

Consolidated Financial Statements

Clinton Health Access Initiative, Inc. and Subsidiaries

December 31, 2016 and 2015



CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Financial Statements

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Independent Auditors' Report

The Board of Directors
Clinton Health Access Initiative, Inc.
Boston, Massachusetts

We have audited the accompanying consolidated financial statements of Clinton Health Access Initiative, Inc. and Subsidiaries ("CHAI"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditors' 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.



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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clinton Health Access Initiative, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffmann McCann P.C.

June 5, 2017
Boston, Massachusetts

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

	<i>December 31,</i>	
	<i>2016</i>	<i>2015</i>
Assets		
Cash and cash equivalents	\$ 2,231,644	\$ 9,913,010
Assets limited as to use	72,902,834	77,692,678
Accounts receivable and deposits	410,922	1,436,659
Contributions receivable	2,830,391	3,037,797
Grants receivable	6,092,015	1,926,314
Prepaid expenses	6,049,344	1,006,320
Property and equipment, net of accumulated depreciation	247,329	224,506
	<hr/>	<hr/>
Total assets	\$ 90,764,479	\$ 95,237,284
	<hr/>	<hr/>
Liabilities and Net Assets		
Accounts payable	\$ 1,970,927	\$ 3,550,068
Accrued expenses	2,540,424	2,546,923
Deferred revenue	23,442,391	29,206,904
Obligations associated with assets held for commodities purchases	219,999	374,687
	<hr/>	<hr/>
Total liabilities	28,173,741	35,678,582
	<hr/>	<hr/>
Net assets:		
Unrestricted surplus	2,621,616	3,704,011
Temporarily restricted	59,969,122	55,854,691
	<hr/>	<hr/>
Total net assets	62,590,738	59,558,702
	<hr/>	<hr/>
Total liabilities and net assets	\$ 90,764,479	\$ 95,237,284
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See accompanying notes to the consolidated financial statements.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Activities

Years Ended December 31,

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Revenues and support:				
Contributions	\$ 459,779	\$ 76,749,671	\$ 77,209,450	\$ 79,497,751
Grants	65,539,690	-	65,539,690	91,190,815
In-kind contributions	902,092	-	902,092	930,790
Other	149,738	46,518	196,256	200,293
Net assets released from restrictions	72,681,758	(72,681,758)	-	-
Total revenues, gains and other support	139,733,057	4,114,431	143,847,488	171,819,649
Expenses:				
Program services	129,662,636	-	129,662,636	139,388,562
Management and general	10,117,754	-	10,117,754	11,348,886
Fundraising	1,035,062	-	1,035,062	1,010,818
Total expenses	140,815,452	-	140,815,452	151,748,266
Increase (decrease) in net assets	(1,082,395)	4,114,431	3,032,036	20,071,383
Net assets, beginning of year	3,704,011	55,854,691	59,558,702	39,487,319
Net assets, end of year	\$ 2,621,616	\$ 59,969,122	\$ 62,590,738	\$ 59,558,702

See accompanying notes to the consolidated financial statements.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Statement of Activities

Year Ended December 31, 2015

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Revenues and support:			
Contributions	\$ 1,028,261	\$ 78,469,490	\$ 79,497,751
Grants	91,190,815	-	91,190,815
In-kind contributions	930,790	-	930,790
Other	151,584	48,709	200,293
Net assets released from restrictions	<u>59,284,751</u>	<u>(59,284,751)</u>	<u>-</u>
Total revenues, gains and other support	<u>152,586,201</u>	<u>19,233,448</u>	<u>171,819,649</u>
Expenses:			
Program services	139,388,562	-	139,388,562
Management and general	11,348,886	-	11,348,886
Fundraising	<u>1,010,818</u>	<u>-</u>	<u>1,010,818</u>
Total expenses	<u>151,748,266</u>	<u>-</u>	<u>151,748,266</u>
Increase in net assets	837,935	19,233,448	20,071,383
Net assets, beginning of year	<u>2,866,076</u>	<u>36,621,243</u>	<u>39,487,319</u>
Net assets, end of year	<u>\$ 3,704,011</u>	<u>\$ 55,854,691</u>	<u>\$ 59,558,702</u>

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Functional Expenses

Years Ended December 31,

	2016				2015
	<i>Program Services</i>	<i>Management/ General</i>	<i>Fundraising</i>	<i>Total</i>	<i>Total</i>
Salaries and benefits	\$ 65,536,774	\$ 6,521,069	\$ 899,490	\$ 72,957,333	\$ 70,637,965
Direct program expenditures	23,121,957	-	-	23,121,957	25,949,844
Meetings and trainings	16,208,015	207,214	22,970	16,438,199	13,173,532
Professional and consulting fees	7,018,889	904,291	60,000	7,983,180	11,595,373
Travel	7,333,885	244,953	32,506	7,611,344	11,776,758
Program equipment and infrastructure	3,110,778	103,980	3,977	3,218,735	5,347,868
Occupancy costs	2,338,437	401,765	501	2,740,703	2,642,442
Office expenses	1,618,511	502,294	4,544	2,125,349	3,819,412
Telecom	1,882,997	161,642	10,698	2,055,337	2,335,148
Procurement and shipping	1,102,356	-	-	1,102,356	2,293,257
In-kind expenses	-	902,092	-	902,092	930,790
Bank and other fees	234,647	91,391	93	326,131	985,273
Other expenses	107,905	39,793	283	147,981	167,872
Depreciation	47,485	37,270	-	84,755	92,732
Total	<u>\$ 129,662,636</u>	<u>\$ 10,117,754</u>	<u>\$ 1,035,062</u>	<u>\$ 140,815,452</u>	<u>\$ 151,748,266</u>

See accompanying notes to the consolidated financial statements.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2015

	<i>Program Services</i>	<i>Management/ General</i>	<i>Fundraising</i>	<i>Total</i>
Salaries and benefits	\$ 63,037,324	\$ 6,752,556	\$ 848,085	\$ 70,637,965
Direct program expenditures	25,949,844	-	-	25,949,844
Meetings and trainings	13,026,106	125,465	21,961	13,173,532
Professional and consulting fees	10,136,683	1,417,275	41,415	11,595,373
Travel	11,273,924	420,809	82,025	11,776,758
Program equipment and infrastructure	5,330,489	17,379	-	5,347,868
Occupancy costs	2,273,592	368,457	393	2,642,442
Office expenses	3,195,127	619,378	4,907	3,819,412
Telecom	2,121,043	202,116	11,989	2,335,148
Procurement and shipping	2,293,257	-	-	2,293,257
In-kind expenses	-	930,790	-	930,790
Bank and other fees	630,349	354,881	43	985,273
Other expenses	71,331	96,541	-	167,872
Depreciation	49,493	43,239	-	92,732
Total	\$ 139,388,562	\$ 11,348,886	\$ 1,010,818	\$ 151,748,266

See accompanying notes to the consolidated financial statements.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	<i>Years Ended December 31,</i>	
	<i>2016</i>	<i>2015</i>
Cash flows from operating activities:		
Increase in net assets	\$ 3,032,036	\$ 20,071,383
Adjustments to reconcile net assets used in operating activities:		
Depreciation	84,755	92,732
Gain on sale of fixed assets	-	(697)
Changes in:		
Assets limited as to use	4,789,844	(17,323,764)
Accounts receivable and deposits	1,025,737	295,324
Contributions receivable	207,406	355,156
Grants receivable	(4,165,701)	5,714,818
Prepaid expenses	(5,043,024)	521,142
Accounts payable	(1,579,141)	1,155,170
Accrued expenses	(6,499)	(1,664,200)
Deferred revenue	(5,764,513)	(6,821,806)
Obligations associated with assets held for commodities purchases	(154,688)	(2,753,013)
Net cash used in operating activities	(7,573,788)	(357,755)
Cash flows from investing activities:		
Proceeds from sales of fixed assets	-	1,797
Purchase of property and equipment	(107,578)	(134,070)
Net cash used in investing activities	(107,578)	(132,273)
Decrease in cash and cash equivalents	(7,681,366)	(490,028)
Cash and cash equivalents, beginning of year	9,913,010	10,403,038
Cash and cash equivalents, end of year	\$ 2,231,644	\$ 9,913,010

See accompanying notes to the consolidated financial statements.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Clinton Health Access Initiative, Inc. (“CHAI”) is incorporated in Arkansas as a nonprofit founded by President Bill Clinton and Ira C. Magaziner to provide solutions to the biggest challenges impeding effective health care delivery in developing countries. CHAI applies the rigorous thinking, analysis and urgency of the business world to save lives and strengthen health systems rapidly and more efficiently by improving markets for medicines and diagnostics, lowering the cost of treatment, and accelerating access to key drugs and technologies.

Prior to March 7, 2017, CHAI was affiliated with the Clinton Foundation (the “Foundation”). The Foundation was required to appoint five of the nine members of CHAI’s Board of Directors (the “Board”), and the Foundation and CHAI had some common directors. Effective on March 7, 2017, the Board was expanded to fifteen directors, all of whom are elected by the Board as a whole. Currently, three of these directors also serve on the Foundation’s Board of Directors. CHAI has not had any financial transactions with the Foundation during 2016 and 2015.

As a trusted partner to governments, CHAI’s programs have helped over 11 million people in more than 70 countries have access to CHAI-negotiated prices for HIV/AIDS medicines. In addition to retaining its initial focus on HIV/AIDS care and treatment, CHAI implements programs on vaccines, malaria, health systems strengthening and maternal and child health in more than 30 countries around the world.

The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of CHAI and the various subsidiaries established in the countries in which it operates to facilitate on-the-ground service delivery. The above related entities are in most cases under common management control with CHAI being the sole corporate member. While certain consolidated entities are technically independent, management has included such entities given the control and evidence of economic interest that results in effective control which in turn requires consolidated presentation.

A summary of the accounting policies consistently applied in the consolidated financial statements follows:

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CHAI and its subsidiaries. All significant intercompany balances have been eliminated in consolidation.

Classification of Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of CHAI and changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets represent resources that are not subject to donor-imposed restrictions or for which restrictions have expired.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Classification of Net Assets (Continued)

Temporarily Restricted Net Assets - Temporarily restricted net assets represent resources that are restricted as to time and/or purpose by donors or grantors. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions in the period in which the requirements are met.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that require funds to be permanently held. CHAI has no permanently restricted net assets at this time.

Use of Judgments and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Judgments and estimates include considerations relative to the determination of revenue recognition associated with various funders (with some transactions begin considered contributions while others are considered exchange transactions), realization of various receivables and advances, useful lives of fixed assets, translation of foreign currency into U.S. Dollars for reporting purposes, allocation of expenses across functions and the amount of net assets to release from restriction. Actual results could differ from those estimates.

Cash and Cash Equivalents

CHAI considers highly liquid debt instruments with an original maturity of three months or less at the time of purchase to be cash equivalents. CHAI maintains its cash and cash equivalents at financial institutions in deposit accounts, which, at times, may exceed federally insured limits. Cash is also maintained at various foreign banks which are subject to different rules and protections than United States based accounts (see Note 8). CHAI monitors its exposure associated with its cash and cash equivalents and has not experienced losses on its accounts.

Assets Limited as to Use/Obligations Associated with Assets Held for Commodities Purchases

Assets limited as to use includes funds that are held in bank deposit accounts pursuant to grant and contribution agreements as well as funds advanced under CHAI's arrangement as an agent for UNITAID. Amounts advanced by UNITAID are associated with the purchase of drugs and related commodities and diagnostics for UNITAID sponsored projects with a corresponding amount as obligations associated with assets held for commodities purchases. Other amounts received from UNITAID are reported as grant revenue when earned as costs are incurred associated with managing of other programs.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

CHAI reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for a particular item. Recurring fair value measures include the valuation of money market mutual funds while nonrecurring measures include contributions receivable. Accounting standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require CHAI to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these consolidated financial statements. Given limited amounts of items reporting on a fair value basis, management has not presented further detail of fair value items. All such items were valued using the Level 1 method.

Accounts, Contributions, and Grants Receivable

Accounts receivable and deposits include travel advances and other receivables that CHAI advances to employees for travel and related business expenses as well as various deposits for leased facilities. Employees are accountable for these funds and a reserve is provided to state such amounts at the net realizable value using a standard methodology.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Accounts, Contributions, and Grants Receivable (Continued)

Contributions receivable are stated at the amount pledged by donors, net of payments made and any allowances. CHAI has concluded that no allowance for doubtful pledges receivable is necessary based upon a review of outstanding receivables, historical collection information and existing economic conditions. CHAI has not written off any pledges during the years ended December 31, 2016 and 2015.

Grants receivable represent amounts due from various parties for costs incurred and amounts earned for services rendered but unpaid at year end. CHAI has concluded that no allowance for grants receivable is necessary based on review of the outstanding grants, historical collection information, and existing economic conditions.

Prepaid Expenses

Prepaid expenses include items such as insurance, rent and program supplies and materials purchased in advance, not yet delivered. Such supplies and materials are reflected as program costs when transferred to a site for local use.

Property and Equipment

Property and equipment purchased with direct program funds and for which donors dictate disposal protocol are fully expensed at the time of purchase as a program cost and are reflected in the consolidated statement of functional expenses as program equipment and infrastructure. All other property and equipment are capitalized at cost and depreciated on the straight-line basis over the estimated useful life of each asset.

Deferred Revenue

Deferred revenue represents funds received in advance for delivery of program services. Such amounts will be reported as revenue when earned. At December 31, 2016 and 2015, the deferred revenue balances represent funds from eleven and fifteen granting agencies, respectively.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. Temporarily restricted resources are generally released from restriction as direct programmatic expenditures are incurred along with amounts allowable for overhead. Contributions are recorded as revenue at the fair value when received or verifiably committed in the case of pledges.

Gifts of equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Grants

Support funded by grants is recognized as revenue as CHAI performs the contracted services. Accordingly, as CHAI incurs direct programmatic expenses eligible for reimbursement under the grant agreements, revenue is recognized along with amounts allowable for overhead. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Management believes that all amounts presented represent allowable costs.

Agency Transactions

CHAI accounts for the drug purchase portion of its arrangement with UNITAID as an agency transaction given the terms of the agreement through which CHAI partners with UNITAID to provide antiretroviral drugs and related commodities to beneficiary countries. Other amounts received from UNITAID are reported as grant revenue when earned as costs are incurred associated with the managing of the related program.

In-Kind Contributions

CHAI receives certain donated services from various parties. CHAI recognizes these amounts as revenue and expenses when the recognition criteria are met for recordation. Recognized amounts were \$902,092 and \$930,790 for the years ended December 31, 2016 and 2015, respectively.

Income Tax Status

CHAI is a nonprofit corporation which has been recognized by the Internal Revenue Service as generally exempt from Federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. CHAI similarly seeks to operate on an exempt basis in its various countries of operation in accordance with local laws. Accordingly, no provision for income taxes is made in the consolidated financial statements.

Uncertain Tax Positions

CHAI accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. CHAI has identified its tax status as a tax exempt entity as its only significant tax position and has determined that such tax position does not result in an uncertainty requiring recognition. CHAI’s U.S. Federal and state income tax returns are generally open for examination for three years following the extended date, if any, of filing the related return. CHAI’s foreign tax returns are subject to examination by government authorities under applicable local law. CHAI is not aware of any pending examination by any such authority.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Certain costs have been allocated among the program services, management and general and fundraising categories based on time and effort measurements and other methods.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Translation of Non-U.S. Currency Amounts

Assets and liabilities that have a local functional currency are translated to United States (U.S.) Dollars at year-end exchange rates. Translation adjustments are recorded in expenses. Income and expense transactions are recorded at exchange rates prevailing during the year.

Property and equipment - net and other nonmonetary assets and liabilities are translated at the approximate exchange rates prevailing when CHAI acquired the assets or liabilities. All other assets and liabilities denominated in a currency other than U.S. Dollars are translated at year-end exchange rates with the transaction gain or loss recognized in other (income) and expense. The aggregate foreign currency loss was approximately \$108,000 and \$584,000 in 2016 and 2015, respectively, and is included in “bank and other fees” on the consolidated statements of functional expenses.

Subsequent Events

On March 7, 2017, CHAI amended its Bylaws to alter its governance structure. Prior to that date, the Foundation appointed five of CHAI’s nine Board members, with the remaining Board members being elected by the Board as a whole. Effective on March 7, 2017, the Board was expanded to fifteen members, all of whom are elected by the Board as a whole. Currently, three of the fifteen directors also serve on the Foundation’s Board.

Note 2 - Assets Limited as to Use/Obligations Associated with Assets Held for Commodities Purchases

Assets limited as to use consist of the following at December 31:

	2016	2015
Funds advanced from government granting agencies	\$ 17,627,432	\$ 26,597,673
Funds advanced from private foundations	54,905,730	49,874,197
Assets held for commodities purchases	219,999	374,687
Other assets	<u>149,673</u>	<u>846,121</u>
Assets limited as to use	<u>\$ 72,902,834</u>	<u>\$ 77,692,678</u>

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 2 - Assets Limited as to Use/Obligations Associated with Assets Held for Commodities Purchases (Continued)

CHAI has an agreement with UNITAID, an International Drug Purchasing Facility established in 2006 to support existing efforts to achieve the 2015 United Nations Millennium Development Goals. The mission of UNITAID is to help increase access to treatment of HIV/AIDS, Malaria and Tuberculosis for people in developing countries by using market leverage to lower prices and increase the availability of appropriate high-quality drugs and diagnostics. CHAI acts as an agent on behalf of UNITAID overseeing the various business aspects of enabling the efficient and effective administration of the program. As an agent, CHAI does not record revenue or expenses associated with UNITAID funds; however, a summary of activity of UNITAID funding and balances held by CHAI on UNITAID's behalf were as follows at December 31:

	2016	2015
Funding received for commodities purchases	\$ 9,104,897	\$ 9,104,897
Total commodities purchased	<u>(8,884,898)</u>	<u>(8,730,210)</u>
Obligations associated with assets held for commodities purchases	<u>\$ 219,999</u>	<u>\$ 374,687</u>

Note 3 - Contributions Receivable

Contributions receivable are as follows at December 31:

	2016	2015
Due within one year	<u>\$ 2,830,391</u>	<u>\$ 3,037,797</u>

CHAI has received conditional promises to give of approximately \$119,054,000 and \$147,431,000 at December 31, 2016 and 2015, respectively. These conditional promises to give will not be recognized as an asset or revenue until the conditions to do so are substantially met.

Note 4 - Grants Advanced and Committed

CHAI often receives grant support through advances and periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. The underlying revenue associated with these is considered an exchange transaction and thus the amounts are not earned until the underlying service is performed even though the cash flow has been made available to CHAI. Advances from grantors were approximately \$23,442,000 and \$29,207,000 at December 31, 2016 and 2015, respectively, and are reported as deferred revenue on the consolidated statements of financial position.

CHAI has received grant commitments of approximately \$110,236,000 and \$107,768,000 at December 31, 2016 and 2015, respectively. Grant revenue associated with these commitments will not be recognized until underlying costs are incurred.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 5 - Property and Equipment

Property and equipment at December 31 consist of the following:

	<i>2016</i>	<i>2015</i>
Furniture and equipment	\$ 862,899	\$ 758,774
Vehicles	1,240,784	1,240,784
Buildings and fixtures	167,749	164,296
	<u>2,271,432</u>	<u>2,163,854</u>
Less: accumulated depreciation	<u>2,024,103</u>	<u>1,939,348</u>
Property and equipment, net	<u>\$ 247,329</u>	<u>\$ 224,506</u>

Note 6 - Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets restricted for the purpose of international health programs amounted to \$59,969,122 and \$55,854,691 as of December 31, 2016 and 2015, respectively.

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released for the purpose of international health programs amounted to \$72,681,758 and \$59,284,751 for the years ended December 31, 2016 and 2015, respectively.

Note 7 - Pension Plans

Retirement benefits are offered to CHAI employees based on eligibility. An individual must be a full-time contracted employee working a minimum of 1,000 hours per year to be benefits eligible. These benefits vary and are dependent on employee type.

- U.S. based staff and U.S. expatriates are eligible to contribute into a 401(k) plan which CHAI matches up to 6% of the employee contribution. CHAI had utilized the Foundation's benefit plan prior to January 1, 2015; however, employee balances and contribution from that date are not under CHAI's own plan. Both plans offer substantially the same terms.
- Third country nationals are eligible to contribute into a defined contribution pension plan offered by CHAI. CHAI also contributes 6% of the monthly gross pay for each employee regardless of contribution amount by the employee.

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 7 - Pension Plans (Continued)

- Local national retirement plans are available in a select number of countries. CHAI also contributes to the national social security fund in many of the countries in which it operates as stipulated by local law.

Expenses under the plans were \$2,765,767 and \$2,925,442 for the years ended December 31, 2016 and 2015, respectively, as follows:

	2016	2015
U.S. 401(k) Plan	\$ 977,466	\$ 975,497
Third Country National Pension Plan	378,201	332,102
Local national retirement plans	<u>1,410,100</u>	<u>1,617,843</u>
Total pension plans expenses	<u>\$ 2,765,767</u>	<u>\$ 2,925,442</u>

Note 8 - Concentrations, Commitments and Contingencies

Assets in Foreign Countries

CHAI maintains cash balances and equipment in Asia, Africa and the Caribbean. CHAI had approximately \$1.7 million and \$9.4 million deposited in foreign banks at December 31, 2016 and 2015, respectively. These cash balances are exposed to currency risks/variation relative to the U.S. Dollar. In addition, CHAI has property and equipment in various countries purchased with donor funds and used for programmatic purposes that are not capitalized, as well as a modest amount of equipment that was capitalized per CHAI's policy, and included property and equipment, net at December 31, 2016 and 2015.

Contributions and Grants

For the years ended December 31, 2016 and 2015, three donors accounted for approximately 75% and 66% of contributions revenue, respectively, and three granting agencies accounted for approximately 68% and 66% of grant revenue, respectively.

At December 31, 2016, the concentration of earned revenue was as follows:

	2016	2015
Government and multilaterals	47%	60%
Private foundations	51%	38%
Other donors	<u>2%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>

CLINTON HEALTH ACCESS INITIATIVE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 8 - Concentrations, Commitments and Contingencies (Continued)

Contributions and Grants (Continued)

CHAI country operations are dependent on contributed and granted funds and economic conditions. CHAI continues to evaluate on a country-by-country basis funding requirements in both the short term and the long term. While the loss of funds would reduce resources available for programs, management believes it's near term funding is stable and that it can navigate funding changes should they occur.

Operating Leases

CHAI leases its facilities both domestically and internationally under operating lease agreements which expire at various dates through 2021. Certain leases provide for additional rent for increases associated with underlying operating costs of the premises such as taxes and common area maintenance. Certain leases also offer cancellation rights. Rental expense for all operating leases was \$2,050,141 and \$1,933,300 for 2016 and 2015, respectively. Minimum future rental payments under the non-cancelable operating leases for each of the remaining years and in the aggregate are:

2017	\$ 1,264,718
2018	581,075
2019	387,676
2020	288,191
2021	<u>147,790</u>
Total minimum lease payments	<u>\$ 2,669,450</u>

Litigation

CHAI is, from time to time, subject to claims that arise primarily in the ordinary course of its activities. Currently, management is not aware of any such claim or claims that would have a material adverse effect on CHAI's financial position or net assets.

Note 9 - Statement of Functional Expenses

In the consolidated statement of functional expenses, CHAI presents costs broken down across program services, management and general, and fundraising expenses. All the expense categories are associated predominately with the direct delivery of programs, including Salaries and benefits, Meetings and trainings, and Travel.