Financial Statements

Family Health International
Years Ended September 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Family Health International

Financial Statements

Years Ended September 30, 2016 and 2015

Contents

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Building a better
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Report of Independent Auditors

The Audit Committee
Family Health International

We have audited the accompanying financial statements of Family Health International (FHI 360), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and changes in net assets and 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 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 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 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 financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FHI 360 as of September 30, 2016 and 2015, 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 8, 2017

Family Health International

Statements of Financial Position

	September 30	
	2016	**2015**
Assets		
Current assets:		
Cash and cash equivalents	**$ 69,500,573**	$ 60,365,457
Restricted cash	**10,486,588**	10,334,550
Accounts receivable	**114,644,413**	113,611,701
Short-term investments at fair value	**13,374,350**	13,354,408
Prepaid expenses and deposits	**8,445,233**	5,574,299
Total current assets	**216,451,157**	203,240,415
Other assets	**1,168,044**	3,457,391
Property and equipment, net	**14,835,110**	17,048,374
Total assets	**$ 232,454,311**	$ 223,746,180
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 14,607,061**	$ 22,076,644
Accrued expenses	**24,831,243**	17,518,130
Accrued salaries, payroll taxes, and fringe benefits	**12,997,825**	15,113,772
Accrued field office severance, leave, and retirement	**18,486,530**	14,995,818
Deferred revenue	**59,582,829**	64,948,703
Current portion of note payable	**7,866,139**	692,365
Total current liabilities	**138,371,627**	135,345,432
Other liabilities	**7,661,746**	36,912
Note payable, less current portion	**823,619**	9,473,579
Total liabilities	**146,856,992**	144,855,923
Unrestricted net assets	**85,597,319**	78,890,257
Total liabilities and net assets	**$ 232,454,311**	$ 223,746,180

See accompanying notes.

Family Health International

Statements of Activities and Changes in Net Assets

	September 30 2016	September 30 2015
Revenues, gains, and other support:		
Contract and grant income	**$ 604,719,429**	$ 530,080,332
Income from services	**61,576,785**	54,890,686
Contributions	**11,635,431**	7,567,149
Other income	**4,543,008**	2,950,924
Total revenues, gains, and other support	**682,474,653**	595,489,091
Expenses:		
Program services	**556,013,477**	479,658,378
Supporting activities	**119,754,114**	116,511,534
Total expenses	**675,767,591**	596,169,912
Change in net assets	**6,707,062**	(680,821)
Unrestricted net assets at beginning of year	**78,890,257**	79,571,078
Unrestricted net assets at end of year	**$ 85,597,319**	$ 78,890,257

See accompanying notes.

Family Health International

Statements of Cash Flows

	September 30	
	2016	**2015**
Operating activities		
Change in net assets	**$ 6,707,062**	$ (680,821)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	**2,215,024**	(2,189,099)
Changes in operating assets and liabilities:		
Accounts receivable	**(1,032,712)**	(24,904,533)
Prepaid expenses and deposits	**(2,870,934)**	3,468,413
Other assets	**(166,619)**	(1,584,102)
Accounts payable	**(7,469,583)**	20,975,346
Accrued expenses and other liabilities	**9,761,912**	(26,554,485)
Deferred revenue	**(5,365,874)**	18,307,594
Deferred rent	**9,006,766**	–
Net cash (used in) provided by operating activities	**10,785,042**	(13,161,687)
Investing activities		
Purchase of investments	**(171,980)**	–
Proceeds from sale of investments	**–**	66,380
Purchase of equipment	**(1,760)**	–
Proceeds from sale of equipment	**–**	118,436
Net cash (used in) provided by investing activities	**(173,740)**	184,816
Financing activities		
Payments on note payable and capital leases	**(1,476,186)**	(610,916)
Net cash used in financing activities	**(1,476,186)**	(610,916)
Net increase (decrease) in cash and cash equivalents	**9,135,116**	(13,587,787)
Cash and cash equivalents, beginning of year	**60,365,457**	73,953,244
Cash and cash equivalents, end of year	**$ 69,500,573**	$ 60,365,457

See accompanying notes.

Family Health International

Statement of Functional Expenses

Year Ended September 30, 2016

	Program Services	Supporting Activities	Total
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 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
Other expenses	4,840,955	13,456,614	18,297,569
Total expenses	$ 556,013,477	$ 119,754,114	$ 675,767,591

See accompanying notes.

Family Health International

Statement of Functional Expenses

Year Ended September 30, 2015

	Program Services	Supporting Activities	Total
Personnel expenses	$ 94,895,405	$ 66,809,174	$ 161,704,579
Subcontracts and grants	167,274,653	–	167,274,653
Field office salaries and fringe benefits	81,585,211	2,750,483	84,335,694
Consultants and professional fees	20,901,385	6,895,042	27,796,427
Depreciation	–	(2,189,099)	(2,189,099)
Employee relocation and training	1,430,714	167,091	1,597,805
Employment advertising	308,902	163,659	472,561
Equipment < $5K	4,098,925	365,653	4,464,578
Equipment > $5K	5,226,532	–	5,226,532
Equipment maintenance and repairs	2,966,611	79,672	3,046,283
Equipment rental	733,743	317,858	1,051,601
Freight and postage	1,362,304	86,621	1,448,925
Insurance	417,535	824,115	1,241,650
Meetings	12,002,844	632,712	12,635,556
Membership dues	30,772	278,311	309,083
Occupancy	11,640,622	18,474,602	30,115,224
Office expenses	4,188,502	838,631	5,027,133
Other pass through expenses	630,016	–	630,016
Participant expenses	25,291,146	–	25,291,146
Pharmaceuticals	4,173,126	–	4,173,126
Printing	2,483,251	194,477	2,677,728
Subscriptions and publications	477,416	492,994	970,410
Supplies	5,673,459	3,770,337	9,443,796
Travel expenses	28,439,683	4,476,602	32,916,285
Other expenses	3,425,621	11,082,599	14,508,220
Total expenses	$ 479,658,378	$ 116,511,534	$ 596,169,912

See accompanying notes.

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.

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, 2016 and 2015, held outside of the United States were approximately $6.0 million and $10.3 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, 2016 and 2015, was $10,486,588 and $10,334,550, respectively.

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, 2016 and 2015. 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 is recorded to the extent reimbursable costs are incurred. Revenue from contracts with private organizations to conduct research on a fee basis (income from services) is recognized to the extent of expenditures incurred during the contract period.

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 Department of Payment Management. The difference in the estimation of expenditures for requesting funds and the actual expenditures for reporting purposes results in a receivable 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 shorter of the life and/or term of the associated lease agreement.

1. Significant Accounting Policies (continued)

Guidelines for disposals of assets acquired with Federal funds are determined by the contract.

Deferred Revenue

FHI 360 operates its programs with funds from various grants and contracts. At September 30, 2016 and 2015, 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, 2016 and 2015, 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.

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.

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.

1. Significant Accounting Policies (continued)

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.

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.

1. Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update provides specific guidance on a variety of cash flow classification issues. The amendments are effective for nonprofit organizations with fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendment is applied retrospectively for each period presented with earlier application permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

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.

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.

1. Significant Accounting Policies (continued)

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 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.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under U.S. GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this

1. Significant Accounting Policies (continued)

update apply to all companies and not-for-profit organizations. They become effective in the annual period ending after December 15, 2016, with early application permitted. The Company is evaluating the impact of this pronouncement.

2. Accounts Receivable

Accounts receivable included the following at September 30:

	2016	2015
Accounts receivable	**$ 55,351,326**	$ 52,402,136
Accounts receivable related-party	**5,862,044**	855,575
Unbilled accounts receivable	**39,982,706**	46,956,163
Subcontractor advances	**10,933,314**	11,997,907
Travel advances	**1,421,049**	1,284,167
Other receivables	**1,309,987**	243,677
Allowance for doubtful accounts	**(216,013)**	(127,924)
	$ 114,644,413	$ 113,611,701

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, 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**

3. Short-Term Investments (continued)

	Fair Value			
	Level 1	Level 2	Level 3	Total
September 30, 2015				
Cash, bank deposit program, and money-market funds	$ 13,179,958	$ –	$ –	$ 13,179,958
Corporate fixed income	–	174,450	–	174,450
Total short-term investments	$ 13,179,958	$ 174,450	$ –	$ 13,354,408

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash, bank deposit program, and money-market funds	**$ 13,189,019**	**$ 13,189,019**	$ 13,179,958	$ 13,179,958
Corporate fixed income	**174,450**	**185,331**	172,340	174,450
Total short-term investments	**$ 13,363,469**	**$ 13,374,350**	$ 13,352,298	$ 13,354,408

4. Property and Equipment, net

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

	2016	2015
Leasehold improvements	**$ 16,037,896**	$ 15,395,081
Equipment, software, furniture, and vehicles	**15,404,224**	16,042,309
Fine arts inventory	**662,939**	665,909
Accumulated depreciation/amortization	**(17,269,949)**	(15,054,925)
Total property and equipment, net	**$ 14,835,110**	$ 17,048,374

5. Notes Payable and Leases

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

	2016	2015
Short-term portion of capital lease due to e-Plus Group, Inc., with interest at 6.43% payable monthly, due June 1, 2018	**$ 459,100**	$ 430,112
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**	262,253
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**	823,619
Long-term portion of capital lease due to e-Plus Group, Inc., with interest at 8.67 % payable monthly, due February 28, 2017	**–**	116,138
Line of credit with PNC Bank, due 2017	**7,750,000**	8,533,822
Total notes payable and capital leases	**$ 8,689,758**	$ 10,165,944

The aggregate amounts of principal maturities for the next three years on notes payable and capital leases are as follows:

	Amount
Year	
2017	$ 7,866,139
2018	823,619
2019	–
	$ 8,689,758

5. Notes Payable and Leases (continued)

FHI 360 rents its facilities, computers, and various equipment under rental agreements. Some leases contain escalation clauses. At September 30, 2016, future minimum lease payments under these non-cancelable operating leases are as follows:

2017	$ 18,178,673
2018	18,172,084
2019	18,170,734
2020	17,965,567
2021	16,832,870
Thereafter	115,179,469
Total	$ 204,499,397

Future minimum rental income under subleases is as follows:

2017	$ 1,672,575
2018	1,366,899
2019	1,165,258
2020	919,763
2021	839,044
Thereafter	90,442
Total	$ 6,053,981

The line of credit with PNC bank contains a debt covenant that requires the Company to maintain a debt service coverage ratio of greater than 1.0. The Company was in compliance with this covenant for the year ended September 30, 2016. The Company was in violation of this covenant for the year ended September 30, 2015. The Company obtained a waiver of the covenant through March 12, 2017.

Total occupancy expense for the years ended September 30, 2016 and 2015, was $34,429,192 and $30,115,224, respectively, which includes total rental and equipment lease expense (excluding sublease rental income) of $25,915,555 and $18,014,669, respectively. FHI Solutions, a related-party, is a sublease tenant of FHI 360. FHI 360 recognized $294,785 and $294,785 of rental income from FHI Solutions for the years ended September 30, 2016 and 2015, respectively.

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 who have met certain eligibility requirements. Post-retirement benefit expense amounted to $11,874,116 and $12,376,489 for the years ended September 30, 2016 and 2015, respectively.

FHI 360 has established an international post-retirement benefit plan for non-U.S. citizen expatriates. Contribution and vesting provisions are consistent with the U.S. based Plan. Total payments for the years ended September 30, 2016 and 2015, were $754,607 and $816,842, respectively.

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

	2016	2015
Field retirement	**$ 2,146,133**	$ 2,122,629
Field leave	**4,676,873**	3,162,730
Field severance	**11,428,428**	9,454,649
Taxes withheld	**235,096**	255,810
Total	**$ 18,486,530**	$ 14,995,818

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

FHI 360 has 43 various awards with remaining cost-sharing requirements as of September 30, 2016. 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.

7. Direct Cost Sharing – U.S. Government Funded Agreements (continued)

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 are 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 $67,407,704 and $21,269,139 at September 30, 2016 and 2015, respectively.

8. 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 $10,224,848 and $7,376,174 in 2016 and 2015, respectively. As of period end 2016 and 2015, FHI 360 had a $5,250,000 receivable due from and $29,000 payable due to the Foundation.

FHI Solutions LLC (Solutions) is a single-member limited liability company of FHI 360. The mission of Solutions is to support activities and programs in the areas of education; health, population and nutrition; environment and agriculture; civil society and other areas of human development. As of period end, FHI had an $699,008 receivable due from FHI Solutions.

FHI 360 incorporated Achieving Health Nigeria Initiative (AHNI) under Nigerian law on June 23, 2009, as an organization affiliated with FHI 360. The services provided to FHI 360 by AHNI during fiscal years 2016 and 2015, totaled $3,116,700 and $3,605,667, respectively, under three sub-agreements, Strengthening Integrated Delivery of HIV/AIDS Services (SIDHAS) for $1,649,036 and $1,726,344, respectively, National Agency for the Control of AIDS (NACA) Global Fund Phase I for $1,321,431 and $1,879,323, respectively, and Reading and Numeracy Activity (RANA) for $146,233 in fiscal year 2016.

The accompanying financial statements present FHI 360 as a stand-alone organization and do not include the accounts of the Foundation, FHI Solutions, or AHNI.

9. 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.

10. Subsequent Events

Subsequent events have been evaluated for disclosure through June 8, 2017, the date FHI 360's financial statements as of and for the years ended September 30, 2016 and 2015, 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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