

Tsoutsouras & Company, P.C.

Certified Public Accountants

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**Independent Auditor's Report**

Board of Directors  
Medicines for Humanity, Inc.

We have audited the accompanying financial statements of Medicines for Humanity, Inc., which comprise the balance sheet as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Medicines for Humanity, Inc. as of September 30, 2019, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, in 2019 Medicines for Humanity Inc. adopted Financial Statements Standards Board Accounting Standards Updated No. 2016-14 "Presentation of Financial Statements of Not-for-Profit-Entities". Our opinion is not modified with respect to this matter.

*Tsoutsouras & Company, P.C.*

Tsoutsouras & Company, P.C.

Certified Public Accountants

Ipswich, Massachusetts

March 3, 2020

Medicines for Humanity, Inc.  
Balance Sheet  
As of September 30, 2019

<b>Assets</b>		
Cash & Cash Equivalents	\$	491,680
Investments, At Market Value (See Note 6)		766,795
Grants Receivable (See Note 5)		43,660
Other Assets		<u>1,137</u>
<b>Total Assets</b>	<b>\$</b>	<b><u><u>1,303,272</u></u></b>
<b>Liabilities &amp; Net Assets</b>		
Total Liabilities	\$	-
Net Assets		
Without Donor Restrictions		
Operating Funds		236,208
Dominican Republic - Quisqueya - Board Designated		20,000
Emergency Reserve Fund - Board Designated		<u>130,000</u>
Total Without Donor Restrictions		386,208
With Donor Restrictions		
Thomas & Jane Bilodeau Fund		300,082
Other Programs		200,128
Endowment Fund		
Haiti - Cite Soleil Fund	180,299	
Dominican Republic - Consuelo Fund	138,052	
Dominican Republic - Quisqueya Fund	<u>98,503</u>	
Total Endowment Fund		<u>416,854</u>
Total With Donor Restrictions		<u>917,064</u>
Total Net Assets		<u>1,303,272</u>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$</b>	<b><u><u>1,303,272</u></u></b>

See Accompanying Notes To The Financial Statements

Medicines for Humanity, Inc.  
Statement of Activities  
For The Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Contributions	\$ 584,412	\$ 388,695	\$ 973,107
Investment Return	16,734	(1,013)	15,721
Special Event Income	89,342	-	89,342
Change in Discount on Grants			
Receivable	-	2,079	2,079
Other Income	1,700	-	1,700
Net Assets Released From Restriction - Satisfaction of Program Restrictions	778,052	(778,052)	-
<b>Total Revenues</b>	<b>1,470,240</b>	<b>(388,291)</b>	<b>1,081,949</b>
<b>Expenses</b>			
Program Services	1,258,383	-	1,258,383
Costs of Direct Benefits to Donors	18,054	-	18,054
General & Administrative	15,525	-	15,525
Fundraising	174,481	-	174,481
<b>Total Expenses</b>	<b>1,466,443</b>	<b>-</b>	<b>1,466,443</b>
<b>Change in Net Assets (See Note 12)</b>	<b>3,797</b>	<b>(388,291)</b>	<b>(384,494)</b>
<b>Net Assets at Beginning of Year</b>	<b>382,411</b>	<b>1,305,355</b>	<b>1,687,766</b>
<b>Net Assets at End of Year</b>	<b>\$ 386,208</b>	<b>\$ 917,064</b>	<b>\$ 1,303,272</b>

See Accompanying Notes To The Financial Statements

Medicines for Humanity, Inc.  
Statement of Functional Expenses  
For The Year Ended September 30, 2019

	<u>Program Services</u>	<u>Donor Benefits</u>	<u>General &amp; Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Project Operating Expenses	\$ 717,459	\$ -	\$ -	\$ -	\$ 717,459
Grants Paid	929	-	-	-	929
Compensation	262,204	-	8,082	67,522	337,808
Payroll Taxes	16,748	-	572	3,753	21,073
Consulting	96,439	-	2,484	72,763	171,686
Education	175	-	-	-	175
Professional Fees	16,891	-	912	1,197	19,000
Insurance	9,105	-	191	251	9,547
Office Expense	32,638	-	1,247	15,800	49,685
Other Expense	22,932	-	8	10	22,950
Shipping & Postage	1,267	-	52	563	1,882
Printing	1,871	-	-	3,475	5,346
Rent	14,062	-	680	3,604	18,346
Telephone	5,253	-	234	2,002	7,489
Travel	57,369	-	958	1,351	59,678
Special Event Expense	3,041	18,054	105	2,190	23,390
<b>Total Expenses</b>	<b><u><u>\$ 1,258,383</u></u></b>	<b><u><u>\$ 18,054</u></u></b>	<b><u><u>\$ 15,525</u></u></b>	<b><u><u>\$ 174,481</u></u></b>	<b><u><u>\$ 1,466,443</u></u></b>

See Accompanying Notes To The Financial Statements

Medicines for Humanity, Inc.  
Statement of Cash Flows  
For The Year Ended September 30, 2019  
Increase (Decrease) In Cash

<b>Operating Activities</b>	
Change in Net Assets	\$ (384,494)
Adjustments to Reconcile Change in Net Assets to Cash Flow from Operating Activities	
Realized & Unrealized (Gain) Loss on Investments	9,199
Changes in Assets & Liabilities:	
Accounts, Pledges & Investment Income Receivables	35,311
Other Assets	1,863
Accounts & Credit Cards Payable and Accrued Expenses	<u>(2,596)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>(340,717)</b>
<b>Investing Activities</b>	
Purchase of Investments	(124,446)
Sale of Investments	<u>213,793</u>
<b>Net Cash Provided by Investing Activities</b>	<b><u>89,347</u></b>
<b>Net Increase (Decrease) in cash During Year</b>	<b>(251,370)</b>
<b>Cash - Beginning of Year</b>	<b><u>743,050</u></b>
<b>Cash - End of Year</b>	<b><u><u>\$ 491,680</u></u></b>

See Accompanying Notes To The Financial Statements

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**1. Organization**

Medicines for Humanity, Inc. (MFH) is a nonprofit organization originally incorporated in 1997 in Massachusetts. MFH is a tax exempt organization under Section 501 (c)(3) of the U.S. Internal Revenue Code (IRC).

MFH envisions a world in which no child dies from preventable causes or from a lack of basic health services. MFH's mission is to save the lives of vulnerable children and mothers. The organization works in areas of high child mortality. MFH collaborates with and empowers committed in-country partners to strengthen maternal and child health in the communities it serves.

**2. General & Administrative and Fundraising Expenses**

General & administrative and fundraising expenses combined were 12.96% of total expenses. This ratio is computed by dividing the sum of general & administrative and fundraising expenses by total expenses on the statement of activities.

**3. Summary of Significant Accounting Policy**

*Basis of Presentation*

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

*Fair Value Measurements*

MFH uses fair value measurements in the financial statements as follows:

- Recurring measurement of investments (Note 6)
- Non-recurring initial measurement of non-cash gifts and pledges receivable

ASC 820-10, 'Fair Value Measurements and Disclosures' 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. Fair value is a market based measurement that should utilize market data or assumptions that market participants would use in pricing assets or liabilities including assumptions about risks. The ASC requires MFH to classify its fair value measurements into a three tier level hierarchy, based on the priority of inputs to the valuation technique as either level 1, level 2, or level 3. Level 1 being the highest and level 3 being the lowest as follows:

- Level 1 – Quoted prices which are available in active markets for identical assets or liabilities;
- Level 2 – Inputs other than level 1, quoted prices for similar assets or liabilities in markets that are not active or model derived valuations whose inputs are observable either directly or indirectly through market corroboration.

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**Summary of Significant Accounting Policy - Continued**

- Level 3 – Inputs that are generally unobservable for which market data is not available and developed using best information available about assumptions that the market would use to price the assets or liabilities.

*Revenue Recognition*

*Contributions*

MFH recognizes revenue in accordance with Accounting Standards Codification (ASC) 958-605-25 Not-for-Profit Entities Revenue Recognition. Under ASC 958-605-25, unconditional contributions are recognized as revenues when received or pledged in the appropriate net asset category, depending upon the nature of any donor restrictions. When donor restrictions expire, restricted assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction.

Contributions of assets other than cash are reported at fair value on the date the property is pledged or donated. The initial fair value measurement is generally considered a Level 1 measurement. Pledges that are expected to be collected in less than one year are reported at net realizable value. Pledges that are expected to be collected in more than one year from the financial statement date are recorded at fair value at the date of promise. Fair value is computed using a present value technique, anticipated cash flows and a risk adjusted discount rate. MFH uses a discount rate of 5%. This is considered a Level 2 fair value measurement. Amortization of the discount is recorded as additional contribution revenue. Conditional gifts and grants are recognized as revenue when the conditions on which they depend are met.

In countries where MFH operates programs, certain labor, facilities and materials are provided at no cost by local government, community or other charitable organizations. Although these services contribute significantly to the program, the value of these services is not recorded in the financial statements, as MFH would not purchase these services.

*Agency Funds*

Periodically, MFH acts as an agent for donors and will receive funds that must be transferred to a specific beneficiary designated by the donor. In accordance with ASC 958-605-25 Not-for-Profit Entities Revenue Recognition, these funds are not included in contribution revenue, but instead are reflected as a liability until the funds are transferred.

*Net Asset Categories*

*Net Assets Without Donor Restrictions*

This category includes resources which contain no external restrictions, resources for which restrictions have lapsed in the current fiscal year, a board designated emergency reserve of \$300,000 and a board designated fund of \$20,000 for the Dominican Republic - Quisqueya.

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**Summary of Significant Accounting Policy - Continued**

*Net Assets With Donor Restrictions*

This includes gifts for which donors imposed restrictions. Some donor-imposed restrictions are temporary in nature and will expire when the resource is used for a particular purpose or in a particular future period. Other donor-imposed restrictions are perpetual in nature (endowment gifts). MFH must invest endowment gifts in perpetuity and use the endowment in accordance with donor instructions.

*Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash in banks and other institutions, and time deposits with an original maturity of ninety days or less.

*Investments*

Investments are carried at fair value.

*Accounts and Pledges Receivable*

It is MFH's policy to provide an allowance for doubtful accounts, if necessary. At September 30, 2019, no allowance was deemed necessary.

*Income Taxes*

MFH is exempt from income tax pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC) and is a publicly supported organization as defined in IRC Section 509(a)(1). MFH may, however, incur a tax liability on certain ancillary activities. There was no such liability for fiscal year 2019.

In accordance with ASC 740-Income Taxes, MFH recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

In addition, interest and penalties are accrued on any unrecognized tax benefit from uncertain tax positions.

Tax years 2016, 2017, 2018 and 2019 are within the statute of limitations and are open for examination by Federal and State jurisdictions.



Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**Summary of Significant Accounting Policy - Continued**

*Change in Accounting Principles*

MFH implemented FASB accounting standard update (ASU) 2016-14 in the current year, applying the changes retrospectively. The new standards change the formatting aspects of the financial statements:

- The temporary restricted and permanently restricted net assets classes were combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class was renamed net assets without donor restrictions.

The financial statements include a disclosure about liquidity and availability of reserves (note 13)

The changes had the following effect on net assets at October 1, 2018.

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted Net Assets	382,411	
Temporarily Restricted Net Assets	900,739	
Permanently Restricted Net Assets	404,616	
Net Assets Without Donor Restrictions		382,411
Net Assets With Donor Restrictions		1,305,355
	<u>1,687,766</u>	<u>1,687,766</u>

**4. Future Accounting Standard Updates (ASU)**

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases." The ASU requires that lessees recognize on the balance sheet the rights and obligations created by leases with terms of more than twelve months, regardless of their classification as either operating or capital leases. For non-profit organizations, this ASU takes effect for fiscal years beginning after December 15, 2020. MFH has not determined the effect of this update on its financial statement.

In May 2014 the FASB issued ASU 2014-09, "Revenue from Contracts with Customers, which was amended in 2015 and 2016. The standard replaces substantially all current US GAAP guidance on revenue recognition and eliminates industry specific guidance. The Standard is effective for years beginning after December 15, 2018 and applies primarily to revenue recognition from performances. MFH does not anticipate a material impact on the financial statements when the standard is adopted.

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**Future Accounting Standard Updates (ASU) - Continued**

In June 2018 FASB issued ASU 2018-08, "Not-for-Profit Entities". The standard clarifies whether a resource received by an entity or a resource provided by an entity is to be treated as a contribution or an exchange transaction (sale of service or product). It also provides clarification of when a contribution is considered conditional. Conditional contributions require a barrier to overcome and a right of return. A barrier relates to the purpose of the agreement and not to administration stipulation. The standard is effective for resource recipients for years beginning after December 15, 2018 and for resource providers for years beginning after December 15, 2019. MFH does not anticipate a material impact on the financial statements when the standard is adopted.

**5. Grants receivable**

Grants receivable are comprised as follows at September 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
In One Year or Less .....	\$ -	\$ 43,660	\$ 43,660
Between One and Five Years.....	-		-
More than Five Years.....	-	-	-
Less: Unamortized Discount.....	-	-	-
Less: Reserve.....	-	-	-
Total.....	<u>\$ -</u>	<u>\$ 43,660</u>	<u>\$ 43,660</u>

Not included in the grants above are four grants totaling \$819,538 that are subject to a condition related to MFH meeting the donors' expectations. In accordance with ASC 958-605-25, these conditional pledges will not be recognized as grants receivable until the conditions are met.

**6. Investments**

At September 30, 2019, investments consist of the following:

	<u>Cost</u>	<u>Carrying Value (Level 1 Fair Value)</u>	<u>Unrealized Gain (Loss)</u>
Stock Mutual Funds	\$ 430,009	\$ 549,903	\$ 119,894
Corporate Debt Securities	98,426	200,316	101,890
Equity Securities	15,322	16,576	1,254
	<u>\$ 543,757</u>	<u>\$ 766,795</u>	<u>\$ 223,038</u>

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**Investments - Continued**

Investment return consisted of the following for the year ended September 30, 2019.

Interest and Dividend Income	\$ 24,920
Realized Gain (Loss)	(25,741)
Unrealized Gain (Loss) - Beginning of Year	\$ 206,496
Unrealized Gain (Loss) - End of Year	<u>223,038</u>
Change in Unrealized Gain (Loss)	<u>16,542</u>
Total Investment Return	<u><u>\$ 15,721</u></u>

**7. Net Assets With Donor Restrictions**

At September 30, 2019, Net assets with donor restrictions consisted of the following:

Available for spending but restricted to a purpose	
Restricted emergency Bilodeau fund	\$300,082
Reduce Child Mortality in Impoverished Communities	<u>\$200,128</u>
Total available for spending but restricted to a purpose	\$500,210
Endowment funds which must be appropriated for expenditure before use	
Original gifts	\$404,616
Accumulated Income	<u>\$12,238</u>
Total endowment funds	<u>\$416,854</u>
Total net assets with donor restrictions	<u><u>\$917,064</u></u>

Net assets with donor restrictions includes donations and income that contain restrictions specifying how or when the funds may be expended. At September 30, 2018, this category includes the balance of funds that have not yet been expended for the specified purpose or are to be expended in a future year. Included in the category, net assets with donor restrictions, is the original principal balance of the Thomas and Jane Bilodeau Fund. All income, including gains, is available for general use by MFH, and is included in net assets without donor restrictions. Principal may only be expended in an emergency. To ensure observance of restrictions on resources within the framework of Accounting Standards Codification (ASC) 958-205 Not-for-Profit Entities, MFH accounts for restricted resources in fund groups.

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**Net Assets With Donor Restrictions - Continued**

This category also includes endowment gifts for which donors require that the original gift be invested in perpetuity and that all investment income be expended for designated purposes.

MFH has an investment policy which is monitored by its finance committee. The policy sets ranges for asset allocation and strives to achieve high returns with acceptable levels of risk. At a minimum the policy is to provide necessary funding for programs. The organization does not invest in alternative investments such as limited partnerships, real estate, or joint ventures.

MFH manages its endowment under the Massachusetts Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Under UPMIFA, MFH may appropriate for expenditure so much of the endowment fund as is prudent taking into consideration: the duration and preservation of the endowment fund, the purposes of MFH and the endowment fund, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, other resources of MFH, and the investment policy. MFH has interpreted UPMIFA as requiring the preservation of the original gifts to the endowment fund. As a result of this interpretation, MFH classified the original gifts as a permanent endowment. The remaining portion of the endowment may be appropriated for expenditure for designated purposes.

**8. Changes in Endowment Net Assets**

The following schedule summarizes the change in endowment net assets for the year ended September 30, 2019:

Endowment Net Assets - Beginning of Year	\$ 431,623
Investment Return	(1,500)
Contributions	-
Appropriated for Expenditure	(13,269)
	<hr/>
Endowment Net Assets - End of Year	<u>\$ 416,854</u>

**9. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**10. Financial Instruments with Concentrations of Credit Risk**

Financial instruments that potentially subject MFH to concentrations of credit risk consist principally of cash and cash equivalents, investment securities, and receivables. The maximum exposure to MFH on these assets is their book value. Cash and cash equivalents consist of the following:

Eastern Bank	\$	161,561
Stripe		4,878
PayPal		6,573
Petty Cash		1,298
Ameriprise		<u>317,370</u>
	<u>\$</u>	<u>491,680</u>

The FDIC provides insurance of up to \$250,000 in Eastern Bank. The Deposit Insurance Fund (DIF) provides insurance of amounts over \$250,000 in Eastern Bank. Funds in the Ameriprise cash reserve and money market accounts are insured up to a total of \$250,000 by Securities Investors Protection Corp (SIPC). Certificates of deposit held in the Ameriprise accounts are insured up to a total of \$250,000 by the FDIC.

Investments are exposed to various risks, such as interest rate, market volatility and credit risk. MFH's diversification mitigates some of this potential exposure, as no individual investment accounts for more than 14.84% of the total assets.

MFH does not require collateral on receivables.

**11. Leases**

MFH leases its office space in Massachusetts, Denver and Cameroon as a tenant-at-will. MFH also leases office space under a non-cancellable operating lease that expires on November 30, 2019. Future minimum payments due on the operating lease at September 30, 2019 are:

Fiscal Year 2020	\$	1,294
Fiscal Year 2021		-
Fiscal Year 2022		-
Fiscal Year 2023		-
Fiscal Year 2024 and thereafter		<u>-</u>
	<u>\$</u>	<u>1,294</u>

Total rent expense paid in fiscal year 2019 was \$18,346.

Medicines for Humanity, Inc.  
Notes To The Financial Statements  
For The Year Ended September 30, 2019

**12. Change in Net Assets**

The Change in Net Assets is influenced by the timing of the receipt and expenditure of Net Assets with Donor Restrictions and is an important factor in determining whether Total Change in Net Assets is positive or negative in any particular year. In years when net assets with donor restrictions are received and not spent, the change in net assets with donor restrictions will appear as a positive amount. In subsequent years when the net assets with donor restrictions are spent, the change in net assets with donor restrictions will appear as a negative amount. For the year ended September 30, 2019, restricted revenues received were less than restricted expenditures, which resulted from spending donations and pledges in FY19 that were received in prior years. Accordingly, the change in net assets with donor restrictions is a decrease of \$388,291.

**13. Liquidity and Availability**

MFH works to maintain financial assets on hand to meet its normal operating expenses and structures its financial assets to be available as it's covered expenditures and liabilities come due.

MFH's financial assets available for general expenditure within one year of September 30, 2019 are as follows:

	From assets without donor restrictions	From donor restricted assets	Total
Cash	\$ 275,820		\$ 275,820
Investments	109,252		109,252
Less Board- Designated Fund	(150,000)		(150,000)
	\$ 235,072	\$ -	\$ 235,072

The above table reflects board-designated funds as unavailable because it is MFH's intention to use these funds for specific purposes as designated by the Board of Directors. However, in the case of need, the Board of Directors could appropriate resources from its board-designated fund.

**14. Subsequent Events**

The Organization has evaluated subsequent events through March 3, 2020, the date the financial statements were available to be issued.