

MANA NUTRITIVE AID
PRODUCTS INCORPORATED

Financial Statements for the Years
Ended September 30, 2018 and 2017
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of MANA Nutritive Aid Products Incorporated, ("Organization" - a nonprofit corporation), which comprise the statement of financial position as of September 30, 2018 and 2017, 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 Incorporated, as of September 30, 2018 and 2017, 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 28, 2018

MANA NUTRITIVE AID PRODUCTS INCORPORATED

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,937,559	\$ 2,374,556
Accounts receivable, net	1,389,736	1,781,901
Pledges receivable	800,000	-
Inventory, net	4,791,101	5,293,263
Equipment held for sale	-	289,761
Prepaid expenses and other assets	<u>286,361</u>	<u>177,038</u>
Total current assets	<u>9,204,757</u>	<u>9,916,519</u>
PROPERTY:		
Land	35,739	35,739
Building	2,031,329	2,031,329
Manufacturing equipment	5,710,416	5,467,482
Other equipment and furnishing	533,024	511,088
Construction in progress	<u>3,703,463</u>	<u>771,161</u>
Total	12,013,971	8,816,799
Less accumulated depreciation and amortization	<u>3,182,780</u>	<u>2,552,160</u>
Property, net	<u>8,831,191</u>	<u>6,264,639</u>
OTHER ASSETS:		
Vendor deposits	<u>5,071</u>	<u>5,071</u>
Total other assets	<u>5,071</u>	<u>5,071</u>
TOTAL	<u>\$ 18,041,019</u>	<u>\$ 16,186,229</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of notes payable	\$ 423,295	\$ 224,129
Current portion of capital lease obligations	3,804	4,897
Accounts payable and accrued expenses	<u>511,036</u>	<u>1,127,196</u>
Total current liabilities	<u>938,135</u>	<u>1,356,222</u>
LONG-TERM LIABILITIES:		
Capital lease obligations, net of current portion	-	3,786
Notes payable, net of unamortized discount, loan costs, and current portion	3,325,609	1,259,067
Note payable to Foundation, net of unamortized discount	<u>6,862,464</u>	<u>6,831,078</u>
Total long-term liabilities	<u>10,188,073</u>	<u>8,093,931</u>
NET ASSETS:		
Unrestricted	5,867,976	6,554,315
Temporarily restricted	<u>1,046,835</u>	<u>181,761</u>
Total net assets	<u>6,914,811</u>	<u>6,736,076</u>
TOTAL	<u>\$ 18,041,019</u>	<u>\$ 16,186,229</u>

See notes to financial statements.

MANA NUTRITIVE AID PRODUCTS INCORPORATED

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
INCOME:						
Product sales	\$ 17,414,422	\$ -	\$ 17,414,422	\$ 21,802,109	\$ -	\$ 21,802,109
Public and corporate support	332,274	903,919	1,236,193	615,477	-	615,477
Miscellaneous and other income	18,951	-	18,951	6,535	-	6,535
Released from restrictions	<u>38,845</u>	<u>(38,845)</u>	<u>-</u>	<u>122,878</u>	<u>(122,878)</u>	<u>-</u>
Total income	<u>17,804,492</u>	<u>865,074</u>	<u>18,669,566</u>	<u>22,546,999</u>	<u>(122,878)</u>	<u>22,424,121</u>
EXPENSES:						
Program services:						
Product expenses	14,161,738	-	14,161,738	17,826,051	-	17,826,051
Product fulfillment	272,464	-	272,464	590,690	-	590,690
Compensation	1,046,579	-	1,046,579	866,970	-	866,970
Facilities expense	620,121	-	620,121	649,605	-	649,605
Professional fees	15,455	-	15,455	4,153	-	4,153
Travel and entertainment	22,026	-	22,026	12,090	-	12,090
Insurance and fees	92,838	-	92,838	102,109	-	102,109
Communication expenses	19,495	-	19,495	6,106	-	6,106
Office expenses	47,580	-	47,580	51,205	-	51,205
Depreciation	608,705	-	608,705	573,773	-	573,773
Interest expense	43,095	-	43,095	60,453	-	60,453
Loss on disposal of assets	289,761	-	289,761	69,486	-	69,486
Other	<u>375,715</u>	<u>-</u>	<u>375,715</u>	<u>24,574</u>	<u>-</u>	<u>24,574</u>
Total program services	<u>17,615,572</u>	<u>-</u>	<u>17,615,572</u>	<u>20,837,265</u>	<u>-</u>	<u>20,837,265</u>
Supporting services:						
Compensation	546,044	-	546,044	584,924	-	584,924
Facilities expense	26,335	-	26,335	24,065	-	24,065
Professional fees	97,064	-	97,064	135,862	-	135,862
Travel and entertainment	63,929	-	63,929	41,200	-	41,200
Insurance	13,363	-	13,363	14,630	-	14,630
Fundraising and public relations	13,162	-	13,162	6,315	-	6,315
Communication expenses	7,594	-	7,594	7,218	-	7,218
Office expenses	24,267	-	24,267	18,953	-	18,953
Depreciation	21,915	-	21,915	28,950	-	28,950
Interest expense	41,157	-	41,157	57,760	-	57,760
Other	<u>20,429</u>	<u>-</u>	<u>20,429</u>	<u>2,246</u>	<u>-</u>	<u>2,246</u>
Total supporting services	<u>875,259</u>	<u>-</u>	<u>875,259</u>	<u>922,123</u>	<u>-</u>	<u>922,123</u>
Total expenses	<u>18,490,831</u>	<u>-</u>	<u>18,490,831</u>	<u>21,759,388</u>	<u>-</u>	<u>21,759,388</u>
CHANGE IN NET ASSETS	(686,339)	865,074	178,735	787,611	(122,878)	664,733
NET ASSETS, BEGINNING	<u>6,554,315</u>	<u>181,761</u>	<u>6,736,076</u>	<u>5,766,704</u>	<u>304,639</u>	<u>6,071,343</u>
NET ASSETS, ENDING	<u>\$ 5,867,976</u>	<u>\$ 1,046,835</u>	<u>\$ 6,914,811</u>	<u>\$ 6,554,315</u>	<u>\$ 181,761</u>	<u>\$ 6,736,076</u>

See notes to financial statements.

MANA NUTRITIVE AID PRODUCTS INCORPORATED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 178,735	\$ 664,733
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	630,620	602,723
Loss on disposition of property	289,761	69,486
Change in reserves and allowances	(15,246)	(73,797)
Amortization of discount on notes payable	38,845	41,822
Changes in operating assets and liabilities:		
Accounts receivable	401,970	322,400
Pledges receivable	(800,000)	-
Inventory	507,603	(1,421,630)
Prepaid expenses and other assets	(109,323)	(182,340)
Accounts payable and accrued expenses	(616,160)	466,105
Net cash provided by operating activities	<u>506,805</u>	<u>489,502</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(3,197,172)</u>	<u>(1,036,094)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	2,912,519	968,160
Payments on note payable	(659,149)	(1,413,221)
Net cash provided by financing activities	<u>2,253,370</u>	<u>(445,061)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(436,997)	(991,653)
CASH AND CASH EQUIVALENTS BALANCE, BEGINNING OF PERIOD	<u>2,374,556</u>	<u>3,366,209</u>
CASH AND CASH EQUIVALENTS BALANCE, END OF PERIOD	<u>\$ 1,937,559</u>	<u>\$ 2,374,556</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 45,407</u>	<u>\$ 76,391</u>

See notes to financial statements.

MANA NUTRITIVE AID PRODUCTS INCORPORATED

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017.

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, 2018, the Organization considered \$195 of its remaining accounts uncollectible and, therefore, an allowance has been provided. As of September 30, 2017, a balance of \$10,000 was considered uncollectible and an allowance for that amount was provided.

Pledge receivable – Unconditional pledges receivable are recognized as support in the period the pledge is received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Pledges receivable are expected to be collected within one year. No allowance for doubtful accounts has been provided based on management’s evaluation of the underlying pledge.

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

Property - Property is recorded at cost, if purchased and at estimated fair market value at the date of

MANA NUTRITIVE AID PRODUCTS INCORPORATED

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

receipt, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three years for computer equipment to thirty years for buildings. The Organization capitalizes expenditures for property and equipment over \$1,000. 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 \$57,598 and \$65,456 for the years ended September 30, 2018 and 2017, 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, 2018, the tax years ended September 30, 2015 through 2018 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. During the year restrictions were satisfied based on expiration of time restriction.

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 \$7,987 and \$2,077 for the years ended September 30, 2018 and 2017, 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 INCORPORATED

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

2. INVENTORY

Inventory as of September 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Raw materials	\$ 1,582,559	\$ 1,370,994
Finished goods	<u>3,238,542</u>	<u>3,957,710</u>
Subtotal	4,821,101	5,328,704
Less allowance for obsolescence	<u>30,000</u>	<u>35,441</u>
Total, net	<u>\$ 4,791,101</u>	<u>\$ 5,293,263</u>

3. NOTES PAYABLE

Notes payable as of September 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable to a foundation with a face amount of \$7,000,000. The loan is secured by equipment, bears no interest and is payable in five equal annual installments from January 2021 through January 2026. 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.	\$ 6,862,464	\$ 6,831,078
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.	394,620	587,161

MANA NUTRITIVE AID PRODUCTS INCORPORATED

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
The Organization has a construction loan agreement with a financial institution up to \$3,578,000. The Organization is currently drawing on the loan as construction on a new warehouse is being completed. The loan will be repaid in equal monthly installments of \$19,878 plus interest beginning in December 2018 with the balance due upon maturity of the loan in August 2028. The interest rate is equal to the LIBOR Daily Floating Rate plus two percentage points. The rate at year-end equaled 3.24%. In October 2017, the Organization entered into an interest rate swap agreement effectively fixing the interest rate on \$2,250,000 of the note payable at 4.59%. The balance subject to the swap agreement will amortize in equal monthly installments of \$19,878 beginning in September 2018 through December 2027.	3,430,679	968,160
Note payable to a financial institution in the amount of \$23,035. The loan bears interest at 8.342% and is payable in monthly installments of principal and interest of \$471 through July 2021.	<u>14,214</u>	<u>18,484</u>
Total	10,701,977	8,404,883
Less current portion	<u>423,295</u>	<u>224,129</u>
Long-term portion	<u>\$ 10,278,682</u>	<u>\$ 8,180,754</u>

Scheduled maturities of the Organization's long-term notes payable as of September 30, 2018 were as follows:

Year ending September 30:	
2019	\$ 418,998
2020	442,494
2021	1,621,840
2022	1,611,000
Thereafter	<u>6,607,645</u>
Total	<u>\$ 10,701,977</u>

Imputed interest expense of \$38,845 and \$41,822 is included in the accompanying statements of activities for the year ended September 30, 2018 and 2017, respectively.

MANA NUTRITIVE AID PRODUCTS INCORPORATED

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

4. LINE OF CREDIT

The Organization has available a line of credit up to \$2,000,000, subject to borrowing base limitations, from a local financial institution. The line of credit is secured by accounts receivable and inventory, matured in September 2018, and is subject to interest on outstanding balances at the LIBOR Daily Floating Rate plus 3 percentage points. The Organization made draws totaling \$450,000 which were subsequently repaid during 2018 and did not draw any proceeds from the line of credit during the year ended September 30, 2017.

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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Time restricted: Contributions for FY2019	\$ 903,919	\$ -
Time restricted: Imputed interest on notes payable	<u>142,916</u>	<u>181,761</u>
TOTAL	<u>\$ 1,046,835</u>	<u>\$ 181,761</u>

Net assets of \$38,845 were released from restrictions by expiration of time restrictions during the year ended September 30, 2018.

6. CAPITAL LEASE COMMITMENTS

The Organization leases equipment with a net book value of \$31,204 under capital leases. Future minimum rental payments due under these leases at September 30, 2018 are as follows:

Year ended September 30:	
2019	\$ <u>3,804</u>
Total lease payments	3,804
Less amount representing interest	<u>71</u>
Present value of net minimum lease payments	<u>\$ 3,733</u>

During the year ended September 30, 2018, the Organization made total payments of \$4,879 related to capital leases.

MANA NUTRITIVE AID PRODUCTS INCORPORATED

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

7. OPERATING LEASES

The Organization leases warehouse space and office space under operating lease agreements. Lease expense for the year ended September 30, 2018 was \$220,100. Future minimum payments due under operating lease agreements were as follows:

Year ended September 30:	
2019	\$ 37,000
2020	<u>5,250</u>
Total	<u>\$ 42,250</u>

8. CONCENTRATIONS

Sales to the Organization's largest two customers accounted for approximately 95% of total product sales for the year ended September 30, 2018. Accounts receivables due from one customer represented 93% of the accounts receivable balance as of September 30, 2018. The pledge receivable balance at September 30, 2018 is from one donor.

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

9. RELATED PARTY TRANSACTIONS

Certain officers of MANA are on the Board of Directors of Active for Good (formerly Calorie Cloud), a not-for-profit organization whose purpose is to help millions of American adults and children become healthier through activity and use the benefits realized to help eradicate childhood deaths around the world due to severe acute malnutrition. Active for Good provides technology support services to MANA, for which it was paid \$33,820 in fiscal year 2018.

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.