

EDESIA, INC. AND SUBSIDIARIES

**Consolidated Financial Statements
and Supplementary Information**

Year Ended December 31, 2021

(With Independent Auditors' Report Thereon)

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

Year Ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Edesia, Inc. and Subsidiaries (a nonprofit organization) (the Organization), which comprise the consolidated statement of financial position as of December 31, 2021, 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.

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, 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 to 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Summarized Comparative Information

We have previously audited the Organization's December 31, 2020 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated April 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2022, 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 solely 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 the effectiveness of the Organization's 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, Kenya & Co., Ltd.

April 27, 2022

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2021
(With Comparative Totals at December 31, 2020)



	2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,593,479	\$ 13,558,084
Grants and contracts receivable	9,835,034	2,205,545
Inventory	14,843,147	13,454,259
Prepaid expenses and other	624,905	517,061
Total current assets	30,896,565	29,734,949
Investments	6,181,766	-
Property and Equipment, net	5,123,338	4,884,040
Security Deposits	11,845	11,845
Total Assets	\$ 42,213,514	\$ 34,630,834
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,862,760	\$ 1,309,743
Deferred revenue	485,779	9,287
Royalties payable	228,416	594,210
Equipment loan payable, current portion	670,217	868,974
Capital lease obligations, current portion	-	1,893
Total current liabilities	3,247,172	2,784,107
Equipment Loan Payable, less current portion and unamortized debt issuance costs	-	665,438
Total liabilities	3,247,172	3,449,545
Net Assets:		
Without donor restrictions	38,966,342	31,181,289
Total net assets	38,966,342	31,181,289
Total Liabilities and Net Assets	\$ 42,213,514	\$ 34,630,834

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2021
(With Comparative Totals for the Year Ended December 31, 2020)

	2021	2020
Change in Net Assets without Donor Restrictions:		
Revenue and support:		
Program income:		
Product sales	\$ 54,541,435	\$ 38,958,468
Federal grants	3,015,158	1,158,394
Total program income	57,556,593	40,116,862
Cost of sales	(51,659,367)	(36,063,894)
Net program income	5,897,226	4,052,968
Contributions	4,901,797	5,126,973
PPP loan forgiveness	2,796,990	-
Other revenue	263,291	220,066
Net assets released from restrictions	-	15,000
Total net revenue and support	13,859,304	9,415,007
Expenses:		
Program expenses	4,379,833	4,880,756
General and administrative expenses	1,558,986	1,303,641
Fundraising expenses	135,432	348,012
Total expenses	6,074,251	6,532,409
Change in net assets without donor restrictions	7,785,053	2,882,598
Change in Net Assets with Donor Restrictions:		
Net assets released from restrictions	-	(15,000)
Change in net assets with donor restrictions	-	(15,000)
Change in Net Assets	7,785,053	2,867,598
Net Assets, beginning of year	31,181,289	28,313,691
Net Assets, end of year	\$ 38,966,342	\$ 31,181,289

EDESIA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021
(With Comparative Totals for the Year Ended December 31, 2020)



	2021					2020	
	Cost of Sales	Program Expenses	Total Program	General and Administrative	Fundraising Expenses	Total	Total
Salaries and wages	\$ 4,084,132	\$ 1,570,142	\$ 5,654,274	\$ 392,535	\$ 100,911	\$ 6,147,720	\$ 5,364,706
Payroll taxes	391,805	128,278	520,083	32,070	4,796	556,949	471,301
Employee benefits	558,396	162,976	721,372	40,744	-	762,116	721,234
Depreciation	-	1,887,118	1,887,118	192,501	-	2,079,619	2,741,590
Freight out	613,223	-	613,223	-	-	613,223	610,009
Information technology	-	316,997	316,997	73,399	-	390,396	341,211
Insurance	-	202,374	202,374	50,594	-	252,968	201,988
Interest	-	39,314	39,314	4,159	-	43,473	75,499
Maintenance, occupancy and related fees	1,770,826	-	1,770,826	230,565	-	2,001,391	1,831,251
Media and communications	-	1,461	1,461	-	12,992	14,453	109,112
Office expense	-	3,901	3,901	166,037	11,883	181,821	264,366
Other production costs	271,795	-	271,795	-	-	271,795	230,542
Product testing	893,562	45,909	939,471	-	-	939,471	859,491
Professional fees	-	11,956	11,956	318,704	4,850	335,510	459,178
Raw materials	41,122,774	-	41,122,774	-	-	41,122,774	26,586,056
Royalties	846,378	-	846,378	-	-	846,378	614,258
Staff training and development	-	7,357	7,357	33,537	-	40,894	64,387
Storage and handling fees	1,106,476	-	1,106,476	-	-	1,106,476	1,029,528
Travel and related	-	2,050	2,050	24,141	-	26,191	20,596
Total expenses	\$ 51,659,367	\$ 4,379,833	\$ 56,039,200	\$ 1,558,986	\$ 135,432	\$ 57,733,618	\$ 42,596,303
Total expenses excluding cost of sales						\$ 6,074,251	\$ 6,532,409

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, 2021
(With Comparative Totals for the Year Ended December 31, 2020)

	2021	2020
Cash Flows from Operating Activities:		
Receipts:		
Product sales	\$ 46,911,946	\$ 47,140,852
Federal grants	3,491,650	1,158,394
Contributions	4,901,797	5,126,973
PPP loan forgiveness	2,796,990	-
Other revenue	165,681	220,066
Total receipts	58,268,064	53,646,285
Payments:		
Salaries and wages	(6,077,659)	(5,544,721)
Benefits and related	(1,359,959)	(1,256,922)
Raw materials	(42,028,706)	(32,562,450)
Other production costs	(4,143,137)	(3,383,362)
Other operating costs	(1,056,215)	(1,211,435)
Occupancy and maintenance	(2,001,391)	(1,831,251)
Insurance	(252,968)	(201,988)
Interest	(43,473)	(75,499)
Total expenditures	(56,963,508)	(46,067,628)
Net cash provided by operating activities	1,304,556	7,578,657
Cash Flows from Investing Activities:		
Purchase of investments	(6,180,295)	-
Proceeds from sale of investments	96,139	-
Purchase of property and equipment	(2,318,917)	(1,499,897)
Net cash used by investing activities	(8,403,073)	(1,499,897)
Cash Flows from Financing Activities:		
Payments on equipment loan payable	(864,195)	(834,755)
Payments on capital lease obligations	(1,893)	(64,625)
Net cash used by financing activities	(866,088)	(899,380)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,964,605)	5,179,380
Cash and Cash Equivalents, beginning of year	13,558,084	8,378,704
Cash and Cash Equivalents, end of year	\$ 5,593,479	\$ 13,558,084
Supplemental Data:		
Cash paid for interest	\$ 43,473	\$ 75,499

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

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 15.5 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 (U.S. GAAP) 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, 2021

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.

Comparative 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements and related notes for the year ended December 31, 2020, 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 of Directors (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, 2021

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.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

Investments and Fair Value Measurements

The Organization reports its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by authoritative guidance, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include the Organization's own data.

The Organization's investments are classified as levels 1 and 2 within the fair value hierarchy.

Level 1 investments owned by the Organization and listed on a National Securities Exchange are valued at the last recorded sales price as of the consolidated financial statement reporting date or, in the absence of recorded sales, at the last quoted bid price reported as of the consolidated financial statement reporting date.

Level 2 investment values are all based on quoted market prices, dealer quotations or alternative pricing supported by observable inputs, which may be redeemed at or near the reporting date.

Realized and unrealized gains and losses are included in other revenue in the statement of activities. Gains and losses on investments are reported as changes in net assets without donor restrictions, unless gains and losses on investments are restricted by a donor's explicit stipulation or by a law that extends a donor's restriction.

Dividends and interest are recorded as received, which does not differ materially from the accrual basis. Purchases and sales of securities are recorded on the trade date.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

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 twenty-five years.

Deferred Revenue

Advanced funds are recorded in the accounting records by the Organization as deferred revenue until such time as the Organization incurs expenditures related to the specific program for which the funds have been received.

Debt Issuance Costs

The Organization incurred costs to acquire long-term debt (Note 7). 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 \$3,119 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 either as net assets without or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. However, it is also the policy of the Organization to show net assets with donor restrictions that are both received and fully expended in the same year directly in net assets without donor restrictions.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

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, which would typically need to be purchased if not donated, are recorded at their fair values in the period received.

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales.

Paycheck Protection Program Funding

The Organization received Paycheck Protection Program (PPP) loans and has elected to account for this funding as a conditional contribution. Revenue is recognized when the Organization has satisfied the conditions for forgiveness of the loans (Note 8). During the year ended December 31, 2021, the Organization recognized the entire loan proceeds as revenue since the conditions for forgiveness of the loans were met.

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 U.S. GAAP 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.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

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.

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.

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. The standard will be effective for the Organization's year ending December 31, 2022.

Reclassifications

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 presentation.

Subsequent Events

Management has evaluated events through April 27, 2022, which is the date these consolidated financial statements were available to be issued.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

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, 2021:

Cash and cash equivalents	\$ 5,593,479
Grants and contracts receivable	<u>9,835,034</u>
 Financial assets available to meet general expenditure needs within one year	 <u><u>\$ 15,428,513</u></u>

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, the Organization has long-term investments of \$6,181,766 (Note 5), available to meet current obligations, as well as a \$3,000,000 line of credit (Note 7), which it could draw upon in the event of an unanticipated liquidity need.

4. Inventory

Inventory consisted of the following:

Raw materials	\$ 7,274,194
Finished goods	<u>7,568,953</u>
 Total inventory	 <u><u>\$ 14,843,147</u></u>

Cost of sales consisted of the following:

Beginning inventory	\$ 13,454,259
Purchases	42,511,662
Production labor and benefits	5,034,333
Royalties	846,378
Storage and handling fees	1,106,476
Maintenance, occupancy and related fees	1,770,826
Freight out	613,223
Product testing	893,562
Other production costs	<u>271,795</u>
Cost of goods available for sale	66,502,514
Less ending inventory	<u>(14,843,147)</u>
 Cost of sales	 <u><u>\$ 51,659,367</u></u>

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

5. Investments

The Organization's investments at December 31, 2021 are presented in the fair value hierarchy as follows:

	Level 1	Level 2	Total
Money market funds	\$ 2,014,765	\$ -	\$ 2,014,765
U.S. exchange traded equities	2,061,389	-	2,061,389
Foreign exchange traded equities	794,045	-	794,045
Fixed income	162,332	-	162,332
Corporate bonds	-	1,149,235	1,149,235
Total investments	\$ 5,032,531	\$ 1,149,235	\$ 6,181,766

6. Property and Equipment

Property and equipment consisted of the following:

Equipment:

Information technology	\$ 1,246,485
Production	18,611,387
Furniture and fixtures	233,544
Leasehold improvements	476,656
Construction in progress	1,060,817
	21,628,889
Less accumulated depreciation	16,505,551
Total property and equipment, net	\$ 5,123,338

At December 31, 2021, the Organization has construction in progress related to production equipment purchased not yet placed into service. The balance will be placed into service in 2022, at which point depreciation will commence.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

7. 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 (0.105% at December 31, 2021) plus 1.40%. At year-end, there was no outstanding balance on this line of credit. Effective January 1, 2022, the line-of-credit agreement was amended to replace the LIBOR rate with the American Interbank Offered Rate (AMERIBOR).

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, 2021, management believes the Organization was in compliance with its covenants.

A summary of the equipment loans is as follows:

Equipment loans payable, all current	\$	673,336
Less:		
Unamortized debt issuance costs		3,119
Equipment loans	\$	670,217

8. Paycheck Protection Program Funding

On January 25, 2021, the Organization received loan proceeds of \$1,383,450 under the 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 this loan (PPP Loan) may only be 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 was set to mature on January 21, 2026 and bore interest at a rate of 1% per annum, payable monthly. 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 Organization believes it used the proceeds in accordance with the loan terms and applied for forgiveness from the U.S. Small Business Administration (SBA). On October 5, 2021, the Organization received notification of SBA approval for forgiveness of the entire loan proceeds.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

On May 7, 2021, the Organization received additional loan proceeds of \$1,413,540 under the PPP. Proceeds from this second-draw PPP loan (PPP2 Loan) may only be used for payroll costs, mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. The PPP2 Loan was set to mature on May 7, 2026 and bore 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 PPP2 Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Organization believes it used the proceeds in accordance with the loan terms and applied for forgiveness from the SBA. On December 9, 2021, the Organization received notification of SBA approval for forgiveness of the entire loan proceeds.

9. Commitments

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, 2021 was approximately \$198,700, 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 had 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. A new agreement was entered into as of October 1, 2021 for a five-year term ending September 30, 2026, superseding the prior agreement. This contract was prorated for the period October 1, 2021 through December 31, 2021.

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, up to a maximum of \$750,000 during each 12-month contract period ending September 30. The Organization earns a credit against the royalty fee for service fees as defined in the Agreement of a minimum of \$200,000 per contract year. For the year ended December 31, 2021, total royalty fees were approximately \$846,400.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

Operating Lease Agreement

In April 2016, the Organization entered into a 25-year sublease agreement for facilities with a related party (Note 11) 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, 2021 was approximately \$500,000 to the related party and approximately \$96,100 paid to the prime landlord.

In March 2022, the Organization entered into a 6-year lease agreement for office equipment. The lease requires minimum monthly payments of approximately \$700.

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

<u>Year Ending</u>	
December 31, 2022	\$ 607,600
December 31, 2023	612,300
December 31, 2024	614,900
December 31, 2025	617,500
December 31, 2026	631,100
Thereafter	<u>8,959,400</u>
Total	<u>\$ 12,042,800</u>

10. 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, grants and contracts receivable and investments.

The Organization maintains its operating accounts in three 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 approximately \$6,850,500. The Organization monitors its exposure with regard to cash and cash equivalents and has not experienced losses on such accounts.

The Organization maintains its investment accounts at one financial brokerage institution. The account balances are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 (including up to \$250,000 for cash balances). At year-end, the uninsured portion of this balance was approximately \$5,681,800. The Organization monitors its exposure with regard to investments and has not experienced losses on such accounts.

EDESIA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

At December 31, 2021, approximately \$7,587,100, or 77%, of the Organization's outstanding receivables was due from one customer. At year-end, management has performed an analysis of those receivables and does not believe that there is a significant credit risk related to the receivables.

For the year ended December 31, 2021, product sales represented approximately 81% of total revenue and support. Of this amount, approximately 93% was generated from two customers. At year-end, management does not believe that significant business risk exists with respect to the continuation of business with these customers.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such changes could materially affect investment balances and activity included in the consolidated financial statements.

11. 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 9). Amounts paid to the related entity for the year ended December 31, 2021 total approximately \$500,000.

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, 2021

EDESIA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2021



Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Award Number	Total Federal Expenditures	Subrecipient
<u>United States Agency for International Development</u> <i>Direct Funding</i> Foreign Food Aid Donation Cluster: Food for Peace Emergency Program	98.008	AID-FFP-G-15-00045 AID-FFP-G-15-00047 AID-FFP-20GR00023 AID-FFP-20GR00024	\$ 1,120,785 225,068 1,102,165 567,140 <hr/> \$ 3,015,158	\$ - - - - <hr/> \$ -

EDESIA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2021

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, 2021. 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 (a non-profit organization) (the Organization), which comprise the consolidated statement of financial position as of December 31, 2021, 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 27, 2022.

Report on 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) as a basis for designing 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 a 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.

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 or significant deficiencies may exist that were not identified.

**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)***

Report on 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 consolidated financial statements. 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, Kenya & Co., Ltd.

April 27, 2022

**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

Opinion on Each Major Federal Program

We have audited Edesia, Inc. and Subsidiaries' (a non-profit organization) (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2021. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 program for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error as fraud may involve collusion, forgery, intention, omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, Renya & Co., Ltd.

April 27, 2022

EDESIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2021



SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Type of auditors' report issued on compliance for major federal program: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

Major federal program:

Assistance Listing Number
98.008

Name of Federal Program
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 yes no

EDESIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.