

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Project Healthy Children, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Project Healthy Children, Inc. and Subsidiaries as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Project Healthy Children, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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 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 GAAS 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 GAAS, 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.

Marcum LLP

Boston, MA
May 23, 2024

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2023 AND 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 3,102,900	\$ 7,952,459
Accounts receivable, net of allowance for doubtful accounts of \$27,425 in 2023 and \$7,188 in 2022	410,425	37,410
Inventory	1,710,150	1,064,404
Employee cash advances	5,839	5,843
Prepaid expenses and other current assets	1,588,478	574,367
Total Current Assets	<u>6,817,792</u>	<u>9,634,483</u>
Fixed Assets, Net of Accumulated Depreciation	<u>1,915,852</u>	<u>1,510,553</u>
Other Assets		
Security deposits	--	13,957
Right-of-use assets, operating leases	237,999	--
Total Other Assets	<u>237,999</u>	<u>13,957</u>
Total Assets	<u>\$ 8,971,643</u>	<u>\$ 11,158,993</u>
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 646,396	\$ 492,137
Refundable advance	400,000	--
Operating lease liabilities, current	90,592	--
Total Current Liabilities	<u>1,136,988</u>	<u>492,137</u>
Operating lease liabilities, non-current	<u>147,722</u>	<u>--</u>
Total Liabilities	<u>1,284,710</u>	<u>492,137</u>
Net Assets		
Without donor restrictions	7,686,933	10,666,856
Total Net Assets	<u>7,686,933</u>	<u>10,666,856</u>
Total Liabilities and Net Assets	<u>\$ 8,971,643</u>	<u>\$ 11,158,993</u>

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

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023			2022		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue						
Public support:						
Contributions	\$ 3,935,362	\$ --	\$ 3,935,362	\$ 4,532,230	\$ --	\$ 4,532,230
Other revenues (expenses):						
Sales of fortification supplies	2,627,424	--	2,627,424	1,211,096	--	1,211,096
Loss on disposal of asset	(11,179)	--	(11,179)	--	--	--
Interest income	109,594	--	109,594	45,651	--	45,651
Branch closure expenses	(220,261)	--	(220,261)	--	--	--
Total other revenues	2,505,578	--	2,505,578	1,256,747	--	1,256,747
Net assets released from restrictions	--	--	--	--	--	--
Total Public Support and Revenue	6,440,940	--	6,440,940	5,788,977	--	5,788,977
Expenses						
Program expense:						
Food fortification	8,312,311	--	8,312,311	5,665,992	--	5,665,992
Supporting activities:						
General and administration	248,687	--	248,687	228,123	--	228,123
Fundraising	561,443	--	561,443	144,224	--	144,224
Total supporting activities expense	810,130	--	810,130	372,347	--	372,347
Total Expenses	9,122,441	--	9,122,441	6,038,339	--	6,038,339
Changes in Net Assets Before Translation Adjustments	(2,681,501)	--	(2,681,501)	(249,362)	--	(249,362)
Foreign currency translation losses	(298,422)	--	(298,422)	(44,460)	--	(44,460)
Changes in Net Assets	(2,979,923)	--	(2,979,923)	(293,822)	--	(293,822)
Net Assets - Beginning of Year	10,666,856	--	10,666,856	10,960,678	--	10,960,678
Net Assets - End of Year	\$ 7,686,933	\$ --	\$ 7,686,933	\$ 10,666,856	\$ --	\$ 10,666,856

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

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023					2022				
	Program Services	Supporting Services				Program Services	Supporting Services			
	Food Fortification	General and Administration	Fundraising	Total Supporting Services	Total Expenses	Food Fortification	General and Administration	Fundraising	Total Supporting Services	Total Expenses
Overseas payroll and payroll taxes	\$ 2,335,779	\$ 27,120	\$ 168,941	\$ 196,061	\$ 2,531,840	\$ 2,109,534	\$ --	\$ --	\$ --	\$ 2,109,534
Cost of goods sold - premix and bags	3,530,718	--	--	--	3,530,718	1,465,778	--	--	--	1,465,778
Consultant and professional fees	239,433	25,074	51,255	76,329	315,762	269,326	41,193	103,120	144,313	413,639
Depreciation and amortization	555,740	6,860	--	6,860	562,600	364,664	7,310	--	7,310	371,974
Rent and facilities	300,080	--	--	--	300,080	330,417	--	--	--	330,417
Recruiting and training	113,511	791	10,780	11,571	125,082	224,526	--	19,405	19,405	243,931
Payroll and related costs - U.S. based	170,230	72,956	184,967	257,923	428,153	156,302	61,784	--	61,784	218,086
Travel	151,134	47,239	82,792	130,031	281,165	122,128	57,045	6,688	63,733	185,861
Information technology	238,502	41,558	12,215	53,773	292,275	127,245	45,383	10,499	55,882	183,127
Fleet	146,016	--	--	--	146,016	126,610	--	--	--	126,610
Equipment and software	122,311	1,563	171	1,734	124,045	99,144	75	560	635	99,779
Other miscellaneous	54,678	--	--	--	54,678	66,526	750	--	750	67,276
Communications	45,985	1,077	3,146	4,223	50,208	41,611	2,101	2,521	4,622	46,233
Research and development	57,310	--	39	39	57,349	37,016	--	--	--	37,016
Materials - fortification devices	27,140	--	--	--	27,140	36,111	--	--	--	36,111
Employee benefits	14,252	6,108	4,603	10,711	24,963	25,901	7,563	--	7,563	33,464
Memberships and fees	69,389	2,893	39,442	42,335	111,724	28,486	1,356	1,400	2,756	31,242
Office supplies	89,700	826	2,650	3,476	93,176	20,374	635	31	666	21,040
Insurance	50,403	14,622	442	15,064	65,467	14,293	2,928	--	2,928	17,221
	<u>\$ 8,312,311</u>	<u>\$ 248,687</u>	<u>\$ 561,443</u>	<u>\$ 810,130</u>	<u>\$ 9,122,441</u>	<u>\$ 5,665,992</u>	<u>\$ 228,123</u>	<u>\$ 144,224</u>	<u>\$ 372,347</u>	<u>\$ 6,038,339</u>

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

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Cash Flows from Operating Activities		
Changes in net assets	\$ (2,979,923)	\$ (293,822)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	562,600	371,974
Amortization of right-of-use assets	43,832	--
Increase in reserve for obsolete inventory	68,887	27,594
Loss on revaluation of foreign assets and liabilities	298,422	44,460
Loss on disposal of assets	11,179	--
(Increase) decrease in assets:		
Accounts receivable	(375,743)	(37,410)
Inventory	(791,699)	(370,311)
Employee cash advances	4	--
Prepays and other current assets	(1,200,388)	(179,149)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	321,836	176,586
Refundable advance	400,000	--
Principal reduction in operating lease liability	(43,517)	--
Total Adjustments	(704,587)	33,744
Net Cash Used in Operating Activities	<u>(3,684,510)</u>	<u>(260,078)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(979,078)	(808,985)
Security deposits	13,957	--
Net Cash Used in Investing Activities	<u>(965,121)</u>	<u>(808,985)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	<u>(199,928)</u>	<u>(34,481)</u>
Net Decrease in Cash	(4,849,559)	(1,103,544)
Cash, Beginning of Year	<u>7,952,459</u>	<u>9,056,003</u>
Cash, End of Year	<u><u>\$ 3,102,900</u></u>	<u><u>\$ 7,952,459</u></u>

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

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 1 - NATURE OF THE ORGANIZATION

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

During the year ended September 30, 2023, the Organization closed the Tanzania branch entity and incurred expenses of approximately \$220,000 related to legal costs, filing costs, and the resolution of all open tax liabilities. All operations and assets were transferred to the new Tanzania entity that was formed in 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

BASIS OF PRESENTATION AND CONSOLIDATION

In December 2020, the Organization formed a single-member LLC, PHC International Holdings LLC ("PHC Holdco"). PHC Holdco holds investments in international operations as the Organization expands.

In January 2021, the Organization formed a Tanzanian for-profit Corporation, Sanku-Project Healthy Children Tanzania Limited ("Sanku TZ"), for the purpose of operating all Tanzanian activities.

In November 2021, the Organization formed a Kenyan for-profit Corporation, Sanku-Project Healthy Children Kenya Limited ("Sanku KE"), for the purpose of operating all Kenyan activities.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND CONSOLIDATION (CONTINUED)

The consolidated financial statements include the accounts of the Organization and its' subsidiaries, PHC Holdco, Sanku TZ and Sanku KE. All intercompany transactions and balances have been eliminated in consolidation.

ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARD

Effective October 1, 2022, the Organization adopted FASB Accounting Standards Codification (ASC) 842, *Leases* (ASC 842). The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. The Organization elected the short-term lease recognition exemption for all leases that qualify. Consequently, for those leases that qualify, the Organization will not recognize right-of-use assets or lease liabilities on the statement of financial position. The Organization generally does not have access to the rate implicit in the lease, and therefore the Organization utilizes a risk-free rate as the discount rate.

The adoption of ASC 842 resulted in the recognition of a right-of-use asset of \$277,900 and an operating lease liability of \$277,900 as of October 1, 2022. This transaction has been treated as noncash for purposes of the statements of cash flows. Results for periods beginning prior to October 1, 2022 continue to be reported in accordance with the Organization's historical accounting treatment. The adoption of ASC 842 did not have a material impact on the Organization's results of operations and cash flows. See Note 6.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new standard significantly changes how organizations will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. ASU 2016-13 is effective for annual periods beginning after December 15, 2022. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL STATEMENT PRESENTATION

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

Under this guidance, the Organization is required to report information regarding its consolidated financial position and activities according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) based upon the existence or absence of donor-imposed stipulations.

To ensure observance of limitations and restrictions that may be placed on the use of resources available to the Organization, its accounts are maintained in the following net asset categories:

NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions represent those assets that are not subject to donor-imposed stipulations or releases from donor restricted net assets designated for stipulated activities or programs. Donor-restricted contributions whose restrictions are met in the same reporting period are also classified as net assets without donor restrictions.

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent those assets that are subject to explicit or implicit donor-imposed stipulations that may or will be met whether by actions of the Organization and/or the passage of time. When the restriction expires, the net assets are reclassified to net assets without donor restrictions. Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specific date, or for particular programs or services. Other donors impose restrictions, which are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. There are no net assets with donor restrictions that are required to be held in perpetuity.

CASH AND CASH EQUIVALENTS

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

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE, NET

Accounts receivable are stated at the amount management expects to collect from outstanding balances. On a periodic basis, management evaluates its accounts receivable for collectability based on a history of past write-offs and collections and current credit conditions. Based on management's assessment of the outstanding balances, it has recorded an allowance for uncollectible accounts of \$27,425 and \$7,188 as of September 30, 2023 and 2022, respectively. There were no accounts receivable, net at of October 1, 2021.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discount, if any is included in contribution revenue in the consolidated statements of activities and changes in net assets. Unconditional promises to give are stated at the amount management expects to collect from outstanding balances. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activity. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables.

The Organization does not have any outstanding grants receivable or unconditional promises to give as of September 30, 2023 and 2022, respectively.

INVENTORY

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

FIXED ASSETS, NET

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

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FIXED ASSETS, NET (CONTINUED)

Purchases are determined to be capital expenditures based on the Organization's policy of capitalizing assets acquired at a cost (or, if donated, at fair value) exceeding \$1,000 and an economic life in excess of one year, except for laptops, which are expensed upon purchase. Those items which are not determined to be capital expenditures are charged to expense as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized.

Upon retirement, sale or other disposition of fixed assets, the cost and accumulated depreciation or amortization are eliminated from the accounts, and gains or losses are included in the consolidated statements of activities and changes in net assets.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DONATED EQUIPMENT AND SERVICES

Donated equipment is recorded as a contribution at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restriction at that time. During the years ended September 30, 2023 and 2022, the Organization did not receive any donated equipment. Donated services, if any, are computed at the value that contributed services requiring specialized skill represent to the comparable compensation that would be paid if the Organization were charged for these services. During the years ended September 30, 2023 and 2022, the Organization did not receive any donated services that qualified for recognition in the consolidated financial statements.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS

Unconditional contributions, including unconditional promises to give, are recognized as revenues and other support in the period received or pledged.

Unconditional contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Conditional contributions are not recognized until they become unconditional, that is, at the time when the condition or conditions on which they depend upon are met. At September 30, 2023, conditional contributions representing funds received prior to conditions being met amounted to \$400,000, and represent a contribution to be used for a program during fiscal year 2024, and is reflected as a refundable advance in the accompanying statement of financial position. There were no refundable advances at September 30, 2022.

OTHER REVENUE

Other revenue consists primarily of income from sales of inventory. In Tanzania, all inventory is sold on a cash-upon-delivery basis, and in Kenya inventory is sold on credit terms, at which time the related revenue is recognized in the consolidated statements of activities and changes in net assets.

COMPENSATED ABSENCES

Employees are entitled to paid time off ("PTO") depending on length of service and other factors. The Organization recognizes the cost of compensated absence as it is earned by the employee. Accumulated unpaid PTO totaled \$43,127 and \$50,432 at September 30, 2023 and 2022, respectively and is included in accounts payable and accrued expenses in the consolidated statements of financial position.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT COSTS

The costs of research, development and product improvement are charged to expense as incurred. Total research and development costs included in program services was \$57,349 and \$37,016 for the years ended September 30, 2023 and 2022, respectively.

INCOME TAX STATUS

Project Healthy Children, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The Organization, however, is subject to the tax on unrelated business income, if any such income exists. The Organization had no unrelated business income during the years ended September 30, 2023 and 2022.

Sanku TZ is a for-profit company and pays taxes as appropriate in Tanzania. Sanku TZ incurred a loss through September 30, 2023 and did not have any significant taxes payable to the Tanzania Revenue Authority.

Sanku KE is a for-profit company and pays taxes as appropriate in Kenya. Sanku KE incurred a loss through September 30, 2023 and did not have any significant taxes payable to the Kenya Revenue Authority.

Project Healthy Children, Inc. recognizes and measures its unrecognized tax positions and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. Interest and penalties associated with unrecognized tax positions, if any, would be classified as interest expense and additional income taxes, respectively, in the consolidated statements of activities and changes in net assets.

The Organization did not identify any uncertain tax positions at September 30, 2023 and 2022. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods pending or in progress.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Organization's programs and activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and consolidated statements of functional expenses. Salaries, wages, fringe benefits and certain other expenses are allocated based upon employee hours. Expenses that can be identified with a program or support service are allocated directly to that program or support service according to their natural expenditure classification.

TRANSACTIONS IN FOREIGN CURRENCIES

Project Healthy Children, Inc. conducts its program operations through field site locations and offices in foreign countries and, accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars at the appropriate exchange rates when each transaction is executed. The resulting gain or loss is reflected in the accompanying consolidated statement of activities as foreign currency transaction gains or losses. The U.S. dollar is considered the functional and reporting currency of Project Healthy Children, Inc.. The functional currencies of PHC Holdco and Sanku-Project Healthy Children Tanzania Limited are the local currencies of the respective countries and are translated into U.S. dollars at current exchange rates. The resulting translation gain or loss is shown in the accompanying consolidated financial statements as a separate component of the change in net assets.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 23, 2024, the date the consolidated financial statements were available to be issued and has determined that no subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 3 - EMPLOYEE CASH ADVANCES

Employees who work in or travel to the rural countries of Tanzania, Kenya and other remote areas are given cash advances because often there are no credit card transactions available in those locations. Once the money is spent, the employees submit receipts to the Tanzania office and the corresponding expenses are recorded in the consolidated statements of activities and changes in net assets.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 4 – FIXED ASSETS, NET

A summary of fixed assets at September 30 is as follows:

	2023	2022
Furniture and fixtures	\$ --	\$ 93,934
Equipment	2,381,471	2,028,788
Computer equipment	34,300	63,696
Vehicles	725,323	455,367
Leasehold Improvements	93,378	--
	<u>3,234,472</u>	<u>2,641,785</u>
Less: Accumulated depreciation	<u>1,318,620</u>	<u>1,131,232</u>
Equipment, net	<u>\$ 1,915,852</u>	<u>\$ 1,510,553</u>

Total depreciation and amortization expense for the years ended September 30, 2023 and 2022 was \$562,600 and \$371,974, respectively.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

There were no net assets with donor restrictions at September 30, 2023 and 2022.

NOTE 6 - LEASES

The Organization leases office space under the terms of various operating leases with terms ranging from one to five years. The agreements provide for minimum lease payments, and some include payment increases over the life of the lease. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The Organization elected the short-term lease recognition exemption for all leases that qualify. Consequently, for those leases that qualify, the Organization will not recognize right-of-use assets or lease liabilities on the statement of financial position. The Organization generally does not have access to the rate implicit in the lease, and therefore the Organization has elected to utilize the risk-free rate as the discount rate.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 6 – LEASES (CONTINUED)

The following summarizes the line items in the statement of financial position which include amounts for operating leases as of September 30, 2023:

Operating lease right-of-use asset	\$ 237,999
Current portion of long-term operating leases	\$ 90,592
Operating lease liabilities, non-current	<u>147,722</u>
Total operating lease liabilities	<u>\$ 238,314</u>

The components of total lease cost that are included within rent and facilities in the statement of functional expenses for the year ended September 30, 2023 were as follows:

Operating lease cost	\$ 43,832
Short-term lease cost	<u>209,207</u>
	<u>\$ 253,039</u>

The following summarizes the cash flow information related to the operating lease for the year ended September 30, 2023:

Cash paid for amounts included in the measurement of operating lease liability:	
Operating cash flows for operating lease	\$ 43,517

Weighted average lease term and discount rate as of September 30, 2023 were as follows:

Weighted average remaining lease term	2.79
Weighted average discount rate	4.03%

The maturities of operating lease liabilities as of September 30, 2023, were as follows:

2024	\$ 97,429
2025	97,755
2026	<u>53,603</u>
Total lease payments	\$ 248,787
Less: Interest	<u>(10,473)</u>
Present value of lease liability	<u>\$ 238,314</u>

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 6 – LEASES (CONTINUED)

Lease expense, as previously defined under ASC 840, for all operating leases was \$233,447 for the year ended September 30, 2022. During the year ended September 30, 2022, the Organization incurred expenses for the following lease agreements:

In May 2018, the Organization entered into a lease agreement for property in Morogoro. The original term of the lease was for six months, expiring in November 2018, with annual options for one-year extensions. The extended term of the lease expired November 2020. The Organization currently rents this property on a month-to-month basis.

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

In January 2018, the Organization entered into a two year lease agreement for warehouse space in Tanzania at a rate of \$1,658 per month. The lease expired December 30, 2019. The Organization currently rents this space on a month-to-month basis.

In April 2019, the Organization entered into a one year lease agreement for warehouse space in Tanzania at a rate of \$1,652 per month. The lease expired April 11, 2020. The Organization currently rents this space on a month-to-month basis.

In December 2019, the Organization entered into a one-year lease agreement for warehouse space in Dar es Saleem at a rate of \$3,600 per month. The lease expired December 2020.

In July 2021, the Organization entered into a one-year lease agreement for warehouse space in Mikocheni at a rate of \$2,950 per month. On June 30, 2022 the lease was renewed for an additional one year period, then subsequently renewed for an additional 3 month period.

In July 2021, the Organization entered into a one-year lease agreement for office space in Mikocheni at a rate of \$751 per month. The lease was renewed on June 30, 2022 for an additional one-year period and expired in July 2023.

In September 2022, the Organization entered into a three-year lease agreement for space in Dodoma, expiring in October 2025. The lease requires annual rent to be paid in full in advance in the amount of approximately \$8,600.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 6 – LEASES (CONTINUED)

In September 2022, the Organization entered into a three-year lease agreement for space in Mwanza, expiring in September 2025. The lease requires annual rent to be paid in full in advance in the amount of approximately \$6,200.

NOTE 7 - RELATED PARTY TRANSACTIONS

During the years ended September 30, 2023 and 2022, various board members and members of management made direct contributions to the Organization in the amount of \$10,000 and \$10,317, respectively.

NOTE 8 – RISKS AND COMMITMENTS

CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at a financial institution located in Massachusetts. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Bank deposit amounts may, at times, exceed federally insured limits. The Organization also maintains cash deposits at financial institutions in Tanzania, which are uninsured. Management does not believe that it is exposed to significant risk with respect to cash, as balances in Tanzanian accounts are closely monitored and transferred to the financial institution in Massachusetts on a routine basis.

FOREIGN OPERATIONS

Project Healthy Children, Inc. has operations in multiple foreign countries. These foreign operations maintain cash accounts and property and equipment. In addition, the inventory and portions of the prepaid expenses, receivables and other assets reflected on the accompanying consolidated statements of financial position are related to activities in these foreign countries. The future of these programs may be adversely affected by a number of potential factors, such as currency devaluations, terrorist activity or changes in the political climate.

PROJECT HEALTHY CHILDREN, INC. AND SUBSIDIARIES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

NOTE 9 – LIQUIDITY AND FUNDS AVAILABLE

The following reflects the Organization's financial assets as of the consolidated statements of financial position dates.

	2023	2022
Financial assets at year end		
Cash	\$ 3,102,900	\$ 7,952,459
Accounts receivable, net	<u>410,425</u>	<u>37,410</u>
	<u>\$ 3,513,325</u>	<u>\$ 7,989,869</u>

The Organization is substantially supported by contributions. The contributions received may require resources to be used in a particular manner or in a future period. Because of these restrictions, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.