

PROJECT HEALTHY CHILDREN, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

PROJECT HEALTHY CHILDREN, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Project Healthy Children, Inc.

We have audited the accompanying statement of financial position of Project Healthy Children, Inc. (a nonprofit organization) as of September 30, 2018, and we were engaged to audit the related statements of activities and change in net assets, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards general accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations, functional expenses or cash flows.

We conducted our audit of the statement of financial position 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 statement of financial position is free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the statement of financial position.

Basis for Disclaimer of Opinion on Results of Operations, Functional Expenses and Cash Flows

We did not observe the physical inventory (stated at \$416,343) or property and equipment (stated at \$170,509) as of September 30, 2017, because we were not previously engaged to perform the audit, and we have not obtained sufficient appropriate audit evidence about inventory quantities and property and equipment at that date by other auditing procedures. The amount of inventory and property and equipment at September 30, 2017, materially affects the determination of results of operations, functional expenses and cash flows for the year ended September 30, 2018.

Disclaimer of Opinion on Results of Operations, Functional Expenses and Cash Flows

Because of the significance of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations, functional expenses and cash flows for the year ended September 30, 2018. Accordingly, we do not express an opinion on the results of operations, functional expenses and cash flows for the year ended September 30, 2018.

Opinion on the Statement of Financial Position

In our opinion, the statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of Project Healthy Children, Inc. as of September 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Boston, Massachusetts
August 14, 2019

PROJECT HEALTHY CHILDREN, INC.

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2018

Assets

Cash	\$	116,325
Inventory		175,487
Employee cash advances		5,565
Prepaid expenses and other current assets		<u>133,171</u>

Total Current Assets 430,548

Equipment, Net of Accumulated Depreciation 318,437

Other Assets

Security deposits		<u>7,470</u>
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Total Other Assets 7,470

Total Assets \$ 756,455

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	<u>95,824</u>
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Total Liabilities 95,824

Net Assets

Unrestricted		<u>660,631</u>
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Total Net Assets 660,631

Total Liabilities and Net Assets \$ 756,455

The accompanying notes are an integral part of these financial statements.

PROJECT HEALTHY CHILDREN, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 1,186,283		\$ 1,186,283
Other revenue	<u>144,861</u>	<u>--</u>	<u>144,861</u>
Total Support and Revenue	<u>1,331,144</u>	<u>--</u>	<u>1,331,144</u>
Expenses			
Program - food fortification	1,669,424	--	1,669,424
General and administration	18,166	--	18,166
Fundraising	<u>21,278</u>	<u>--</u>	<u>21,278</u>
Total Expenses	<u>1,708,868</u>	<u>--</u>	<u>1,708,868</u>
Change in Net Assets	(377,724)	--	(377,724)
Net Assets - Beginning of Year	<u>1,038,355</u>	<u>--</u>	<u>1,038,355</u>
Net Assets - End of Year	<u>\$ 660,631</u>	<u>\$ --</u>	<u>\$ 660,631</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, 2018

	Program Services		Support Services		Total
	Food Fortification	General and Adminsitratio	Fundraising	Total Support	
Payroll	\$ 122,740	\$ --	\$ --	\$ --	\$ 122,740
Payroll taxes	10,103	--	--	--	10,103
Overseas payroll and payroll taxes	266,746	--	--	--	266,746
Employee benefits	35,844	--	--	--	35,844
Materials - fortification devices	362,624	--	--	--	362,624
Cost of goods sold - premix	148,010	--	--	--	148,010
Depreciation	77,996	--	--	--	77,996
Communications	26,158	306	--	306	26,464
Consultant and professional fees	262,110	--	15,001	15,001	277,111
Insurance	1,145	10,600	--	10,600	11,745
Office expense	25,840	1,500	--	1,500	27,340
Rent	67,461	5,760	--	5,760	73,221
Repairs and maintenance	450	--	--	--	450
Research and development	63,572	--	--	--	63,572
Supplies	11,324	--	--	--	11,324
Travel	92,144	--	6,277	6,277	98,421
Other	95,157	--	--	--	95,157
	<u>\$ 1,669,424</u>	<u>\$ 18,166</u>	<u>\$ 21,278</u>	<u>\$ 39,444</u>	<u>\$ 1,708,868</u>

The accompanying notes are an integral part of these financial statements.

PROJECT HEALTHY CHILDREN, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ (377,724)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	77,996
Write-off excess and obsolete inventory	257,816
Increase in assets:	
Inventory	(16,960)
Prepays and other current assets	(73,826)
Increase in liabilities:	
Accounts payable and accrued expenses	<u>39,594</u>
Total adjustments	<u>284,620</u>
Net Cash Used in Operating Activities	<u>(93,104)</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	(225,924)
Repayment of loan receivable - employees	2,400
Employee cash advances	14,556
Security deposits	<u>(5,578)</u>
Net Cash Used in Investing Activities	<u>(214,546)</u>
Cash Flows from Financing Activities	
Repayment of recoverable grant	<u>(50,000)</u>
Net Cash Used in Financing Activities	<u>(50,000)</u>
Net Decrease in Cash	(357,650)
Cash, Beginning of Year	<u>473,975</u>
Cash, End of Year	<u>\$ 116,325</u>

The accompanying notes are an integral part of these financial statements.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - NATURE OF THE ORGANIZATION

Project Healthy Children, Inc. (the "Organization") is a not-for-profit organization which was organized in 2004. The Organization provides policy development and advocacy, education, and technical and operational support for food fortification programs that improve the health of people around the world. Work is conducted primarily in Tanzania, Rwanda and other African countries. In April, 2018, the policy development and advocacy group of the Organization was combined with a unit of the Center for Disease Control so that the Organization could focus on the Sanku direct small scale food fortification programs in Tanzania and other countries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of Project Healthy Children, Inc. are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues and support are recognized when earned and expenses are recognized when incurred, regardless of the timing of cash flows.

FINANCIAL STATEMENT PRESENTATION

Project Healthy Children, Inc. has presented its financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for not-for-profit organizations.

Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net asset and permanently restricted net assets as follows:

UNRESTRICTED NET ASSETS

Unrestricted net assets represent those assets not subject to donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are also classified as unrestricted.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent those assets that are subject to explicit or implicit donor-imposed stipulations that may or will be met whether by actions of the Organization and/or the passage of time. When the restriction expires, the net assets are reclassified to unrestricted net assets. At September 30, 2018, the Organization had no temporarily restricted net assets.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL STATEMENT PRESENTATION (CONTINUED)

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent those assets that are subject to explicit or implicit donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. At September 30, 2018, the Organization had no permanently restricted net assets.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly-liquid short-term deposits with original maturities of three months or less as cash equivalents.

INVENTORY

Inventory consists of purchased bags and premix for resale, and is valued at net realizable value on first-in, first-out basis.

EQUIPMENT, NET

Equipment is stated at cost at the date of acquisition or fair value at the date of donation, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, ranging from one to five years.

Purchases are determined to be capital expenditures based on the Organization's policy of capitalizing assets acquired at a cost (or, if donated, at fair value) exceeding \$1,000. Those items which are not determined to be capital expenditures are charged to expense. Expenditures that significantly increase asset values or extend useful lives are capitalized. Upon retirement, sale or other disposition of equipment, the cost and accumulated depreciation are eliminated from the accounts, and gains or losses are included in the statement of activities and change in net assets.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets to be held and used by the Organization are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

The fair value of the asset is measured using either available market prices or estimated undiscounted cash flows. There were no impairment charges taken during the year ended September 30, 2018.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP 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.

DONATED EQUIPMENT AND SERVICES

Donated equipment is recorded as a contribution at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies them from temporarily restricted net assets to unrestricted net assets at that time. During the year ended September 30, 2018, the Organization did not receive any donated equipment.

Donated services, if any, are computed at the value that contributed services requiring specialized skill represent to the comparable compensation that would be paid if the Organization were charged for these services. During the year ended September 30, 2018, the Organization did not receive any donated services that qualified for recognition in the financial statements.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS

The Organization recognizes contributions when received or unconditionally pledged. 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.

OTHER REVENUE

Other revenue consists primarily of income from sales of inventory. All inventory is sold on a cash-upon-delivery basis, at which time the related revenue is recognized in the statement of activities and change in net assets.

COMPENSATED ABSENCES

Employees are entitled to personal time off (PTO) depending on length of service and other factors. The Organization recognizes the cost of compensated absence as it is earned by the employee. Accumulated unpaid PTO totaled approximately \$10,400 as of September 30, 2018, and is included in accounts payable and accrued expenses in the statement of financial position.

RESEARCH AND DEVELOPMENT COSTS

The costs of research, development and product improvement are charged to expense as they are incurred. Total research and development costs included in program services was \$63,572 for the year ended September 30, 2018.

INCOME TAX STATUS

Project Healthy Children, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Organization, however, is subject to the tax on unrelated business income, if any such income exists. The Organization had no unrelated business income during the year ended September 30, 2018.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX STATUS (CONTINUED)

Project Healthy Children, Inc. recognizes and measures its unrecognized tax positions and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. Interest and penalties associated with unrecognized tax positions, if any, would be classified as interest expense and additional income taxes, respectively, in the statement of activities and change in net assets. The Organization did not identify any uncertain tax positions at September 30 2018. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods pending or in progress.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Organization's programs and activities have been summarized on a functional basis in the statement of activities and change in net assets and statement of functional expenses. Expenses that can be identified with a program or support service are allocated directly to that program or support service according to their natural expenditure classification. Other expenses that are common to several functions are allocated based upon the program and supporting services benefited.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 14, 2019, the date the financial statements were available to be issued and has determined that no subsequent events have occurred that would require the information be presented in the accompanying financial statements or require additional disclosure.

NOTE 3 - LOANS RECEIVABLE - EMPLOYEES

During the year ended September 30, 2016, an employee of the Organization received a loan from the Organization in the amount of \$6,000. The loan was due on demand and carried no interest rate. The loan receivable was paid off during the year ended September 30, 2018.

NOTE 4 - 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 in the statement of activities and change in net assets.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 5 - EQUIPMENT, NET

A summary of equipment at September 30, 2018 is as follows:

Furniture and fixtures	\$	29,336
Equipment		361,304
Computer equipment		25,346
Vehicles		<u>84,083</u>
		500,069
Less: Accumulated depreciation		<u>181,632</u>
Equipment, net	\$	<u>318,437</u>

Total depreciation expense for the year ended September 30, 2018 was \$77,996.

NOTE 6 - OPERATING LEASES

The Organization leases office space in Cambridge, Massachusetts on a month to month basis. In April, 2018, the Organization entered into a sublease agreement whereby the subtenant will pay the Organization \$804 per month. The agreement expires November 30, 2018.

In July, 2018, the Organization entered into a lease agreement for building space in Rwanda. The term of the lease is for one year, renewable annually.

In May, 2018, the Organization entered into a lease agreement for property in Morogoro. The term of the lease is for six months, expiring in November, 2018.

In May, 2018, the Organization entered into a two-year lease agreement for warehouse space in Dar es Salaam. The lease expires in July, 2020 and required all rent to be paid in full by June, 2018.

In January, 2018, Organization entered into a two year lease agreement for warehouse space in Tanzania. The lease expires December 30, 2019. Future minimum rent payments for the Tanzania lease are \$18,948 and \$4,737 for the years ending September 30, 2019 and 2020, respectively.

Rent expense for the year ended September 30, 2018 was approximately \$73,000.

PROJECT HEALTHY CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 7 - RECOVERABLE GRANT

During the year ended September 30, 2018, the Organization fully repaid a recoverable grant to an unrelated party in the amount of \$50,000.

NOTE 8 - RELATED PARTY TRANSACTIONS

During the year ended September 30, 2018, various board members and members of management made contributions to the Organization in the amount of \$80,000.

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at a financial institution 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. The Organization also maintains cash deposits at financial institutions in Tanzania, which are uninsured. Management does not believe that it is exposed to significant risk with respect to cash, as balances in Tanzanian accounts are closely monitored and transferred to the financial institution in Massachusetts on a routine basis.