



VITAMIN ANGEL ALLIANCE, INC.

FINANCIAL STATEMENTS

December 31, 2011

VITAMIN ANGEL ALLIANCE, INC.

Table of Contents

December 31, 2011

Independent Auditor's Report.....	1
Statement of Financial Position.....	2
Statement of Activity.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6-16



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vitamin Angel Alliance, Inc.

We have audited the accompanying statement of financial position of Vitamin Angel Alliance, Inc. (a non-profit organization) as of December 31, 2011, and the related statements of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Vitamin Angel Alliance, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Damitz, Brooks, Nightingale, Turner & Morrisset

Damitz, Brooks, Nightingale,
Turner & Morrisset

VITAMIN ANGEL ALLIANCE, INC.
Statement of Financial Position
December 31, 2011

<i>Assets</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,765,806	\$ -	\$ 1,765,806
Inventory	2,864,604	-	2,864,604
Pledges receivable	-	208,207	208,207
Prepaid expenses and deposits	10,099	-	10,099
Investments in marketable securities	6,150	-	6,150
Capitalized website development costs	5,139	-	5,139
Office furniture and equipment	26,927	-	26,927
<i>Total assets</i>	<u>\$ 4,678,725</u>	<u>\$ 208,207</u>	<u>\$ 4,886,932</u>
 <i>Liabilities and Net Assets</i> 			
<i>Liabilities</i>			
Accounts payable	\$ 76,133	\$ -	\$ 76,133
Accrued liabilities	85,462	-	85,462
<i>Total liabilities</i>	<u>161,595</u>	<u>-</u>	<u>161,595</u>
 <i>Net Assets</i>			
Unrestricted	4,517,130	-	4,517,130
Temporarily restricted	-	208,207	208,207
<i>Total net assets</i>	<u>4,517,130</u>	<u>208,207</u>	<u>4,725,337</u>
	<u>\$ 4,678,725</u>	<u>\$ 208,207</u>	<u>\$ 4,886,932</u>

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Activity
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
<i>Revenues and Other Support</i>			
In-kind contributions	\$ 14,269,311	\$ -	\$ 14,269,311
Contributions	2,862,155	208,207	3,070,362
Special event income	353,008	-	353,008
Rental income	3,374	-	3,374
Investment loss, net	(156)	-	(156)
Net assets released from restrictions	128,885	(128,885)	-
	17,616,577	79,322	17,695,899
<i>Expenses</i>			
Nutrition and health projects	19,411,488	-	19,411,488
Management and general	717,526	-	717,526
Special events and fundraising	769,214	-	769,214
	20,898,228	-	20,898,228
<i>Increase (decrease) in net assets</i>	(3,281,651)	79,322	(3,202,329)
<i>Net assets, beginning of year</i>	7,798,781	128,885	7,927,666
<i>Net assets, end of year</i>	\$ 4,517,130	\$ 208,207	\$ 4,725,337

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Functional Expenses
Year Ended December 31, 2011

	Program Services	Supporting Services		Total
	Nutrition and Health Projects	Management and General	Special Events and Fundraising	
Salaries	\$ 307,873	\$ 344,094	\$ 253,543	\$ 905,510
Payroll taxes and benefits	49,365	55,172	40,653	145,190
Total salaries and benefits	357,238	399,266	294,196	1,050,700
Conferences and meetings	-	9,897	-	9,897
Consulting	72,000	500	34,119	106,619
Depreciation and amortization	8,679	3,472	5,207	17,358
Development and promotion	-	-	202,216	202,216
Information technology	2,779	1,111	1,667	5,557
Insurance	5,471	2,189	3,283	10,943
Legal and accounting	212,312	243,442	-	455,754
Occupancy	30,922	12,368	18,553	61,843
Office expenses	34,962	13,985	20,977	69,924
Postage and shipping	75,226	1,575	-	76,801
Products distributed - contributed	18,101,574	-	-	18,101,574
Products distributed - purchased	314,547	-	-	314,547
Program direct expense	16,547	-	-	16,547
Special events	-	-	84,180	84,180
Travel	179,231	29,721	104,816	313,768
	<u>\$ 19,411,488</u>	<u>\$ 717,526</u>	<u>\$ 769,214</u>	<u>\$ 20,898,228</u>

VITAMIN ANGEL ALLIANCE, INC.
Statement of Cash Flows
Year Ended December 31, 2011

<i>Cash flows from operating activities</i>	
Decrease in net assets	\$ (3,202,329)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	
Amortization	11,333
Depreciation	6,025
Net realized gain on investments	(116)
Net reduction in unrealized gain on investments	602
(Increase) decrease in:	
Inventory	3,875,562
Pledges receivable	(79,322)
Prepaid expenses and deposits	(3,725)
Increase (decrease) in:	
Accounts payable	13,589
Accrued liabilities	5,224
Deferred revenue	(35,437)
	<u>591,406</u>
<i>Net cash provided by operating activities</i>	
<i>Cash flows from investing activities</i>	
Purchase of investments in marketable securities	(2,419)
Proceeds from sales of securities	2,317
Purchase of office furniture and equipment	(16,117)
	<u>(16,219)</u>
<i>Net cash used by investing activities</i>	
Net increase in cash and cash equivalents	575,187
<i>Cash and cash equivalents, beginning of year</i>	<u>1,190,619</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 1,765,806</u>

VITAMIN ANGEL ALLIANCE, INC.
Notes to Financial Statements
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Vitamin Angel Alliance, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The 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 (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Organization

The Organization, a California non-profit corporation, was founded in 1998 and is headquartered in Santa Barbara, California. The mission of the Organization is to mobilize and deploy private sector resources to advance availability, access and use of micronutrients, especially vitamin A, for at-risk populations around the world.

The Organization's program services consist of providing essential micronutrients and health supplies in the form of vitamins (vitamin A and various formulations of multivitamins) and anti-parasitic agents to qualified non-governmental organizations in the United States and a range of developing countries designated by the World Health Organization (WHO) as experiencing moderate to severe micronutrient deficiency. These local organizations in turn deploy these products to communities and individuals at-risk and eligible for universal supplementation as defined by WHO. The primary focus of the Organization is reduction of childhood mortality and morbidity through preventative universal supplementation of infants and young children ages 6 to 59 months and lactating women with vitamin A. An important, secondary focus of the Organization is promoting cognitive and physical growth of infants and young children through preventative universal supplementation of infants and young children ages 6 to 59 months and pregnant and lactating women with multiple micronutrient supplements. Additionally, the Organization sponsors the distribution of anti-parasitic agent tablets in conjunction with vitamin A or multivitamins (except in the United States) to maximize the absorption of essential micronutrients.

Products distributed by the Organization through its assistance programs are donated by manufacturers, wholesalers, and other organizations involved with the dietary supplement industry and/or the pharmaceutical industry. The Organization also purchases products for its programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial Statement Presentation

GAAP requires that the Organization report information regarding its financial position and activities according to three classes of net assets based on the existence and nature of donor imposed restrictions as follows:

Unrestricted net assets generally result from unrestricted contributions and investment income less expenses incurred in providing services and fund-raising and other administrative expenses.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restriction.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. Interest, dividends and unrealized gains or losses recognized on such assets are either reported as an increase or decrease to permanently restricted net assets or temporarily restricted net assets in conformance with the donor imposed restrictions. As of December 31, 2011, the Organization had no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, cash in money market funds, and certificates of deposit with an original maturity of three months or less, and excludes cash and cash equivalents held by investment custodians.

Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges receivable consist primarily of promises from corporate donors. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible promises to give at December 31, 2011. There were no pledges receivable with expected due dates beyond December 31, 2012.

Conditional promises to give are those that are dependent on conditions other than the passage of time or demand. If the likelihood of meeting the conditions is not certain, the organization considers the promise to give as conditional. The organization has written conditional promises totaling approximately \$1,000,000 at December 31, 2011 that will be recognized as revenue when received from the donor.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory

General

Inventory consists primarily of vitamins, supplements, and anti-parasitic tablets. The Organization's policy is to distribute inventory at the earliest practical date, consistent with sound programmatic principles. While the distribution typically occurs in the same year of receipt, it may occur in the following year. The expense 'products distributed' is recorded when inventory is shipped. Inventory consists of the following as of December 31, 2011:

Health supplies – Anti-parasitic tablets	\$ 1,705,440
Multivitamins	550,615
High-dose vitamin A	<u>608,549</u>
	<u>\$ 2,864,604</u>

Contributed Inventory

The Organization values gifts in-kind (GIK) at fair value. Accounting Standard Codification (ASC) 820 *Fair Value Measurements and Disclosures* issued by the Financial Accounting Standards Board (FASB) defines fair value as “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.” The Organization has identified four categories of GIK products: anti-parasitic tablets, high-dose vitamin A, multivitamins, and branded products.

In the case of anti-parasitic tablets donated to the Organization, the principal market for this product is limited to the international commercial marketplace where non-governmental organizations, governments, and local pharmacies can transact for this product. The anti-parasitic tablets are an important program service as they increase the efficacy of vitamin A. No beneficiary market exists in the United States for anti-parasitic tablets because the high-dose levels that are intended for international use are not approved by the United States Food and Drug Administration. In addition to the market in which non-governmental organizations and government Ministries of Health procure the product for distribution to beneficiaries, there exists a robust local pharmacy marketplace. The exit price the Organization would receive in exchange for selling anti-parasitic tablets would be the price between a wholesaler and a local pharmacy, or “trade level.” The Organization defines its market as the priority countries for vitamin A supplementation as listed by WHO and the United Nations Children’s Fund (UNICEF). The Organization determines fair value for this product using the median trade level data for its market, provided by IMS Health, a company that provides market intelligence to pharmaceutical and healthcare industries. The Organization reviews the IMS Health data and updates fair values for anti-parasitic tablets every two years. The fair values for anti-parasitic tablets used in the accompanying financial statements were based on 2011 IMS Health data.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory (Cont.)

In the case of high-dose vitamin A donated to the Organization, the principal market for this product is limited to the international commercial marketplace where similar non-governmental organizations and governments can transact for these products. No beneficiary market exists in the United States for high-dose vitamin A because the dosage levels that are intended for international use are not approved by the United States Food and Drug Administration. The only identifiable market is that in which organizations like the Organization and government Ministries of Health procure the product for distribution to beneficiaries. The Organization uses the mean price per the International Drug Price Indicator (IDPI) to determine fair value for high-dose vitamin A. The IDPI is published by an international non-profit organization based on prices from 25 sources including pharmaceutical suppliers, international development organizations and government agencies. The Organization reviews the IDPI data and updates fair values for high-dose vitamin A every two years. The fair values for high-dose vitamin A used in the accompanying financial statements were based on 2010 IDPI data.

In addition to high-dose vitamin A and anti-parasitic tablets, the Organization receives multivitamin products that are manufactured by companies in the United States to a formulation specified by the Organization and are distributed domestically and internationally. These formulations are based on the WHO formulation for essential multiple micronutrients for children and for pregnant and lactating women, are non-branded, and not for sale in the United States. Similar to high-dose vitamin A and anti-parasitic tablets, there is no commercial market for these products in the United States. If these generic WHO formulation essential micronutrients are not listed in the IDPI or the “Sources and Prices of Selected Medicines for Children” guide published annually by UNICEF and WHO, then as a last resort, the wholesale price of the most similar product found in RedBook ® is used as a suitable pricing reference. RedBook ® is published by Thomson Reuters and is based on United States manufacturers’ suggested wholesale prices. The Organization reviews the RedBook ® data and updates fair values for multivitamin products every two years. The fair values for multivitamin products used in the accompanying financial statements were based on 2011 RedBook ® data.

The Organization often receives branded products as GIK. These donations mainly consist of multivitamins for children and multivitamins for pregnant and lactating women and can be bought and sold in the United States commercial marketplace. The value of branded products donated to the Organization is established by estimating the price that the Organization would receive if it were to sell the asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory (Cont.)

Purchased Inventory

Purchased inventory is carried at cost, unless the purchase price has been discounted. If the Organization is able to purchase from a vendor at a price below the valuation price, the Organization records the discount as a GIK contribution. The discount is the difference between the amount that would be paid for the quantity of product purchased in an orderly transaction between market participants, and the purchase price paid by the Organization.

Investments

The Organization accounts for its marketable equity securities at fair value. Information about fair value of investments and the unrealized gains and losses are discussed in Note 2.

Fair Value Measurements

ASC No. 820, *Fair Value Measurements and Disclosures* issued by FASB defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Pursuant to ASC 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC No. 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fair Value Measurements (Cont.)

The Organization has no liabilities measured at fair value. Following is a description of the valuation methodologies used for assets measured at fair value:

Cash and money funds: Valued at face value (Level 1)

Mutual funds: Valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

Office Furniture and Equipment

Office furniture and equipment are carried at cost, or if acquired by gift, at the estimated fair market value on the date of donation. Expenditures for major renewals that extend the useful lives of office furniture and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of office furniture and equipment as follows:

	<u>Years</u>
Furniture and fixtures	5-7
Computers and equipment	5

Website Development Costs

The Organization capitalizes website development costs when management judges that enhancements to the site result in added functionality. Included are costs for developing the applications and infrastructure as well as developing content and graphics. Costs of operating and maintaining the site are expensed as incurred. The carrying value of website development costs is regularly reviewed for impairment. There were no impairment losses recognized for capitalized website development costs for the year ended December 31, 2011.

Cash versus In-kind Support

The Organization's activities are planned and executed on an operating (or cash) budget that is approved by the Board of Directors prior to the onset of the fiscal year. The cash budget is not directly affected by the value of contributed products. The Organization's program model involves obtaining in-kind donations of essential vitamins, anti-parasitics, and supplements. Cash donations are used to pay for program products as well as the logistics, warehousing, transportation, program oversight, administration, fundraising, salaries, product solicitation, and all other expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenue Recognition

The Organization records contributions in the period received or promised as unrestricted revenues unless the donor stipulates any restrictions which are not met within the year the donation is received. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Donor restricted contributions whose restrictions are not met within the same year as received are recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires due to purpose and/or time, temporarily restricted net assets are reclassified as unrestricted.

Contributed Services

The Organization recognizes contribution revenue for specialized services that would otherwise be purchased by the Organization in an amount equal to the fair value of those services. The following amounts were contributed and recognized as revenue in 2011:

<u>Service Donated</u>	<u>Fair Value</u>	<u>Purpose</u>
Accounting services	\$ 4,000	General
Legal consulting	410,500	General

Functional Expenses

Direct expenses are charged to the appropriate program or supporting services. Indirect expenses have been allocated to program services and supporting services based on management estimates.

Tax Exempt Status

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Uncertain Tax Positions

The Financial Accounting Standards Board's ASC 740-10, *Accounting for Uncertainty in Income Taxes*, prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization files tax returns in the United States federal jurisdiction and in the state of California. The Organization also registers annually in states in which fundraising activities are conducted. The Organization's tax returns from the year 2008 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2007 to the present remain subject to examination by the state of California. Management has evaluated its tax positions for all jurisdictions in which the statute of limitations remains open and has determined that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. The Organization had no unrecognized tax benefits related to tax positions taken during the year ended December 31, 2011 or for prior periods.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant accounting estimates include valuation of contributed products and functional expense allocations. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through December 18, 2012, the date that the financial statements were available to be issued.

2. INVESTMENTS

At December 31, 2011, unrestricted investments consist of the following:

	Cost (Level 1)	Fair Value (Level 1)	Excess of Fair Value over Cost (Level 1)
Cash	\$ 38	\$ 38	\$ -
Mutual funds	<u>6,107</u>	<u>6,112</u>	<u>5</u>
	<u>\$ 6,145</u>	<u>\$ 6,150</u>	<u>\$ 5</u>

Investment loss for the year ending December 31, 2011 consists of the following:

Interest and dividends	\$ 330
Net realized gain	116
Net reduction in unrealized gain	<u>(602)</u>
	<u>\$ (156)</u>

3. OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment are summarized by major classifications as follows at December 31, 2011:

Furniture and fixtures	\$ 12,546
Computers and office equipment	27,924
Less accumulated depreciation	<u>(13,543)</u>
	<u>\$ 26,927</u>

Depreciation expense for the year ended December 31, 2011 was \$6,025.

4. CAPITALIZED WEBSITE DEVELOPMENT COSTS

Website development costs are amortized using the straight-line method over three years. As of December 31, 2011, capitalized website development costs totaled approximately \$5,100, which is net of accumulated amortization of approximately \$28,900. Amortization expense for capitalized website development costs was \$11,333 for the year ended December 31, 2011. Future estimated amortization expense for capitalized website development costs is approximately \$4,600 and \$500 for the years ended December 31, 2012 and 2013, respectively.

5. OPERATING LEASE

The Organization leases its office under a non-cancelable operating lease agreement with an expiration date of July 31, 2015. The Organization has the option to renew the lease for an additional five years. Monthly lease payments due under the lease are \$4,048 and are adjusted by the annual change, if any, in the Consumer Price Index. Annual adjustments will have a minimum increase of 2% and a maximum increase of 5%. The Organization is also required to pay common area costs, including property taxes.

Future annual minimum lease payments under the operating lease are as follows:

Year ending December 31,		
	2012	\$ 64,000
	2013	66,000
	2014	69,000
	2015	<u>42,000</u>
		<u>\$ 241,000</u>

Rent expense for the building including common area costs and property taxes was approximately \$52,000 for the year ended December 31, 2011.

6. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2011, temporarily restricted net assets consists of \$208,207 in pledges receivable. These amounts will be unrestricted upon collection.

7. CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. As of December 31, 2011, substantially all of the Organization's cash was maintained in financial institutions. The cash balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts. Non interest-bearing accounts have unlimited coverage. There were no uninsured cash balances at December 31, 2011.

8. RELATED PARTY TRANSACTIONS

A board member provided consulting services to the Organization totaling \$72,000 for the year ended December 31, 2011.