

VITAMIN ANGEL ALLIANCE, INC.

FINANCIAL STATEMENTS

December 31, 2008

VITAMIN ANGEL ALLIANCE, INC.
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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. (the Organization) as of December 31, 2008 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 provide 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, 2008 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
September 11, 2009

VITAMIN ANGEL ALLIANCE, INC.

Statement of Financial Position

December 31, 2008

<i>Assets</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 539,417	\$ -	\$ 539,417
Inventory	3,948,724	-	3,948,724
Pledges receivable	-	42,185	42,185
Prepaid expenses and deposits	9,446	-	9,446
Investments in marketable securities	3,598	-	3,598
Office furniture and equipment	23,282	-	23,282
<i>Total assets</i>	<u>\$ 4,524,467</u>	<u>\$ 42,185</u>	<u>\$ 4,566,652</u>
 <i>Liabilities and Net Assets</i> 			
<i>Liabilities</i>			
Accounts payable	\$ 35,466	\$ -	\$ 35,466
Accrued liabilities	46,055	-	46,055
<i>Total liabilities</i>	<u>81,521</u>	<u>-</u>	<u>81,521</u>
 <i>Net Assets</i>			
Unrestricted	4,442,946	-	4,442,946
Temporarily restricted	-	42,185	42,185
<i>Total net assets</i>	<u>4,442,946</u>	<u>42,185</u>	<u>4,485,131</u>
	<u>\$ 4,524,467</u>	<u>\$ 42,185</u>	<u>\$ 4,566,652</u>

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Activity
Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
<i>Revenues and Other Support</i>			
In-kind contributions	\$ 8,981,976	\$ -	\$ 8,981,976
Contributions	1,514,643	42,185	1,556,828
Investment income	3,615	-	3,615
	10,500,234	42,185	10,542,419
<i>Expenses</i>			
Nutrition project	10,150,395	-	10,150,395
Management and general	258,434	-	258,434
Special events and fundraising	272,054	-	272,054
	10,680,883	-	10,680,883
<i>Increase (decrease) in net assets</i>	(180,649)	42,185	(138,464)
<i>Net assets, beginning of year</i>	4,623,595	-	4,623,595
<i>Net assets, end of year</i>	\$ 4,442,946	\$ 42,185	\$ 4,485,131

VITAMIN ANGEL ALLIANCE, INC.
Statement of Functional Expenses
Year Ended December 31, 2008

	Program Services	Supporting Services		Total
	Nutrition Project	Management and General	Special Events and Fundraising	
Salaries	\$ 357,305	\$ 104,923	\$ 104,923	\$ 567,151
Payroll taxes and benefits	25,994	7,633	7,633	41,260
Total salaries and benefits	383,299	112,556	112,556	608,411
Accounting	-	78,373	-	78,373
Bank charges	-	2,661	1,310	3,971
Board expenses	-	11,099	-	11,099
Computer	1,169	1,205	1,169	3,543
Depreciation	2,044	601	601	3,246
Donations	433	-	-	433
Dues and publications	1,281	1,321	1,282	3,884
Insurance	29,438	8,644	8,644	46,726
Occupancy	21,790	6,398	6,398	34,586
Other office expenses	-	5,019	-	5,019
Outside services	3,311	3,412	3,312	10,035
Postage and shipping	57,122	3,173	3,173	63,468
Printing	9,489	-	4,674	14,163
Products distributed - contributed	9,206,012	-	-	9,206,012
Products distributed - purchased	133,267	-	-	133,267
Professional services	49,900	10,693	10,693	71,286
Program stipends	13,519	-	-	13,519
Public relations	135,358	-	66,669	202,027
Repairs and maintenance	-	4,250	-	4,250
Staff development expenses	-	1,401	-	1,401
Supplies	5,000	5,150	5,000	15,150
Telephone	8,436	2,478	2,478	13,392
Travel and meetings	84,220	-	41,481	125,701
Website maintenance	5,307	-	2,614	7,921
	<u>\$ 10,150,395</u>	<u>\$ 258,434</u>	<u>\$ 272,054</u>	<u>\$ 10,680,883</u>

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Cash Flows
December 31, 2008

<i>Cash flows from operating activities</i>	
Decrease in net assets	\$ (138,464)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	
Depreciation	3,246
Contribution of capitalized assets	(5,349)
Net realized loss on investments	296
Net unrealized loss on investments	1,241
(Increase) decrease in:	
Inventory	305,927
Pledges receivable	(29,950)
Prepaid expenses and deposits	(8,668)
Increase (decrease) in:	
Accounts payable	(4,914)
Accrued liabilities	41,826
	<u>165,191</u>
<i>Net cash provided by operating activities</i>	
 <i>Cash flows from investing activities</i>	
Purchase of investments in marketable securities	(1,481)
Proceeds from sales of securities	1,562
Purchase of office furniture and equipment	(14,396)
	<u>(14,315)</u>
<i>Net cash used by investing activities</i>	
Net increase in cash and cash equivalents	150,876
<i>Cash and cash equivalents, beginning of year</i>	<u>388,541</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 539,417</u>

VITAMIN ANGEL ALLIANCE, INC.
Notes to Financial Statements
December 31, 2008

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 1994.

The Organization's program services consist of providing vital nutrition and health supplies in the form of vitamins, anti-parasitics and supplements to developing countries, communities and individuals in need. The Organization has a primary focus on the issue of childhood blindness, with plans to eliminate childhood blindness by the year 2020 through the systematic distribution of vitamin A to at-risk children. In addition, the Organization sponsors programs to supply multivitamins and anti-parasitic tablets to at-risk children and vital nutritional health supplies to expecting mothers.

The products distributed as part of the Organization's assistance program are primarily donated by pharmaceutical and medical supplies manufacturers, wholesalers, and other organizations involved in the health care industry. The Organization also purchases products for its programs.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial Statement Presentation (Cont.)

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, temporarily restricted net assets or unrestricted net assets in conformance with the donor imposed restrictions. As of December 31, 2008, 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, and cash in money market funds 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. 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, 2008. There were no pledge receivables with expected due dates beyond December 31, 2009.

Pledges receivable consist primarily of promises from individual donors and other donor organizations.

Inventory

General

Inventory consists primarily of vitamins, supplements, anti-parasitics or other pharmaceutical products. 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. An expense called 'products distributed' is recorded when inventory is shipped. Inventory consists of the following as of December 31, 2008:

Health supplies - Anti-parasitics tablets	\$ 21,948
Vitamins	<u>3,926,776</u>
	<u>\$ 3,948,724</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory (Cont.)

Contributed Inventory

Contributed inventory received as gifts in-kind (GIK), is valued at the wholesale price in the United States of America (USA) on the date received, or the date title transfers to the Organization. The source for the USA wholesale price used by the Organization is the average wholesale price (AWP), published by Thomson Healthcare's Redbook™ (Redbook). If donated health supplies are not found in the Redbook but other similar health supplies are, the Organization uses a calculated average of the similar health supplies' AWP's from the Redbook to value the donation. In-kind contributions of nutritional and medical supplies where a published wholesale value is not available are valued based on an estimate of wholesale value as a percentage of retail value (when a retail value is available), or a judgmentally determined value based on donor cost. While retail values may be significantly higher, the Organization traditionally has chosen to use the more conservative value of the AWP to value pharmaceutical products that are contributed.

Purchased Inventory

Purchased inventory is carried at the vendor's average wholesale value. If the Organization receives a special discount from the vendor, the Organization records the difference between the vendor's wholesale price and the purchase price as a GIK contribution.

Investments

GAAP requires that nonprofit organizations report certain investments at fair value. In accordance with that guidance, the Organization accounts for its marketable equity securities at fair value. Information about the fair value of investments and the unrealized gains and losses are discussed in Note 2.

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>
Computers and equipment	5
Furniture and fixtures	5-7

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 the logistics, warehousing, transportation, program oversight, administration, fundraising, salaries, product solicitation, and all other expenses.

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.

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.

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.

2. INVESTMENTS

At December 31, 2008, unrestricted investments consist of the following:

	<u>Cost</u>	<u>Fair Value (Level I)</u>	<u>Fair Value (Level II)</u>	<u>Deficit of Fair Value over Cost</u>
Money fund: cash equivalents, held for investment	\$ 34	\$ -	\$ 34	\$ -
Mutual funds	<u>5,094</u>	<u>3,564</u>	<u>-</u>	<u>(1,530)</u>
	<u>\$ 5,128</u>	<u>\$ 3,564</u>	<u>\$ 34</u>	<u>\$ (1,530)</u>

Market value is based on quoted market prices. Investment income for the year ending December 31, 2008 consists of the following:

Interest and dividends	\$ 5,152
Net realized loss	(296)
Net change in unrealized loss	<u>(1,241)</u>
	<u>\$ 3,615</u>

Valuation of Investments – SFAS 157

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”), which is effective for the Organization’s fiscal year beginning January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS 157. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

2. INVESTMENTS (Cont.)

Valuation of Investments – SFAS 157 (Cont.)

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – 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 III – 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. Investments that are included in this category generally include privately held investments and partnership interests.

3. OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment are summarized by major classifications as follows at December 31, 2008:

Computers and equipment	\$ 24,436
Furniture and fixtures	<u>3,682</u>
	28,118
Less accumulated depreciation	<u>(4,836)</u>
	<u>\$ 23,282</u>

Depreciation expense for the year ended December 31, 2008 was \$3,246.

4. LINE OF CREDIT

The Organization held a line of credit (LOC) facility with a bank in the amount of \$50,000 through July 2008. The LOC matured July 20, 2008 with no balance due on the facility, and the LOC was not renewed.

5. RELATED PARTY TRANSACTIONS

One of the Organization's board members is a principal owner of a company that makes cash contributions to the Organization. Cash contributions from this company to the Organization totaled approximately \$6,000 for the year ended December 31, 2008.

6. OPERATING LEASE

The Organization leases its office under a non-cancelable operating lease agreement with an expiration date of March 4, 2011. The Organization has the option to renew the lease for an additional three years. Monthly lease payments due under the lease are: \$3,290 for the first year, \$3,389 for the second year, and \$3,490 for the third and final year. 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,	
2009	\$ 45,000
2010	46,000
2011	<u>10,000</u>
	<u>\$ 101,000</u>

Rent expense for the building including common area costs and property taxes was approximately \$35,000 for the year ended December 31, 2008.

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, 2008, substantially all of the Organization's cash was maintained in one financial institution. The cash balances held in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Uninsured cash balances, at December 31, 2008, totaled approximately \$291,000.