

MANA NUTRITIVE AID
PRODUCTS, INC

Financial Statements for the Years
Ended September 30, 2015 and 2014
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
MANA Nutritive Aid Products, Inc.
Matthews, North Carolina

We have audited the accompanying financial statements of MANA Nutritive Aid Products, Inc., (the "Organization" - a nonprofit corporation), which comprise the statement of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

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 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 financial statements are free of 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 judgment, 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. 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 financial statements. 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 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of MANA Nutritive Aid Products, Inc., as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

C. Dewitt Foard & Company, P.A.

November 18, 2015

MANA NUTRITIVE AID PRODUCTS, INC.

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2015 AND 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,564,862	\$ 903,904
Accounts receivable, net	1,061,134	1,943,092
Inventory, net	3,880,346	3,786,407
Equipment held for sale	336,800	351,500
Prepaid expenses and other assets	59,935	68,232
Total current assets	<u>7,903,077</u>	<u>7,053,135</u>
PROPERTY:		
Building	1,851,821	1,822,121
Manufacturing equipment	4,334,084	3,302,989
Computer equipment	107,878	97,495
Vehicles	105,217	105,217
Other equipment and furnishing	163,445	26,729
Construction in progress	767,886	854,184
Total	<u>7,330,331</u>	<u>6,208,735</u>
Less accumulated depreciation and amortization	<u>1,386,055</u>	<u>963,838</u>
Property, net	<u>5,944,276</u>	<u>5,244,897</u>
Other assets	<u>4,600</u>	<u>4,600</u>
TOTAL	<u><u>\$ 13,851,953</u></u>	<u><u>\$ 12,302,632</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable	\$ 1,688,194	\$ 149,847
Current portion of capital lease obligations	11,210	9,213
Accounts payable and accrued expenses	512,906	286,918
Total current liabilities	<u>2,212,310</u>	<u>445,978</u>
LONG-TERM LIABILITIES:		
Capital lease obligations, net of current portion	16,219	10,084
Notes payable, net of unamortized discount and current portion	7,314,230	8,878,034
Total long-term liabilities	<u>7,330,449</u>	<u>8,888,118</u>
NET ASSETS:		
Unrestricted	4,012,884	2,547,757
Temporarily restricted	296,310	420,779
Total net assets	<u>4,309,194</u>	<u>2,968,536</u>
TOTAL	<u><u>\$ 13,851,953</u></u>	<u><u>\$ 12,302,632</u></u>

See notes to financial statements.

MANA NUTRITIVE AID PRODUCTS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT:						
Product sales	\$ 17,445,649	-	\$ 17,445,649	\$ 11,055,768	-	\$ 11,055,768
Foundations support	-	-	-	600,000	-	600,000
Public and corporate support	703,850	-	703,850	202,865	-	202,865
Miscellaneous and other income	30,854	-	30,854	742	-	742
Released from restrictions	124,469	(124,469)	-	622,457	(622,457)	-
Total support	<u>18,304,822</u>	<u>(124,469)</u>	<u>18,180,353</u>	<u>12,481,832</u>	<u>(622,457)</u>	<u>11,859,375</u>
EXPENSES:						
Program services:						
Product expenses	13,784,771	-	13,784,771	9,415,177	-	9,415,177
Compensation	593,183	-	593,183	450,745	-	450,745
Professional fees	115	-	115	57	-	57
Travel and entertainment	60,837	-	60,837	8,599	-	8,599
Research and development	64,620	-	64,620	43,150	-	43,150
Advertising expense	13,304	-	13,304	1,014	-	1,014
Facilities expense	502,346	-	502,346	334,728	-	334,728
Insurance	80,958	-	80,958	77,487	-	77,487
Communication expenses	3,757	-	3,757	3,372	-	3,372
Office expenses	37,767	-	37,767	25,053	-	25,053
Depreciation	369,180	-	369,180	321,619	-	321,619
Interest expense	92,920	-	92,920	96,626	-	96,626
Other	14,311	-	14,311	4,622	-	4,622
Total program services	<u>15,618,069</u>	<u>-</u>	<u>15,618,069</u>	<u>10,782,249</u>	<u>-</u>	<u>10,782,249</u>
Supporting services:						
Compensation	376,582	-	376,582	370,426	-	370,426
Professional fees	351,286	-	351,286	148,473	-	148,473
Travel and entertainment	21,499	-	21,499	19,647	-	19,647
Fundraising	235,976	-	235,976	32,477	-	32,477
Facilities expense	21,562	-	21,562	21,623	-	21,623
Insurance	4,384	-	4,384	4,663	-	4,663
Communication expenses	6,938	-	6,938	4,349	-	4,349
Office expenses	16,686	-	16,686	13,837	-	13,837
Depreciation	68,451	-	68,451	24,508	-	24,508
Interest expense	118,262	-	118,262	122,647	-	122,647
Total supporting services	<u>1,221,626</u>	<u>-</u>	<u>1,221,626</u>	<u>762,650</u>	<u>-</u>	<u>762,650</u>
Total expenses	<u>16,839,695</u>	<u>-</u>	<u>16,839,695</u>	<u>11,544,899</u>	<u>-</u>	<u>11,544,899</u>
CHANGE IN NET ASSETS	1,465,127	(124,469)	1,340,658	936,933	(622,457)	314,476
NET ASSETS, BEGINNING	<u>2,547,757</u>	<u>420,779</u>	<u>2,968,536</u>	<u>1,610,824</u>	<u>1,043,236</u>	<u>2,654,060</u>
NET ASSETS, ENDING	<u>\$ 4,012,884</u>	<u>\$ 296,310</u>	<u>\$ 4,309,194</u>	<u>\$ 2,547,757</u>	<u>\$ 420,779</u>	<u>\$ 2,968,536</u>

See notes to financial statements.

MANA NUTRITIVE AID PRODUCTS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,340,658	\$ 314,476
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	437,631	346,127
Loss on disposition of property	34,404	979
Change in reserves and allowances	152,459	(157,459)
Changes in operating assets and liabilities:		
Accounts receivable	834,809	(1,326,879)
Pledges receivable	-	500,000
Inventory	(204,549)	(787,202)
Prepaid expenses and other assets	8,297	(24,529)
Accounts payable and accrued expenses	225,988	(693,483)
Net cash applied to operating activities	<u>2,829,697</u>	<u>(1,827,970)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(1,137,010)</u>	<u>(346,982)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Amortization of discount on notes payable	124,469	122,457
Payments on note payable	<u>(156,198)</u>	<u>(166,012)</u>
Net cash provided by financing activities	<u>(31,729)</u>	<u>(43,555)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,660,958	(2,218,507)
CASH AND CASH EQUIVALENTS BALANCE, BEGINNING OF PERIOD	<u>903,904</u>	<u>3,122,411</u>
CASH AND CASH EQUIVALENTS BALANCE, END OF PERIOD	<u>\$ 2,564,862</u>	<u>\$ 903,904</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 86,713</u>	<u>\$ 96,816</u>
SUPPLEMENTAL NONCASH FINANCING INFORMATION:		
Capital lease entered into during the year	<u>\$ 18,900</u>	<u>\$ 13,450</u>

See notes to financial statements.

MANA NUTRITIVE AID PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - MANA Nutritive Aid Products Incorporated (the “Organization”) operates as a not-for-profit organization whose principal mission is to develop and provide solutions to address the root causes of malnutrition and its devastating effects. The Organization aims to prevent child deaths due to severe acute malnutrition by treating the condition through the production and distribution of fortified foods. MANA has developed and produces a Ready-to-Use Therapeutic Food (“RUTF”) in the form of a fortified peanut butter paste known as “MANA”. RUTF’s like MANA provide severely malnourished children with the calories and nutrition they need to reach a healthy weight and fend off nutrition-related diseases. The Organization has focused on raising funds and marketing its product to future customers.

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Financial Statement Presentation - The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not restricted by donors or for which donor-imposed restrictions have expired.

Temporarily restricted net assets - Net assets that contain donor-imposed time or purpose restrictions that have not currently been met.

Permanently restricted net assets - Net assets which contain donor-imposed restrictions stipulating that the amounts be maintained by the Organization in perpetuity. There were no permanently restricted net assets as of September 30, 2015 and 2014.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains cash deposits with financial institutions that, at times, may exceed federally insured limits.

Accounts Receivable - The Organization extends credit to its customers. By their nature, accounts receivable involve risk, including the credit risk of nonpayment by the customer. Accounts receivable are considered past due based on contractual and invoice terms. Accounts deemed uncollectible are charged directly to bad debt expense. As of September 30, 2015, the Organization considered \$20,000 of its remaining accounts uncollectible and, therefore, an allowance has been provided. As of September 30, 2014, a balance of \$47,149 was considered uncollectible and an allowance for that amount was provided.

Pledges Receivable - Contributions are recognized when a donor makes a promise that is, in substance, unconditional to give cash or property to the Organization. Pledges receivable are recorded at their estimated fair value. At September 30, 2015 and 2014, there were no remaining pledges receivable.

Inventory - Inventory is stated at the lower of cost (average cost) or market.

MANA NUTRITIVE AID PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

Property - Property is recorded at cost, if purchased and at estimated fair market value at the date of receipt, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The Organization capitalizes expenditures for property and equipment over \$500. Donated property is reported as unrestricted support unless the donor restricts the donated asset to a specific purpose.

Donated Services - A number of volunteers, including members of the Board of Directors and its committees as well as various volunteer assistants, contribute significant amounts of time to further the Organization's programs. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected as support in the accompanying financial statements. The Organization did receive donated inventory, legal and other professional services of approximately \$68,219 and \$91,309 for the years ended September 30, 2015 and 2014, respectively, that is recorded as support and related expenditures in the accompanying financial statements.

Income Taxes - The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements.

As of September 30, 2015, the tax year years ended September 30, 2012 through 2015 were open for potential examination by taxing authorities.

Revenue Recognition - The Organization recognizes contributions that are given unconditionally as support in the period the contributions are promised. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the period in which the support is recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Revenue from product sales is recognized upon shipment, which is when title transfers.

Advertising Expense - The Organization expenses the cost of advertising as incurred. The accompanying statements of activities include advertising expense in the amount of \$4,286 and \$1,282 for the years ended September 30, 2015 and 2014, respectively.

Research and Development Costs - Expenditures related to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred.

Shipping and Handling Costs - The Organization includes shipping and handling costs in product expenses, as incurred.

Functional Expense Classification - The Organization's functional expense classification and allocation policy is based on a review of the current organizational structure, and the identification, reclassification and allocation of certain employee, facility, and departmental expenses, which serve multiple functional areas.

Subsequent Events - In preparing its financial statements, the Organization has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued. During this time, no material subsequent events were identified.

MANA NUTRITIVE AID PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

2. INVENTORY

Inventory as of September 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Raw materials	\$ 1,492,991	\$ 1,063,790
Finished goods	<u>2,387,355</u>	<u>2,847,927</u>
Subtotal	3,880,346	3,911,717
Less allowance for obsolescence	<u>-</u>	<u>125,310</u>
Total, net	<u>\$ 3,880,346</u>	<u>\$ 3,786,407</u>

3. EQUIPMENT HELD FOR SALE

The Organization had equipment held for use in future Rwanda production that was never placed in service and will not be placed in service as the Board decided to cease operations in Rwanda as of September 30, 2011. As such, the equipment was classified as held for sale as of September 30, 2015 and 2014.

4. NOTES PAYABLE

Notes payable as of September 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Note payable to a foundation with a face amount of \$7,000,000. The loan is secured by accounts receivable and equipment, bears no interest and is payable in five equal annual installments from January 2016 through January 2020. When the loan proceeds were advanced, the Organization recorded contribution revenue and a loan discount of approximately \$784,000 using the applicable federal rate of 1.63% as of September 30, 2011.	\$ 6,740,729	\$ 6,631,819
Note payable to a foundation with a face amount of \$1,000,000. One of the foundation's officers is a board member of the Organization. The loan is secured by equipment, bears no interest and is due in five equal annual installments from January 2016 through January 2020. When the loan proceeds were advanced, the Organization recorded contribution revenue and a loan discount of approximately \$124,000 using the applicable federal rate of 1.63% as of September 30, 2012.	962,961	947,402

MANA NUTRITIVE AID PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Note payable to an individual in the amount of \$1,700,000. Note is collateralized by a building. The loan bears interest at 6% and is payable in monthly installments of principal and interest of \$14,346 through April 2026.	1,298,734	1,389,965
Note payable to a non-profit corporation in the amount of \$58,580. The loan bears interest at 5.5% and is payable in monthly installments of principal and interest of \$2,583 through June 2015.	-	22,758
Note payable to a financial institution in the amount of \$89,520. The loan bears interest at 5.95% and is payable in monthly installments of principal and interest of \$3,978 through June 2015.	<u>-</u>	<u>35,937</u>
Total	9,002,424	9,027,881
Less current portion	<u>1,688,194</u>	<u>149,847</u>
Long-term portion	<u>\$ 7,314,230</u>	<u>\$ 8,878,034</u>

Scheduled maturities of the Organization's long-term notes payable as of September 30, 2015 were as follows:

Year ending September 30:	
2016	\$ 1,688,194
2017	1,668,457
2018	1,649,503
2019	1,631,350
2020	1,614,014
Thereafter	<u>750,906</u>
Total	<u>\$ 9,002,424</u>

Imputed interest expense of \$124,469 and \$122,457 is included in the accompanying statements of activities for the year ended September 30, 2015 and 2014, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets available for future periods or purposes as of September 30, 2015 and 2014, were \$296,310 and \$420,779, respectively and represents imputed interest on notes payable.

MANA NUTRITIVE AID PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

6. CAPITAL LEASE COMMITMENTS

The Organization leases equipment with a net book value of \$42,353 under capital leases. Future minimum rental payments due under these leases at September 30, 2015 are as follows:

Year ended September 30:

2016	\$ 12,285
2017	7,953
2018	5,167
2019	<u>3,875</u>
Total lease payments	29,280
Less amount representing interest	<u>1,851</u>
Present value of net minimum lease payments	<u>\$ 27,429</u>

During the year ended September 30, 2015, the Organization made total payments of \$11,689 related to capital leases.

7. EMPLOYMENT CONTRACT

The Organization has an agreement with a professional employee organization (PEO), whereby the PEO is a co-employer of the personnel retained by the Organization. The PEO is responsible for paying all salary and wages, payroll taxes and benefits including retirement plan contributions. The Organization reimburses the PEO for all direct personnel costs plus related services fees.

8. CONCENTRATIONS

Sales to the Organization's largest two customers accounted for approximately 97% of total product sales for the year ended September 30, 2015. Receivables due from one customer represented 98% of the accounts receivable balance as of September 30, 2015.

The Organization's support comes from a limited number of donors.

9. RELATED PARTY

Certain officers of MANA are on the Board of Directors of Calorie Cloud, a not-for-profit organization whose purpose is to help eradicate childhood deaths due to malnutrition while helping millions of American adults and children become more active and healthy. During the year MANA received \$500,000 from a corporate contributor and paid Calorie Cloud \$250,000 of this contribution to execute a health program pursuant to a service requirement of the contribution. MANA also advanced Calorie Cloud \$32,137 to fund operations, which Calorie Cloud repaid by year-end. In addition, MANA provided administrative support and the services of a share employee, valued at \$33,300, of which \$23,700 was paid and \$9,600 was receivable from Calorie Cloud at year-end.

MANA NUTRITIVE AID PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

10. CONTINGENCIES

The Organization is involved in various claims or actions arising in the normal course of business. It is management's opinion that the resolution of these matters will not materially affect the Organization's financial position or the results of its operations.