

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018**

INTRHEALTH INTERNATIONAL, INC.

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
IntraHealth International, Inc.
Chapel Hill, North Carolina

We have audited the accompanying financial statements of IntraHealth International, Inc. (IntraHealth), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 audits 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.

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, 2019 and 2018, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, 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 those reports 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 IntraHealth's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IntraHealth's internal control over financial reporting and compliance.



March 30, 2020

INTRAHEALTH INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,326,071	\$ 8,757,715
Grants receivable	9,958,561	9,201,866
Other advances	1,185,607	2,378,645
Prepaid expenses and other assets	<u>1,271,330</u>	<u>972,184</u>
Total current assets	<u>25,741,569</u>	<u>21,310,410</u>
FIXED ASSETS		
Furniture	224,463	212,843
Computer equipment	21,787	88,986
Leasehold improvements	450,576	494,390
Software	<u>677,607</u>	<u>677,607</u>
	1,374,433	1,473,826
Less: Accumulated depreciation and amortization	<u>(1,123,881)</u>	<u>(1,168,834)</u>
Net fixed assets	<u>250,552</u>	<u>304,992</u>
NONCURRENT ASSETS		
Security deposits	115,880	92,991
Grants receivable, net of current portion	<u>-</u>	<u>1,735,253</u>
Total noncurrent assets	<u>115,880</u>	<u>1,828,244</u>
TOTAL ASSETS	<u>\$ 26,108,001</u>	<u>\$ 23,443,646</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,946,094	\$ 2,615,709
Accrued salaries and related benefits	5,452,288	4,607,722
Refundable advance	682,240	318,086
Deferred rent	<u>25,028</u>	<u>7,383</u>
Total current liabilities	<u>10,105,650</u>	<u>7,548,900</u>
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	<u>28,673</u>	<u>53,222</u>
Total liabilities	<u>10,134,323</u>	<u>7,602,122</u>
NET ASSETS		
Without donor restrictions	1,925,100	2,158,264
With donor restrictions	<u>14,048,578</u>	<u>13,683,260</u>
Total net assets	<u>15,973,678</u>	<u>15,841,524</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,108,001</u>	<u>\$ 23,443,646</u>

See accompanying notes to financial statements.

INTRAHEALTH INTERNATIONAL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants, contracts and contributions:			
U.S. Government grants and contracts	\$ 98,501,785	\$ -	\$ 98,501,785
Non - U.S. Government grants and contracts	1,670,405	12,179,335	13,849,740
Contributions	108,537	-	108,537
Contributed services and materials	5,884,281	-	5,884,281
Fee revenue	78,262	-	78,262
Net assets released from donor restrictions	<u>11,633,955</u>	<u>(11,633,955)</u>	<u>-</u>
Total support and revenue	<u>117,877,225</u>	<u>545,380</u>	<u>118,422,605</u>
EXPENSES			
Program Services	<u>99,784,128</u>	<u>-</u>	<u>99,784,128</u>
Supporting Services:			
General and Administrative	16,400,323	-	16,400,323
Fundraising	193	-	193
Bids and Proposals	<u>1,925,745</u>	<u>-</u>	<u>1,925,745</u>
Total supporting services	<u>18,326,261</u>	<u>-</u>	<u>18,326,261</u>
Total expenses	<u>118,110,389</u>	<u>-</u>	<u>118,110,389</u>
Changes in net assets before other item	(233,164)	545,380	312,216
OTHER ITEM			
De-obligated donor awards	<u>-</u>	<u>(180,062)</u>	<u>(180,062)</u>
Changes in net assets	(233,164)	365,318	132,154
Net assets at beginning of year	<u>2,158,264</u>	<u>13,683,260</u>	<u>15,841,524</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,925,100</u>	<u>\$ 14,048,578</u>	<u>\$ 15,973,678</u>

INTRAHEALTH INTERNATIONAL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants, contracts and contributions:			
U.S. Government grants and contracts	\$ 84,884,924	\$ -	\$ 84,884,924
Non - U.S. Government grants and contracts	1,166,971	11,668,533	12,835,504
Contributions	119,248	-	119,248
Contributed services and materials	6,501,359	-	6,501,359
Fee revenue	162,803	-	162,803
Net assets released from donor restrictions	<u>12,227,409</u>	<u>(12,227,409)</u>	<u>-</u>
Total support and revenue	<u>105,062,714</u>	<u>(558,876)</u>	<u>104,503,838</u>
EXPENSES			
Program Services	<u>89,698,517</u>	<u>-</u>	<u>89,698,517</u>
Supporting Services:			
General and Administrative	13,052,636	-	13,052,636
Fundraising	2,234	-	2,234
Bids and Proposals	<u>2,274,900</u>	<u>-</u>	<u>2,274,900</u>
Total supporting services	<u>15,329,770</u>	<u>-</u>	<u>15,329,770</u>
Total expenses	<u>105,028,287</u>	<u>-</u>	<u>105,028,287</u>
Changes in net assets before other item	34,427	(558,876)	(524,449)
OTHER ITEM			
De-obligated donor awards	<u>-</u>	<u>(600,000)</u>	<u>(600,000)</u>
Changes in net assets	34,427	(1,158,876)	(1,124,449)
Net assets at beginning of year	<u>2,123,837</u>	<u>14,842,136</u>	<u>16,965,973</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,158,264</u>	<u>\$ 13,683,260</u>	<u>\$ 15,841,524</u>

INTRAHEALTH INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Supporting Services</u>				<u>Total Supporting Services</u>	<u>Total Expenses</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Bids and Proposals</u>		
Salaries subject to U.S. fringe allocation	\$ 2,820,673	\$ 6,980,980	\$ 131	\$ 1,098,227	\$ 8,079,338	\$ 10,900,011
Other salaries not subject to U.S. fringe allocation (primarily overseas local hires)	<u>22,595,641</u>	<u>608,479</u>	<u>-</u>	<u>43,794</u>	<u>652,273</u>	<u>23,247,914</u>
Total salaries	25,416,314	7,589,459	131	1,142,021	8,731,611	34,147,925
Benefits	1,328,016	3,286,757	62	517,063	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	<u>5,884,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,884,281</u>
TOTAL	<u>\$ 99,784,128</u>	<u>\$ 16,400,323</u>	<u>\$ 193</u>	<u>\$ 1,925,745</u>	<u>\$ 18,326,261</u>	<u>\$ 118,110,389</u>

See accompanying notes to financial statements.

INTRAHEALTH INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Supporting Services</u>				<u>Total Supporting Services</u>	<u>Total Expenses</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Bids and Proposals</u>		
Salaries subject to U.S. fringe allocation	\$ 2,934,543	\$ 5,923,283	\$ -	\$ 1,215,755	\$ 7,139,038	\$ 10,073,581
Other salaries not subject to U.S. fringe allocation (primarily overseas local hires)	<u>20,005,778</u>	<u>264,045</u>	<u>-</u>	<u>94,339</u>	<u>358,384</u>	<u>20,364,162</u>
Total salaries	22,940,321	6,187,328	-	1,310,094	7,497,422	30,437,743
Benefits	1,323,206	2,670,839	-	548,190	3,219,029	4,542,235
Office rent and other rentals	1,365,017	655,258	-	-	655,258	2,020,275
Utilities	130,925	2,042	-	-	2,042	132,967
Insurance	167,528	163,102	-	-	163,102	330,630
Depreciation and amortization	-	116,893	-	-	116,893	116,893
Communications	744,297	205,793	-	10,150	215,943	960,240
Travel	15,493,803	886,678	-	274,763	1,161,441	16,655,244
Professional services	6,320,524	1,445,812	-	102,692	1,548,504	7,869,028
Repairs and maintenance	532,054	5,137	-	-	5,137	537,191
Supplies/training	10,832,259	341,003	-	2,924	343,927	11,176,186
Publications	546,934	190,305	2,234	2,878	195,417	742,351
Furniture	187,009	2,306	-	-	2,306	189,315
Equipment	1,533,768	7,098	-	-	7,098	1,540,866
Taxes	472,494	1,158	-	218	1,376	473,870
Employee relations	43,442	110,347	-	189	110,536	153,978
Allowances	658,346	61,537	-	22,802	84,339	742,685
Subawards	19,905,231	-	-	-	-	19,905,231
Contributed services and materials	<u>6,501,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,501,359</u>
TOTAL	<u>\$ 89,698,517</u>	<u>\$ 13,052,636</u>	<u>\$ 2,234</u>	<u>\$ 2,274,900</u>	<u>\$ 15,329,770</u>	<u>\$ 105,028,287</u>

See accompanying notes to financial statements.

INTRAH^HEALTH INTERNATIONAL, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 132,154	\$ (1,124,449)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	113,538	116,893
Decrease (increase) in:		
Grants receivable	978,558	1,329,183
Other advances	1,193,038	(381,929)
Prepaid expenses and other assets	(299,146)	(17,826)
Security deposits	(22,889)	(4,594)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,330,385	(443,696)
Accrued salaries and related benefits	844,566	537,763
Refundable advance	364,154	318,086
Deferred rent	<u>(6,904)</u>	<u>42,087</u>
Net cash provided by operating activities	<u>4,627,454</u>	<u>371,518</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(59,098)</u>	<u>(34,562)</u>
Net cash used by investing activities	<u>(59,098)</u>	<u>(34,562)</u>
Net increase in cash and cash equivalents	4,568,356	336,956
Cash and cash equivalents at beginning of year	<u>8,757,715</u>	<u>8,420,759</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 13,326,071</u>	<u>\$ 8,757,715</u>
SUPPLEMENTAL INFORMATION:		
Taxes Paid	<u>\$ 362,925</u>	<u>\$ 473,870</u>

INTRAEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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 health care 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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU was adopted during the year ended June 30, 2019 and applied retrospectively.

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. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, IntraHealth maintains cash balances at financial institutions in excess of the FDIC limits. Management believes the risk in these situations to be minimal.

As of June 30, 2019 and 2018, IntraHealth had \$2,231,787 and \$1,528,039, respectively, of cash and cash equivalents held in foreign countries. The majority of these funds are uninsured.

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 Statements of Financial Position.

Fixed assets -

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.

INTRAEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fixed assets (continued) -

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.

Income taxes -

IntraHealth is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). IntraHealth is not a private foundation.

Uncertain tax positions -

For the years ended June 30, 2019 and 2018, IntraHealth has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

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.

INTRHEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Value Added Taxes (VAT) (continued) -

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

Grants, contracts and contributions -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Contributions and grants received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

IntraHealth receives awards under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such awards are recorded as revenue "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Awards received under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs (in which the claimed costs are deemed conditional until accepted by the donor) in advance of incurring the related expenses are recorded as refundable advances. Grants and support receivable represents amounts due from funding organizations in accordance with the terms and conditions outlined in grant agreements.

IntraHealth has entered into several agreements with donors that may not provide funding for all direct and indirect costs. Any loss that may be incurred under such agreements will be reflected in the year in which an agreement is concluded and accumulated costs incurred are verified.

Revenue recognition by geographic region -

Revenue without donor restrictions during the years ended June 30, 2019 and 2018, excluding general contributions and contributed services and materials, was recognized for work on projects for the benefit of the following geographic regions:

	<u>2019</u>	<u>2018</u>
Asia	\$ 956,021	\$ 791,871
Central America	2,421,796	-
Eastern Africa	60,919,389	39,838,115
Global Projects	3,789,753	5,448,135
Latin America	381,989	3,545,562
Middle East	4,939,271	6,894,550
Southern Africa	6,772,623	9,375,965
United States of America	82,680	-
Western Africa	<u>31,620,885</u>	<u>32,547,909</u>
	<u>\$111,884,407</u>	<u>\$ 98,442,107</u>

INTRAEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Foreign currency translation -

The United States Dollar (USD) is the functional currency for IntraHealth's worldwide operations. Transactions in currencies other than USD are translated into USD at the rate of exchange in effect during the month of the transaction. Assets and liabilities denominated in currencies other than USD are translated into USD at the exchange rate in effect at the date of the Statements of Financial Position.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying Statements 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.

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, 2019 and 2018.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of June 30, 2018 as unrestricted net assets in the amount of \$2,158,264 are now classified as "net assets without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of \$13,683,260, are now classified as "net assets with donor restrictions".

INTRAEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by one year; thus, the effective date is for fiscal years beginning after December 15, 2018. Early adoption is permitted. IntraHealth has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

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*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. This ASU recommends application on a modified prospective basis; however, retrospective application is permitted. IntraHealth has not yet decided on a transition method. This ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. This ASU is effective for private entities for fiscal years beginning after December 15, 2020. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

IntraHealth plans to adopt the new ASUs at the respective required implementation dates.

2. GRANTS RECEIVABLE

As of June 30, 2019 and 2018, contributors to IntraHealth have made written promises to give totaling \$9,958,561 and \$10,937,119, respectively. Grants are due as follows as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 9,958,561	\$ 9,201,866
One to five years	<u>-</u>	<u>1,735,253</u>
TOTAL GRANTS RECEIVABLE	<u>\$ 9,958,561</u>	<u>\$ 10,937,119</u>

INTRAEALTH INTERNATIONAL, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

3. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2019 and 2018:

	2019	2018
International Programs	\$ <u>14,048,578</u>	\$ <u>13,683,260</u>

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:

	2019	2018
International Programs	\$ <u>11,633,955</u>	\$ <u>12,227,409</u>

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:

	2019	2018
Cash and cash equivalents	\$ 13,326,071	\$ 8,757,715
Grants receivable	<u>9,958,561</u>	<u>10,937,119</u>
Subtotal, financial assets available within one year	23,284,632	19,694,834
Less: Donor restricted funds	<u>(14,048,578)</u>	<u>(13,683,260)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ <u>9,236,054</u>	\$ <u>6,011,574</u>

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, 2019 and 2018, 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.

INTRAEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 February 2021. 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 is also set to expire in February 2021. Base rental payments began at \$10,504, subject to a 2.5% annual escalation.

Accounting principles generally accepted in the United States of America 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 Statements of Financial Position. The deferred rent liability aggregated \$53,701 and \$60,605 as of June 30, 2019 and 2018, respectively, 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, 2019, the future minimum operating lease payments for U.S. and foreign office leases are as follows:

Year Ending June 30,

2020	\$ 1,252,606
2021	805,348
2022	468,420
2023	<u>258,091</u>
	<u>\$ 2,784,465</u>

Rent expense related to the U.S. office leases during the years ended June 30, 2019 and 2018 totaled approximately \$656,000 and \$643,000, respectively, and are included in office rent and other rentals in the accompanying Statements of Functional Expenses.

Rent expense related to the field office leases during the years ended June 30, 2019 and 2018 totaled approximately \$1,343,000 and \$1,300,000, respectively, and are also included in office rent and other rentals in the accompanying Statements of Functional Expenses.

7. CONTINGENCY

IntraHealth receives grants from various agencies of the U.S. Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The ultimate determination of amounts received under the U.S. Government grants is based upon the allowance of costs reported to and accepted by the U.S. Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through June 30, 2019. Until such audits have been accepted by the U.S. Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

INTRAEALTH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

8. ECONOMIC DEPENDENCY

Approximately 88% and 87% of IntraHealth's total revenue (excluding contributed services and materials) for the years ended June 30, 2019 and 2018, 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.

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, 2019 and 2018.

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 July 7, 2020.

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, 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. During the year ended June 30, 2018, total retirement expense amounted to \$1,124,448 and is made up entirely of 401(k) contributions.

11. FUTURE COMMITMENTS

IntraHealth receives a significant amount of its funding (directly and indirectly) from various agencies of the U.S. Government. As of June 30, 2019 and 2018, IntraHealth has received obligated commitments from these agencies for future years through fiscal year 2024 totaling approximately \$52,954,000 and \$41,979,000, respectively. Such amounts have not been included in the accompanying financial statements as awards from the U.S. Government agencies are treated as exchange transactions.

12. SUBSEQUENT EVENTS

In preparing these financial statements, IntraHealth has evaluated events and transactions for potential recognition or disclosure through March 30, 2020, the date the financial statements were issued.