

EDESIA, INC. AND SUBSIDIARIES

**Consolidated Financial Statements
and Supplementary Information**

Year Ended December 31, 2020

(With Independent Auditors' Report Thereon)

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Edesia, Inc. and Subsidiaries (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses 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 from 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 Edesia, Inc. and Subsidiaries as of December 31, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2019 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated April 29, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 22, 2021 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. That 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.

Kahn, Litwin, Renya & Co., Ltd.

April 22, 2021

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2020
(With Comparative Totals at December 31, 2019)



	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 13,558,084	\$ 8,378,704
Grants and contracts receivable	2,205,545	10,387,929
Inventory	13,454,259	8,311,333
Prepaid expenses and other	517,061	500,089
Total current assets	29,734,949	27,578,055
Property and Equipment, net	4,884,040	6,125,733
Security Deposits	11,845	11,845
Total Assets	\$ 34,630,834	\$ 33,715,633
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,319,030	\$ 2,332,513
Royalties payable	594,210	633,744
Equipment loan payable, current portion	868,974	840,134
Capital lease obligations, current portion	1,893	64,625
Total current liabilities	2,784,107	3,871,016
Equipment Loan Payable, less current portion and unamortized debt issuance costs	665,438	1,529,033
Capital Lease Obligations, less current portion	-	1,893
Total liabilities	3,449,545	5,401,942
Net Assets:		
Without donor restrictions	31,181,289	28,298,691
With donor restrictions	-	15,000
Total net assets	31,181,289	28,313,691
Total Liabilities and Net Assets	\$ 34,630,834	\$ 33,715,633

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)



	2020	2019
Change in Net Assets without Donor Restrictions:		
Revenue and support:		
Program income:		
Product sales	\$ 38,958,468	\$ 56,193,816
Federal grants	1,158,394	3,094,205
Total program income	40,116,862	59,288,021
Cost of sales	(36,063,894)	(48,602,917)
Net program income	4,052,968	10,685,104
Contributions	5,126,973	4,301,913
Other revenue	220,066	146,002
Net assets released from restrictions	15,000	-
Total net revenue and support	9,415,007	15,133,019
Expenses:		
Program expenses	4,880,756	5,077,536
General and administrative expenses	1,303,641	1,386,327
Fundraising expenses	348,012	566,271
Total expenses	6,532,409	7,030,134
Change in net assets without donor restrictions	2,882,598	8,102,885
Change in Net Assets with Donor Restrictions:		
Contributions	-	15,000
Net assets released from restrictions	(15,000)	-
Change in net assets with donor restrictions	(15,000)	15,000
Change in Net Assets	2,867,598	8,117,885
Net Assets, beginning of year	28,313,691	20,195,806
Net Assets, end of year	\$ 31,181,289	\$ 28,313,691

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)



	2020					2019	
	Cost of Sales	Program Expenses	Total Program	General and Administrative	Fundraising Expenses	Total	Total
Salaries and wages	\$ 3,638,324	\$ 1,306,564	\$ 4,944,888	\$ 320,690	\$ 99,128	\$ 5,364,706	\$ 5,688,615
Payroll taxes	340,738	101,549	442,287	25,379	3,635	471,301	549,863
Employee benefits	531,302	159,982	691,284	29,950	-	721,234	770,920
Depreciation	-	2,552,887	2,552,887	188,703	-	2,741,590	2,637,290
Freight out	610,009	-	610,009	-	-	610,009	534,877
Information technology	-	269,270	269,270	71,941	-	341,211	270,350
Insurance	-	157,441	157,441	44,547	-	201,988	175,884
Interest	-	71,243	71,243	4,256	-	75,499	76,590
Maintenance	815,638	-	815,638	-	-	815,638	697,589
Media and communications	-	8,390	8,390	-	100,722	109,112	381,690
Occupancy and related fees	811,829	-	811,829	203,784	-	1,015,613	994,089
Office expense	-	161,879	161,879	36,124	66,363	264,366	223,356
Other production costs	230,542	-	230,542	-	-	230,542	238,526
Product testing	855,670	3,821	859,491	-	-	859,491	943,950
Professional fees	-	54,701	54,701	326,313	78,164	459,178	630,567
Raw materials	26,586,056	-	26,586,056	-	-	26,586,056	38,738,983
Royalties	614,258	-	614,258	-	-	614,258	852,824
Staff training and development	-	27,330	27,330	37,057	-	64,387	89,044
Storage and handling fees	1,029,528	-	1,029,528	-	-	1,029,528	1,023,818
Travel and related	-	5,699	5,699	14,897	-	20,596	114,226
Total expenses	\$ 36,063,894	\$ 4,880,756	\$ 40,944,650	\$ 1,303,641	\$ 348,012	\$ 42,596,303	\$ 55,633,051
Total expenses excluding cost of sales						\$ 6,532,409	\$ 7,030,134

See accompanying notes to the consolidated financial statements and independent auditors' report.

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)

	2020	2019
Cash Flows from Operating Activities:		
Receipts:		
Product sales	\$ 47,140,852	\$ 50,088,657
Federal grants	1,158,394	3,060,885
Contributions	5,126,973	4,316,913
Other revenue	220,066	146,002
Total receipts	53,646,285	57,612,457
Payments:		
Salaries and wages	(5,544,721)	(5,706,620)
Benefits and related	(1,256,922)	(1,409,827)
Raw materials	(32,562,450)	(37,614,772)
Other production costs	(3,383,362)	(3,293,623)
Other operating costs	(1,211,435)	(1,745,050)
Occupancy and maintenance	(1,831,251)	(1,691,678)
Insurance	(201,988)	(175,884)
Interest	(75,499)	(76,590)
Total expenditures	(46,067,628)	(51,714,044)
Net cash provided by operating activities	7,578,657	5,898,413
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,499,897)	(1,431,013)
Net cash used by investing activities	(1,499,897)	(1,431,013)
Cash Flows from Financing Activities:		
Advances on equipment loan payable	-	2,586,000
Payments on equipment loan payable	(834,755)	(2,997,594)
Payments of debt issuance costs	-	(12,476)
Payments on capital lease obligations	(64,625)	(61,699)
Net cash used by financing activities	(899,380)	(485,769)
Net Increase in Cash and Cash Equivalents	5,179,380	3,981,631
Cash and Cash Equivalents, beginning of year	8,378,704	4,397,073
Cash and Cash Equivalents, end of year	\$ 13,558,084	\$ 8,378,704
Supplemental Data:		
Cash paid for interest	\$ 75,499	\$ 76,590

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

1. Nature of Operations

Edesia, Inc. (Edesia), a Delaware not-for-profit corporation, together with its subsidiaries Edesia Industries, LLC and Edesia Enterprises, LLC (the Subsidiaries) (collectively, the Organization) was formed on June 13, 2007. The Organization's charitable mission is to help treat and prevent malnutrition in the world's most vulnerable populations.

The Organization is dedicated to manufacturing its range of ready-to-use therapeutic and supplementary foods readily available to those who need it most – primarily children under the age of five in developing countries living through conflict, natural disaster, disease outbreak, and drought. The highly portable and shelf-stable foods are primarily distributed by large humanitarian agencies (i.e., USAID, UNICEF and WFP) and their partners in the context of highly organized health and nutrition programs. Since it began production in 2010, the Organization has produced and shipped enough food to help nearly 13 million children in over 50 countries throughout Africa, Asia, the Middle East, and Latin America.

The Organization also participates in research and development activities to optimize the use of ready-to-use foods (RUFs), lends technical and procurement support to local RUF producers in the developing world when needed (in countries such as Ethiopia, Sudan, Burkina Faso, Madagascar, Haiti, and Niger) and engages in public education and advocacy efforts to help raise awareness about malnutrition as a solvable public health crisis.

COVID-19 Outbreak

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. The extent of the impact of COVID-19 on the Organization's future operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, supply of raw materials and the ability to produce and ship product, all of which are uncertain and cannot be predicted.

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.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

Principles of Consolidation

The consolidated financial statements include all account balances and transactions of Edesia and its subsidiaries. Intercompany transactions have been eliminated so as not to overstate the consolidated change in net assets and financial position.

Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total, without accompanying note disclosures and certain functional expense information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements and related notes for the year ended December 31, 2019, from which the summarized information was derived.

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 consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Net Assets without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction is satisfied, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

Cash and Cash Equivalents

The Organization considers all cash balances and highly liquid investments with original 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 and establishes an allowance for doubtful accounts based on a history of past bad debt expense and collections and current credit conditions.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

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 necessary.

Inventory

Inventory is valued at the lower of cost or net realizable 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, Lipid-based Nutrient Supplement - Medium Quality (LNS-MQ) is a supplementary food for children six months of age and older who are at risk of acute malnutrition during times of food insecurity. It provides essential nutrients necessary to avoid malnutrition in children whose diets (lacking diversity) are also not meeting their calorie and protein needs.

Enov'Nutributter is a preventative lipid-based nutrient supplement specially designed for young children (6 to 24 months) to help fill nutrient gaps with the aim of promoting growth and development and preventing stunting in the first 1,000 days of life.

Nutri'School - Liquid-based Nutrient Supplement is designed for school-age children (three plus years) to help fill nutrient gaps with the aim of promoting healthy growth and development.

Plumpy'Mum (RUSF) is designed to treat malnutrition in pregnant and lactating women. It provides appropriate micronutrients and a balance of protein and energy to help fill micro and macro-nutrient gaps.

Enov'Mum is a preventative lipid-based nutrient supplement specially designed to prevent malnutrition in pregnant and lactating women and to help fill nutrient gaps with the aim of having a positive effect on maternal status and birth outcomes, and improving child growth in the first 1,000 days of life.

Mewe is a purpose-driven nut butter for all ages and stages of life.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

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.

Debt Issuance Costs

The Organization incurred costs to acquire long-term debt (Note 6). These costs are amortized to interest expense on a straight-line basis over the term of the related debt. The Organization will incur future amortization of \$4,159 per year through the year ending December 31, 2021, and \$3,118 for the year ending December 31, 2022.

In accordance with authoritative guidance, debt issuance costs related to a debt liability are presented on the consolidated statement of financial position as a direct deduction from the carrying amount of that liability.

Revenue and Support Recognition

Product Sales - The Organization recognizes revenue from product sales when it satisfies its performance obligation by transferring control over the product to the customer, which occurs upon delivery of products per the given contract International Commercial terms, with the exception of products produced under the United States Agency for International Development (USAID) federal grants, as noted below. Fees charged to customers for shipping and handling are recorded in product sales. Payment is due either upon delivery of products or within periods generally not exceeding 30 days.

Federal Grants - The Organization recognizes cost reimbursement contract revenue over time as expenditures are incurred.

Contributions - The Organization recognizes contributions in the fiscal year in which the contribution is made. Contributions are recorded as with or without restrictions depending on the existence and/or nature of any donor-imposed restrictions. However, it is the policy of the Organization to recognize contributions with donor restrictions that are both received and expended during the current fiscal year as contributions without restrictions.

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

Accounting principles generally accepted in the United States of America state that certain contributed services are not eligible for recording in the consolidated financial statements. Accordingly, the value of these services has not been recognized in the accompanying consolidated financial statements.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales.

Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The Organization's operating costs have been allocated between program expenses, management and general, and fundraising based on direct identification when possible, and allocation if an expenditure benefits more than one program or function. Expenditures that require allocation include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and amortization and occupancy, which are allocated on a square footage basis. All other indirect expenses are allocated based on compensation and benefits.

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 its 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 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.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Organization. The Organization is currently in the process of evaluating the impact of adoption on the consolidated financial statements.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases*, which was later delayed to be effective for annual periods beginning after December 15, 2021. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the consolidated statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the consolidated statement of activities. This standard will be effective for the Organization’s year ending December 31, 2022, with early adoption permitted.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which provides new presentation and disclosure requirements for contributed nonfinancial assets other than contributed services. The standard will be effective for the Organization’s year ending December 31, 2021, with early adoption permitted.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date comprise the following at December 31, 2020:

Cash and cash equivalents	\$	13,558,084
Grants and contracts receivable		2,205,545
 Financial assets available to meet general expenditure needs within one year	 \$	 <u>15,763,629</u>

The Organization has a goal to maintain cash and short-term investments on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$3,000,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, excess cash is invested in money market accounts. As described in Note 6, the Organization also has a \$3,000,000 line of credit, which it could draw upon in the event of an anticipated liquidity need.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020



4. Inventory

Inventory consisted of the following:

Raw materials	\$ 5,814,407
Finished goods	<u>7,639,852</u>
 Total inventory	 <u><u>\$ 13,454,259</u></u>

Cost of sales consisted of the following:

Beginning inventory	\$ 8,311,333
Purchases	31,728,982
Production labor and benefits	4,510,364
Royalties	614,258
Storage and handling fees	1,029,528
Occupancy and related fees	1,627,467
Freight out	610,009
Product testing	855,670
Other production costs	<u>230,542</u>
Cost of goods available for sale	49,518,153
Less ending inventory	<u>(13,454,259)</u>
 Cost of sales	 <u><u>\$ 36,063,894</u></u>

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020



5. Property and Equipment

Property and equipment consisted of the following:

Equipment:	
Information technology	\$ 1,153,293
Production	17,427,696
Furniture and fixtures	219,149
Leasehold improvements	476,656
Construction in progress	33,178
	<u>19,309,972</u>
Less accumulated depreciation	<u>14,425,932</u>
	<u>\$ 4,884,040</u>

At December 31, 2020, the Organization has construction in progress related to plant redesign not yet placed into service. The balance will be placed into service in 2021, at which point depreciation will commence.

6. Debt

Line of Credit

In September 2019, the Organization entered into a \$3,000,000 line-of-credit agreement with a local financial institution, due and payable on demand. The line of credit bears interest at the 30-day LIBOR (0.144% at December 31, 2020) plus 1.40%. At year-end, there was no outstanding balance on this line of credit.

Equipment Loan Payable

During September 2019, the Organization entered into an equipment loan payable expiring September 11, 2022. The loan is payable in monthly installments of \$75,638, including interest at 3.38%.

The line of credit and equipment loan are secured by a first security lien position in all tangible and intangible business assets. In addition, the agreements contain various financial covenants and restrictions. At December 31, 2020, management believes the Organization was in compliance with its covenants.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020



A summary of the equipment loans is as follows:

Equipment loans payable	\$ 1,541,690
Less:	
Current portion	868,974
Unamortized debt issuance costs	<u>7,278</u>
Equipment loans	<u><u>\$ 665,438</u></u>

The scheduled maturities are as follows:

<u>Year Ending</u>	
December 31, 2021	\$ 868,974
December 31, 2022	<u>672,716</u>
Total	<u><u>\$ 1,541,690</u></u>

Capital Lease Obligation

Included in property and equipment is equipment under capital lease agreements, which expire at various dates through April 2021.

The related cost and accumulated depreciation were as follows:

Cost	\$ 295,582
Less accumulated depreciation	<u>280,803</u>
Net book value	<u><u>\$ 14,779</u></u>

The future minimum lease payments under these agreements are as follows:

<u>Year Ending</u>	
December 31, 2021	\$ 1,909
Less amount representing interest	<u>16</u>
Total capital lease obligations	<u><u>\$ 1,893</u></u>

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

7. Commitments and Contingencies

Retirement Plan

The Organization has established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. Employer matching contributions are made on behalf of eligible employees in the amount of up to 4% of wages contributed by the employee. Retirement plan expense for the year ended December 31, 2020 was approximately \$170,900, and is included in employee benefits in the consolidated statement of functional expenses.

License Agreement and Royalties Payable

The Organization maintains an Industrial Property License Agreement (the Agreement) with Nutriset. Nutriset is the French manufacturer and trademark owner of Plumpy' brand, the peanut-based food for use in famine relief. 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 November 2022, 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 renewal term.

The Organization pays a royalty fee of 1.0% of net sales for unbranded products sold to the U.S. Government and 1.5% for branded products sold to any third party other than the U.S. Government, plus \$200,000. During the year ended December 31, 2020, the Organization paid royalty fees of approximately \$614,300.

Operating Lease Agreement

In April 2016, the Organization entered into a 25-year sublease agreement for facilities with a related party (Note 9) and land with the prime landlord. The sublease provides for four additional extensions of 10 years each, which have not been exercised. The sublease requires minimum monthly payments of \$41,667 to the related party and \$7,573 to the prime landlord. Rent expense related to this agreement for the year ended December 31, 2020 was approximately \$500,000 to the related party and approximately \$96,100 paid to the prime landlord.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020



The approximate future minimum lease payments under these agreements are as follows:

<u>Year Ending</u>	
December 31, 2021	\$ 598,700
December 31, 2022	601,300
December 31, 2023	603,900
December 31, 2024	606,500
December 31, 2025	609,100
Thereafter	<u>10,080,000</u>
 Total	 <u>\$ 13,099,500</u>

8. Concentrations of Credit and Business 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 balance in each institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At year-end, the uninsured portion of these balances was \$13,884,577. The Organization monitors its exposure with regard to cash and cash equivalents and has not experienced losses on such accounts.

At December 31, 2020, approximately \$2,178,000, or 99%, of the Organization's outstanding receivables was due from three funding sources and/or customers. 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.

For the year ended December 31, 2020, product sales represented approximately 84% of total revenues and other support. Of this amount, approximately 84% was generated from three customers. At year-end, management does not believe that significant business risk exists with respect to the continuation of business with these customers.

The Organization purchased raw materials from three vendors, accounting for approximately \$10,647,400, or 36%, of purchases during the year ended December 31, 2020. At year-end, management does not believe that significant business risk exists with respect to the continuation of business with these vendors.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2020

9. Related Party Transactions

The Organization leases land and facilities from an entity that is owned equally by the founder of the Organization and President of the Board, and Nutriset (see Note 7). Amounts paid to the related entity for the year ended December 31, 2020 total approximately \$500,000.

10. Subsequent Events

On February 2, 2021, the Organization received loan proceeds (Loan) of \$1,383,450 under the Paycheck Protection Program (PPP), which was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in response to the COVID-19 outbreak. Proceeds from the Loan (PPP Loan) used for payroll costs, costs used to continue group health care benefits, mortgage interest payments, rent, utilities, and interest on other debt obligations, provided the related agreements were effective prior to February 15, 2020. The PPP Loan is set to mature on February 2, 2026 and bears interest at a rate of 1% per annum, payable monthly. The Loan may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, certain amounts of the PPP Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The commencement date for Loan payments and a potential revised maturity date will be determined upon the ultimate notification of loan forgiveness from the Small Business Administration. The Organization intends to use the entire Loan proceeds in accordance with the Loan terms and to apply for forgiveness from the lender. No assurance is provided that the Organization will obtain forgiveness of the Loan, in whole or in part.

Management has evaluated subsequent events through April 22, 2021, which is the date these consolidated financial statements were available to be issued.

Edesia, Inc.

Reports Required by
Government Auditing Standards –
Title 2 U.S. *Code of Federal Regulations*
Part 200 – *Uniform Administrative*
Requirements, Cost Principles,
and Audit Requirements for Federal Awards

Year Ended December 31, 2020

EDESIA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2020



<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Total Federal Expenditures</u>	<u>Subrecipient</u>
<u>United States Agency for International Development</u> <i>Direct Funding</i>				
Food for Peace Emergency Program	98.008	AID-FFP-G-15-00047	\$ 509,345	\$ -
		AID-FFP-20GR00023	496,766	-
		AID-FFP-20GR00024	152,283	-
			<u>\$ 1,158,394</u>	<u>\$ -</u>

EDESIA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Edesia, Inc. (the Organization) under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Organization does not have a federally approved negotiated indirect cost rate agreement and, therefore, is subject to the 10-percent de minimis indirect cost rate under the Uniform Guidance.

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. and Subsidiaries:

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. and Subsidiaries (the Organization) (a non-profit organization), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses 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 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization'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.

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 (Continued)

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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kahn, Litwin, Renya & Co, Ltd.

April 22, 2021

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Edesia, Inc. and Subsidiaries' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2020. The Organization's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the Organization's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE *UNIFORM GUIDANCE* (Continued)**

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the Organization 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 of compliance, we considered the Organization'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 Uniform Guidance, 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 the Organization'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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kahn, Litwin, Kenya & Co., Ltd.

April 22, 2021

EDESIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2020



SECTION I - SUMMARY OF AUDITORS' 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 2 CFR Section 200.516(a)? _____ yes _____ X no

Identification of major program:

<i>CFDA Number</i>	<i>Name of Federal Program</i>
98.008	Food for Peace Emergency Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee _____ X yes _____ no

EDESIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2020

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: None noted.