

IntraHealth International, Inc.

Financial Report
June 30, 2020

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Independent Auditor's Report

Board of Directors
IntraHealth International, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of IntraHealth International, Inc. (IntraHealth), which comprise the statement of financial position as of June 30, 2020, the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IntraHealth as of June 30, 2020, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2021, on our consideration of IntraHealth'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 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 IntraHealth's internal control over financial reporting and compliance.

Other Matters

The financial statements of IntraHealth International, Inc., as of and for the year ended June 30, 2019, were audited by other auditors whose report dated March 30, 2020, expressed an unmodified opinion on those statements.

RSM US LLP

McLean, Virginia
September 17, 2021

IntraHealth International, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 14,699,380	\$ 13,326,071
Grants receivable	4,574,945	10,937,368
Other advances	1,575,581	1,185,607
Prepaid expenses and other assets	1,317,165	1,387,210
Property and equipment, net	133,251	250,552
Total assets	\$ 22,300,322	\$ 27,086,808
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,584,162	\$ 3,946,094
Accrued salaries and related benefits	5,475,037	5,452,288
Refundable advances	3,728,943	1,661,047
Deferred rent	21,400	53,701
Total liabilities	12,809,542	11,113,130
Commitments and contingencies (Notes 6, 7, 9 and 10)		
Net assets:		
Without donor restrictions	2,382,925	1,925,100
With donor restrictions	7,107,855	14,048,578
Total net assets	9,490,780	15,973,678
Total liabilities and net assets	\$ 22,300,322	\$ 27,086,808

See notes to financial statements.

IntraHealth International, Inc.

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Grants, contracts and contributions:						
U.S. government grants and contracts	\$ 83,318,362	\$ -	\$ 83,318,362	\$ 98,501,785	\$ -	\$ 98,501,785
Non-U.S. government grants and contracts	3,303,265	1,526,943	4,830,208	1,670,405	11,999,273	13,669,678
Contributions	34,861	-	34,861	108,537	-	108,537
Contributed services and materials	2,341,291	-	2,341,291	5,884,281	-	5,884,281
Fee revenue	286,499	-	286,499	78,262	-	78,262
Net assets released from donor restrictions	8,467,666	(8,467,666)	-	11,633,955	(11,633,955)	-
Total support and revenue	97,751,944	(6,940,723)	90,811,221	117,877,225	365,318	118,242,543
Expenses:						
Program services	78,185,917	-	78,185,917	99,784,128	-	99,784,128
Supporting services:						
General and administrative	17,352,823	-	17,352,823	16,400,323	-	16,400,323
Bids and proposals	1,755,379	-	1,755,379	1,925,938	-	1,925,938
Total supporting services	19,108,202	-	19,108,202	18,326,261	-	18,326,261
Total expenses	97,294,119	-	97,294,119	118,110,389	-	118,110,389
Changes in net assets	457,825	(6,940,723)	(6,482,898)	(233,164)	365,318	132,154
Net assets:						
Beginning	1,925,100	14,048,578	15,973,678	2,158,264	13,683,260	15,841,524
Ending	\$ 2,382,925	\$ 7,107,855	\$ 9,490,780	\$ 1,925,100	\$ 14,048,578	\$ 15,973,678

See notes to financial statements.

IntraHealth International, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Supporting Services			Total
		General and Administrative	Bids and Proposals	Total Supporting Services	
Salaries subject to U.S. fringe allocation	\$ 2,608,225	\$ 7,245,677	\$ 1,367,257	\$ 8,612,934	\$ 11,221,159
Other salaries not subject to U.S. fringe allocation (primarily overseas local hires)	15,923,223	660,394	62,169	722,563	16,645,786
Total salaries	18,531,448	7,906,071	1,429,426	9,335,497	27,866,945
Benefits	5,510,571	5,378,795	25,799	5,404,594	10,915,165
Office rent and other rentals	1,220,100	673,442	-	673,442	1,893,542
Utilities	146,457	3,803	-	3,803	150,260
Insurance	215,168	492,346	-	492,346	707,514
Depreciation and amortization	-	117,301	-	117,301	117,301
Communications	763,061	240,513	3,195	243,708	1,006,769
Travel	14,275,610	445,139	208,597	653,736	14,929,346
Professional services	5,679,436	1,437,964	67,361	1,505,325	7,184,761
Repairs and maintenance	499,293	64	136	200	499,493
Supplies/training	8,000,490	252,896	2,207	255,103	8,255,593
Publications	725,484	207,300	439	207,739	933,223
Furniture	458,915	2,626	-	2,626	461,541
Equipment	500,702	75,461	-	75,461	576,163
Taxes	586,968	9,369	-	9,369	596,337
Employee relations	9,845	62,181	98	62,279	72,124
Allowances	576,081	47,552	18,121	65,673	641,754
Subawards	18,144,997	-	-	-	18,144,997
Contributed services and materials	2,341,291	-	-	-	2,341,291
Total expenses	\$ 78,185,917	\$ 17,352,823	\$ 1,755,379	\$ 19,108,202	\$ 97,294,119

See notes to financial statements.

IntraHealth International, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Supporting Services			Total
		General and Administrative	Bids and Proposals	Total Supporting Services	
Salaries subject to U.S. fringe allocation	\$ 2,820,673	\$ 6,980,980	\$ 1,098,358	\$ 8,079,338	\$ 10,900,011
Other salaries not subject to U.S. fringe allocation (primarily overseas local hires)	22,595,641	608,479	43,794	652,273	23,247,914
Total salaries	25,416,314	7,589,459	1,142,152	8,731,611	34,147,925
Benefits	1,328,016	3,286,757	517,125	3,803,882	5,131,898
Office rent and other rentals	1,375,599	663,869	-	663,869	2,039,468
Utilities	137,704	3,252	-	3,252	140,956
Insurance	239,429	372,571	-	372,571	612,000
Depreciation and amortization	-	113,538	-	113,538	113,538
Communications	843,187	280,341	4,923	285,264	1,128,451
Travel	19,689,277	1,261,765	198,032	1,459,797	21,149,074
Professional services	6,468,396	1,866,567	55,244	1,921,811	8,390,207
Repairs and maintenance	542,247	15,083	-	15,083	557,330
Supplies/training	14,054,763	363,587	627	364,214	14,418,977
Publications	580,026	185,694	881	186,575	766,601
Furniture	307,531	24,905	-	24,905	332,436
Equipment	1,834,078	38,690	-	38,690	1,872,768
Taxes	357,907	3,664	1,354	5,018	362,925
Employee relations	35,955	165,182	527	165,709	201,664
Allowances	653,407	165,399	5,073	170,472	823,879
Subawards	20,036,011	-	-	-	20,036,011
Contributed services and materials	5,884,281	-	-	-	5,884,281
Total expenses	\$ 99,784,128	\$ 16,400,323	\$ 1,925,938	\$ 18,326,261	\$ 118,110,389

See notes to financial statements.

IntraHealth International, Inc.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (6,482,898)	\$ 132,154
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	117,301	113,538
Deferred rent	(32,301)	(6,904)
(Increase) decrease in:		
Grants receivable	6,362,423	978,558
Other advances	(389,974)	1,193,038
Prepaid expenses and other assets	70,045	(322,035)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(361,932)	1,330,385
Accrued salaries and related benefits	22,749	844,566
Refundable advances	2,067,896	364,154
Net cash provided by operating activities	1,373,309	4,627,454
Cash flows from investing activities:		
Purchase of property and equipment	-	(59,098)
Net cash used in investing activities	-	(59,098)
Net increase in cash and cash equivalents	1,373,309	4,568,356
Cash and cash equivalents:		
Beginning	13,326,071	8,757,715
Ending	\$ 14,699,380	\$ 13,326,071
Supplemental disclosure of cash flow information:		
Taxes paid	\$ 596,337	\$ 362,925

See notes to financial statements.

IntraHealth International, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: IntraHealth International, Inc. (IntraHealth) is a North Carolina based international not-for-profit organization, incorporated on March 25, 2003. IntraHealth's mission is to enable health workers to serve communities in most need around the world. To support health workers, IntraHealth strengthens health systems, leverages partnerships, harnesses technology and fosters local solutions to healthcare challenges.

IntraHealth has partnered with governments, local organizations, nurses, midwives and doctors in 90 developing countries, reaching hundreds of thousands of people. IntraHealth receives funding and support from the U.S. Agency for International Development, the U.S. Centers for Disease Control and Prevention, private foundations, corporations and individuals.

A summary of IntraHealth's significant accounting policies follows:

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its guidance related to financial statements for nonprofit organizations, under which IntraHealth is required to report information regarding its 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: Represents resources whose use is not restricted by donor stipulations and are available for the support of general operating activities.

Net assets with donor restrictions: Represents resources unavailable for use in the current period because of the existence of time and/or donor-imposed restrictions that remain unsatisfied at year-end or resources whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of IntraHealth. Income earned from contributions is classified as either net assets with donor restrictions or net assets without donor restrictions in accordance with donor stipulations. There were no perpetually restricted net assets as of June 30, 2020 and 2019.

Cash and cash equivalents: IntraHealth considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Financial risk: IntraHealth maintains its cash in bank deposits accounts which at times may exceed federally insured limits. IntraHealth has not experienced any losses in such accounts. IntraHealth believes it is not exposed to any significant financial risk on cash. Deposits held at institutions outside of the United States are not subject to depository insurance. As of June 30, 2020 and 2019, IntraHealth had \$2,418,162 and \$2,231,787 respectively, of cash and cash equivalents held in numerous financial institution outside of the United States.

Grants receivable: Grants receivable are recorded at net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Other advances: Other advances consist of amounts provided to IntraHealth's subawardees, subcontractors and employees to execute project objectives. Project costs incurred by these participants are recorded in the accompanying financial statements when reported to IntraHealth, and at which time the related advances are reduced and expenses are increased. Amounts not yet reimbursed by IntraHealth to these participants are recorded as accrued liabilities in the accompanying statement of financial position.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment: Furniture, equipment and software purchases over \$5,000 are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Furniture, equipment and software purchased with grant funds become the property of the grantee upon the completion of the grant or project, subject to the grantor's approval, and are expensed in the year purchased.

Deferred rent: IntraHealth has a lease agreement for rental space in their headquarters. The lease agreement provides for a period of free rent and escalated payments over the life of the lease. Rent expense is being recognized on a straight-line basis over the term of the lease. The difference between the expense and the cash payments is reported as deferred rent. The amount also includes the improvement allowances which are amortized on a straight-line basis over the life of the lease.

Revenue recognition: IntraHealth receives contributions and grants from federal agencies and nonfederal organizations for various purposes.

Unconditional contributions and grants are recognized as support when received. IntraHealth reports contributions as restricted support if they are received with donor or grantor 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, restricted net assets are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

Conditional contributions and grants are recognized when the conditions on which they depend are substantially met. Under Accounting Standards Update (ASU) 2018-08, conditions are defined as refund clauses and barriers included in the grant agreement. Conditional contribution and grants, including federal awards, are recognized as revenue as qualifying expenditures are incurred. Grant receivables are recorded to the extent unreimbursed expenditures have been incurred for the purposes specified by an approved grant. IntraHealth defers grant payments received under approved awards from grantors to the extent the payments exceed grant expenditures incurred for the purposes specified under the grant.

A portion of IntraHealth's revenue is derived from cost-reimbursable grants, which are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when IntraHealth has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. As of June 30, 2020, IntraHealth has received obligated commitments from these agencies for future years through fiscal year 2025 totaling approximately \$38,907,925.

Contributed services and materials: Contributed services and materials in the form of donations of professional services and donated other direct costs such as equipment transportation and rental space, are reflected in the accompanying financial statements as contributed services and materials revenue and expense, and are recorded in the financial statements at their fair value on the date the contribution is made. All contributed services and materials received benefited IntraHealth's international programs during the years ended June 30, 2020 and 2019.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Value Added Taxes (VAT): Several countries around the world where IntraHealth implements its programmatic activities require the payment of Value Added Taxes (VAT) when invoices are paid. Upon the submission of monthly or quarterly reports reflecting the amount of VAT paid during the reporting period, IntraHealth should receive a credit in the form of a payment from the respective local governments. Due to the uncertainty of whether the VAT refunds will be received, IntraHealth has adopted a policy of expensing the VAT when paid and crediting the expenses when the refund is received.

Accordingly, receivables for the VAT paid and not collected has not been recorded in the accompanying financial statements.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of IntraHealth are reported as direct expenses to the programmatic area, and those expenses that benefit more than one function are allocated on a basis of actual time and effort or other reasonable basis.

Foreign currency translation: The United States Dollar is the functional currency for IntraHealth's worldwide operations. The financial statements and transactions of IntraHealth's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are translated into U.S. dollars at the statement of financial position date at the exchange rate in effect at year-end. Monthly expenses that are incurred by field offices in foreign countries are translated into U.S. dollars at the rate of exchange in effect during the month of the transaction.

Use of estimates: The preparation of the financial statements in conformity with generally accepted accounting principles of the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: IntraHealth is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, IntraHealth qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. IntraHealth had no net unrelated business income for the years ended June 30, 2020 and 2019.

IntraHealth has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy IntraHealth may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated IntraHealth's tax position and has concluded that IntraHealth has taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance

Generally, IntraHealth is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities before 2017.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Adopted accounting pronouncement: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., exchange transaction) or nonreciprocal (i.e., contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Organization is a resource recipient, the ASU is applicable to contributions received for the fiscal year ended June 30, 2020, and the Organization adopted this amendment on a modified prospective basis. The adoption did not have a material impact on the reported net assets as of July 1, 2019. Where the Organization is resource provider, the ASU is effective for the fiscal year ending June 30, 2021. The Organization is in the process of evaluating the impact of the new guidance for resource providers.

Upcoming accounting Pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for IntraHealth for the fiscal year beginning July 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. IntraHealth is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash and other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The guidance will be effective for IntraHealth's fiscal year ending June 30, 2022. IntraHealth is in the process of evaluating the impact of the new guidance on the financial statements.

Reclassification: Certain amounts in the 2019 financial statements have been reclassified to conform to the presentation of the 2020 financial statements. These reclassifications had no effect on the previously reported net assets or changes therein.

Subsequent events: IntraHealth has evaluated subsequent events through September 17, 2021, which is the date of the financial statements were available to be issued.

IntraHealth International, Inc.**Notes to Financial Statements**

Note 2. Grants Receivable

Receivables associated with grants as of June 30, 2020 and 2019, were as follows:

	2020	2019
U.S. Government	\$ 3,055,448	\$ 4,050,719
Other Governments	721,154	174,223
Private Foundations	461,663	196,486
Corporations	317,802	5,827,560
Other receivables	18,878	688,380
	<u>\$ 4,574,945</u>	<u>\$ 10,937,368</u>

As of June 30, 2020 and 2019, all grants are expected to be collected within one year.

Note 3. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2020 and 2019:

	2020	2019
International Programs	<u>\$ 7,107,855</u>	<u>\$ 14,048,578</u>

Note 4. Net Assets Released From Donor Restrictions

The following net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2020	2019
International Programs	<u>\$ 8,467,666</u>	<u>\$ 11,633,955</u>

Note 5. Liquidity and Availability

Financial assets available for use for general expenditures within one year of the statements of financial position dates were comprised of the following:

	2020	2019
Cash and cash equivalents	\$ 14,699,380	\$ 13,326,071
Grants receivable	4,574,945	10,937,368
	<u>19,274,325</u>	<u>24,263,439</u>
Less:		
Donor restricted funds	(7,107,855)	(14,048,578)
Refundable advances	(3,728,943)	(1,661,047)
	<u>(10,836,798)</u>	<u>(15,709,625)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,437,527</u>	<u>\$ 8,553,814</u>

IntraHealth International, Inc.

Notes to Financial Statements

Note 5. Liquidity and Availability (Continued)

As a part of IntraHealth's liquidity management, cash is maintained at the level needed to meet its general expenditures, liabilities, and other obligations when they become due. U.S. government (USG) funded expenditures (both direct and allocated indirect) are the primary expenditures of the organization.

Funding for USG awards are obligated with the DHHS Payment Management System (PMS) from which IntraHealth initiates timely drawdowns from its available balance to cover expenditures projected within the next several days. Funding from non-USG sources is primarily advanced to IntraHealth (typical of Foundations). Only a small portion of IntraHealth's funding comes from sources which do not advance funds and payments are made upon receipt of invoices.

As of June 30, 2020 and 2019, IntraHealth had financial assets equal to approximately one month of operating expenses. In addition, IntraHealth has a line of credit (as discussed in Note 9) which allows for additional available borrowings up to \$2,000,000.

Note 6. Lease Commitments

IntraHealth leases office space in Chapel Hill, North Carolina (IntraHealth's headquarters) under an operating lease, which is set to expire in May 2024. Base rental payments began at \$39,020, subject to a 3% annual escalation.

IntraHealth leases office space in Washington, D.C. under an operating lease that expired in February 2021. Base rental payments began at \$10,504, subject to a 2.5% annual escalation.

U.S. GAAP require that the total rent commitment be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the accompanying statement of financial position. The deferred rent liability aggregated \$21,400 as of June 30, 2020, and \$53,701 as of June 30, 2019 and includes both the Chapel Hill, North Carolina and Washington, D.C. office leases.

IntraHealth is also under various short-term and long-term field office leases in foreign countries, the terms of which vary by field office. In addition, IntraHealth incurred expenses for various short-term warehouse, venue and equipment rentals in the field offices.

As of June 30, 2020, the future minimum operating lease payments for U.S. and foreign office leases are as follows:

Years ending June 30:	
2021	\$ 684,984
2022	431,210
2023	564,674
2024	532,180
	<u>\$ 2,213,049</u>

Rent expense related to the U.S. office leases during the years ended June 30, 2020 and 2019, totaled approximately \$686,000 and \$656,000 respectively, and are included in office rent and other rentals in the accompanying statements of functional expenses.

IntraHealth International, Inc.

Notes to Financial Statements

Note 6. Lease Commitments (Continued)

Rent expense related to the field office leases during the years ended June 30, 2020 and 2019, totaled approximately \$1,199,000 and \$1,343,000 respectively, and are also included in office rent and other rentals in the accompanying statement of functional expenses.

Note 7. Contingencies

IntraHealth participates in federally-assisted grant programs, which are subject to financial and compliance audits by the federal agency or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

From time to time, IntraHealth may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of the management of IntraHealth, there are no material liabilities for IntraHealth for any of these proceedings.

The continued global pandemic in 2020 has created substantial volatility in financial markets and the economy, including geographical areas in which IntraHealth operates. While IntraHealth has mitigated the financial impact to its business, it is unknown how long these conditions will last and what the complete financial effect will be to IntraHealth. Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted, and as such cannot be determined.

Note 8. Economic Dependency

Approximately 94% and 88% of IntraHealth's total revenue (excluding contributed services and materials) for the year ended June 30, 2020 and 2019 respectively, were derived from grants awarded directly and indirectly by agencies of the U.S. government. IntraHealth has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e. the failure to renew grant agreements or withholding of funds) could adversely affect IntraHealth's ability to finance ongoing operations.

Note 9. Line of Credit

IntraHealth has a \$2,000,000 line of credit with a local financial institution. There were no outstanding borrowings on the line of credit as of June 30, 2020. Future borrowing against the line of credit will bear interest at the prime rate, less 0.47%. The line of credit is unsecured. The current maturity date on the line of credit is October 7, 2021.

Note 10. Retirement Plan

Eligible employees of IntraHealth are covered by a defined contribution retirement plan under IRC Section 401(k) upon employment. IntraHealth provides plan participants with a contribution equal to 6% of their plan-defined eligible compensation. Additionally, IntraHealth matches elective contributions up to a maximum match of 4%. IntraHealth may elect to make changes to the contribution rates.

During the year ended June 30, 2020 total retirement expense amounted to \$1,270,718 and included 401(k) contributions of \$1,251,766 and third country national retirement expense of \$18,952. During the year ended June 30, 2019 total retirement expense amounted to \$1,205,304 and included 401(k) contributions of \$1,195,572 and third country national retirement expense of \$9,732.