

FINANCIAL STATEMENTS

Family Health International
Years Ended September 30, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Family Health International

Financial Statements

Years Ended September 30, 2015 and 2014

Contents

Financial Statements

Report of Independent Auditors.....	1
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows.....	6
Statements of Functional Expenses	7
Notes to Financial Statements.....	9



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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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FHI 360 Corporation as of September 30, 2015 and 2014, 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 3, 2016

Family Health International
Statements of Financial Position

	September 30	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 60,365,457	\$ 73,953,244
Restricted cash	10,334,550	10,314,107
Accounts receivable	113,611,701	88,707,168
Short-term investments at fair value	13,354,408	13,441,231
Prepaid expenses and deposits	5,574,299	9,042,712
Total current assets	203,240,415	195,458,462
Other assets	3,457,391	1,873,289
Property and equipment:		
Property and equipment, net	17,048,374	14,977,711
Total assets	\$ 223,746,180	\$ 212,309,462
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 22,076,644	\$ 1,101,298
Accrued expenses	17,518,130	45,773,166
Accrued salaries, payroll taxes, and fringe benefits	15,113,772	11,456,475
Accrued field office severance, leave, and retirement	14,995,818	15,434,285
Deferred revenue	64,948,703	46,641,109
Current portion of notes payable and capital leases	692,365	610,916
Total current liabilities	135,345,432	121,017,249
Other liabilities	36,912	1,555,191
Notes payable and capital leases, less current portion	9,473,579	10,165,944
Total liabilities	144,855,923	132,738,384
Total net assets	78,890,257	79,571,078
Total liabilities and net assets	\$ 223,746,180	\$ 212,309,462

See accompanying notes.

Family Health International

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2015

	Unrestricted			Total
	Contracts and Grants		Other Supported Activities	
	Government	Non- Government		
Revenues, gains, and other support:				
Contract and grant income:				
Agency for International Development	\$ 382,869,946	\$ -	\$ -	\$ 382,869,946
National Institutes of Health	36,320,308	-	-	36,320,308
Centers for Disease Control	10,213,290	-	-	10,213,290
Department of Health and Human Services	834,116	-	-	834,116
Department of State	7,238,435	-	-	7,238,435
Department of Education	3,040,154	-	-	3,040,154
Other U.S. Government	2,896,401	-	-	2,896,401
Subcontracts from other organizations	-	86,667,682	-	86,667,682
	<u>443,412,650</u>	<u>86,667,682</u>	<u>-</u>	<u>530,080,332</u>
Sublease income	-	-	2,825,535	2,825,535
Income from services	-	54,890,686	-	54,890,686
Contributions	-	-	7,567,149	7,567,149
Investment income	-	-	1,964	1,964
Other income (loss)	-	-	123,425	123,425
Total revenues, gains, and other support	<u>443,412,650</u>	<u>141,558,368</u>	<u>10,518,073</u>	<u>595,489,091</u>
Expenses:				
Program services:				
Direct project costs	364,573,872	114,445,926	-	479,019,798
Nonallocable charges, direct	454,498	184,082	-	638,580
Supporting services:				
General and administrative	73,202,875	27,583,711	-	100,786,586
Subrecipient and subcontractor management	4,948,404	645,199	-	5,593,603
Nonallocable charges, indirect	-	-	10,131,345	10,131,345
Total expenses	<u>443,179,649</u>	<u>142,858,918</u>	<u>10,131,345</u>	<u>596,169,912</u>
Change in net assets	<u>\$ 233,001</u>	<u>\$ (1,300,550)</u>	<u>386,728</u>	<u>(680,821)</u>
Net assets at beginning of year			<u>79,571,078</u>	<u>79,571,078</u>
Net assets at end of year			<u>\$ 78,890,257</u>	<u>\$ 78,890,257</u>

See accompanying notes.

Family Health International
Statement of Activities and Changes in Net Assets

Year Ended September 30, 2014

	Unrestricted				Total
	Contracts and Grants		Other Supported Activities	Temporarily Restricted	
	Government	Non- Government			
Revenues, gains, and other support:					
Contract and grant income:					
Agency for International Development	\$ 457,461,515	\$ –	\$ –	\$ –	\$ 457,461,515
National Institutes of Health	23,685,964	–	–	–	23,685,964
Centers for Disease Control	14,350,076	–	–	–	14,350,076
Department of Health and Human Services	10,486,922	–	–	–	10,486,922
Department of State	20,910,113	–	–	–	20,910,113
Department of Education	2,940,023	–	–	–	2,940,023
Other U.S. Government	2,800,934	–	–	–	2,800,934
Subcontracts from other organizations	–	56,313,325	–	–	56,313,325
	<u>532,635,547</u>	<u>56,313,325</u>	<u>–</u>	<u>–</u>	<u>588,948,872</u>
Sublease income	–	–	4,534,349	–	4,534,349
Income from services	–	45,663,437	–	–	45,663,437
Contributions	–	2,341,401	1,043,816	–	3,385,217
Investment income	–	8,677	78,039	–	86,716
Other income (loss)	–	6,500	(51,637)	–	(45,137)
Total revenues, gains, and other support	<u>532,635,547</u>	<u>104,333,340</u>	<u>5,604,567</u>	<u>–</u>	<u>642,573,454</u>
Expenses:					
Program services:					
Direct project costs	437,048,335	85,086,086	7,299,679	–	529,434,100
Supporting services:					
General and administrative	87,819,088	22,778,745	471,056	–	111,068,889
Subrecipient and subcontractor management	4,861,927	626,541	–	–	5,488,468
Total expenses	<u>529,729,350</u>	<u>108,491,372</u>	<u>7,770,735</u>	<u>–</u>	<u>645,991,457</u>
Change in net assets	<u>\$ 2,906,197</u>	<u>\$ (4,158,032)</u>	<u>(2,166,168)</u>	<u>–</u>	<u>(3,418,003)</u>
Reclassification			724,935	(724,935)	–
Net assets at beginning of year			<u>82,264,146</u>	<u>724,935</u>	<u>82,989,081</u>
Net assets at end of year			<u>\$ 79,571,078</u>	<u>\$ –</u>	<u>\$ 79,571,078</u>

See accompanying notes.

Family Health International

Statements of Cash Flows

	September 30	
	2015	2014
Operating activities		
Change in net assets	\$ (680,821)	\$ (3,418,003)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gain) loss on investments	–	(33,185)
Depreciation	(2,189,099)	4,208,104
Changes in operating assets and liabilities:		
Accounts receivable	(24,904,533)	(17,389,152)
Prepaid expenses and deposits	3,468,413	3,120,753
Other assets	(1,584,102)	(573,713)
Accounts payable	20,975,346	(13,842,230)
Accrued expenses and other liabilities	(26,554,485)	22,975,012
Deferred revenue	18,307,594	(553,701)
Net cash used in operating activities	<u>(13,161,687)</u>	<u>(5,506,115)</u>
Investing activities		
Purchase of investments	–	(60,433)
Proceeds from sale of investments	66,380	6,957,386
Proceeds from sale of equipment	118,436	–
Purchase of equipment	–	(3,741,666)
Net cash provided by investing activities	<u>184,816</u>	<u>3,155,287</u>
Financing activities		
Proceeds from note payable	–	1,273,190
Payments on note payable and capital leases	(610,916)	–
Net cash (used in) provided by financing activities	<u>(610,916)</u>	<u>1,273,190</u>
Net decrease in cash and cash equivalents	(13,587,787)	(1,077,638)
Cash and cash equivalents, beginning of year	73,953,244	75,030,882
Cash and cash equivalents, end of year	<u>\$ 60,365,457</u>	<u>\$ 73,953,244</u>

See accompanying notes.

Family Health International
Statement of Functional Expenses

Year Ended September 30, 2015

	Direct Project Costs	General and Administrative	Subrecipient and Subcontractor Management	Total
Salaries	\$ 64,499,595	\$ 46,756,784	\$ 3,650,853	\$ 114,907,232
Allowances	9,377,064	683,979	50,002	10,111,045
Fringe benefits	21,018,746	14,534,641	1,132,915	36,686,302
Total personnel	94,895,405	61,975,404	4,833,770	161,704,579
Subcontracts and grants	167,274,653	-	-	167,274,653
Field office salaries and fringe benefits	81,585,211	2,558,913	191,570	84,335,694
Consultants and professional fees	20,901,385	6,560,888	334,154	27,796,427
Depreciation	-	(2,189,099)	-	(2,189,099)
Employee relocation and training	1,430,714	163,585	3,506	1,597,805
Employment advertising	308,902	163,532	127	472,561
Equipment < \$5K	4,098,925	365,605	48	4,464,578
Equipment > \$5K	5,226,532	-	-	5,226,532
Equipment maintenance and repairs	2,966,611	79,621	51	3,046,283
Equipment rental	733,743	317,676	182	1,051,601
Freight and postage	1,362,304	85,713	908	1,448,925
Insurance	417,535	824,051	64	1,241,650
Meetings	12,002,844	602,257	30,455	12,635,556
Membership dues	30,772	278,299	12	309,083
Occupancy	11,640,622	18,456,687	17,915	30,115,224
Office expenses	4,188,502	836,193	2,438	5,027,133
Other expenses	2,787,041	948,198	3,056	3,738,295
Other pass through expenses	630,016	-	-	630,016
Participant and escort expenses	25,291,146	-	-	25,291,146
Pharmaceuticals	4,173,126	-	-	4,173,126
Printing	2,483,251	192,906	1,571	2,677,728
Subscriptions and publications	477,416	492,936	58	970,410
Supplies	5,673,459	3,767,562	2,775	9,443,796
Travel expenses	28,439,683	4,305,659	170,943	32,916,285
Total functional expenses	479,019,798	100,786,586	5,593,603	585,399,987
Nonallocable charges	638,580	10,131,345	-	10,769,925
Total expenses	<u>\$ 479,658,378</u>	<u>\$ 110,917,931</u>	<u>\$ 5,593,603</u>	<u>\$ 596,169,912</u>

See accompanying notes.

Family Health International
Statement of Functional Expenses

Year Ended September 30, 2014

	Direct Project Costs	General and Administrative	Subrecipient and Subcontractor Management	Total
Salaries	\$ 67,643,812	\$ 48,416,009	\$ 2,945,798	\$ 119,005,619
Allowances	7,641,333	530,255	5,545	8,177,133
Fringe benefits	20,563,833	14,134,544	852,914	35,551,291
Total personnel	95,848,978	63,080,808	3,804,257	162,734,043
Subcontracts and grants	196,789,233	-	-	196,789,233
Field office salaries and fringe benefits	81,328,726	2,875,140	37,357	84,241,223
Consultants and professional fees	21,578,583	7,026,849	202,432	28,807,864
Depreciation	52,231	4,155,874	-	4,208,105
Employee relocation and training	1,424,119	386,742	8,926	1,819,787
Employment advertising	351,830	136,515	27	488,372
Equipment < \$5K	-	841,002	-	841,002
Equipment > \$5K	9,970,669	-	-	9,970,669
Equipment maintenance and repairs	3,507,073	144,262	54	3,651,389
Equipment rental	670,960	405,613	65	1,076,638
Freight and postage	1,475,445	133,223	92	1,608,760
Insurance	582,314	750,293	-	1,332,607
Meetings	17,497,727	1,078,470	-	18,576,197
Membership dues	19,118	293,072	2	312,192
Occupancy	13,416,578	19,703,063	1,225,234	34,344,875
Office expenses	5,187,081	1,388,715	2,460	6,578,256
Other expenses	5,839,542	2,730,105	161,093	8,730,740
Participant and escort expenses	19,528,085	-	-	19,528,085
Pharmaceuticals	2,671,612	-	-	2,671,612
Printing	4,516,994	248,319	-	4,765,313
Subscriptions and publications	629,018	251,191	9,224	889,433
Supplies	6,923,899	406,460	3	7,330,362
Travel expenses	32,776,641	5,033,173	37,242	37,847,056
Total functional expenses	522,586,456	111,068,889	5,488,468	639,143,813
Nonallocable charges	6,847,644	-	-	6,847,644
Total expenses	<u>\$ 529,434,100</u>	<u>\$ 111,068,889</u>	<u>\$ 5,488,468</u>	<u>\$ 645,991,457</u>

See accompanying notes.

Family Health International

Notes to Financial Statements

September 30, 2015 and 2014

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.

Basis of Accounting

FHI 360 follows the accrual basis of accounting.

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, 2015 and 2014, held outside of the United States were approximately \$10.3 million and \$8.8 million, respectively.

Family Health International

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

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, 2015 and 2014 was \$10,334,550 and \$10,314,107, respectively.

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, 2015 and 2014. 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 balance or an unearned income balance at the end of each accounting period.

Family Health International

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

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. Leasehold improvements are amortized on the straight-line basis over the shorter of the useful life of the improvements or the remaining term of the lease.

Deferred Revenue

FHI 360 operates its programs with funds from various grants and contracts. At September 30, 2015 and 2014, 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, 2015 and 2014, 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.

Advertising Costs – Recruitment

Advertising relates primarily to employee recruitment and the costs of advertising are expensed when incurred.

Family Health International

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

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. Current 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.

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.

Family Health International

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Fair Value Measurements (continued)

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.

Family Health International

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Reclassifications and Adjustments

Certain items in the 2014 financial statements have been reclassified to conform to the 2015 financial statement presentation. Accounts receivable related-party, receivable under federal letter of credit, advances to field offices, and certain prepaid expenses and deposits were reclassified to accounts receivable on the balance sheet. The components of accounts receivable for 2015 and 2014 are disclosed in Note 2.

Short-term investments previously considered restricted were reclassified from restricted cash to short-term investments at fair value on the balance sheet.

During 2015, the Company implemented a new ERP system replacing two legacy systems. Management made adjustments to correct items related contribution income, deferred rent and accumulated depreciation. In the aggregate, these adjustments increased the “Change in net assets” by \$9.4 million.

2. Accounts Receivable

Accounts receivable included the following at September 30:

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 52,402,136	\$ 59,888,588
Accounts receivable related-party	855,575	1,537,026
Unbilled accounts receivable	46,956,163	17,147,404
Subcontractor advances	11,997,907	8,950,552
Travel advances	1,284,167	941,913
Other receivables	243,677	369,609
Allowance for doubtful accounts	(127,924)	(127,924)
	<u>\$ 113,611,701</u>	<u>\$ 88,707,168</u>

Family Health International

Notes to 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, 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	<u>\$ 13,179,958</u>	<u>\$ 174,450</u>	<u>\$ –</u>	<u>\$ 13,354,408</u>

	Fair Value			
	Level 1	Level 2	Level 3	Total
September 30, 2014				
Cash, bank deposit program, and money-market funds	\$ 13,177,679	\$ –	\$ –	\$ 13,177,679
Corporate fixed income	–	263,552	–	263,552
Total short-term investments	<u>\$ 13,177,679</u>	<u>\$ 263,552</u>	<u>\$ –</u>	<u>\$ 13,441,231</u>

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash, bank deposit program, and money-market funds	\$ 13,179,958	\$ 13,179,958	\$ 13,177,679	\$ 13,177,679
Corporate fixed income	172,340	174,450	262,049	263,552
Total short-term investments	<u>\$ 13,352,298</u>	<u>\$ 13,354,408</u>	<u>\$ 13,439,728</u>	<u>\$ 13,441,231</u>

Family Health International

Notes to Financial Statements (continued)

4. Property and Equipment, net

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

	2015	2014
Leasehold improvements	\$ 15,395,081	\$ 22,311,966
Equipment, software, furniture, and vehicles	16,042,309	9,425,055
Fine arts inventory	665,909	665,909
Accumulated depreciation/amortization	(15,054,925)	(17,425,219)
Total property and equipment, net	\$ 17,048,374	\$ 14,977,711

5. Notes Payable and Capital Leases

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

	2015	2014
Short-term portion of capital lease due to e-Plus Group, Inc., with interest at 6.43% payable monthly, due June 1, 2018	\$ 692,365	\$ 610,916
Long-term portion of capital lease due to e-Plus Group, Inc., with interest at 6.43% payable monthly, due June 1, 2018	939,757	1,632,123
Line of credit with PNC Bank, due 2017	8,533,822	8,533,821
Total notes payable and capital leases	\$ 10,165,944	\$ 10,776,860

The aggregate amounts of principal maturities for the next three years are as follows:

Year	Amount
2016	\$ 692,365
2017	9,109,051
2018	364,528
	\$ 10,165,944

Family Health International

Notes to Financial Statements (continued)

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, 2015, future minimum lease payments under these non-cancelable operating leases are as follows:

2016	\$ 17,904,441
2017	17,592,931
2018	17,567,701
2019	17,566,351
2020	17,566,351
Thereafter	<u>142,573,862</u>
Total	<u>\$ 230,771,637</u>

Future minimum rental income under subleases is as follows:

2016	\$ 1,746,726
2017	1,585,579
2018	1,315,359
2019	1,153,085
2020	925,900
Thereafter	<u>933,945</u>
Total	<u>\$ 7,660,594</u>

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 violation of this covenant for the year ended September 30, 2015. The Company has obtained a waiver of the covenant through March 12, 2017.

Total occupancy expense for the years ended September 30, 2015 and 2014, was \$30,115,224 and \$34,344,875, respectively, which includes total rental and equipment lease expense (excluding sublease rental income) of \$18,014,669 and \$22,287,127, respectively. FHI Solutions, a related-party, is a sublease tenant of FHI 360. FHI 360 recognized \$294,785 and \$269,330 of rental income from FHI Solutions for the years ended September 30, 2015 and 2014, respectively.

Family Health International

Notes to 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 who have met certain eligibility requirements. Under the provisions of the Plan, FHI 360 contributes 12% of each employee's base compensation to various investment vehicles designated by the employee.

The employees' ownership in investments of the Plan vests at the rate of 20% per year of continuous service. For employees terminated before 100% vesting is achieved, unvested amounts are used to offset future contributions by FHI 360. Post-retirement benefit expense amounted to \$12,376,489 and \$12,639,216 for the years ended September 30, 2015 and 2014, respectively.

FHI 360 established an international post-retirement benefit plan for non-U.S. citizen expatriates. The plan is administered by AEGON/La Mondiale. Contribution and vesting provisions are consistent with the U.S. based Plan. Total payments for the years ended September 30, 2015 and 2014, were \$816,842 and \$988,628, respectively.

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

	<u>2015</u>	<u>2014</u>
Field retirement	\$ 2,122,629	\$ 1,996,634
Field leave	3,162,730	3,072,894
Field severance	9,454,649	9,840,886
Taxes withheld	255,810	523,871
Total	<u>\$ 14,995,818</u>	<u>\$ 15,434,285</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.

Family Health International

Notes to Financial Statements (continued)

7. Medical Insurance

FHI 360 provides health care related benefits covering substantially all U.S. employees who have met certain eligibility requirements. Domestic employees have two options. They can elect coverage under FHI 360's self-funded plan or they can participate in a high deductible health plan which provides individual health savings accounts. The self-insured plan includes a stop-loss policy which provides coverage for claims in excess of \$125,000 for each individual participant with a total cost payment cap to FHI 360 of 125% of all expected claims as projected by the insurer at the start of the plan year (January 1). Premiums for the self-insured plan are recorded as medical expenses with an offset to a medical claims liability account on a monthly basis. Expatriate employees are covered by a traditional premium based plan with Cigna International. Total expenses for health benefits were \$12,012,058 and \$12,062,428 for the years ended September 30, 2015 and 2014, respectively.

Estimated liabilities recorded for incidents incurred but not reported are \$855,000 and \$843,000 as of September 30, 2015 and 2014, respectively.

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

FHI 360 has 38 various awards with remaining cost-sharing requirements as of September 30, 2015. 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 \$21,269,139 and \$21,501,764 at September 30, 2015 and 2014, respectively.

Family Health International

Notes to Financial Statements (continued)

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 \$7,376,174 and \$1,000,000 in 2015 and 2014, respectively. The 2015 amount includes \$2,661,972 that was recorded as unearned revenue in 2014 and recognized as contribution income in 2015.

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 \$893,111 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 2015 and 2014, totaled \$3,605,667 and \$5,699,491, respectively, under two sub-agreements, Strengthening Integrated Delivery of HIV/AIDS Services (SIDHAS) for \$1,726,344 and \$2,745,381, respectively, and National Agency for the Control of AIDS (NACA) Global Fund Phase I for \$1,879,323 and \$2,954,110, respectively.

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.

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.

11. Subsequent Events

Subsequent events have been evaluated for disclosure through June 3, 2016, the date FHI 360's financial statements as of and for the years ended September 30, 2015 and 2014, 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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