases of property and equipment	(224,647)	(378,800)
Investments	297,172	(293,095)
Foreign exchange difference	80,960	-
Net cash used in investing activities:	<u>153,485</u>	<u>(671,895)</u>
Net increase in cash	38,899	(2,197)
Cash and cash equivalents at beginning of year	<u>641,809</u>	<u>644,006</u>
Cash and cash equivalents at end of year	<u>\$ 680,708</u>	<u>\$ 641,809</u>

Notes to Financial Statements

December 31, 2018 and 2017

Note A – Organization and Mission

Child Legacy International, Inc. (Child Legacy or the Organization) was incorporated in the State of Texas in 1992 and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The organization provides human services in the form of medical support, training, water wells, farming and fishing in the nation of Malawi through its related entity NGO incorporated in the nation of Malawi. Support for Child Legacy is primarily received through contributions from donors of various organizations and individuals.

Note B – Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant accounting policies are described as follows:

1. Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash-on-hand and on deposit with financial institutions and short-term investments with an original maturity date of three months or less that are not restricted by donors. For these short-term investments, the carrying amount approximates fair value because of the short maturity of these investments.

The Organization has cash deposits in on financial institution. Amounts held on deposit at December 31, 2018 and 2017 exceeded federally insured limits by approximately \$430,000 and \$390,000, respectively. The Organization has not experienced a loss with these uninsured funds and believes that such risk is limited.

For the years ended December 31, 2018 and 2017, the Organization paid approximately \$13,900 and \$10,000, respectively, in interest expense.

3. Accounts Receivable

Donations and grants receivable are recorded when commitments are received, but not yet deposited in the bank at year end. At December 31, 2018 and 2017 committed deposits were received in the amount of roughly \$18,000 and \$22,000, respectively.

4. Supplies Inventory

Supplies consist of various assets held and used in Malawi for the purpose of meeting the various program needs of the organization. At December 31, 2018 and 2017 supplies on hand were approximately \$167,000 and \$80,000.

Notes to Financial Statements

December 31, 2018 and 2017

Note B – Summary of Significant Accounting Policies - continued

5. Investments

Investments consist of various equities, bonds and mutual funds reported at market value. At December 31, 2018 and 2017, these investments amounted to approximately \$2,800 and \$300,000.

6. Prepaids and other assets

Prepaids and other assets consist of expenses paid for items which are not due until after year end. Prepaid items were \$7,500 and \$0 at December 31, 2018 and 2017.

7. Property and Equipment, net

Property and equipment, net, is recorded at cost, or if donated, at fair market value on the date of the gift. It is the policy of Child Legacy to capitalize all individual fixed assets greater than \$1,000 and to expense lesser amounts in the year purchased. Depreciation is computed on the straight line method over the estimated useful lives of five to seven years.

The Organization periodically reviews the carrying amount of capital assets whenever events or circumstances provide evidence which suggests that the carrying amount may not be recoverable. If this review indicates that the capital assets may not be recoverable, the Organization reviews the expected undiscounted future net operating cash flows from the use of these assets. If such assets are considered impaired, the impairment in value is recognized as a charge in the statement of activities. The impairment charge is the difference between the carrying amount of the capital asset and its fair value.

8. Payables and Credit Lines

The Organization accrued trade and credit cards payables. These payables consist of expenditures for various operational obligations during the year. These liabilities were approximately, \$84,000 and \$75,000 at December 31, 2018 and 2017.

9. Net Assets

The financial statements report amounts separately by class of net assets as follows:

Without donor restrictions are amounts that are currently available at the discretion of the board and for the use in operations and those resources invested in property and equipment.

With donor restrictions are amounts which represent donor-restricted contributions for the support of specified projects carried out by the Organization.

10. Support and Revenue

Contributions are recorded when made, which may be when cash or resources are received or when ownership is transferred to the Organization. Contributions with donor restriction for a specific purpose are recorded and reported separately. Upon satisfaction of the restriction, net assets are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released.

Notes to Financial Statements

December 31, 2018 and 2017

Note B – Summary of Significant Accounting Policies - continued

11. Functional Allocation of Expenses

The cost of providing program services and supporting activities of the Organization have been summarized on a functional basis in the statements of activities and detailed by category in the statement of functional expenses. Accordingly, certain costs, such as salaries, benefits and facilities, have been allocated among the program services and supporting activities benefited.

12. Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 in these financial statements and has adjusted the presentation and disclosure in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

13. Foreign Currency

The Organization 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 is subject to exchange rate profits and losses.

During the year there were exchange rate adjustments recorded in the Malawi audited financial statements, which were insignificant to the Organization taken as a whole.

14. Foreign Political Risk

The Organization has a significant amount of net assets invested in the operations in the country of Malawi. Political instability is common in parts of the African nation. The Organization has no reason to believe its assets and operations are at risk from foreign political risk at this time.

15. Subsequent Events

Management has reviewed events through April 30, 2018, the date at which the financial statements were available to be issued.

Note C – Liquidity and Availability

The following information reflects the Organization's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date. Amounts not available for general expenditure within one year may include net assets with donor restrictions.

Notes to Financial Statements

December 31, 2018 and 2017

Note C - Liquidity and Availability - continued

The financial assets available to meet cash needs for general expenditures within one year, reduced by net assets with donor restrictions, are as follows:

	2018	2017
Cash and cash equivalents	\$ 680,708	\$ 641,809
Accounts receivable	18,282	22,744
Total financial assets	<u>\$ 698,990</u>	<u>\$ 664,553</u>
Total net assets with donor restrictions	-	(48,000)
	-	(48,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 698,990</u>	<u>\$ 616,553</u>

Note D - Fair Value Measurements and Investments

The Organization has adopted ASC 820 - *Fair Value Measurements and Disclosures* - for all financial assets and liabilities measured at fair value on a recurring basis. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement also establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy is as follows:

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 a 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, 2018 and 2017 the summary of inputs used are Level 1 investments valued at \$2,872 and \$300,700, respectively.

Notes to Financial StatementsDecember 31, 2018 and 2017

Note E - Property and Equipment, Net

Property and equipment, net, consists of the following at December 31:

	2018	2017
Balance at January 1	\$ 2,977,946	\$ 2,599,144
Purchases	224,647	378,800
Disposals	-	-
Balance at December 31	3,202,593	2,977,944
Depreciation	(141,232)	(132,853)
Accumulated Depreciation	(486,345)	(353,492)
Property at Book Value	2,575,016	2,491,599
Exchange Difference	(965,457)	(884,495)
Net Books less Exchange Difference	<u>\$ 1,609,559</u>	<u>\$ 1,607,104</u>

Depreciation expense recorded for the year ended December 31, 2018 and 2017 was \$141,232 and \$132,853, respectively.

Note F - Operating Leases

The Organization leases office space in Boerne Texas for the sum of \$950 per month. The lease expiration date was January 31, 2019 but has been renewed for future terms.

Note G - 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.