

LIFELINE MALAWI ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

**LIFELINE MALAWI ASSOCIATION
FINANCIAL STATEMENTS
For the year ended 31 March 2007**

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**LIFELINE MALAWI ASSOCIATION
REPORT OF THE TRUSTEES
For the year ended 31 March 2007**

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TRUSTEES' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The trustees accept that it is their duty to prepare financial statements annually, which give a true and fair view of the state of the association's affairs at the balance sheet date and their results for the period then ended and otherwise comply with the requirements of the Trustees Incorporation Act.

The trustees also acknowledge their duty to ensure the association keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the association.

In preparing the financial statements the trustees accept responsibility for the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and consistent application thereof;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with International Financial Reporting Standards, when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the association will continue in business.

The trustees are also responsible for establishing internal controls that ensure the propriety of transactions and accuracy and reliability of the accounting records and to safeguard the assets of the association against loss by theft, fraud, defalcation or otherwise.

The trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the association and of its operating results and cash flows for the year ended 31 March 2007.

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

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Report on the financial statements

We have audited the financial statements of Lifeline Malawi Association as set out on pages 4 to 15, which comprise the balance sheet as at 31 March 2007, and the income statement, statement of changes in fund balances and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 compliance with International Accounting Standard 16 (revised) property, plant and equipment

As discussed in Note 2 to the financial statements, International Accounting Standard 16 (Revised) *Property, Plant and Equipment* has not been adopted. The standard requires that the Association assesses the estimated useful lives and residual values of assets annually for the purposes of computing the annual depreciation charge. The depreciation recorded in the current year's financial statements has not taken into account the effects of determination of the useful lives and residual values of the property, plant and equipment of the Association and might consequently be misstated.

Limitation of scope

Lifeline Malawi Association receives 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. We received confirmations of income amounting to CAD301,445 from a sample of CAD533,359 representing a total of 56.5%. We could not satisfy ourselves using other alternative procedures as to the completeness of this income.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Association complied with the requirements of IAS 16, and had we obtained audit assurance in respect of completeness of donations income, the financial statements, which are properly drawn up in accordance with the provisions of the NGO's Act, give a true and fair view of the financial position of Lifeline Malawi Association as of 31 March 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**LIFELINE MALAWI ASSOCIATION
BALANCE SHEET
31 March 2007**

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	<u>Notes</u>	<u>Operating fund CAD</u>	<u>Capital fund CAD</u>	<u>2007 CAD</u>	<u>Total 2006 CAD</u>
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	5	<u>-</u>	<u>693,287</u>	<u>693,287</u>	<u>415,414</u>
CURRENT ASSETS					
Inventory	6	44,335	-	44,335	-
Receivables	7	8,809	-	8,809	4,133
Short -term investments	8	-	151,702	151,702	85,000
Bank and cash		<u>160,117</u>	<u>-</u>	<u>160,117</u>	<u>39,024</u>
Total current assets		<u>213,261</u>	<u>151,702</u>	<u>364,963</u>	<u>128,157</u>
TOTAL ASSETS		<u>213,261</u>	<u>844,989</u>	<u>1,058,250</u>	<u>543,571</u>
FUND BALANCES AND LIABILITIES					
FUND BALANCES					
Unrestricted funds		55,964	-	55,964	60,215
Internally restricted funds		-	36,000	36,000	-
Externally restricted funds		-	96,200	96,200	-
Capital fund		<u>-</u>	<u>707,126</u>	<u>707,126</u>	<u>475,414</u>
Total fund balances		<u>55,964</u>	<u>839,326</u>	<u>895,290</u>	<u>535,629</u>
CURRENT LIABILITIES					
Payables		16,962	5,663	22,625	7,942
Deferred revenue		<u>140,335</u>	<u>-</u>	<u>140,335</u>	<u>-</u>
Total current liabilities		<u>157,297</u>	<u>5,663</u>	<u>162,960</u>	<u>7,942</u>
TOTAL FUND BALANCES AND LIABILITIES		<u>213,261</u>	<u>844,989</u>	<u>1,058,250</u>	<u>543,571</u>

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

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**LIFELINE MALAWI ASSOCIATION
INCOME STATEMENT
For the year ended 31 March 2007**

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	Operating fund CAD	Capital fund CAD	2007 CAD	2006 CAD
INCOME				
Donations and grants	727,630	475,283	1,202,913	658,502
Interest	3,011	1,540	4,551	1,253
Other	<u>26,781</u>	<u>-</u>	<u>26,781</u>	<u>67,478</u>
Total income	<u>757,422</u>	<u>476,823</u>	<u>1,234,245</u>	<u>727,233</u>
EXPENDITURE				
Operating costs	142,480	-	142,480	206,117
Salaries and benefits	355,161	-	355,161	194,051
Service and repair	147,863	-	147,863	106,578
Depreciation	-	161,770	161,770	104,869
Promotional costs	18,978	-	18,978	16,558
Administration	24,924	-	24,924	15,000
Loss n disposal of property, plant and equipment	-	-	-	4,576
Professional fees	23,168	-	23,168	4,164
Trade costs	<u>240</u>	<u>-</u>	<u>240</u>	<u>528</u>
Total expenditure	<u>712,814</u>	<u>161,770</u>	<u>874,584</u>	<u>652,441</u>
Surplus for the year	<u>44,608</u>	<u>315,053</u>	<u>359,661</u>	<u>74,792</u>

**LIFELINE MALAWI ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended 31 March 2007**

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	Capital fund CAD	Internally restricted funds CAD	Externally restricted funds CAD	Unrestricted funds CAD	Total funds CAD
<u>For the year ended 31 March 2006</u>					
At the beginning of the year	377,052	96,400	5,100	(17,715)	460,837
Pre year end reclassification	-	(96,400)	(5,100)	101,500	-
Surplus for the year	(46,236)	-	-	121,028	74,792
Interfund transfers	144,598	-	-	(144,598)	-
At the end of the year	<u>475,414</u>	<u>-</u>	<u>-</u>	<u>60,215</u>	<u>535,629</u>
<u>For the year ended 31 March 2007</u>					
At the beginning of the year	475,414	-	-	60,215	535,629
Surplus for the year	315,053	-	-	44,608	359,661
Interfund transfers	(83,341)	36,000	96,200	(48,859)	-
At the end of the year	<u>707,126</u>	<u>36,000</u>	<u>96,200</u>	<u>55,964</u>	<u>895,290</u>

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 2007**

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	<u>2007</u> CAD	<u>2006</u> CAD
Surplus for the year	359,661	74,792
Adjustments for:-		
- Depreciation	161,770	104,869
- Loss on disposal of property, plant and equipment	<u>-</u>	<u>4,576</u>
OPERATING CASH FLOWS BEFORE WORKING CAPITAL CHANGES	521,431	184,237
(Decrease)/increase in receivables	(4,676)	11,300
Increase in inventory	(44,335)	-
Increase/(decrease) in current liabilities	<u>155,018</u>	<u>(44,993)</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	627,438	150,544
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of property, plant and equipment	(446,994)	(212,463)
Proceeds from disposal of property, plant and equipment	<u>7,351</u>	<u>4,039</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(439,643)</u>	<u>(208,424)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	187,795	(57,880)
CASH AND CASH EQUIVALENTS at the beginning of the year	<u>124,024</u>	<u>181,904</u>
CASH AND CASH EQUIVALENTS at the end of the year	<u>311,819</u>	<u>124,024</u>

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1 *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.

2. *Adoption of new and revised international financial reporting standards*

In the current year, the Association has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations except for IAS 16 as explained below.

IAS 16 (Revised) *Property, Plant and Equipment* for years beginning on or after 1 January 2005 has not been adopted. The revised standard requires that the Association assesses the estimated remaining useful life and residual value of assets at least annually. The Association has maintained the depreciation on a straight-line basis at the rates that will reduce book amounts to residual values, estimated at purchase, over the initially anticipated useful lives of the assets.

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

- IFRIC 4 Determining whether an arrangement contains a lease;
- IFRIC 5 Right to interest arising from Decommissioning Restoration and Environmental Rehabilitation fund;
- IFRS 7 Financial Instruments: Disclosures;
- IFRC 7 Applying the Restatement Approach under IAS 29 Financial Reporting – Hyperinflationary Economics;
- IFRS 8 Operating segments;
- IFRIC 8 Scope of IFRS 2;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 10 Interim Financial Reporting and impairment;
- IFRIC 11 Group and Treasury share Transactions, Guidance on IFRS 2; and
- IFRIC 12 Service Concession Arrangements.

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2. *Adoption of new and revised international financial reporting standards* (Continued)

The trustees anticipate that other than the adoption of IFRS 7 these Standards and Interpretations in future periods will have no material impact on the financial statements of the Association. The adoption of IFRS 7 will impact the disclosure and presentation of these financial statements.

3. *Significant accounting policies*

Statement of compliance

The financial statements have been drawn up in accordance with International Financial Reporting Standards, except as discussed in note 2 above.

Basis of preparation

The financial statements are prepared in terms of the historical cost convention, with the exception of certain financial instruments which are included at fair value. No procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices. The principal accounting policies of the association are set out below:-

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.

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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. Depreciation, 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	3 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.

Receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash shows discounted at the effective interest rate computed at initial recognition.

Payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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.

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3. *Significant accounting policies* (Continued)

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.

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.

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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 2007**

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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 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	18,581	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 2007

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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 2007</u> CAD
<u>For the year ended 31 March 2007</u>							
COST OR VALUATION							
At the beginning of the year	498	316,624	90,563	17,039	118,531	35,987	579,242
Additions	-	198,830	6,123	32,584	188,573	20,884	446,994
Disposals	-	-	-	-	(54,906)	(6,260)	(61,166)
At the end of the year	498	515,454	96,686	49,623	252,198	50,611	965,070
DEPRECIATION							
At the beginning of the year	-	43,598	25,949	9,476	67,669	17,136	163,828
Charge for the year	-	27,048	17,166	6,637	94,439	16,480	161,770
Disposals	-	-	-	-	(49,642)	(4,173)	(53,815)
At the end of the year	-	70,646	43,115	16,113	112,466	29,443	271,783
NET BOOK VALUE							
At the end of the year	498	444,808	53,571	33,510	139,732	21,168	693,287

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 2007

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	<u>2007</u> CAD	<u>2006</u> CAD
6. Inventories		
Medical supplies from ICLEP	22,430	-
Medical supplies in the pharmacy	<u>21,905</u>	<u>-</u>
Total inventories	<u>44,335</u>	<u>-</u>
7. Receivables		
Prepayments	-	600
Other receivables	<u>8,809</u>	<u>3,533</u>
Total receivables	<u>8,809</u>	<u>4,133</u>

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

8. Short-term investments

Short-term investments are comprised of Guaranteed Investment Certificates and Q-trade Investments. The cost of the Guaranteed Certificates at 31 March 2007 was CAD150,000 (2006: CAD85,000) and the market value was CAD150,688 (2006: CAD85,318). The investments in Q-trade as at 31 March 2007 had a market value of CAD1,014 (2006: Nil).

9. 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 (2006: Nil); and

Total direct expenses incurred for the purpose of soliciting contributions amounted to CAD185,978 (2006: CAD16,558).