

Financial Statements and
Supplemental Schedules Together with
Reports of Independent Certified Public
Accountants

Management Sciences for Health, Inc.

June 30, 2022 and 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Management Sciences for Health, Inc.

Opinion

We have audited the consolidated financial statements of Management Sciences for Health, Inc. (a nonprofit organization) (the “Entity”), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Entity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity’s ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of activities, schedule of indirect costs, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures.

These additional procedures included comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2022, on our consideration of the Entity'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 the Entity's 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 the Entity's internal control over financial reporting and compliance.

Grant Thornton LLP

Boston, Massachusetts
October 31, 2022

Management Sciences for Health, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 10,323,345	\$ 12,057,626
Restricted use cash (Note 2)	10,187,424	12,683,205
Investments (Note 2)	13,820,253	18,514,492
Grants and contracts receivable, net of reserve (Notes 2 and 4)	9,737,574	5,614,256
Services performed but not yet invoiced (Notes 2 and 4)	11,689,578	5,236,992
Employee advances and other receivables (Notes 2 and 6)	1,169,458	2,542,716
Prepaid expenses and other current assets	3,806,727	3,725,012
Deposits	551,563	587,556
Property and equipment, net (Notes 2 and 7)	379,236	484,465
Total assets	<u><u>\$ 61,665,158</u></u>	<u><u>\$ 61,446,320</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,526,553	\$ 3,227,747
Accrued expenses and other current liabilities (Note 8)	2,715,155	3,743,246
Accrued payroll and payroll-related liabilities (Note 9)	8,324,116	8,145,194
Deferred revenue	10,659,572	8,087,316
Deferred rent (Note 13)	1,361,897	1,789,911
Total liabilities	<u><u>26,587,293</u></u>	<u><u>24,993,414</u></u>
Net Assets (Note 2)		
Without donor restrictions	33,828,293	36,269,358
With donor restrictions (Notes 10 and 11)	<u>1,249,572</u>	<u>183,548</u>
Total net assets	<u><u>35,077,865</u></u>	<u><u>36,452,906</u></u>
Total liabilities and net assets	<u><u>\$ 61,665,158</u></u>	<u><u>\$ 61,446,320</u></u>

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

Management Sciences for Health, Inc.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30,

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Total
Public support and other revenue				
Grants and contract revenue	\$ 152,896,253	\$ -	\$ 152,896,253	\$ 140,181,983
Contributions of cash and other financial assets	163,526	1,154,814	1,318,340	133,025
Contributions of nonfinancial assets	323,422	-	323,422	-
Interest income	339,981	2,220	342,201	152,756
Miscellaneous income	-	-	-	491,164
Net assets released from restriction	110,273	(110,273)	-	-
Total public support and other revenue	153,833,455	1,046,761	154,880,216	140,958,928
Operating Expenses				
Program services	127,920,049	-	127,920,049	121,682,882
Supporting services:				
Management and general	25,242,138	-	25,242,138	22,042,430
Fundraising	4,877	-	4,877	1,117
Total supporting services	25,247,015	-	25,247,015	22,043,547
Total operating expenses	153,167,064	-	153,167,064	143,726,429
Change in net assets from operating activities	666,391	1,046,761	1,713,152	(2,767,501)
Other changes in net assets				
Foreign exchange gain (loss)	677,489	-	677,489	(178,578)
Realized loss on investments	(1,848,772)	-	(1,848,772)	-
Unrealized loss on investments	(699,723)	19,263	(680,460)	-
Deferred tax expense (Note 6)	(1,236,450)	-	(1,236,450)	-
PPP forgiveness (Note 14)	-	-	-	4,916,000
Total other changes in net assets	(3,107,456)	19,263	(3,088,193)	4,737,422
Change in net assets	(2,441,065)	1,066,024	(1,375,041)	1,969,921
Net assets, beginning of year	36,269,358	183,548	36,452,906	34,482,985
Net assets, end of year	<u>\$ 33,828,293</u>	<u>\$ 1,249,572</u>	<u>\$ 35,077,865</u>	<u>\$ 36,452,906</u>

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

Management Sciences for Health, Inc.

CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED

Year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and other revenue			
Grants and contract revenue	\$ 140,106,983	\$ 75,000	\$ 140,181,983
Contributions	133,025	-	133,025
Interest income	152,756	-	152,756
Miscellaneous income	491,164	-	491,164
Net assets released from restriction	361,853	(361,853)	-
Total public support and other revenue	141,245,781	(286,853)	140,958,928
Operating expenses			
Program services	121,682,882	-	121,682,882
Supporting services:			
Management and general	22,042,430	-	22,042,430
Fundraising	1,117	-	1,117
Total supporting services	22,043,547	-	22,043,547
Total operating expenses	143,726,429	-	143,726,429
Change in net assets from operating activities	(2,480,648)	(286,853)	(2,767,501)
Other changes in net assets			
Foreign exchange gain (loss)	(178,578)	-	(178,578)
PPP forgiveness (Note 14)	4,916,000	-	4,916,000
Total other changes in net assets	4,737,422	-	4,737,422
CHANGE IN NET ASSETS	2,256,774	(286,853)	1,969,921
Net assets, beginning of year	34,012,584	470,401	34,482,985
Net assets, end of year	<u>\$ 36,269,358</u>	<u>\$ 183,548</u>	<u>\$ 36,452,906</u>

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

Management Sciences for Health, Inc.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30,

	2022				2021	
	Supporting Services				Summarized	
	Program Services	Management and General	Fundraising	Total	Total	Total
Salaries and related expenses						
Salaries, benefits and taxes	\$ 56,727,446	\$ 17,771,336	\$ 4,877	\$ 17,776,213	\$ 74,503,659	\$ 67,591,453
Other expenses						
Subcontract and grant costs	19,097,640	330,721	-	330,721	19,428,361	27,062,543
Consultants	3,375,883	382,067	-	382,067	3,757,950	5,320,492
Training and workshops	15,602,962	21,092	-	21,092	15,624,054	10,441,379
Equipment and supplies	5,159,966	1,395,937	-	1,395,937	6,555,903	5,518,075
Travel and transportation	9,462,974	176,310	-	176,310	9,639,284	4,710,789
Office supplies and expense	8,825,157	975,506	-	975,506	9,800,663	11,225,423
Occupancy	3,096,241	2,282,758	-	2,282,758	5,378,999	5,212,283
IT and telecommunications	2,552,602	226,301	-	226,301	2,778,903	1,837,389
Legal and audit	182,260	584,962	-	584,962	767,222	714,526
Outside services	3,231,315	583,744	-	583,744	3,815,059	3,340,404
Miscellaneous	490,688	21,326	-	21,326	512,014	240,433
Advertising	-	88,333	-	88,333	88,333	-
Depreciation and amortization	10,004	359,511	-	359,511	369,515	366,443
Fundraising expenses	-	-	-	-	-	779
Bad debt expense	104,911	42,234	-	42,234	147,145	144,018
Total expenses	\$ 127,920,049	\$ 25,242,138	\$ 4,877	\$ 25,247,015	\$ 153,167,064	\$ 143,726,429

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

Management Sciences for Health, Inc.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES - CONTINUED

Year ended June 30, 2021

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total	
Salaries and related expenses					
Salaries, benefits and taxes	\$ 52,080,613	\$ 15,510,502	\$ 338	\$ 15,510,840	\$ 67,591,453
Other expenses					
Subcontract and grant costs	27,036,070	26,473	-	26,473	27,062,543
Consultants	4,771,358	549,134	-	549,134	5,320,492
Training and workshops	10,420,872	20,507	-	20,507	10,441,379
Equipment and supplies	4,503,079	1,014,996	-	1,014,996	5,518,075
Travel and transportation	4,665,966	44,823	-	44,823	4,710,789
Office supplies and expense	10,170,944	1,054,479	-	1,054,479	11,225,423
Occupancy	2,933,825	2,278,458	-	2,278,458	5,212,283
IT and telecommunications	1,665,748	171,641	-	171,641	1,837,389
Legal and audit	188,935	525,591	-	525,591	714,526
Outside services	2,926,705	413,699	-	413,699	3,340,404
Miscellaneous	237,886	2,547	-	2,547	240,433
Depreciation and amortization	22,035	344,408	-	344,408	366,443
Fundraising expenses	-	-	779	779	779
Bad debt expense	58,846	85,172	-	85,172	144,018
Total expenses	<u>\$ 121,682,882</u>	<u>\$ 22,042,430</u>	<u>\$ 1,117</u>	<u>\$ 22,043,547</u>	<u>\$ 143,726,429</u>

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

Management Sciences for Health, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2022</u>	<u>2021</u>
Change in net assets	\$ (1,375,041)	\$ 1,969,921
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	369,515	366,443
Bad debt expense	147,145	144,018
Net realized and unrealized loss on investments	2,529,232	35,755
Accrued interest expense	-	46,331
Forgiveness of debt	-	(4,971,490)
Changes in certain assets and liabilities:		
Grants and contracts receivable	(4,270,463)	2,745,843
Services performed but not yet invoiced	(6,452,586)	1,725,643
Employee advances and other receivables	1,373,258	(141,837)
Prepaid expenses and other current assets	(81,715)	(697,065)
Deposits	35,993	16,726
Accounts payable	298,806	(1,833,805)
Accrued expenses and other current liabilities	(1,028,091)	1,101,670
Accrued payroll and payroll related liabilities	178,922	1,852,794
Deferred revenue	2,572,255	1,397,428
Deferred rent	(428,014)	(386,960)
Net cash (used for) provided by operating activities	<u>(6,130,784)</u>	<u>3,371,415</u>
Cash flows from investing activities:		
Purchase of investments	(25,630,278)	(82,121,761)
Proceeds from sale of investments	27,795,285	79,421,989
Purchase of fixed assets	<u>(264,285)</u>	<u>(313,800)</u>
Net cash provided by (used for) investing activities	<u>1,900,722</u>	<u>(3,013,572)</u>
NET (DECREASE) INCREASE IN CASH	<u>(4,230,062)</u>	<u>357,843</u>
Cash and cash equivalents, beginning of year	<u>24,740,831</u>	<u>24,382,988</u>
Cash and cash equivalents, end of year	<u><u>\$ 20,510,769</u></u>	<u><u>\$ 24,740,831</u></u>

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

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - ORGANIZATION

Management Sciences for Health, Inc. (the Organization) was established in 1971 to support the development and application of management concepts in the fields of public health and preventive medicine throughout the world. The Organization has United States (U.S.) offices in Massachusetts, Virginia, and New York, and field offices in various developing countries. These developing countries include Afghanistan, Bangladesh, Benin, Burkina Faso, Cameroon, Cote d'Ivoire, The Democratic Republic of the Congo, Ethiopia, Guatemala, Haiti, Indonesia, Jordan, Kenya, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Philippines, Rwanda, Senegal, South Africa, Tanzania, Uganda, and Ukraine.

The Internal Revenue Service (IRS) has recognized the Organization as a tax-exempt organization under Section 501(c)(3). Section 501(c)(3) of the Internal Revenue Code (the Code) provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes and whose net earnings do not inure to the benefit of any private shareholder or individual.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The consolidated financial statements include the accounts of Management Sciences for Health, Inc. and its subsidiaries and are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Unless otherwise noted, these consolidated entities are hereinafter referred to as "the Organization".

Consolidated subsidiaries include:

- Medsource Group Limited (Medsource), a controlled subsidiary, which began operations during the fiscal year ended June 30, 2017. Medsource was registered on March 23, 2017 in the Republic of Kenya.
- Management Sciences for Health LTD/GTE (MSHN) was established on September 13, 2006 under the laws of Nigeria as a not-for-profit organization. There was no income earned or expenses incurred by MSHN for the years ended June 30, 2022 and 2021.
- Management Sciences for Health (MSHS) was incorporated on January 5, 2009 under the laws of Swaziland as a not-for-profit organization. There was no income earned or expenses incurred by MSHS for the years ended June 30, 2022 and 2021.
- MSH Development Services, Inc. (MSHDS) was incorporated in Massachusetts, United States of America on April 20, 1979 as a for-profit organization.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and short-term, highly liquid investments that are both readily convertible to cash on demand without penalty and have maturities of three months or less when purchased. Cash and cash equivalents include operating cash accounts and money market accounts held in the U.S. and abroad. Cash deposits in foreign banks totaled \$4,228,002 and \$2,324,673 as of June 30, 2022 and 2021, respectively.

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Restricted Use Cash

Certain cash is restricted to specific donor use and is required to be held in a separate account. As of June 30, 2022 and 2021, the Organization held \$10,187,424 and \$12,683,205, respectively, of donor-restricted cash.

Investments

The Organization's investments are reported at fair value (Level 1). The values of the publicly traded securities are based on quoted daily market prices. The Organization had net investment (loss) income of (\$2,205,810) and \$136,416, respectively, for the years ended June 30, 2022 and 2021.

Grants and Contracts Receivable and Allowance for Doubtful Accounts

Grants and contracts receivable consist primarily of noninterest-bearing amounts due from funders. Grants and contracts receivable are expected to be collected within one year and are recorded at net realizable value. Management conducts a review of the receivable balances and has established an allowance amounting to \$152,865 and \$106,758 as of June 30, 2022 and 2021, respectively. Receivable balances deemed uncollectible are written off in the period such determination is made.

Revenue recognized on grants and contracts, but not yet invoiced, is classified in the accompanying consolidated statement of financial position as services performed but not yet invoiced.

Employee Advances and Other Receivables

The Organization advances monies to employees to cover the cost of travel and certain programmatic activities incurred on the Organization's behalf. These advances are generally cleared within 30 days or upon conclusion of employee travel.

Property and Equipment

Property and equipment additions over \$5,000 individually, or \$50,000 in the aggregate, are capitalized and recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years or, in the case of capitalized leasehold improvements, the lesser of the useful life of the asset or the lease term:

<u>Type of Asset Class</u>	<u>Useful Lives</u>
Furniture and equipment	5 years
Leasehold improvements	Lesser of 10 years or lease duration
Computer and software	3 years

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent that the carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2022 and 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Net Assets

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions - This class consists of net assets not restricted by donor-imposed stipulations.

With Donor Restrictions - This class consists of net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization, pursuant to those stipulations. When such stipulations end or are fulfilled, such donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities. Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization are classified as net assets with donor restrictions-perpetual in nature. Donors designate the purpose primarily in support of the Organization's program activities related to maternal and family healthcare, staff development and advocacy.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606 or ASC 606)*. Topic 606 provides a single comprehensive revenue recognition framework and supersedes existing revenue recognition guidance. The Organization adopted the standard for the period ended June 30, 2021 and applied the modified prospective method of adoption. Under the modified prospective method, MSH revenues reported through June 30, 2021 recognized the cumulative effect of applying the standard as to this fiscal period. There was no material impact related to adopting ASC 606.

The Organization's revenues are generated primarily from contracts with the U.S. government agencies, primarily the U.S. Agency for International Development (USAID). The percentage of revenue earned from U.S. government agencies was 90% and 79% for the years ended June 30, 2022 and 2021, respectively.

The Organization recognizes revenue over time when there is a continuous transfer of control to the customer. For the Organization's U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay the Organization for costs incurred plus a reasonable profit and take control of any work in progress. When control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Based on the nature of the products and services provided in the contract, the Organization uses judgment to determine if an input measure or output measure best depicts the transfer of control over time. For service contracts, performance obligations are typically determined to be satisfied as services are rendered. Typically, a cost-based input method is used to measure progress. Contract costs include labor, material and allocable indirect expenses. Revenue is recognized proportionally as contract costs are incurred plus estimated fees.

The Organization generally provides services under cost-reimbursable and fixed-price terms. Under cost-reimbursable contracts, costs that are determined to be reasonable, allowable and allocable to the contract are reimbursable and include a fee representing the profit margin negotiated between MSH and the contracting agency. The negotiated fee may be fixed or performance based. Under fixed-price contracts, specific tasks are performed for a fixed price. Transaction price is determined using the expected value method, based on probability-weighted outcomes and forecasted levels of effort on contracts. Losses are recorded at such time that management determines that costs, including estimated costs to complete, exceed the contract amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Services performed, but not yet invoiced, typically result from revenue under contracts whereby the cost input measure of progress is utilized to recognize revenue and revenue recognized exceeds the amount billed to the customer. Services performed, but not yet invoiced, include unbillable receivables, but exclude billed receivables. Billed receivables are rights to consideration which are unconditional other than to the passage of time. Deferred revenue includes advance payments and billings in excess of revenue recognized.

The Organization negotiates its indirect cost rate with USAID on an annual basis. Based on favorable past experience, management believes the effects of changes to the overhead rates, if any, would not be material to the consolidated financial statements.

Contributions

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Contributions received, including unconditional promises to give, if any, are reported at their net realizable values. Gifts of cash and other assets are reported as donations with restrictions if they are received with donor stipulations that limit their use or if they are intended to support activities in future periods. Contributions with donor-imposed restrictions that are met in the same accounting period are recorded as unrestricted income.

Donated Services

Contributions of nonfinancial assets for the year ended June 30, 2022 are donated professional services from attorneys advising the Organization on various administrative legal matters valued at \$235,089 and advertising services valued at \$88,333. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services and are recorded as management and general expenses.

Cost Share

Some of the Organization's agreements, primarily those funded by the U.S. Government, include cost share requirements that require the Organization to match funding received from U.S. government agencies. The requirements are typically based on a percentage of amounts expended. The Organization reported \$8,169,853 and \$4,553,566 for the years ended June 30, 2022 and 2021, respectively.

Contract Costs and Deferred Costs

The contract costs of MSH are subject to audit by the U.S. Government and other governments with which they contract, often many years after the work has been performed. These audits can result in adjustments to contract billings and related profits. The majority of the Organization's revenues are driven by pricing based on costs incurred to perform services under contracts with the U.S. Government. Cost-based pricing is determined in accordance with the Federal Acquisition Regulations (FAR). The FAR provides guidance on the types of costs that are allowable and their allowability in establishing prices for goods and services under U.S. Government contracts. In addition, the Organization may enter into agreements that address the allowability and allocation of costs to contracts for specific matters. Certain costs incurred in the performance of U.S. Government contracts are required to be recorded under U.S. GAAP but are not currently allocable to contracts. Such costs are deferred and primarily include post-employment benefits and deferred income taxes. These costs are allocated to contracts when they are paid or otherwise agreed upon. Management regularly assesses the probability of recovery of these costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Foreign Currency

The U.S. dollar (USD) is considered to be the functional currency of the Organization's worldwide operations, except for its affiliate operations in Medsource, where the local currency used in MSH's foreign operations is considered to be the functional currency of this jurisdiction. Transactions in currencies other than USD have been translated into USD at the applicable exchange rates. For assets and liabilities, this is the rate in effect at the consolidated statement of financial position date, with the exception of fixed assets, which are measured at the historical rate. For revenue and expense items, translation is performed monthly using the average rate for the month. Net transaction and currency conversion gains and losses are included in the accompanying consolidated statement of activities in the non-operating section as foreign exchange gains or losses. The cumulative translation gain is included in net assets without donor restrictions.

Functional Allocation of Expense

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. MSH records most program expenses as direct cost allocations. Some common expenses, such as office supplies and occupancy expenses are recorded as indirect allocations using a reasonable basis such as census or square footage.

The costs of delivering the Organization's mission are allocated according to their functional characteristics: program and program support, management and general, and fundraising. Direct program and direct program support expenses are directly allocated based on the technical, project management or project support activities that are required to ensure delivery of program and project results. Management and general consists of corporate and senior management costs to oversee and support the cumulative efforts of the Organization's programs and to promote the Organization's mission. Fundraising constitutes those costs incurred to raise private gifts. MSH utilizes standard job costing methods to allocate functional expenses. Fringe benefits, occupancy and other management and general expenses are recorded based on indirect allocations using a reasonable basis such as percentage of specific salaries or total expenses.

Income Taxes

The Organization was incorporated in the Commonwealth of Massachusetts and is exempt from federal and state income taxes under Section 501(c)(3) of the Code and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements. The Organization has been recognized by the IRS as a public charity.

Under Accounting Standards Codification (ASC) 740, *Accounting for Uncertainty in Income Taxes*, an organization must recognize the financial statement effects associated with tax positions taken for tax return purposes when it is more likely than not the position will not be sustained upon examination by a taxing authority. The Organization does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax positions. The Organization has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Organization has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the years ended June 30, 2022 and 2021, there were no material interest or penalties recorded or included in the consolidated statement of activities related to uncertain tax positions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Fair Value Measurements of Financial Instruments

The Organization estimates fair value based on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). See Note 5.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, a worldwide pandemic. The pandemic has resulted in minimal disruption to the Organization's business. While some projects experienced slight delays, the Organization received additional contracts specific to COVID-19. The Organization continues to monitor the effects and risks and the uncertainty associated with this pandemic.

The Organization operates in various countries such as Afghanistan, Ethiopia, Haiti, and Ukraine, where political and/or economic instability may have a significant impact on ongoing projects and revenue associated with those projects. If revenue is negatively impacted, other contracts may bear higher indirect rates than anticipated.

In the normal course of business, the Organization is subject to legal claims. The Organization accrues a liability when it is probable that a loss will be incurred based on the information available and the advice of legal counsel, and the amount is reasonably estimable. Management believes that the resolution of these legal matters will not have a material effect on the Organization's financial position or results of operations.

Concentration of Credit Risk

The Organization maintains its cash in commercial banks that are in excess of the Federal Deposit Insurance Company (FDIC) limits. To date, the Organization has not experienced losses in these accounts.

Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because outstanding amounts are due primarily from the U.S. government, which represent 98% and 78% of receivables as of June 30, 2022 and 2021 respectively. The remaining accounts receivables are derived from other government funders, corporations and foundations.

Use of Estimates

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

Reclassifications

Certain 2021 consolidated financial statement amounts have been reclassified to conform to the 2022 consolidated financial statement classification. These reclassifications have no effect on total assets, liabilities, or net assets.

Accounting Pronouncements Issued but Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial position and disclosing key information about leasing arrangements for lessees and

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

lessors. The standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its ROU, the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Organization's fiscal years beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available for use within one year of the consolidated statement of financial position date for general expenditures are as follows:

	June 30,	
	2022	2021
Cash and cash equivalents	\$ 10,323,345	\$ 12,057,626
Investments	13,820,253	18,514,492
Grants and contracts receivable	9,737,574	5,614,256
Services performed, but not yet invoiced	11,689,578	5,236,992
	<u>45,570,750</u>	<u>41,423,366</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors in perpetuity	<u>1,040,243</u>	<u>-</u>
Total financial assets available for general expenditures within one year	<u>\$ 44,530,507</u>	<u>\$ 41,423,366</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

NOTE 4 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable and services performed, but not yet invoiced, included the following:

	June 30,	
	2022	2021
Grants and contracts receivable from:		
Other U.S. government receivables	\$ 9,679,827	\$ 4,340,942
Other funders	210,612	1,380,072
Allowance for doubtful accounts	<u>(152,865)</u>	<u>(106,758)</u>
Total grants and contracts receivable	<u>\$ 9,737,574</u>	<u>\$ 5,614,256</u>
Services performed, but not yet invoiced from:		
U.S. government on billings with standing letters of credit	\$ 5,298,680	\$ 872,708
Other U.S. government receivables	5,949,401	4,276,130
Other funders	<u>441,497</u>	<u>88,154</u>
Total services performed but not yet invoiced	<u>\$ 11,689,578</u>	<u>\$ 5,236,992</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE 5 - FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. U.S. GAAP 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 in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable. U.S. GAAP established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability and may affect the valuation of the asset or liability and its placement within the fair value hierarchy. The Organization classifies fair value balances based on the fair value hierarchy defined by U.S. GAAP, as follows:

Level 1 - Valuations are based on quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Valuations are based on:

- (a) quoted prices for similar assets or liabilities in active markets,
- (b) quoted prices for identical or similar assets or liabilities in inactive markets,
- (c) inputs other than quoted prices that are observable for the asset or liability, and
- (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Valuation is based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

The Organization's investments are held in Exchange Traded Funds and bond funds. These are classified within Level 1, since fund shares have a readily determinable fair value based on daily redemption values. Money market funds held in the U.S. and abroad are classified in the accompanying consolidated statement of financial position as cash and cash equivalents.

NOTE 6 - EMPLOYEE ADVANCES AND OTHER RECEIVABLES

The Organization advances monies to employees to cover the cost of travel and certain programmatic activities incurred on the Organization's behalf. Employee advances and other receivables consisted of the following:

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

	June 30,	
	2022	2021
Employee advances - field offices	\$ 722,998	\$ 798,315
Employee advances - U.S.	3,425	2,081
Deferred tax asset	-	1,560,256
Other receivables	443,035	182,064
	<u>\$ 1,169,458</u>	<u>\$ 2,542,716</u>
Total employee advances and other receivables	<u>\$ 1,169,458</u>	<u>\$ 2,542,716</u>

The deferred tax asset is related to net operating losses (NOL) carryforward at Medsource. Management determined that Medsource is unlikely to recognize the NOL carryforward and recorded a valuation allowance against the asset as of June 30, 2022.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following:

	June 30,	
	2022	2021
Furniture and equipment	\$ 3,010,688	\$ 3,010,688
Computer and software	1,083,240	1,007,578
Leasehold improvements	963,574	963,574
	<u>5,057,502</u>	<u>4,981,840</u>
Total property and equipment	5,057,502	4,981,840
Less: accumulated depreciation	<u>(4,678,266)</u>	<u>(4,497,375)</u>
Total property and equipment, net	<u>\$ 379,236</u>	<u>\$ 484,465</u>

Depreciation and leasehold improvement amortization expense for the years ended June 30, 2022 and 2021 were \$125,008 and \$171,323, respectively. Amortization expense related to prepaid software development costs totaled \$244,507 and \$195,120, respectively, for the years ended June 30, 2022 and 2021.

NOTE 8 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	June 30,	
	2022	2021
Accrued expenses - U.S.	\$ 1,879,209	\$ 2,913,485
Accrued expenses - field offices	791,375	750,954
Amounts due to funders	44,571	78,807
	<u>\$ 2,715,155</u>	<u>\$ 3,743,246</u>
Total accrued expenses and other current liabilities	<u>\$ 2,715,155</u>	<u>\$ 3,743,246</u>

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE 9 - ACCRUED PAYROLL AND PAYROLL-RELATED LIABILITIES

The Organization accrues the expense for employee vacation as earned, based on the Organization's policy, or as required pursuant to local law. Other employee paid time off is expensed as paid, unless vested pursuant to local law. The Organization expenses termination payments required by local law based on local vesting schedules and requirements or as applied by local common practice. In countries where termination payments are not fully vested, expense is accrued based on estimates using historical payouts.

Accrued payroll and payroll-related liabilities consisted of:

	June 30,	
	2022	2021
Salaries, wages, and payroll taxes payable	\$ 1,472,745	\$ 2,027,068
Accrued vacation and paid time off	3,649,001	3,209,954
Accrued termination payments	2,531,587	2,254,986
Employee benefits payable	649,174	619,474
Retirement plan contributions payable	21,609	33,712
	<u>\$ 8,324,116</u>	<u>\$ 8,145,194</u>
Total accrued payroll and payroll-related liabilities	<u>\$ 8,324,116</u>	<u>\$ 8,145,194</u>

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as follows:

	June 30,	
	2022	2021
Net assets with donor restrictions subject to expenditure for specified purpose or period:		
Purpose restriction	\$ 209,329	\$ 183,548
Endowments subject to the Organization's spending policy and appropriation:		
Investment in perpetuity (original amount of \$1,018,765 in 2022) for which earnings are expendable to support:		
Any activities of the organization	1,018,765	-
Accumulated, unappropriated earnings	21,478	-
Total endowments subject to the Organization's spending policy and appropriation	<u>1,040,243</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 1,249,572</u>	<u>\$ 183,548</u>

NOTE 11 – ENDOWMENT FUNDS

Endowment Fund

The Organization's permanent endowment consists of a single fund received from a donor to establish a permanent endowment to support MSH's business purposes within the scope of its 501(c)(3) registration. Net assets associated with this permanent endowment fund are classified and reported as net assets with donor restrictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Relevant Law

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in the Commonwealth of Massachusetts, the board has discretion to determine appropriate expenditures of a donor restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the Organization to approve for expenditure or accumulate so much of an endowment fund as the Organization determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Certain criteria are to be used to guide the Organization in its yearly expenditure decisions following the “prudent person” standards.

Within the context of this permanent endowment and MSH’s 501(c)(3) objectives, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively, these amounts are referred to as the historic dollar value of the fund.

Endowment net asset composition consists of private gifts totaling \$1,040,243 as of June 30, 2022.

Changes in endowment net assets with donor restrictions for the year ended June 30, 2022, are as follows:

Endowment net assets, July 1, 2021	\$ -
Donor contributions	<u>1,018,765</u>
Investment return:	
Investment income, net	2,215
Net gains	<u>19,263</u>
Total investment return	<u>21,478</u>
Endowment net assets, June 30, 2022	<u>\$ 1,040,243</u>

Objectives, Risk Parameters, and Spending

MSH’s permanent endowment is to be invested with the objective of retaining the original corpus of the endowment while generating an income stream that may be applied to activities identified to be funded by the endowment. The spending policy under the permanent endowment, subject to approval by the Board of Directors, is 4-5%, but not to exceed 6%, net of administration fees and inflation, of the value of the endowment net assets. In making any spending decision from assets held in this fund, the Board of Directors must consider, and document that it has considered, that such decision is consistent with the “prudent person” standard for making an expenditure from a permanent endowment fund, including the following considerations as applicable or appropriate: (i) duration and preservation of the endowment fund; (ii) the purposes of the Organization and the endowment fund; (iii) general economic conditions; (iv) effect of inflation or deflation; (v) the expected total return from income and the appreciation of investments; (vi) other resources of the Organization; (vii) the investment policy of the Organization. In addition, any such spending decision must be recommended by the Finance Committee for approval by the Board, which must consider and document these same considerations. A form shall be developed to facilitate this recording requirement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Investment Committee designs a policy portfolio considering the endowment's needs for liquidity, preservation of purchasing power and risk tolerance. There is no limitation on the types of investments in which the endowment fund may be invested, and it is intended that the Board and the Investment Committee have the broadest flexibility as to the selection of investments for the endowment fund.

The Organization targets a diversified asset allocation that places emphasis on investments in equities and fixed income securities that conform to the Organization's ethical and Environmental, Social, and Governance (ESG) guidelines. The asset allocation on a fully invested target is 65% equities (comprised of 50% domestic equity and 50% international equity) and 35% fixed income (comprised of 100% domestic) passive investments.

In keeping with the Portfolio's overall long-term financial objective, the Committee evaluates portfolio and manager performance over a suitably long-term investment horizon, across full market cycles or, at a minimum, on a rolling five-year basis.

NOTE 12 - EMPLOYEE RETIREMENT PLANS

Section 401(k) Plan

The Organization sponsors a defined contribution plan (the Plan) that is tax-qualified under Section 401(a) of the Code and that includes a qualified cash or deferred arrangement feature under Section 401(k) of the Code. The Plan covers substantially all full-time employees on U.S. payroll. Participants may elect to contribute into the Plan on a pre-tax basis by making elective salary-reduction contributions. In addition, participants may make after-tax contributions, or Roth contributions, to the Plan. The Organization is required to make a matching contribution to the Plan equal to 100% of the first 3% of compensation deferred by the participant. The Organization contributes 3% to all employees whose service period is at least one year. The Organization's total contributions to the Plan amounted to \$1,644,389 and \$1,426,828 for the years ended June 30, 2022 and 2021, respectively.

While the Organization expects to continue the Plan indefinitely, it has reserved the right to modify, amend or terminate the Plan. In the event of Plan termination, all participants will become 100% vested in their accounts and the net assets of the Plan will be set aside for the payments of benefits to the participants.

Outside of the United States, most employees are citizens of the countries where the Organization maintains offices. These employees are generally not eligible for the Plan, but they are eligible for local government plans or plans sponsored by the Organization for that country. The locally sponsored plans generally require funding based on years of employment and payment upon termination.

Section 457(b) Plan

The Organization sponsors a deferred compensation plan (the Deferred Plan) intended to be an eligible deferred compensation plan within the meaning of Section 457(b) of the Code. The Deferred Plan is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees and is exempt from The Employee Retirement Income Security Act (ERISA) under Sections 201(2), 301(a)(3), and 401(a)(1). Participants have a fully vested and

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

non-forfeitable interest in the balance of the account at all times. The Organization does not contribute to this Deferred Plan.

While the Organization expects to continue the Deferred Plan indefinitely, it has reserved the right to modify, amend or terminate the Deferred Plan. In the event of Plan termination, the net assets of the Deferred Plan will be set aside for the payments of benefits to the participants.

NOTE 13 - LEASES

The Organization leases offices and program space under various lease arrangements in the U.S. and abroad. In the U.S., the Organization was subject to the following lease arrangements during the fiscal year:

Arlington, Virginia Lease

The Organization has a lease agreement for its Arlington, Virginia office space, which is set to expire on October 31, 2024. The Organization made monthly payments of approximately \$178,000 and \$173,000 during the fiscal years ended June 30, 2022 and 2021, respectively, which includes additional operating expenses. In accordance with U.S. GAAP, rent expense has been amortized using the straight-line method over the entire term of the lease, including the rent-free period. The Organization reported a liability of \$760,861 and \$985,744 for the rent expense in excess of rent payments as of June 30, 2022 and 2021, respectively. Rent expense under the Arlington lease agreement was \$1,889,755 for each of the years ended June 30, 2022 and 2021.

Medford, Massachusetts Lease

The Organization has a lease agreement for its U.S. headquarters in Medford, Massachusetts with a lease term of May 31, 2013 through October 31, 2024, and annual rent escalation provisions starting at 2.5% in November 2015 and decreasing to 2.1% in November 2023. Rent expense has been amortized using the straight-line method over the entire term of the lease. The Organization reported a liability of \$650,881 and \$881,766 for the rent expense in excess of rent payments as of June 30, 2022 and 2021, respectively. Rent expense under this lease agreement was \$884,415 for each of the years ended June 30, 2022 and 2021.

New York, New York Lease

The Organization assumed a lease agreement for its office in New York, New York with a lease assumption date of December 1, 2015, and a lease term end date of December 23, 2023. The lease contains annual rent escalation provisions of approximately 3%. Rent expense has been amortized using the straight-line method over the entire term of the lease. The Organization reported a liability of \$40,273 and \$57,733 for the rent expense in excess of rent payments as of June 30, 2022 and 2021, respectively. Rent expense under this lease agreement was \$1,622 for each of the years ended June 30, 2022 and 2021. The Organization executed a sublease agreement on August 17, 2018 with an expiration date of December 31, 2023. The subtenant monthly payment of \$19,497 commenced on September 1, 2018. The base rent is subject to cumulative annual escalation clauses of 2.75% on each anniversary.

Subtenant Leases

MSH has subtenant agreements in Medford and New York, which have the same termination periods as the Organization's lease terms. These agreements reduce the deferred rent total by \$90,118 and \$135,332 for the years ended June 30, 2022 and 2021, respectively.

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Other Locations

Generally, in each of its international locations, the Organization enters into lease agreements locally with varying negotiated terms and conditions in addition to compliance with statutory requirements. Those leases are reflected in the table below.

The Organization has no collateral or letters of credit required for these leases. The approximate future minimum annual rental payments required under all of the lease agreements are as follows:

	Year Ending June 30,		
	Total	United States	Foreign
2023	\$ 4,983,445	\$ 3,870,059	\$ 1,113,386
2024	4,218,463	3,834,045	384,418
2025	1,393,139	1,242,939	150,200
2026	76,033	-	76,033
2027	6,027	-	6,027
Total future minimum payments required	<u>\$ 10,677,107</u>	<u>\$ 8,947,043</u>	<u>\$ 1,730,064</u>

NOTE 14 - PAYROLL PROTECTION PROGRAM LOAN

Under the Coronavirus Aid, Relief and Economic Security Act (CARES) Paycheck Protection Program, the Organization was awarded an unsecured Small Business Association (SBA) loan through a bank that provided for maximum borrowings of \$4,916,000. The interest rate of the loan was set at a fixed rate of 1.00% and was eligible for full forgiveness under the guidelines of the PPP loan agreement. As of June 30, 2020, the Organization recorded the loan proceeds as notes payable, with interest accrued amounting to \$55,490. In June 2021, the SBA delivered a loan forgiveness and full payment letter to the Organization, for the principal and accrued interest. All projects funded by USG were given prorated credits which totaled \$4,587,250 in the year the loan was forgiven.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, the Organization has been a party to several employment disputes and other claims in the ordinary course of business. In the opinion of management, the Organization does not expect its resolution to have a material impact on its consolidated financial position.

Federal Funding

The Organization receives funding from donors, subject to routine special audits around compliance with donor specific restrictions and conditions, including certain federally funded programs. In the opinion of management, adjustments that might result from such audits would not have a material effect on the Organization's consolidated financial position.

Foreign Operations

Due to the nature of its operations, the Organization is subject to the continuing impact of foreign governments and their policy changes. Such changes could have wide-ranging impact on the Organization's operations; however, no material event has previously occurred.

Management Sciences for Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE 16 - SUBSEQUENT EVENTS

The Organization's management has performed subsequent event procedures through October 31, 2022, which is the date the consolidated financial statements were available to be issued, and there were no subsequent events requiring adjustment to the consolidated financial statements or disclosures herein.

SUPPLEMENTAL INFORMATION

Management Sciences for Health, Inc.

CONSOLIDATING SCHEDULE OF ACTIVITIES

Year ended June 30, 2022

	2022						2022
	Without Donor Restrictions	With Donor Restrictions	Total	Medsource	MSHDS	Eliminations	Consolidated
Public support and other Revenue							
Grants and contract revenue	\$ 152,874,981	\$ -	\$ 152,874,981	\$ 21,272	\$ -	\$ -	\$ 152,896,253
Contributions of cash and other financial assets	163,526	1,154,814	1,318,340	-	-	-	1,318,340
Contributions of nonfinancial assets	323,422	-	323,422	-	-	-	323,422
Interest income	429,188	2,220	431,408	717	-	(89,924)	342,201
Miscellaneous income	-	-	-	-	-	-	-
Net assets released from restriction	110,273	(110,273)	-	-	-	-	-
Total public support and other revenue	153,901,390	1,046,761	154,948,151	21,989	-	(89,924)	154,880,216
Operating expenses							
Program services	126,610,192	-	126,610,192	1,309,857	-	-	127,920,049
Supporting services:							
Management and general	26,818,313	-	26,818,313	529,788	565	(2,106,528)	25,242,138
Fundraising	4,877	-	4,877	-	-	-	4,877
Total supporting services	26,823,190	-	26,823,190	529,788	565	(2,106,528)	25,247,015
Total operating expenses	153,433,382	-	153,433,382	1,839,645	565	(2,106,528)	153,167,064
Change in net assets from operating activities	468,008	1,046,761	1,514,769	(1,817,656)	(565)	2,016,604	1,713,152
Other changes in net assets							
Foreign exchange gain	677,489	-	677,489	-	-	-	677,489
Realized loss on investments	(1,848,772)	-	(1,848,772)	-	-	-	(1,848,772)
Unrealized loss on investments	(699,723)	19,263	(680,460)	-	-	-	(680,460)
Deferred tax expense	-	-	-	(1,236,450)	-	-	(1,236,450)
Total other changes in net assets	(1,871,006)	19,263	(1,851,743)	(1,236,450)	-	-	(3,088,193)
Change in net assets	(1,402,998)	1,066,024	(336,974)	(3,054,106)	(565)	2,016,604	(1,375,041)
Net assets, beginning of year (Note 2)	36,218,217	183,548	36,401,765	(1,270,399)	(21,082)	1,342,622	36,452,906
Recapitalization	-	-	-	257,929	-	(257,929)	-
Net assets, end of year	<u>\$ 34,815,219</u>	<u>\$ 1,249,572</u>	<u>\$ 36,064,791</u>	<u>\$ (4,066,576)</u>	<u>\$ (21,647)</u>	<u>\$ 3,101,297</u>	<u>\$ 35,077,865</u>

Management Sciences for Health, Inc.

SCHEDULE OF INDIRECT COST ALLOCATION

Years ended June 30, 2022

Indirect Expenses

The Organization has incurred the following indirect expenses:

	<u>Amount</u>	<u>Percentage</u>
Indirect expenditures		
Fringe benefits	\$ 7,305,094	100.0%
Overhead		
Salaries and wages	3,910,840	74.4%
Occupancy	678,902	12.9%
Travel and transportation	86,648	1.6%
Subcontract and grant costs	330,721	6.3%
Consultants	136,777	2.6%
Office supplies and expense	81,798	1.6%
Legal and audit	(8,121)	-0.2%
Miscellaneous	267	0.0%
IT and telecommunications	2,520	0.0%
Outside services	36,245	0.7%
Equipment and supplies	953	0.0%
Total overhead	<u>\$ 5,257,550</u>	<u>99.9%</u>
General & administrative		
Salaries and Wages	13,993,679	71.0%
Occupancy	1,603,855	8.1%
Office supplies and expense	779,945	4.0%
Equipment and supplies	1,394,227	7.1%
Legal and audit	351,167	1.8%
IT and telecommunications	223,781	1.1%
Consultants	243,835	1.2%
Outside services	577,341	2.9%
Depreciation and amortization	310,124	1.6%
Travel and transportation	89,662	0.5%
Miscellaneous	117,164	0.6%
Training and workshops	21,092	0.1%
Total general & administrative	<u>\$ 19,705,872</u>	<u>100.0%</u>
Total indirect expenditures	<u>\$ 32,268,516</u>	<u>100.0%</u>

Management Sciences for Health, Inc.

SCHEDULE OF INDIRECT COST ALLOCATION - CONTINUED

Year ended June 30, 2022

Allocation and Indirect Expenses

The Organization has allocated its indirect costs as follows:

Indirect expenditures	
Fringe benefits	
Salaries and wages	\$ 7,305,094
Overhead	
Salaries and wages	\$ 4,938,128
Consultants	319,422
Total overhead	\$ 5,257,550
General and administrative	
Salaries and wages	\$ 10,497,933
Training and workshops	2,628,308
Subcontract and grant costs	1,388,512
Office supplies and expense	1,376,163
Travel and transportation	1,047,171
Consultants	620,315
Outside services	556,160
Equipment and supplies	550,514
Occupancy	527,681
IT and telecommunications	433,754
Miscellaneous	37,698
Legal and audit	31,396
Bad debt	10,179
Fundraising expenses	88
Total general and administrative	\$ 19,705,872

Indirect Cost Rate Calculations

Base	Calculation	Rate (%)
Fringe benefits	Total HQ fringe benefits/Total HQ direct, indirect and PTO labor costs	24.48
Overhead	Total overhead costs, including associated HQ fringe benefits/total direct and consultant labor including associated HQ fringe benefits	10.08
General and administrative	Total general and administrative costs including associated HQ fringe benefits/total direct costs including OH and HQ fringe less direct subaward and equipment costs	17.79

Management Sciences for Health
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

Federal Funding Agency Project Name	Assistance Listing Number	MSH Agreement Number	Prime Agreement or Pass Thru	Pass-through Award	Total Federal Expenditures
Department of Health and Human Services-Center for Disease Control and Prevention (CDC)					
Global Aids:					
Direct Programs:					
CDC Tanzania TSSP	93.067	1 NU2GGH001929-01-00	N/A	\$ -	\$ 773,083
Total Global Aids Direct Programs				-	773,083
Protecting and Improving Health Globally:					
Direct Programs:					
CDC NPHI	93.318	1 NU2HGH000073-01-00	N/A	51,688	1,511,093
CI Public Health Lab Syst	93.318	6 NU2HGH000001-01	N/A	-	78,825
Total Protecting and Improving Health Globally Direct Programs				51,688	1,589,918
Total Department of Health and Human Services-Center for Disease Control and Prevention (CDC)				51,688	2,363,001
U.S. Agency for International Development (USAID)					
Foreign Assistance for Programs Overseas:					
Direct Programs:					
USAID Afghanistan NHTAP	98.001	73060620CA00006	N/A	947,240	12,198,896
USAID Benin IHSA	98.001	72068018CA00001	N/A	341,327	4,147,303
USAID Madagascar ACCESS	98.001	72068718CA00003	N/A	6,225,410	27,521,097
USAID Uganda HSC	98.001	AID-617-A-14-00007	N/A	-	30,335
USAID Uganda	98.001	72061720CA00008	N/A	242,780	5,733,856
USAID Ethiopia Eliminate Tuberculosis	98.001	72066320CA00009	N/A	1,459,884	7,748,024
Haiti Rapid Support COVID	98.001	720FDA20GR00222	N/A	-	4,266
Urban Health Initiative	98.001	72030620CA00007	N/A	-	413,950
Total Foreign Assistance for Programs Overseas - Direct Programs				9,216,641	57,797,728

The accompanying notes are an integral part of this schedule.

Management Sciences for Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2022

Federal Funding Agency Project Name	Assistance Listing Number	MSH Agreement Number	Prime Agreement or Pass Thru	Pass-through Award	Total Federal Expenditures
Pass-Through Programs:					
USAID Madagascar IMPACT	98.001	4492 - MSH – Oct18	720-687-18-CA-00001	15,035	1,488,703
JHPIEGO TMEC	98.001	19-SBA-151	7200AA19CA00003	45,033	1,294,361
Digital Health Initiative	98.001	AID.2134-01705021-SUB	AID-OAA-A-16-00084	-	41,322
Total Foreign Assistance for Programs Overseas - Pass-Through Programs				60,068	2,824,385
Total Foreign Assistance for Programs Overseas				9,276,709	60,622,113
USAID Federal Contracts:					
USAID Direct Contracts:					
MTaPS	98.U01	7200AA18C00074	N/A	2,038,702	32,475,149
Health Leadership Project (HLP) Activity	98.U02	72052119CA00004	N/A	159,866	1,842,788
PMI Nigeria IDIQ	98.U03	72062018D00002	N/A	1,112,002	12,916,273
SAFEMED Ukraine	98.U04	AID-121-C-17-00004	N/A	293,085	6,670,305
Malawi ONSE	98.U05	AID612C1700001	N/A	2,835,964	13,258,385
Support H-Mother&Baby-GT	98.U06	2009-07971	N/A	227,959	1,061,968
Uganda SSCS TA JMS	98.U07	72061721F00001	N/A	-	12,320
Total USAID Direct Contracts				6,667,578	68,237,188

The accompanying notes are an integral part of this schedule.

Management Sciences for Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2022

Federal Funding Agency Project Name	Assistance Listing Number	MSH Agreement Number	Prime Agreement or Pass Thru	Pass-through Award	Total Federal Expenditures
USAID Pass Through Contracts:					
MW PEER	98.U08	5113401	AID0AAA1100012		
JHPIEGO HWIP	98.U09	20-SBA-107	72066320CA0008	-	246,929
HS4TB-Global	98.U10	7200AA18D00025	7200AA20F00009	439,115	3,177,198
RW IHSSP	98.U11	AID-GHSI000700006/GHSI06070000	N/A	-	69,392
TB IDDS	98.U12	7200AA18M00010	7200AA18M00010	-	181,429
ACE3 HSCL	98.U13	72062011CA00003	72062022CA00003	-	62,614
PS3 Tanzania	98.U14	GS-00F-252CA	72062120M00002	-	264,332
Total USAID Pass-Through Contracts				439,115	4,001,895
Total USAID Federal Contracts				7,106,692	72,239,083
Total U.S. Agency for International Development				16,383,401	132,861,196
Total Expenditures of Federal Awards				\$ 16,435,089	\$ 135,224,197

The accompanying notes are an integral part of this schedule.

Management Sciences for Health, Inc.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Management Sciences for Health, Inc. and its subsidiaries (the Organization), under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Schedule lists all federal awards, both assistance and contracts. Assistance listing numbers and pass-through entity identifying numbers are presented when available.

NOTE 3 - INDIRECT COST RATE

MSH has elected not to use the 10% de-minimis indirect cost rate allowed under the Uniform Guidance.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Directors
Management Sciences for Health, Inc.

We have audited, 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 (*Government Auditing Standards*), the consolidated financial statements of Management Sciences for Health, Inc. (a nonprofit organization) (the "Entity"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2022.

Report on internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the Entity's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on compliance and other matters

As part of obtaining reasonable assurance about whether the Entity's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts
October 31, 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Management Sciences for Health, Inc.

Report on compliance for each major federal program

Opinion on each major federal program

We have audited the compliance of Management Sciences for Health, Inc. (a nonprofit organization) (the “Entity”) with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* that could have a direct and material effect on each of the Entity’s major federal programs for the year ended June 30, 2022. The Entity’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for opinion on each major federal program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Entity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Entity’s compliance with the compliance requirements referred to above.

Responsibilities of management for compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Entity’s federal programs.

Auditor's responsibilities for the audit of compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Entity's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Entity's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Entity's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Entity's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Entity's response.

Report on internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be significant deficiencies in the Entity's internal control over compliance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Entity's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Entity's response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts
October 31, 2022

Management Sciences for Health, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2022

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

- | | | | |
|---|-----------|--------------|------------------------|
| • Material weakness(es) identified? | _____ yes | <u> X </u> | no
none
reported |
| • Significant deficiency(ies) identified? | _____ yes | <u> X </u> | |
| Noncompliance material to financial statements noted? | _____ yes | <u> X </u> | no |

Federal Awards

Internal control over the major program:

- | | | | |
|---|------------------|--------------|------------------------|
| • Material weakness(es) identified? | _____ yes | <u> X </u> | no
none
reported |
| • Significant deficiency(ies) identified? | <u> X </u> yes | _____ | |

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

<u> X </u>	yes	_____	no
--------------	-----	-------	----

Identification of the major programs:

Assistance Listing Number/Grant/Contract Number	Name of Federal Program
98.U01	MTaPS
98.U04	SAFEMED Ukraine
98.U10	HS4TB-Global

Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?	<u> X </u>	yes	_____	no
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SECTION 2 - FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2022

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2022-001 late subrecipient monitoring submission (significant deficiency in internal control over compliance)

HS4TB-Global (ALN 98.U10)

Criteria:

Under the requirements of the Federal Funding Accountability and Transparency Act (FFATA) (Pub. L. No. 109-282), codified in 2 CFR 170.330, the disbursement should be reported in the FFATA Subaward Reporting System (FSRS) no later than the last day of the month following the month in which the subaward amendment obligation was made or the subcontract award modification was made.

Condition:

FFATA monitoring submissions were not submitted timely in the FSRS.

Cause:

There was not adequate tracking of report deadlines nor cross training of employees.

Effect:

Failure to comply with the FFATA FSRS reporting standard.

Context:

In a sample of six subawards, two subawards within the Organization's submission listing were not reported timely.

Identification as a repeat finding:

This is a repeat of finding 2021-001.

Recommendation:

Management should ensure proper cross training of functions and responsibilities. Management should also create a tracking mechanism for all federal compliance reports along with due dates, responsible individual and secondary responsible individual.

Views of Responsible Officials (unaudited)

Management agrees with the finding.

SECTION 4 - PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 2021-001 Late Subrecipient Monitoring submission

This finding is repeated as finding 2022-001

Finding Number: 2021-002 Late Submission of Reporting Requirements

This finding has been resolved.

**Corrective Action Plan
Year Ended June 30, 2022**

Finding Number: 2022-001 Late subrecipient monitoring submission

Federal Program(s)
USAID Foreign Assistance for Programs Overseas (ALN 98.001)

Management Corrective Action Plan

The Senior Director of Finance has taken on an active oversight role for the Contracts and Award Management team, prioritizing the review of tracking of project reporting requirements. He will review the current system for tracking the FFATA report requirements by including automatic population of the system from MSH's Contract/Subaward management system.

MSH will continue to use a designated mailbox and designated contract/award specialist for primary point of responsibility of monthly FSRS reporting. In addition to the current step of having the Specialist's supervisor review the uploading of FSRS reports, a list of all subawards issued will be circulated to all MSH contract/award officers for monthly review and sign off prior to the close of the FSRS reporting period.

MSH agrees with this finding.

Individuals Responsible for Corrective Action Plan

Gordon Kihuguru
Chief Financial Officer
(703) 667-3959
Completion date: 12/31/2022