

LIFELINE MALAWI ASSOCIATION

Financial Statements

For the year ended 31 March 2006

**LIFELINE MALAWI ASSOCIATION
FINANCIAL STATEMENTS
For the year ended 31 March 2006**

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**REPORT OF THE INDEPENDENT AUDITORS
TO THE TRUSTEES OF
LIFELINE MALAWI ASSOCIATION**

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SCOPE

We have audited the financial statements for Lifeline Malawi Association for the year ended 31 March 2006 as set out on pages 3 to 13. We have also audited the National Aids Commission Funds Accountability Statement included in Annexure A to the financial statements set out on page 14. The amounts in the fund accountability statement are included in the overall financial statements of Lifeline Malawi Association. Our scope is restricted to the operations of Lifeline in Malawi.

RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS

The financial statements are the responsibility of the Association's trustees. Our responsibility is to express an opinion on the financial statements based on our audit.

BASIS OF OPINION

Except as described below, we conducted our audit in accordance with International Standards on Auditing which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, the assessment of the accounting principles used and significant estimates made by the management, and the evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

NON ADOPTION OF INTERNATIONAL ACCOUNTING STANDARD NO 16 PROPERTY, PLANT AND EQUIPMENT

International Accounting Standard No. 16 (IAS 16) (Revised) Property, Plant and Equipment requires that an entity should review the useful lives and residual values of its assets on an annual basis. No assessment of the residual value of property, plant and equipment was carried out by management of the Association and we are unable to determine whether the depreciation charge and carrying value of the assets have been fairly stated.

NON- COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARD NO. 2 (IAS 2) INVENTORIES

The Association expenses items of medicines and other medical items immediately upon purchase despite the fact that they are used over a period of time and should therefore be accounted for in accordance with IAS 2 Inventories. Accordingly, no value is recognised in the financial statements for medicines that were on hand at the year-end.

**NON-COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARD NO. 20 (IAS 20)
ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT
ASSISTANCE**

During the year, the Association received capital grants amounting to CAD22,265. These have been included in the income and expenditure statement as income contrary to the requirements of IAS 20 which states that grants relating to capital assets should be deferred and recognised as income on a systematic and rational basis over the useful life of the asset or by deducting the grant in arriving at the carrying amount of the asset and recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

LIMITATION OF SCOPE

Lifeline Malawi Association gets most of its funding from Canadian-based organisations. The response to our requests for confirmations of amounts donated was not adequate to provide us with sufficient audit assurance over the completeness of income. Other income comprises of receipts from the maize mill and health centre. The initial records for this income are the receipts issued to customers on payment of cash. We were unable to ascertain the completeness of this income. We could not satisfy ourselves using other alternative procedures as to the completeness of these income sources.

This is the first year that we are auditing the financial statements of Lifeline Malawi Association and our audit procedures did not cover opening balances. The financial statements for the year ended 31 March 2005 were not subjected to an audit. Accordingly we are unable to determine whether they reflect a true and fair view of the financial position and results of operations of the association for the year ended 31 March 2005.

AUDIT OPINION

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the Association accounted for property, plant and equipment in accordance with IAS 16, stores of medicines in accordance with IAS 2, capital grants in accordance with IAS 20 and had we obtained audit assurance in respect of completeness of donations, maize mill and health centre income and the balance sheet as at 1 April 2005, the financial statements are properly drawn up in accordance with International Financial Reporting Standards so as to give, in all material respects, a true and fair view of the financial position of the association as at 31 March 2006 and of the results of the operations and cash flows for the financial year ended on that date.

**LIFELINE MALAWI ASSOCIATION
BALANCE SHEET
31 March 2006**

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	<u>Notes</u>	<u>Operating fund CAD</u>	<u>Capital fund CAD</u>	<u>Total 2006 CAD</u>	<u>Total 2005 CAD</u>
NON-CURRENT ASSETS					
Property, plant and equipment	5	<u>-</u>	<u>415,414</u>	<u>415,414</u>	<u>316,435</u>
CURRENT ASSETS					
Bank and cash		39,024	-	39,024	61,904
Short -term investments	6	25,000	60,000	85,000	120,000
Receivables	7	<u>4,133</u>	<u>-</u>	<u>4,133</u>	<u>15,433</u>
Total current assets		<u>68,157</u>	<u>60,000</u>	<u>128,157</u>	<u>197,337</u>
TOTAL ASSETS		<u>68,157</u>	<u>475,414</u>	<u>543,571</u>	<u>513,772</u>
FUND BALANCES AND LIABILITIES					
FUND BALANCES					
Unrestricted funds		60,215	60,000	120,215	42,902
Internally restricted funds		-	-	-	96,400
Externally restricted funds		-	-	-	5,100
Funds invested in capital assets		<u>-</u>	<u>415,414</u>	<u>415,414</u>	<u>316,435</u>
Total fund balances		<u>60,215</u>	<u>475,414</u>	<u>535,629</u>	<u>460,837</u>
CURRENT LIABILITIES					
Payables		7,942	-	7,942	4,550
Deferred revenue		<u>-</u>	<u>-</u>	<u>-</u>	<u>48,385</u>
Total current liabilities		<u>7,942</u>	<u>-</u>	<u>7,942</u>	<u>52,935</u>
TOTAL FUND BALANCES AND LIABILITIES		<u>68,157</u>	<u>475,414</u>	<u>543,571</u>	<u>513,772</u>

**The financial statements were authorised for issue by the Board of Trustees on
..... and were signed on its behalf by:**

.....)
))
)) **TRUSTEES**
))
.....)

LIFELINE MALAWI ASSOCIATION
INCOME STATEMENT
For the year ended 31 March 2006

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	<u>2006</u> CAD	<u>2005</u> CAD
INCOME		
Donations and grants	658,502	797,207
Interest	1,253	663
Other	<u>67,478</u>	<u>22,603</u>
Total income	<u>727,233</u>	<u>820,473</u>
EXPENDITURE		
Operating costs	206,117	389,556
Salaries and benefits	194,051	144,579
Service and repair	106,578	39,697
Depreciation	104,869	48,461
Promotional costs	16,558	12,325
Administration	15,000	13,859
Loss/(gain) on disposal of property, plant and equipment	4,576	(998)
Professional fees	4,164	2,848
Trade costs	<u>528</u>	<u>7,493</u>
Total expenditure	<u>652,441</u>	<u>657,820</u>
Surplus for the year	<u>74,792</u>	<u>162,653</u>

LIFELINE MALAWI ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended 31 March 2006

	<u>Capital fund CAD</u>	<u>Internally restricted funds CAD</u>	<u>Externally restricted funds CAD</u>	<u>Unrestricted funds CAD</u>	<u>Total funds CAD</u>
<u>For the year ended 31 March 2005</u>					
At the beginning of the year	187,825	28,715	23,792	57,852	298,184
Pre year end reclassification	-	(28,715)	(23,792)	52,507	-
Surplus for the year	128,610	96,400	5,100	(67,457)	162,653
At the end of the year	316,435	96,400	5,100	42,902	460,837
<u>For the year ended 31 March 2006</u>					
At the beginning of the year	316,435	96,400	5,100	42,902	460,837
Pre year end reclassification	-	(96,400)	(5,100)	101,500	-
Surplus for the year	98,979	-	-	(24,187)	74,792
At the end of the year	415,414	-	-	120,215	535,629

Capital fund

The fund represents the value of property, plant and equipment that is yet to be depreciated and released to income statement.

Internally restricted funds

Internally restricted funds represent amounts received and set aside by the board to cover future operating and capital expenditures.

Externally restricted funds

Externally restricted funds represent amounts received from private donors for a specific project or activity that has not yet been commissioned.

Unrestricted funds

Unrestricted funds represent retained surplus readily available for the running of the operations of the Association.

Pre-year end reclassification

This relates to the movement of amounts from restricted funds to unrestricted funds during the year once the related projects or activities have been commissioned by the board.

LIFELINE MALAWI ASSOCIATION
CASH FLOW STATEMENT
For the year ended 31 March 2006

	<u>2006</u> CAD	<u>2005</u> CAD
Surplus for the year	74,792	162,653
Adjustments for :-		
- Depreciation	104,869	48,461
- Loss/(gain) on disposal of property, plant and equipment	<u>4,576</u>	<u>(998)</u>
OPERATING CASH FLOWS BEFORE WORKING CAPITAL CHANGES	184,237	210,116
Decrease in receivables	11,300	-
(Decrease)/increase in current liabilities	<u>(44,993)</u>	<u>40,267</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>150,544</u>	<u>250,383</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of property, plant and equipment	(212,463)	(180,671)
Proceeds from disposal of property, plant and equipment	<u>4,039</u>	<u>4,597</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(208,424)</u>	<u>(176,074)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(57,880)	74,309
CASH AND CASH EQUIVALENTS at the beginning of the year	<u>181,904</u>	<u>107,595</u>
CASH AND CASH EQUIVALENTS at the end of the year	<u>124,024</u>	<u>181,904</u>

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**LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
31 March 2006**

1. COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements have been drawn up in accordance with International Financial Reporting Standards except as discussed in the auditor's opinion on pages 1 and 2.

2. NATURE OF ORGANISATION

Lifeline Malawi Association is a private and independent Canadian organisation. It was established in 2002 and incorporated as a not-for-profit Association under the laws of the Government of Canada on January 29, 2003. It is a charitable organisation, headquartered in Calgary, Alberta which provides life-transforming hope and healing to the nation of Malawi through a community based medical clinic delivery model, leveraging partnerships with other like-minded and complimentary/specialty organisations. In Malawi, Lifeline is a registered charitable non-governmental organisation.

The Association's principal place of business is M1 Road, Partners in Hope Complex, Area 36, Lilongwe and its registered office is plot number 36/8, P O Box 30630, Lilongwe 3, Malawi.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Association, which are set out below, have been consistently followed in all material respects.

3.1 Fund accounting

The Association follows the restricted fund method of accounting for grants and donations.

The operating fund reports the assets, liabilities, revenues and expense related to program delivery and administrative activities.

The capital fund reports assets, liabilities, revenues and expenses related to the Association's capital assets.

3.2 Revenue recognition

Restricted grants and donations are recognised as revenue of the appropriate restricted fund, or if no appropriate restricted fund exists, they are recognized in the operating fund using the deferral method of accounting. Unrestricted grants and donations are recognised as revenue in the operating fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

When grants and donations are recognised as revenue in the operating fund the amount is transferred to income statement.

All other income is accounted for on an accrual basis.

LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Donations in kind

Donations in kind are accounted for at fair value when amounts have been received.

3.4 Property, plant and equipment

Purchased capital property, plant and equipment are recorded in the capital fund at cost. Contributed capital assets are recorded in the capital fund at fair value at the date of contribution. Amortisation, which is reported in the capital fund, is computed using the straight-line method over the estimated useful lives of the assets as follows:

Infrastructure	5 years
Buildings	10 years
Equipment and furnishings	3 years
Vehicles	2 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognised in income statement.

3.5 Investments

Investments are carried at cost, unless there is a decline in value which is considered to be other than temporary in which case the investment is written down to its new recoverable value.

3.6 Financial instruments

The Association's financial instruments recognised in the balance sheet consist of cash and short-term investments, accounts receivable, and accounts payable.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

Payables are stated at their nominal value.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

3.7 Foreign currency translation

The financial statements are presented in the Association's functional currency which is Canadian Dollar, in which the Association's significant transactions are done and operating decisions based on.

LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Foreign currency translation (Continued)

In preparing the financial statements of the Association, transactions in currencies other than the Association's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

3.8 Impairment

At each balance sheet date, the Association reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings, other than investment property, carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Taxation

The Association has been granted tax exemption in accordance with the provisions of paragraph (b) (i) of the first schedule to the Malawi Taxation Act.

3.10 Provisions

Provisions are recognised when the Association has a present obligation as a result of a past event, and it is probable that the association will be required to settle that obligation. Provisions are measured at the trustees' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

4.2 Critical judgements in applying the Association's accounting policies

No critical judgements were made by the trustees during the current period which would have a material impact on the financial statements.

4.3 Key sources of estimation uncertainty

There were no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
31 March 2006

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5. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u> CAD	<u>Buildings</u> CAD	<u>Infrastructure</u> CAD	<u>Machinery & equipment</u> CAD	<u>Motor vehicles</u> CAD	<u>Furniture & office equipment</u> CAD	<u>Total 2005</u> CAD
<u>For the year ended 31 March 2005</u>							
COST OR VALUATION							
At the beginning of the year	-	154,762	16,285	5,425	27,074	2,919	206,465
Additions	-	30,550	45,352	7,048	86,589	11,132	180,671
Disposals	-	-	-	-	(6,000)	-	(6,000)
At the end of the year	-	185,312	61,637	12,473	107,663	14,051	381,136
DEPRECIATION							
At the beginning of the year	-	8,886	1,470	1,085	6,615	585	18,641
Charge for the year	-	10,793	8,538	2,847	21,989	4,294	48,461
Disposals	-	-	-	-	(2,401)	-	(2,401)
At the end of the year	-	19,679	10,008	3,932	26,203	4,879	64,701
NET BOOK VALUE							
At the end of the year	-	165,633	51,629	8,541	81,460	9,172	316,435

LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
31 March 2006

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5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>Land</u> CAD	<u>Buildings</u> CAD	<u>Infrastructure</u> CAD	<u>Machinery & equipment</u> CAD	<u>Motor vehicles</u> CAD	<u>Furniture & office equipment</u> CAD	<u>Total 2006</u> CAD
<u>For the year ended 31 March 2006</u>							
COST OR VALUATION							
At the beginning of the year	-	185,312	61,637	12,473	107,663	14,051	381,136
Additions	498	131,312	28,926	4,566	25,225	21,936	212,463
Disposals	-	-	-	-	(14,357)	-	(14,357)
At the end of the year	498	316,624	90,563	17,039	118,531	35,987	579,242
DEPRECIATION							
At the beginning of the year	-	19,679	10,008	3,932	26,203	4,879	64,701
Charge for the year	-	23,919	15,941	5,544	47,208	12,257	104,869
Disposals	-	-	-	-	(5,742)	-	(5,742)
At the end of the year	-	43,598	25,949	9,476	67,669	17,136	163,828
NET BOOK VALUE							
At the end of the year	498	273,026	64,614	7,563	50,862	18,851	415,414

The land on which the Lifeline Malawi buildings are located is owned in partnership with the Pentecostal Assemblies of Malawi (P.A.O.M.), who have provided such land in accordance with a duly executed partnership agreement.

LIFELINE MALAWI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
31 March 2006

6. SHORT-TERM INVESTMENTS

Short-term investments are comprised of Guaranteed Investment Certificates. The cost of the short-term investments at 31 March 2006 was CAD85,000 (2005: CAD120,000) and the market value was CAD85,318 (2005: CAD120,000).

	<u>2006</u> <u>CAD</u>	<u>2005</u> <u>CAD</u>
7. RECEIVABLES		
Prepayments	600	8,523
Other receivables	<u>3,533</u>	<u>6,910</u>
Total receivables	<u>4,133</u>	<u>15,433</u>

The trustees consider that the carrying amount of receivables approximates to their fair value.

8. MONIES USED FOR FUND RAISING

As required under Section 7(2) of the Alberta Charitable Fundraising regulation, the following amounts are disclosed:

Amounts paid as remuneration to employees whose principal duties involve fundraising were nil (2005: Nil); and

Total direct expenses incurred for the purpose of soliciting contributions amounted to CAD16,558 (2005: CAD12,325).

LIFELINE MALAWI ASSOCIATION
 NATIONAL AIDS COMMISSION – FUNDS ACCOUNTABILITY STATEMENT
 For the year ended 31 March 2006

ANNEXURE A

LIFELINE MALAWI ASSOCIATION
 NATIONAL AIDS COMMISSION - FINANCIAL MANAGEMENT AGENCY
 CONTRACT NO: NAC/FMA/C/0052
 SOURCES AND USES OF NAC FUNDS

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	<u>QUARTER ENDED</u>				<u>MARCH 2006</u>	<u>TOTAL</u>
	<u>MARCH 2005</u>	<u>JUNE 2005</u>	<u>SEPTEMBER 2005</u>	<u>DECEMBER 2005</u>		
	<u>MK</u>	<u>MK</u>	<u>MK</u>	<u>MK</u>	<u>MK</u>	<u>2006</u>
						<u>MK</u>
Balance brought forward		4,170,111	4,071,675	1,258,107	329,904	
Funds received from NAC	4,173,625	-	-	-	1,263,208	5,436,833
Net finance income (interest received less bank charges)	<u>(3,514)</u>	<u>12,667</u>	<u>4,613</u>	<u>(1,713)</u>	<u>(3,891)</u>	<u>8,162</u>
Total Funding	<u>4,170,111</u>	<u>4,182,778</u>	<u>4,076,288</u>	<u>1,256,394</u>	<u>1,589,221</u>	<u>5,444,995</u>
Uses of Funds:						
Personnel costs	-	75,449	559,963	425,691	586,147	1,647,250
Travel & Transport	-	-	15,561	6,100	-	21,661
Office operating costs	-	24,934	1,000	13,560	12,410	51,904
Programme delivery	-	10,720	111,027	427,139	527,053	1,075,939
Capital assets purchased	<u>-</u>	<u>-</u>	<u>2,130,630</u>	<u>54,000</u>	<u>329,500</u>	<u>2,514,130</u>
Sub-Total	<u>-</u>	<u>111,103</u>	<u>2,818,181</u>	<u>926,490</u>	<u>1,455,110</u>	<u>5,310,884</u>
Closing Cash Balance	<u>4,170,111</u>	<u>4,071,675</u>	<u>1,258,107</u>	<u>329,904</u>	<u>134,111</u>	<u>134,111</u>
Represented by:						
National Bank balance						127,749
Lilongwe Petty cash						3,175
Ngodzi petty cash						<u>3,187</u>
TOTAL						<u>134,111</u>

Included under expenditure for Lifeline Malawi is expenditure totalling MK4,993,206 relating to National Aids Commission (NAC) funding. The amount reported in the NAC income and expenditure statement is MK5,310,884 constituting a difference of MK317,678. We were not provided with supporting information for this difference.