# EDESIA, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Edesia, Inc. and Affiliate:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Edesia, Inc. (Edesia) (a non-profit organization) and Edesia Industries, LLC (the Affiliate) (collectively the Organization), which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance.

April 29, 2014
EDESIA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2013

**Assets**

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,108,601</td>
</tr>
<tr>
<td>Grants and contracts receivable</td>
<td>2,928,446</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000,739</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>7,037,786</strong></td>
</tr>
<tr>
<td>Property and Equipment</td>
<td>4,388,676</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>3,102,971</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td><strong>1,285,705</strong></td>
</tr>
<tr>
<td>Security Deposits</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>8,348,975</strong></td>
</tr>
</tbody>
</table>

**Liabilities and Net Assets**

| Current Liabilities:                |          |
| Accounts payable and accrued expenses| $ 1,073,524 |
| Equipment loan payable              | 999,129  |
| Deferred revenue                    | 185,248  |
| **Total current liabilities**       | **2,257,901** |

| Net Assets:                         |          |
| Unrestricted                        | 6,091,074 |

**Total Liabilities and Net Assets**  
$8,348,975

See accompanying notes to the consolidated financial statements and independent auditors' report. 3
### Change in unrestricted net assets:

**Revenue and support:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Income:</strong></td>
<td></td>
</tr>
<tr>
<td>Product income</td>
<td>$19,282,481</td>
</tr>
<tr>
<td>Federal grants</td>
<td>2,122,297</td>
</tr>
<tr>
<td>Total product income</td>
<td>21,404,778</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(14,953,279)</td>
</tr>
<tr>
<td>Net program income</td>
<td>6,451,499</td>
</tr>
<tr>
<td><strong>Contributions</strong></td>
<td>262,674</td>
</tr>
<tr>
<td><strong>Contributed services</strong></td>
<td>678,266</td>
</tr>
<tr>
<td><strong>Total net revenue and support</strong></td>
<td>$7,392,439</td>
</tr>
</tbody>
</table>

**Expenses:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other program expenses</td>
<td>1,955,409</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>2,237,417</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>4,192,826</td>
</tr>
</tbody>
</table>

**Other income (expense):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange loss</td>
<td>(40,042)</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,169</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(41,273)</td>
</tr>
<tr>
<td><strong>Total other expense</strong></td>
<td>(80,146)</td>
</tr>
</tbody>
</table>

**Change in unrestricted net assets**

3,119,467

**Net assets, beginning of year**

2,971,607

**Net assets, end of year**

$6,091,074

See accompanying notes to the consolidated financial statements and independent auditors' report.
EDESIA, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended December 31, 2013

Cash Flows from Operating Activities:
Change in unrestricted net assets $ 3,119,467  
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:
  Depreciation 729,169  
  Foreign exchange loss 40,042  
Changes in operating assets and liabilities:
  Grants and contracts receivable (1,834,925)  
  Inventory 897,063  
  Prepaid expenses 5,000  
  Security deposits (601)  
  Accounts payable and accrued expenses (338,582)  
  Deferred revenue 164,936  
Net cash provided by operating activities $2,781,569

Cash Flows from Investing Activities:
Purchase of property and equipment (263,642)  
Net cash used by investing activities (263,642)

Cash Flows from Financing Activities:
Advances on line of credit 2,300,000  
Payments on line of credit (4,300,000)  
Payments on equipment loan (27,128)  
Net cash used by financing activities (2,027,128)

Net Increase in Cash and Cash Equivalents 490,799

Cash and Cash Equivalents, beginning of year 617,802
Cash and Cash Equivalents, end of year $ 1,108,601

Supplemental Data:
Cash paid for interest $ 41,273

See accompanying notes to the consolidated financial statements and independent auditors' report.
1. Nature of Operations

Edesia, Inc. (Edesia), a Delaware not-for-profit corporation, together with its wholly-owned affiliate Edesia Industries, LLC. (the Affiliate), (collectively, the Organization) was formed on June 13, 2007, in order to treat and prevent malnutrition for the world’s most vulnerable children in the developing world.

The Organization’s main goal is to make vital nutritional foods readily available to children who need it most in the developing world. The Organization achieves this goal by producing high-quality ready-to-use foods (RUFs) for humanitarian organizations and non-profits. The Affiliate collaborates on research and development to improve distribution systems to optimize the use of RUFs, supports local producers of RUFs in the developing world, and engages in educational efforts and direct advocacy to raise the profile of global malnutrition.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in understanding the Organization’s consolidated financial statements. The consolidated financial statements and notes are representations of the Organization’s management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

Principles of Consolidation
The consolidated financial statements include the accounts of Edesia and the affiliate. All significant intercompany transactions and balances are eliminated in consolidation.

Basis of Presentation
The Organization prepares its consolidated financial statements on the accrual basis of accounting and, in accordance with authoritative guidance, reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The Organization had no temporarily or permanently restricted net assets as of December 31, 2013.

Cash and Cash Equivalents
The Organization considers all cash balances and highly liquid investments with maturities of three months or less to be cash equivalents.
Grants and Contracts Receivable
The Organization carries its grants and contracts receivable at net realizable value. On a periodic basis, the Organization evaluates its receivables on an individual basis and establishes an allowance for doubtful accounts based on a history of past bad debt expense and collections and current credit conditions.

A receivable is considered past due if payment has not been received within stated terms. Once all practical resources to collect the receivable have been utilized without success, the receivable is deemed uncollectable and charged against the allowance. At year-end, management has determined that no allowance for doubtful accounts is deemed necessary.

Inventory
Inventory is valued at the lower of cost or market value, after provision for excess or obsolete items. Cost is determined by the first-in, first-out (FIFO) method. The valuation of finished goods includes the cost of materials, labor, and production.

The Organization’s products include the following:

- **Plumpy’Nut/USAID (RUTF)** is specifically designed for the treatment of severe acute malnutrition. It is suitable for ages six months and older.

- **Plumpy‘Sup/USAID (RUSF)** is a ready-to-use supplementary food used to address moderate acute malnutrition. It is a high-energy nutritional food supplement, suitable for ages six months and older.

- **Plumpy‘Doz** is a RUSF used to reduce the incidence of acute malnutrition in children six to thirty-six months during times of food insecurity.

- **Nutributter** is a lipid-based nutrient supplement that enhances linear growth and cognitive and motor development while working to prevent malnutrition in children six to thirty-six months of age.

- **Mamba** is a peanut and soy based paste fortified snack that is a source of energy, protein, essential fatty acids, and vitamins and minerals for children between the ages of four and ten.

Property and Equipment
All expenditures for property and equipment in excess of $5,000 are capitalized at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets ranging from three to five years.
Deferred Revenue
From time to time during the year, the Organization may receive reimbursement funds in excess of current program expenditures. These advanced funds are recorded in the accounting records as deferred revenue until such time that the Organization incurs expenditures related to the specific program for which the funds have been received.

Revenue and Support Recognition

Product income - The Organization recognizes product sales upon shipment for all customers with the exception of products produced under the United States Agency for International Development (USAID) federal grant.

Federal grants - The Organization recognizes cost reimbursement contract revenue as expenditures are incurred. The Organization recognizes fee for service contract revenue when contractual obligations have been met.

Contributions - The Organization recognizes contributions in the fiscal year in which the contribution is made. Contributions are recorded either as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor imposed restrictions. However, it is the policy of the Organization to recognize temporarily restricted contributions that are both received and expended during the current fiscal year as unrestricted contributions.

Contributed services - Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Shipping and Handling Costs
Fees charged to customers for shipping and handling are recorded in product income. Other shipping and handling costs are included in cost of sales.

Allocation of Expenses
Certain costs of the Organization benefit more than one function. Accordingly, these costs have been allocated in a systematic and rational manner among the functions benefited.

Income Taxes
The Organization is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Organization operates in a manner consistent with their tax-exempt status at both the state and federal levels.
The Organization annually files IRS Form 990 - *Return of Organization Exempt from Income Tax*, reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by the taxing authorities generally for a period of three years after they were filed. The tax returns for 2010, 2011, and 2012 are subject to examination by the taxing authorities. The Organization currently has no tax examinations in progress.

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

**Subsequent Events**
Management has evaluated subsequent events through April 29, 2014, which is the date these consolidated financial statements were available to be issued.

3. **Inventory**

At year-end, the Organization’s inventory consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>$1,515,651</td>
</tr>
<tr>
<td>Finished goods</td>
<td>$1,485,088</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td><strong>$3,000,739</strong></td>
</tr>
</tbody>
</table>

4. **Property and Equipment**

At year-end, the Organization’s property and equipment consisted of the following:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>$80,891</td>
</tr>
<tr>
<td>Production</td>
<td>$3,209,859</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>$52,210</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$896,857</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$148,859</td>
</tr>
<tr>
<td><strong>Total property and equipment</strong></td>
<td><strong>$4,388,676</strong></td>
</tr>
</tbody>
</table>
During the year ended December 31, 2013, the Organization incurred $148,859 in expenses related to the design and expansion of its facility.

5. **Equipment Loan Payable**

During 2009, the Organization financed production equipment with an unsecured loan from Onyx Development, parent company of Nutriset (see note 10), for €1,000,000 ($1,100,000). The equipment loan payable is due on demand and is reflected as a current liability at December 31, 2013. Interest charged on the outstanding loan is based on the 30-day LIBOR (0.1677% at December 31, 2013) plus 1.25%. At year-end, accrued interest of $14,153 is included in the equipment loan payable balance. Subsequent to December 31, 2013, the equipment loan and accrued interest was repaid.

6. **Revolving Line of Credit**

The Organization has a revolving line of credit with a commercial lender. Maximum available borrowings on the revolver are $4,000,000, and are payable on demand. Borrowings can be drawn in aggregate minimum principal amounts of $100,000. Interest charged on the outstanding borrowings is based on the 30-day LIBOR (0.1677% at December 31, 2013) plus 1.25%. Borrowings are personally guaranteed by the Organization’s executive director. At year-end, there was no outstanding balance on the line of credit.

7. **Contributed Services**

In addition to direct financial support, the Organization is supported by the community in many ways. Donated professional services of $678,266 were provided to the Organization during the year ended December 31, 2013 and are included in contributed services in the accompanying consolidated statement of activities at the services estimated fair value.

8. **Foreign Currency Translation and Currency Exchange Rate Exposure**

Based on several factors, including the dominant role of the U.S. currency in the funding of the Organization’s programs, management considers the U.S. dollar to be the Organization’s functional currency. As such, the equipment loan held in Euros is remeasured using the current foreign exchange rates at the date of the consolidated statement of financial position.
The foreign currency translation gains and losses are recorded on the Organization’s consolidated statement of activities as a net remeasurement gain or loss. For the year ended December 31, 2013, the Organization recognized remeasurement losses of $40,042. To date, the Organization has not engaged in any currency trading or hedging transactions to reduce exposure to currency fluctuations.

9. Pension Plan

The Organization has established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. Employer contributions are made on behalf of eligible employees in the amount of 4% of their annual wages. In addition, the Organization contributes a matching contribution of one-half of the first 4% of wages contributed by the employee. Pension plan expense for the year ended December 31, 2013 was approximately $55,200.

The Organization has also established an employee-funded tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code. All employees who meet the eligibility requirements of the plan may elect to contribute to the plan through a salary reduction.

10. Commitments and Contingencies

License Agreement

In December 2009, the Organization entered into an Industrial Property License agreement with Nutriset. The license is an exclusive, royalty free, fully paid-up license under the Industrial Property rights to use the products throughout the territory, as defined. The agreement has an initial term of five years ending December 2014, and automatically renews for successive renewal terms of one year until either party desires not to renew with six months written notice prior to the end of the initial term or renewal term.

Subsequent to yearend the license agreement was amended. Effective January 1, 2014, the Organization will pay a royalty fee of 4.5% of net sales for branded products and 1.5% of net sales for US generic product sold under USAID and USDA tenders. An agreed upon credit of approximately $286,000 will be applied to royalty expenses in 2014.

Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Organization’s consolidated financial statements.
Operating Lease
In July 2009, the Organization entered into a three-year lease, with three consecutive renewal options for terms of one year. The lease expired January 2012, and called for monthly payments of $8,100, increasing annually thereafter. During 2013, the one-year option called for monthly payments of approximately $8,700. In addition to base rent, the Organization also pays CAM charges, real estate expenses and other operating costs at their proportionate share of the premises. Rent expense and other charges for the year ended December 31, 2013 were approximately $108,400 and $71,600, respectively.

Approximate future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2014</td>
<td>$111,500</td>
</tr>
<tr>
<td>December 31, 2015</td>
<td>67,600</td>
</tr>
<tr>
<td>Total</td>
<td>$179,100</td>
</tr>
</tbody>
</table>

11. Concentrations of Credit Risk

The financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, and grants and contracts receivable.

The Organization maintains its operating accounts in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to specified limits. From time to time, the Organization had bank balances in excess of federally insured limits. The Organization monitors its exposure with regard to cash and cash equivalents and has not experienced losses on such accounts. Management does not believe that there is a significant credit risk at year-end.

Grants and contracts receivable balances consist of program funding amounts due from federal and state government agencies and local corporations. At year-end, management has performed an analysis of those receivables and does not believe that there is a significant credit risk related to those receivables.
12. Concentration of Business Risk

For the year ended December 31, 2013, product sales represented approximately 86% of total revenues and other support. Of this amount, approximately 96% is generated from four customers. At year-end, management does not believe that significant business risk exists with respect to the continuation of business with these customers.

Federal grant revenue represents approximately 9% of total revenues and other support for the year ended December 31, 2013. Of this amount, 100% is generated from USAID. At year-end, management does not believe that significant business risk exists with respect to the continuation of this funding.
Edesia, Inc.

Reports Required by
Government Auditing Standards and
OMB Circular A-133 - Audits of States, Local
Governments and Non-profit Organizations

Year Ended December 31, 2013
EDESIA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2013

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Award Number</th>
<th>Total Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Agency for International Development Direct Funding Food for Peace Emergency Program</td>
<td>98.008</td>
<td>AID-FFP-G-10-0012</td>
<td>$2,122,297</td>
</tr>
</tbody>
</table>

See accompanying notes to the schedule of expenditures of federal awards.
1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Edesia, Inc. (Edesia) under programs of the federal government for the year ended December 31, 2013. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Because the Schedule presents only a selected portion of the operations of Edesia, it is not intended to and does not present the financial position, statement of activities and change in net assets or cash flows for Edesia.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of Edesia, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of Edesia, Inc. (Edesia), which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Edesia’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Edesia’s internal control. Accordingly, we do not express an opinion on the effectiveness of Edesia’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Edesia’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Edesia’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Edesia’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Edesia’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 29, 2014
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of Edesia, Inc.:

Report on Compliance for Each Major Federal Program

We have audited the compliance of Edesia, Inc. (Edesia) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Edesia’s major federal programs for the year ended December 31, 2013. Edesia’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors’ Responsibility
Our responsibility is to express an opinion on compliance for each of Edesia’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Edesia’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Edesia’s compliance.
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, (Continued)

Opinion on Each Major Federal Program
In our opinion, Edesia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control over Compliance
Management of Edesia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Edesia’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Edesia’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

April 29, 2014
SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
- Material weaknesses identified? yes X none reported
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported
- Noncompliance material to financial statements noted? yes X none reported

Federal Awards:

Internal control over major programs:
- Material weaknesses identified? yes X none reported
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X yes no

Identification of major program:
- CFDA Number: 98.008
- Name of Federal Program: Food for Peace Emergency Program
- Dollar threshold used to distinguish between type A and type B programs: $300,000
- Auditee qualified as low-risk auditee yes X no
SECTION II - FINANCIAL STATEMENT FINDINGS

CURRENT YEAR FINDINGS: None noted.

PRIOR YEAR FINDINGS: None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CURRENT YEAR FINDINGS: None noted.

PRIOR YEAR FINDINGS:

12-01  Filing of Data Collection Form and Reporting Package

Condition:
The December 31, 2013 data collection forms for Edesia were not filed within the time required by OMB Circular A-133.

Criteria:
OMB Circular A-133 Section .220 requires that non-federal entities that expend $500,000 or more in a year in federal awards shall have a single audit conducted and section .320 requires that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditors’ report or nine months after the end of the audit period.

Cause:
Edesia’s filing process to ensure timely filing of the data collection form was attributed to staff turnover, thus causing a delay in the submission of the required reports.

Effect:
Late filing of the data collection forms and reporting packages will cause an auditee to be determined a “high-risk auditee” for two consecutive years after the condition has been corrected.

Recommendation:
We recommend Edesia establish the necessary internal controls to maintain compliance with all reporting requirements.

Current Status:
Edesia is aware of the requirements and acknowledges the late filing of the December 31, 2013 data collection form. Edesia attributes this to staff turnover. The CFO of Edesia has established the necessary internal controls to maintain compliance with the OMB Circular A-133 Section .220 and Section .320 for future years.