

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Family Health International
Years Ended September 30, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Family Health International

Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2017 and 2016

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Report of Independent Auditors

Management and the Board of Directors
Family Health International

We have audited the accompanying consolidated financial statements of Family Health International (FHI 360), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FHI 360 as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

June 15, 2018

Family Health International
Consolidated Statements of Financial Position

	September 30	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 94,426,607	69,500,573
Restricted cash	10,541,142	10,486,588
Accounts receivable	114,138,285	114,644,413
Short-term investments at fair value	14,577,499	13,374,350
Prepaid expenses and deposits	7,696,486	8,445,233
Total current assets	<u>241,380,019</u>	216,451,157
Other assets	2,811,338	1,168,044
Property and equipment, net	14,456,893	14,835,110
Total assets	<u><u>\$ 258,648,250</u></u>	<u>232,454,311</u>
 Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 15,914,077	14,607,061
Accrued expenses	41,272,723	24,831,243
Accrued salaries, payroll taxes, and fringe benefits	14,320,652	12,997,825
Accrued field office severance, leave, and retirement	21,184,646	18,486,530
Deferred revenue	65,262,767	59,582,829
Current portion of note payable	364,519	7,866,139
Total current liabilities	<u>158,319,384</u>	138,371,627
Other liabilities	10,581,009	7,661,746
Note payable, less current portion	—	823,619
Total liabilities	<u>168,900,393</u>	146,856,992
Total unrestricted net assets	89,747,857	85,597,319
Total liabilities and unrestricted net assets	<u><u>\$ 258,648,250</u></u>	<u>232,454,311</u>

See accompanying notes.

Family Health International

Consolidated Statement of Activities and Changes in Net Assets

	September 30	
	2017	2016
Revenue:		
Operating revenues	\$ 664,403,865	\$ 604,719,429
Income from services	94,683,196	61,576,785
Contributions	5,809,609	11,635,431
Other income	3,096,222	4,543,008
Total revenue	<u>767,992,892</u>	<u>682,474,653</u>
Expenses:		
Program services	648,643,943	556,013,477
Supporting activities	115,198,411	119,754,114
Total expenses	<u>763,842,354</u>	<u>675,767,591</u>
Change in net assets	<u>4,150,538</u>	<u>6,707,062</u>
Unrestricted net assets at beginning of year	<u>85,597,319</u>	<u>78,890,257</u>
Unrestricted net assets at end of year	<u><u>\$ 89,747,857</u></u>	<u><u>\$ 85,597,319</u></u>

See accompanying notes.

Family Health International
Consolidated Statements of Cash Flows

	September 30	
	2017	2016
Operating activities		
Change in unrestricted net assets	\$ 4,150,538	\$ 6,707,062
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	1,567,190	2,215,024
Gain or loss on disposal of fixed assets	(113,628)	
Changes in operating assets and liabilities:		
Accounts receivable	506,128	(1,032,712)
Prepaid expenses and deposits	748,747	(2,870,934)
Other assets	(1,643,294)	(166,619)
Accounts payable	1,307,016	(7,469,583)
Accrued expenses and other liabilities	23,995,471	9,761,912
Deferred revenue	5,679,938	(5,365,874)
Deferred rent	(613,785)	9,006,766
Net cash used in operating activities	35,584,321	10,785,042
Investing activities		
Purchase of investments	(1,257,703)	(171,980)
Purchase of equipment	(1,075,345)	(1,760)
Net cash provided by investing activities	(2,333,048)	(173,740)
Financing activities		
Payments on note payable and capital leases	(8,325,239)	(1,476,186)
Net cash used in financing activities	(8,325,239)	(1,476,186)
Net increase in cash and cash equivalents	24,926,034	9,135,116
Cash and cash equivalents, beginning of year	69,500,573	60,365,457
Cash and cash equivalents, end of year	\$ 94,426,607	\$ 69,500,573

See accompanying notes.

Family Health International

Consolidated Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services	Supporting Activities	Total
Salaries	\$ 67,183,549	\$ 49,610,944	\$ 116,794,493
Allowances	8,533,035	252,098	8,785,133
Fringe benefits	20,555,916	14,126,677	34,682,593
Personnel expenses	96,272,500	63,989,719	160,262,219
Subcontracts and grants	281,892,259	–	281,892,259
Field office salaries and fringe benefits	104,883,168	3,178,906	108,062,074
Consultants and professional fees	20,868,024	7,913,119	28,781,143
Depreciation	–	1,567,190	1,567,190
Employee relocation and training	1,046,254	87,915	1,134,169
Employment advertising	202,125	84,074	286,199
Equipment < \$5K	3,946,771	743,838	4,690,609
Equipment > \$5K	8,821,665	–	8,821,665
Equipment maintenance and repairs	4,120,234	1,333,788	5,454,022
Equipment rental	1,330,264	17,587	1,347,851
Freight and postage	1,056,794	100,877	1,157,671
Insurance	816,884	91,017	907,901
Meetings	18,949,158	599,234	19,548,392
Membership dues	30,675	233,635	264,310
Occupancy	12,054,209	18,682,939	30,737,148
Office expenses	3,498,344	576,559	4,074,903
Other expenses	3,995,994	(284,373)	3,711,621
Other pass through expenses	11,550,217	–	11,550,217
Participant expenses	28,248,802	–	28,248,802
Pharmaceuticals	3,024,453	–	3,024,453
Printing	2,816,269	178,751	2,995,020
Subscriptions and publications	409,583	1,047,689	1,457,272
Supplies	6,885,231	1,440,330	8,325,561
Travel expenses	30,975,643	3,798,120	34,773,763
Total functional expenses	647,695,520	105,380,914	753,076,434
Nonallocable charges	948,423	9,817,497	10,765,920
Total expenses	<u>\$ 648,643,943</u>	<u>\$ 115,198,411</u>	<u>\$ 763,842,354</u>

See accompanying notes.

Family Health International
Consolidated Statement of Functional Expenses

Year Ended September 30, 2016

	Program Services	Supporting Activities	Total
Salaries	\$ 64,863,745	\$ 45,974,346	\$ 110,838,091
Allowances	8,420,716	330,476	8,751,192
Fringe benefits	21,095,964	14,361,535	35,457,499
Personnel expenses	94,380,425	60,666,357	155,046,782
Subcontracts and grants	212,927,458	–	212,927,458
Field office salaries and fringe benefits	94,967,125	3,353,746	98,320,871
Consultants and professional fees	19,869,564	5,924,789	25,794,353
Depreciation	–	2,217,994	2,217,994
Employee relocation and training	1,532,731	180,531	1,713,262
Employment advertising	356,765	139,083	495,848
Equipment < \$5K	3,416,885	696,941	4,113,826
Equipment > \$5K	5,165,338	–	5,165,338
Equipment maintenance and repairs	3,179,103	1,308,723	4,487,826
Equipment rental	1,172,913	(131,334)	1,041,579
Freight and postage	1,602,745	72,398	1,675,143
Insurance	587,388	810,312	1,397,700
Meetings	16,600,667	746,701	17,347,368
Membership dues	26,617	311,305	337,922
Occupancy	11,065,677	23,363,515	34,429,192
Office expenses	4,144,499	657,862	4,802,361
Other expenses	4,385,498	516,816	4,902,314
Other pass through expenses	9,231,177	–	9,231,177
Participant expenses	30,430,463	–	30,430,463
Pharmaceuticals	2,954,585	–	2,954,585
Printing	2,876,427	426,581	3,303,008
Subscriptions and publications	216,875	612,577	829,452
Supplies	6,905,006	1,538,353	8,443,359
Travel expenses	27,562,089	3,401,066	30,963,155
Total functional expenses	555,558,020	106,814,316	662,372,336
Nonallocable charges	455,457	12,939,798	13,395,255
Total expenses	<u>\$ 556,013,477</u>	<u>\$ 119,754,114</u>	<u>\$ 675,767,591</u>

See accompanying notes.

Family Health International

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

1. Significant Accounting Policies

Description of the Organization

Family Health International (FHI 360) is a nonprofit global health and development organization that conducts a worldwide diversified program of research, education, and services.

The consolidated financial statements include the accounts and changes in net assets of the Company, its branch offices and FHI Solutions LLC. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

FHI 360 considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents held in the United States are insured according to FDIC regulations. The majority of cash and cash equivalents are held in accounts with balances exceeding the insured limit. Cash amounts maintained overseas are largely uninsured. Cash and cash equivalents as of September 30, 2017 and 2016, held outside of the United States were approximately \$9.3 million and \$6.6 million, respectively.

Restricted Cash

FHI 360 received funds under a grant agreement that stipulated the cash is to be placed in a separate account until such time the funds are expended to meet the purpose of the grant. The total amount in the account as of September 30, 2017 and 2016 was \$10,541,142 and \$10,486,588, respectively.

Family Health International

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments held by third parties are recorded at their fair values and consist of government agency obligations and certificates of deposit as of September 30, 2017 and 2016. All other financial instruments (cash, cash equivalents, and restricted cash) are stated at cost which approximates fair value.

Revenue Recognition

Revenue from Federal contracts and grants and private contracts (income from services) is recorded upon incurring an expense (delivery of the service) assuming all other revenue recognition criteria have been met.

Accounts Receivable

The allowance for doubtful accounts is based on FHI 360's best estimate of the amount of probable credit losses existing in its accounts receivable.

Federal Letters of Credit

Most U.S. Agency for International Development (USAID) funded agreements and several National Institutes of Health (NIH), Centers for Disease Control (CDC), and Department of Health and Human Services (DHHS) agreements are funded by Federal letters of credit. Drawdowns are paid through the DHHS Payment Management System. The difference in the estimation of expenditures for requesting funds and the actual expenditures for reporting purposes results in a receivable balance or an unearned income balance at the end of each accounting period.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at the fair value of the property at the date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the related asset, ranging from four to ten years for all assets other than leasehold improvements, which are depreciated over the life of the associated lease agreement. Guidelines for disposals of assets acquired with Federal funds are determined by the contract.

Family Health International

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Deferred Revenue

FHI 360 operates its programs with funds from various grants and contracts. At September 30, 2017 and 2016, FHI 360 received funds in excess of expenditures on certain grants and contracts, which resulted in deferred revenue.

Income Taxes

FHI 360 is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax.

Management has analyzed the tax positions taken by FHI 360 and has concluded that as of September 30, 2017 and 2016, there are no uncertain tax positions taken or are to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying financial statements.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to FHI 360 cannot be determined presently. FHI 360 will continue to review and assess the impact of the legislation to the financial statements, but do not expect that the impact will be material.

Foreign Currency Translation

The U.S. dollar (dollars) is the functional currency for FHI 360's operations worldwide. Transactions in currencies other than dollars are translated into dollars at the rates of exchange in effect during the month of the transaction. Property and equipment purchased with non-U.S. currency are translated into US dollars at the exchange rate in effect at the time of purchase. Assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the statement of financial position. Net transaction and translation gains and losses are included in the accompanying statements of activities and changes in net assets.

Family Health International

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Unrestricted Net Assets

Unrestricted net assets represent funds that are not subject to donor-imposed stipulations and are fully available, at the discretion of management and the Board of Directors for FHI 360, to utilize in any of its programs or supporting services.

Fair Value Measurements

Fair value is determined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal market or most advantageous market available to the entity in an orderly transaction between market participants.

The fair value hierarchy ranks the inputs that are used to measure fair value into three levels, as follows:

- Level 1 – Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.
- Level 2 – Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets in markets that are not active;
 - Observable inputs other than quoted prices for the asset or liability; and
 - Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available.

Family Health International

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Securities with fixed maturities (debt securities and certificates of deposit), other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates of such fixed maturity securities are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity securities are included in the debt securities amount disclosed in the Level 2 hierarchy.

FHI 360 does not currently hold any Level 3 financial instruments.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14—Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which makes several improvements to current financial reporting for non-for-profits. This guidance is effective for annual financial statements issued for the year ended September 30, 2019 with early application permitted. The most significant provisions of this Update require two classes of net assets, rather than the currently required three classes. As this update is primarily related to changes in disclosure and presentation, adoption of this standard is not expected to have an impact on our financial position.

In August 2015, the FASB issued Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This deferred the effective date of ASU 2014-09, which issued a converged standard on revenue recognition from contracts with customers with U.S. GAAP and IFRS. ASU 2014-09 was issued in May 2014 and the core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. For nonprofit entities, the deferred effective date of the original amendment (ASU 2014-09) is for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Additionally, the pronouncement allowed early application for annual reporting periods beginning after December 15, 2016, the original effective date. There are two methods for adopting the standard amendment. The first method is to retrospectively adjust each reporting period presented. The second method is to retrospectively adjust with the cumulative

Family Health International

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

effect recognized at the date of initial application along with additional disclosures in reporting periods that include the date of initial application. The Company is evaluating the impact of this new pronouncement along with the method of adoption.

Between March and May 2016, the FASB issued three Accounting Standards Updates relating to Revenue from Contracts with Customers (Topic 606). These updates, identified as No. 2016-08, No. 2016-10, and No. 2016-12, identified practical expedients and clarified various aspects of the new revenue recognition standard outlined in Accounting Standards Update 2014-09. The Company has reviewed these updates and does not believe they will materially impact the Company's future implementation of the standard. The effective date and transition requirements for ASU 2014-09 (and updated in ASU 2015-14) were not changed with these pronouncements. The Company is continuing to evaluate the overall impact of ASU 2014-9.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). This update revised the overall guidance on leases, which includes the requirement to recognize a lease asset and a lease liability for leases previously classified as operating leases. As a result, all leases will create an asset and a liability for a lessee. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within fiscal years beginning after December 15, 2020. The Company is evaluating the impact of this pronouncement.

2. Accounts Receivable

Accounts receivable included the following at September 30:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 35,422,597	\$ 55,351,326
Accounts receivable related-party (see Note 9)	5,700,000	5,862,044
Unbilled accounts receivable	66,377,593	39,982,706
Subcontractor advances	5,392,394	10,933,314
Travel advances	1,296,177	1,421,049
Other receivables	1,949,524	1,309,987
Allowance for doubtful accounts	(2,000,000)	(216,013)
	<u>\$ 114,138,285</u>	<u>\$ 114,644,413</u>

Family Health International

Notes to Consolidated Financial Statements (continued)

3. Short-Term Investments

The following is a summary of the fair value measurements of FHI 360's short-term investments within the fair value hierarchy at September 30:

	Fair Value			
	Level 1	Level 2	Level 3	Total
September 30, 2017				
Cash, bank deposit program, and money-market funds	\$ 14,339,642	\$ –	\$ –	\$ 14,339,642
Corporate fixed income	–	237,857	–	237,857
Total short-term investments	\$ 14,339,642	\$ 237,857	\$ –	\$ 14,577,499

	Fair Value			
	Level 1	Level 2	Level 3	Total
September 30, 2016				
Cash, bank deposit program, and money-market funds	\$ 13,189,019	\$ –	\$ –	\$ 13,189,019
Corporate fixed income	–	185,331	–	185,331
Total short-term investments	\$ 13,189,019	\$ 185,331	\$ –	\$ 13,374,350

Investments held by FHI 360 at September 30, consisted of the following:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash, bank deposit program, and money-market funds	\$ 14,399,642	\$ 14,399,642	\$ 13,189,019	\$ 13,189,019
Corporate fixed income	185,331	237,857	174,450	185,331
Total short-term investments	\$ 14,584,973	\$ 14,577,499	\$ 13,363,469	\$ 13,374,350

Family Health International

Notes to Consolidated Financial Statements (continued)

4. Property and Equipment, net

Property and equipment, net include the following at September 30:

	2017	2016
Leasehold improvements	\$ 16,389,670	\$ 16,037,896
Equipment, software, furniture, and vehicles	12,752,884	15,404,224
Fine arts inventory	662,939	662,939
Accumulated depreciation/amortization	(15,348,600)	(17,269,949)
Total property and equipment, net	\$ 14,456,893	\$ 14,835,110

5. Notes Payable and Capital Leases

The details concerning notes payable at September 30 are as follows:

	2017	2016
Short-term portion of capital lease due to e-Plus Group, Inc., with interest at 6.43% payable monthly, due June 1, 2018	\$ 364,519	\$ 459,100
Short-term portion of capital lease due to e-Plus Group, Inc., with interest at 8.67% payable monthly, due February 28, 2017	–	116,139
Long-term portion of capital lease due to e-Plus Group, Inc., with interest at 6.43% payable monthly, due June 1, 2018	–	364,519
Long-term portion of capital lease due to e-Plus Group, Inc., with interest at 8.67% payable monthly, due February 28, 2017	–	–
Line of credit with PNC Bank, due 2017	–	7,750,000
Total notes payable and capital leases	\$ 364,519	\$ 8,689,758

The outstanding amounts are due in 2018.

Family Health International

Notes to Consolidated Financial Statements (continued)

5. Notes Payable and Capital Leases (continued)

FHI 360 rents its facilities, computers, and various equipment under rental agreements. Some leases contain escalation clauses. At September 30, 2017, future minimum lease expenses under these non-cancelable operating leases are as follows:

2018	\$ 17,413,345
2019	17,285,862
2020	17,061,952
2021	15,723,088
2022	15,120,715
Thereafter	94,195,460
Total	<u>\$ 176,800,422</u>

Future minimum rental income under subleases is as follows:

2018	\$ 1,120,374
2019	905,711
2020	660,057
2021	319,972
2022	-
Thereafter	-
Total	<u>\$ 3,006,115</u>

Total occupancy expense for the years ended September 30, 2017 and 2016, was \$30,737,138 and \$34,429,192, respectively, which includes total rental and equipment lease expense (excluding sublease rental income) of \$18,079,194 and \$25,915,555, respectively.

Family Health International

Notes to Consolidated Financial Statements (continued)

6. Post-retirement Benefit Plans and Foreign Severance Liabilities

FHI 360 has a noncontributory, defined-contribution post-retirement benefit plan (the Plan) covering substantially all U.S. employees and non-U.S. citizen expatriates who have met certain eligibility requirements. Post-retirement benefit expense amounted to \$12,446,419 and \$12,179,293 for the years ended September 30, 2017 and 2016, respectively.

The accrued field office severance, leave, retirement balances, and related taxes withheld included the following at September 30:

	<u>2017</u>	<u>2016</u>
Field retirement	\$ 2,609,890	\$ 2,146,133
Field leave	5,305,891	4,676,873
Field severance	12,634,893	11,428,428
Taxes withheld	633,972	235,096
Total	<u>\$ 21,184,646</u>	<u>\$ 18,486,530</u>

FHI 360 accrues severance pay for Foreign Service Nationals (FSNs) in countries where the host country requires payment of severance pay upon separation. The accrual is based upon each FSN's years of service with FHI 360, and FHI 360 increases the severance accrual each year based on the additional year of service. The severance costs are charged to the federal award each year as the additional years of service are accrued. The severance payments are made whether the termination is voluntary or involuntary, with the exception of an employee being terminated with cause.

7. 457(b) Deferred Compensation Plan

FHI 360 maintains a 457(b)-deferred compensation plan to provide the ability to make tax-deferred contributions to employees whose annual base compensation exceeds the maximum compensation limit for qualified plan contributions. Contributions are made into a rabbi trust maintained by FHI 360 for each participating employee and remain assets of FHI 360 until distributed to the participant upon termination of their employment.

Family Health International

Notes to Consolidated Financial Statements (continued)

8. Direct Cost Sharing – U.S. Government Funded Agreements

FHI 360 has 42 various awards with remaining cost-sharing requirements as of September 30, 2017. FHI 360 enters into subawards with subrecipients who assist FHI 360 in meeting the goals and objectives of FHI 360's awards. When appropriate, FHI 360 includes a cost share requirement in subawards.

Subrecipients can meet a cost share requirement by donating materials, or by incurring costs in support of the project that are not reimbursed through the subaward. The costs incurred and the estimated fair value of the materials is reported on a quarterly basis. Cost share contributions may also come from other sources, including FHI 360 projects that are not funded by the U.S. government. FHI 360 continually monitors awards with cost sharing requirements to ensure compliance.

FHI 360 had total remaining cost share requirements of \$42,859,754, and \$67,407,704 at September 30, 2017 and 2016, respectively.

9. Related-Party Transactions

In December 1990, FHI 360 established a separate non-profit foundation, Family Health International Foundation (the Foundation), to support the work of FHI 360. Contributions to FHI 360 from the Foundation were \$5,700,000 and \$10,224,848 in 2017 and 2016, respectively. At September 30, 2017 and 2016 \$5,700,000 and \$5,862,044, respectively, were outstanding.

10. Contingencies

The ultimate determination of amounts received under contracts with governmental agencies is generally based upon allowable costs reported to and audited by the U.S. government. Until such audits have been completed and a final settlement reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management believes that no material unrecorded loss will result from such audits.

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Notes to Consolidated Financial Statements (continued)

11. Subsequent Events

Subsequent events have been evaluated for disclosure through June 15, 2018, the date FHI 360's financial statements as of and for the years ended September 30, 2017 and 2016, were available to be issued. There are no additional events that have occurred such that adjustments to the amounts presented or disclosed in the notes of the financial statements are warranted.

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