

PROJECT HEALTHY CHILDREN, INC.

FINANCIAL STATEMENTS

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September 30, 2016 and 2015

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**R.J. GOLD & COMPANY, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Project Healthy Children, Inc.

We have audited the accompanying financial statements of Project Healthy Children, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 audits. We conducted our audits 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 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 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 qualified audit opinion.

**Basis for Qualified Opinion**

We were unable to obtain sufficient appropriate audit evidence about the existence of inventory and equipment because of the remote overseas location. We also were not able to obtain sufficient appropriate audit evidence about the ownership of the equipment because of an absence of documentation.

**Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Project Healthy Children, Inc. as of September 30, 2016 and 2015, 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.

*R.J. Gold & Company, P.C.*

Burlington, Massachusetts  
May 18, 2017

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PROJECT HEALTHY CHILDREN, INC.  
 STATEMENTS OF FINANCIAL POSITION  
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 SEPTEMBER 30, 2016 AND 2015

ASSETS

	2016	2015
<b>CURRENT ASSETS</b>		
Cash	\$ 597,289	\$ 205,356
Contributions receivable	69,002	134,582
Accounts receivable	11,262	5,636
Pledge receivable	-	10,000
Loans receivable - employees	6,260	3,194
Inventory	149,201	28,829
Employee cash advances	51,826	76,269
Prepaid expenses	30,247	39,450
<b>TOTAL CURRENT ASSETS</b>	<b>915,087</b>	<b>503,316</b>
 PROPERTY AND EQUIPMENT, net of accumulated depreciation	 145,807	 154,897
 <b>OTHER ASSETS</b>		
Security deposits	3,000	3,000
 <b>TOTAL ASSETS</b>	 <b>\$ 1,063,894</b>	 <b>\$ 661,213</b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 73,091	\$ 20,075
 <b>LONG TERM LIABILITIES</b>		
Loan payable - officer	-	100,000
 <b>NET ASSETS</b>		
Unrestricted	970,099	541,138
Temporarily restricted	20,704	-
<b>TOTAL NET ASSETS</b>	<b>990,803</b>	<b>541,138</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 1,063,894</b>	 <b>\$ 661,213</b>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>PROGRAM AND OTHER REVENUE:</b>						
Contributions	\$ 1,086,683	\$ 20,704	\$ 1,107,387	\$ 839,992	\$ -	\$ 839,992
Other revenue	101,956	-	101,956	189,386	-	189,386
In kind donations	-	-	-	237,701	-	237,701
<b>TOTAL PROGRAM AND OTHER REVENUE</b>	<b>1,188,639</b>	<b>20,704</b>	<b>1,209,343</b>	<b>1,267,079</b>	<b>-</b>	<b>1,267,079</b>
<b>EXPENSES:</b>						
Program services						
Overseas countries	363,036	-	363,036	430,364	-	430,364
Sanku	317,145	-	317,145	413,976	-	413,976
Total program services	680,181	-	680,181	844,340	-	844,340
Support services						
General and administrative	70,248	-	70,248	82,308	-	82,308
Fundraising	9,249	-	9,249	-	-	-
Total support services	79,497	-	79,497	82,308	-	82,308
<b>TOTAL EXPENSES</b>	<b>759,678</b>	<b>-</b>	<b>759,678</b>	<b>926,648</b>	<b>-</b>	<b>926,648</b>
<b>CHANGES IN NET ASSETS</b>	<b>428,961</b>	<b>20,704</b>	<b>449,665</b>	<b>340,431</b>	<b>-</b>	<b>340,431</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>541,138</b>	<b>-</b>	<b>541,138</b>	<b>200,707</b>	<b>-</b>	<b>200,707</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 970,099</b>	<b>\$ 20,704</b>	<b>\$ 990,803</b>	<b>\$ 541,138</b>	<b>\$ -</b>	<b>\$ 541,138</b>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 449,665	\$ 340,431
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	35,269	49,340
Donated assets	-	(232,596)
(Increase) decrease in assets:		
Accounts receivable	(5,626)	(5,636)
Contributions, grant and pledge receivables	75,580	(94,582)
Employee cash advances	24,443	(6,402)
Inventory	(120,372)	-
Prepaid expenses	9,203	(11,318)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	<u>53,016</u>	<u>2,564</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>521,178</u>	<u>41,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposits	-	2,700
Purchase of fixed assets	(26,179)	-
Repayment of loans to employees	<u>(3,066)</u>	<u>5,002</u>
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(29,245)</u>	<u>7,702</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan from officer	<u>(100,000)</u>	<u>-</u>
NET INCREASE IN CASH	391,933	49,503
CASH AT BEGINNING OF YEAR	<u>205,356</u>	<u>155,853</u>
CASH AT END OF YEAR	<u>\$ 597,289</u>	<u>\$ 205,356</u>
SCHEDULE OF NON CASH INVESTING ACTIVITIES:		
Donated assets	<u>\$ -</u>	<u>\$ (232,596)</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2016

(With Comparative Totals for September 30, 2015)

	Program Services			Support Services			Total	
	Overseas Countries	Sanku	Total Program	General and Administrative		Fundraising	Support	
				2016	2015		2016	2015
<b>EXPENSES</b>								
Payroll	\$ 101,250	\$ 63,087	\$ 164,337	\$ 3,536	\$ -	\$ 3,536	\$ 167,873	\$ 218,727
Payroll taxes	6,474	6,474	12,948	-	-	-	12,948	17,299
Overseas payroll and payroll taxes	147,586	19,781	167,367	-	-	-	167,367	96,926
Employee benefits	15,785	46,298	62,083	-	-	-	62,083	37,657
Materials - fortification devices	-	44,213	44,213	-	-	-	44,213	191,922
Cost of good sold - premix	-	28,667	28,667	-	-	-	28,667	2,890
Depreciation	-	35,269	35,269	-	-	-	35,269	49,340
Communications	10,397	1,457	11,854	2,885	40	2,925	14,779	12,640
Consultant and professional fees	12,000	16,919	28,919	30,647	4,167	34,814	63,733	64,366
Insurance	-	50	50	6,779	-	6,779	6,829	6,618
Office supplies	734	2,756	3,490	1,451	-	1,451	4,941	14,116
Rent	6,534	6,315	12,849	14,091	-	14,091	26,940	25,650
Supplies	988	705	1,693	-	-	-	1,693	2,476
Travel	25,460	37,512	62,972	25	5,036	5,061	68,033	129,981
Other	35,828	7,642	43,470	10,834	6	10,840	54,310	56,041
<b>TOTAL EXPENSES</b>	<b>\$ 363,036</b>	<b>\$ 317,145</b>	<b>\$ 680,181</b>	<b>\$ 70,248</b>	<b>\$ 9,249</b>	<b>\$ 79,497</b>	<b>\$ 759,678</b>	<b>\$ 926,649</b>

The accompanying Notes are an Integral Part of These Financial Statements

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Organization and Purpose

Project Healthy Children, Inc. (the "Organization") is a not-for-profit organization which was organized April, 2004 and provides technical support and education on the benefits of food fortification. The Organization works with governments and private industry to establish fortification programs that improve the health of people around the world. The Organization currently conducts its work in Liberia, Malawi, Rwanda, Burundi, Tanzania, Zimbabwe and Sierra Leone.

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.

Inventory

Inventory is stated at the lower of cost or market and the Organization uses the specific identification method to determine cost.

Financial Statement Presentation

Information regarding the Organization's financial position and activities are reported according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - represent net assets that are not subject to statutory or donor-imposed stipulations.

Temporarily Restricted Net Assets - represent net assets subject to statutory or donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets - represents net assets subject to donor-imposed stipulations that must be maintained permanently. The Organization does not have any permanently restricted net assets.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from temporary restrictions.

Contributions

Contributions are recognized when the donor makes a promise to give in writing to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Assets and Support

Contributions in the form of property are recorded at fair market value on the date the property is received. There were donated assets of \$232,596 during fiscal year ended September 30, 2015. The donated assets consist of equipment, a vehicle and inventory. The assets were capitalized as property and equipment and inventory and they were included in contribution revenue. The fair market value of the equipment was determined by the depreciated value. The fair market value of the inventory was determined by the net realizable value. There were also donated office supplies of \$5,105 during the fiscal year ended September 30, 2015.



PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Assets and Support-continued

Donated services, if any, are computed at the value that contributed services requiring specialized skills represent to the comparable compensation that would be paid if the Organization were charged for these services. There were no donated services as of September 30, 2016 and 2015, respectively.

Accounts Receivable

Trade accounts receivable consists of amounts due from the millers in Tanzania. The premix inventory is delivered to them by Project Healthy Children, Inc. Once the premix inventory is sold, the millers pay back Project Healthy Children, Inc.

Pledge Receivable

Pledge receivables are unconditional promises to give that are recognized as revenues in the period received and as assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledge receivables that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is included in contribution revenue.

Property and Equipment

All acquisitions of property and equipment in excess of \$3,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of such asset. There were no impairment losses recognized for the years ended September 30, 2016 and 2015.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commitments and Contingencies

Grants, bequests and endowments often require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since by accepting the gifts and their terms, it has made a commitment to fulfill the provisions of the gift.

Compensated Absences

Accumulated unpaid vacation and sick leave totaling \$11,742 and \$9,074 at September 30, 2016 and 2015, respectively, was accrued when incurred.

NOTE B - LOANS RECEIVABLE - EMPLOYEES

During the year ended September 30, 2014, an employee of the organization received a loan from the organization for \$7,500. The loan is due on demand and carries no interest rate. The balance of the loan receivable as of September 30, 2016 and 2015 is \$260 and \$3,194, respectively.

During the year ended September 30, 2016, a different employee received a loan from the organization for \$6,000. The loan is due on demand and carries no interest rate. The balance of the loan receivable as of September 30, 2016 is \$6,000.

NOTE C - EMPLOYEE CASH ADVANCES

Employees who work in or travel to the rural countries of Liberia, Malawi, Rwanda, Burundi, Tanzania, Zimbabwe and Sierra Leone are given cash advances because often there are no credit card transactions available in those locations. Once the money is spent, the employees submit receipts to the United States office and the corresponding expenses are recorded on the books.

NOTE D - PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 16,836	\$ 16,836
Furniture and fixtures	6,567	6,567
Equipment	210,106	183,927
Donated vehicle	<u>19,840</u>	<u>19,840</u>
	253,349	227,170
Accumulated depreciation	<u>(107,542)</u>	<u>(72,273)</u>
Total property and equipment, net	\$ <u>145,807</u>	\$ <u>154,897</u>

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

NOTE E -- OPERATING LEASES

The Organization leases office space in Cambridge, Massachusetts on a month to month basis.

The Organization also leases office space in Rwanda and Burundi. The Rwandan lease expired in February 2015 and was not renewed. The Burundi lease expires in June 2017. Future minimum rent payments for Burundi are \$4,690 in year ending September 30, 2017.

Beginning in October 2016, the Organization entered into a two year lease agreement for warehouse space in Tanzania. Future minimum rent payments for the Tanzania lease are \$36,000 each in fiscal years ending September 30, 2017 and 2018.

NOTE F - LOAN PAYABLE - OFFICER

During fiscal year end September 30, 2014, the chairman of the board of directors of the Organization loaned Project Healthy Children, Inc. \$100,000. The note bears no interest and is due and payable May 15, 2016. The debt was forgiven during fiscal year end September 30, 2016 because the Organization did not meet the financial requirements as set forth in the promissory note. The original loan of \$100,000 was recharacterized in fiscal year end September 30, 2016 and recorded as a contribution.

NOTE G -- CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at two financial institutions located in Massachusetts. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Bank deposit amounts may, at times, exceed federally insured limits. Management does not believe that it is exposed to significant risk with respect to cash.

NOTE H -- EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated events occurring after the balance sheet date of September 30, 2016 through May 18, 2017, which is the date that the financial statements were available to be issued.