

**GLOBAL AIDS INTERFAITH ALLIANCE
AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

December 31, 2016

(with summarized financial information for 2015)

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Global AIDS Interfaith Alliance and Affiliate

We have audited the accompanying combined financial statements of Global AIDS Interfaith Alliance and Affiliate (a nonprofit organization) ("GAIA"), which comprise the combined statement of financial position as of December 31, 2016, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of Global AIDS Interfaith Alliance Malawi ("GAIA Malawi") (the combined affiliate), which statements reflect total assets constituting 28% of the related combined financial statements totals as of December 31, 2016, and expenses constituting approximately 65% of the related combined financial statements totals for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for GAIA Malawi, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Global AIDS Interfaith Alliance and Affiliate as of December 31, 2016, and the combined results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Global AIDS Interfaith Alliance’s 2015 combined financial statements, and our report dated September 28, 2016, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining schedules on pages 16 to 18 are presented for purposes of additional analysis, and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.



Santa Rosa, California
August 9, 2017

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2016

(with summarized financial information for December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 530,648	\$ 1,144,152
Restricted cash equivalent	-	250,000
Pledges receivable, net	379,734	477,297
Major grants receivable	684,727	290,539
Other assets	6,103	17,219
Investments, at fair value	267,694	-
Property and equipment, net	<u>626,611</u>	<u>648,156</u>
Total assets	<u>\$ 2,495,517</u>	<u>\$ 2,827,363</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 4,871	\$ 25,875
Accrued expenses	<u>32,061</u>	<u>30,078</u>
Total liabilities	<u>36,932</u>	<u>55,953</u>
Net assets:		
Unrestricted:		
Undesignated	171,757	103,329
Board-designated	29,285	260,461
Property and equipment	<u>626,611</u>	<u>648,156</u>
Total unrestricted	827,653	1,011,946
Temporarily restricted	1,380,932	1,509,464
Permanently restricted	<u>250,000</u>	<u>250,000</u>
Total net assets	<u>2,458,585</u>	<u>2,771,410</u>
Total liabilities and net assets	<u>\$ 2,495,517</u>	<u>\$ 2,827,363</u>

The accompanying notes are an integral part of these combined financial statements.

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues:					
Contributions	\$ 1,233,280	\$ 113,250	\$ -	\$ 1,346,530	\$ 1,891,106
Special events revenue, net of expenses of \$38,243	219,042	-	-	219,042	390,141
Government grant	32,683	-	-	32,683	535,834
Major grants	-	973,598	-	973,598	650,772
Other grants	-	120,778	-	120,778	-
Investment income	599	30,194	-	30,793	-
Other income	56,845	-	-	56,845	48,223
Net asset released from restrictions	1,366,352	(1,366,352)	-	-	-
Total revenues	2,908,801	(128,532)	-	2,780,269	3,516,076
Expenses:					
Program services	2,686,373	-	-	2,686,373	3,157,947
Management and general	134,232	-	-	134,232	130,618
Fundraising	272,489	-	-	272,489	317,928
Total expenses	3,093,094	-	-	3,093,094	3,606,493
Change in net assets	(184,293)	(128,532)	-	(312,825)	(90,417)
Net assets, beginning of year	1,011,946	1,509,464	250,000	2,771,410	2,861,827
Net assets, end of year	<u>\$ 827,653</u>	<u>\$ 1,380,932</u>	<u>\$ 250,000</u>	<u>\$ 2,458,585</u>	<u>\$ 2,771,410</u>

The accompanying notes are an integral
part of these combined financial statements.

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

(with summarized financial information for the year ended December 31, 2015)

	2016								2015
	Program Services				Total	Management and General	Fundraising	Combined	
	Villages Intervention	Mobile Health Clinics	Nursing Education	Other Programs					
Salaries	\$ 204,787	\$ 514,721	\$ 90,120	\$ 197,535	\$ 1,007,163	\$ 68,684	\$ 130,750	\$ 1,206,597	\$ 1,075,332
Payroll taxes	5,294	9,752	3,622	9,195	27,863	5,169	10,255	43,287	44,538
Employee benefits	35,082	89,529	23,612	29,726	177,949	10,302	19,754	208,005	160,221
Care kits	62,884	-	-	-	62,884	-	-	62,884	81,420
Community care givers stipends	66,246	-	-	-	66,246	-	-	66,246	72,350
Education and training	26,211	-	25,766	-	51,977	1,168	60	53,205	81,540
Health care supplies	-	231,515	-	-	231,515	-	-	231,515	155,077
Nursing scholarships	-	-	105,440	-	105,440	-	-	105,440	229,212
Professional services	11,738	21,623	8,031	20,388	61,780	13,621	46,705	122,106	150,160
Program support	21,321	39,276	14,588	37,032	112,217	-	-	112,217	264,168
School fees and supplies	7,481	-	-	-	7,481	-	-	7,481	7,717
Flood relief and Door to Door	26,662	-	-	-	26,662	-	-	26,662	95,779
Tuition	-	-	-	-	-	-	-	-	23,113
Vehicle and motorcycle expenses	12,509	71,902	6,602	16,758	107,771	-	-	107,771	131,497
Information technology	3,958	7,290	2,708	6,874	20,830	3,836	17,470	42,136	46,275
Insurance	720	4,022	493	1,250	6,485	914	1,829	9,228	10,610
Materials and publications	2,022	3,725	1,384	3,512	10,643	2,569	5,138	18,350	29,089
Meals, meetings, and travel	5,801	5,125	1,282	20,027	32,235	8,604	5,151	45,990	82,058
Namunda School expenses	-	-	-	244,982	244,982	-	-	244,982	537,050
Needs assessment and monitoring	6,248	712	-	-	6,960	-	-	6,960	10,795
Office expenses	4,788	38,259	2,022	5,133	50,202	4,579	2,012	56,793	42,345
Other	8,906	1,900	384	7,548	18,738	-	-	18,738	36,754
Postage and delivery	-	-	-	-	-	45	1,338	1,383	3,126
Rent, utilities, and security	15,965	35,743	7,420	18,837	77,965	10,359	20,719	109,043	101,488
Small equipment and repairs	885	10,512	232	589	12,218	-	-	12,218	12,194
Small grants	-	-	-	87,354	87,354	-	-	87,354	16,933
Taxes, licenses, and fees	616	1,135	422	1,070	3,243	65	10,673	13,981	16,355
Telephone and cell phone	8,861	20,112	2,473	6,278	37,724	317	635	38,676	29,449
Bad debt expense	-	-	-	-	-	4,000	-	4,000	-
Depreciation	8,334	22,478	1,723	3,179	35,714	-	-	35,714	38,013
Foreign exchange (gain) loss	(1,115)	(2,054)	(763)	(1,936)	(5,868)	-	-	(5,868)	21,835
Total expenses	\$ 546,204	\$ 1,127,277	\$ 297,561	\$ 715,331	\$ 2,686,373	\$ 134,232	\$ 272,489	\$ 3,093,094	\$ 3,606,493

The accompanying notes are an integral part of these combined financial statements.

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

COMBINED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (312,825)	\$ (90,417)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Discount on pledges receivable	(6,437)	(11,213)
Bad debt expense	4,000	-
Depreciation expense	35,714	38,013
Loss on disposal of equipment	2,083	-
Restricted cash	250,000	(250,000)
Unrealized gain on investments	(17,694)	-
Changes in operating assets and liabilities:		
Pledges receivable	100,000	101,000
Major grants receivable	(394,188)	(290,539)
Other assets	11,116	16,470
Accounts payable	(21,004)	(33,738)
Accrued expenses	1,983	5,283
Deferred revenue	-	(31,000)
	<u>(347,252)</u>	<u>(546,141)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of investment	(250,000)	-
Purchase of equipment	(16,252)	(41,736)
	<u>(266,252)</u>	<u>(41,736)</u>
Net cash used in investing activities		
Net decrease in cash and cash equivalents	(613,504)	(587,877)
Cash and cash equivalents, beginning of year	<u>1,144,152</u>	<u>1,732,029</u>
Cash and cash equivalents, end of year	<u>\$ 530,648</u>	<u>\$ 1,144,152</u>
Non-cash operating activities:		
Contributed securities	<u>\$ -</u>	<u>\$ 196,122</u>

The accompanying notes are an integral
part of these combined financial statements.

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

1. General

Organization

Global AIDS Interfaith Alliance (“GAIA US”) is a nonprofit corporation that was formed on June 12, 2000. GAIA’s mission is to provide basic health services, targeting prevention, care, and support in communities affected by HIV, AIDS, TB, and malaria in Africa.

Global AIDS Interfaith Alliance Malawi (“GAIA Malawi”), an affiliate of GAIA US, is a charitable organization that was incorporated during March 2006. It is a Trust and a member of Council for Non-Governmental Organizations in Malawi (“CONGOMA”). The main objectives are developing village level referral networks, providing home based support, providing HIV prevention to school youth, providing assistance and care to orphans, and providing economic support to women through income generating activities.

The primary sources of revenue are from contributions, grants, and special events.

Program Services

Villages Intervention

Orphan Care – Identifying and registering AIDS orphans in the villages where GAIA works. Orphans are provided with food, vitamins, clothing, blankets, school supplies, and soap.

Orphan Education – Granting high school scholarships to orphaned youth, particularly girls, who would otherwise be unable to attend school.

Home Based Care – Teaching rural villagers to identify neighbors, family and friends who might be HIV positive and encourage them to be tested. Home Based Care (“HBC”) patients are provided with food, simple medicines, and care.

Youth HIV Prevention – Creating comprehensive workshops for youth that teach them how HIV is spread and treated, thereby increasing knowledge and reducing HIV stigma.

Bed Nets – Distributing anti-mosquito bed nets in Malawi’s rural villages to help prevent malaria. The program focuses on those who are most vulnerable: children under the age of five and pregnant women.

Nursing Education

Nursing Scholarships – Providing three- and four year-long nursing scholarships to young women, many of whom are AIDS orphans. The scholarships greatly assist vulnerable young women in pursuing a degree in nursing and help strengthen Malawi’s nursing corps.

In-Service Nursing Training – training of approximately 400 in-service nurses in the following: emergency obstetrical care that saves the lives of women and infants; basic triage skills to help government clinics and hospitals function more effectively and efficiently; and antiretroviral therapy (“ART”) to improve treatment for HIV-positive Malawians.

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

1. General, continued

Program Services, continued

Mobile Health Clinics

Providing integrated healthcare services including same-day HIV testing, prenatal care, assessing children under the age of five for malnutrition, as well as diagnosing and treating malaria, and testing for and treating tuberculosis.

Other Programs

Supporting a variety of small-scale program interventions, including orphan secondary school fees, Namunda School, and a variety of Malawian community based organization programs.

2. Summary of Significant Accounting Policies

Combined Financial Statements

The combined financial statements include the accounts of GAIA US and GAIA Malawi, an affiliate of GAIA US. All significant intercompany transactions and balances are eliminated in the combination. GAIA US and GAIA Malawi are collectively referred to as GAIA.

Basis of Presentation

The combined financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). Grants are recognized as support when earned in accordance with the terms of each grant or agreement. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, GAIA’s net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Board Designated – Board designated net assets of \$29,285 consist of unrestricted funds that are to be used for future use in operations in accordance with a board approved plan of action. Of the \$29,285 as of December 31, 2016, \$18,000 is designated for Namunda School facilities management and \$11,285 is designated by the Board for miscellaneous projects to be performed in Malawi.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be met, either by actions of GAIA and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. GAIA treats temporarily restricted net assets, which GAIA receives and meets donor time or purpose restrictions in the same year, as unrestricted net assets.

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

2. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that must be maintained permanently by GAIA.

Translation of Foreign Currency Financial Statements

GAIA's reporting currency is the U.S. dollar. The functional currency of GAIA Malawi is their local currency and, as such, amounts included in the combined statements of activities are translated at the weighted average exchange rates for the period. Monetary assets and liabilities are translated at year-end exchange rates while nonmonetary assets and liabilities are translated using historical rates. Resulting foreign exchange translation adjustments are recorded as income or expense.

Foreign Currency Transactions

Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured into their respective functional currencies at exchange rates in effect at the statement of financial position date. The resulting exchange gain or loss is included in expenses in GAIA's combined statement of activities as foreign exchange (gain) loss, net.

Cash and Cash Equivalents

GAIA considers certificates of deposit with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair values. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses that result from sales or maturities of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

Pledges Receivable

Unconditional promises to give (pledges receivable) from donors are recognized as contributions in the period notified. Pledges receivable are reported net of an allowance for uncollectible accounts. The allowance is based on experience and other circumstances which may affect the ability of donors to meet their obligations. Pledges receivable that are expected to be collected in excess of one year are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable to the number of years the contribution is expected to remain outstanding (the discount rate used at December 31, 2016 is 2%).

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

2. Summary of Significant Accounting Policies, continued

Endowment

GAIA is subject to the State of California's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). Net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA has been accounted for appropriately in these financial statements. Additionally, accounting standards require disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds).

Interpretation of Relevant Law

The Board of GAIA has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, GAIA classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, and (2) the original value of subsequent gifts on the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by GAIA in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

Investment Policy, Strategies, and Objectives

GAIA has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a conservative, balanced asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the fund if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

In accordance with the State of California's enacted version of UPMIFA, GAIA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of GAIA and the endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of GAIA
- (7) The investment policies of GAIA

GAIA's Board has established an annual spending policy. Annual spending is determined using a three year rolling average of fair value.

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

2. Summary of Significant Accounting Policies, continued

Property and Equipment

The cost of assets aggregating over \$1,500 is capitalized in the statement of financial position. Property and equipment are stated at cost and depreciation is computed on the straight-line basis of accounting over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings	50 years
Vehicles and motorcycles	5 years
Office furniture and equipment	3 years
Computer equipment	3 years

Accrued Expenses

Accumulated unpaid employee vacation benefits and deferred rent are recognized as accrued expenses.

Deferred Revenue

Deferred revenue is recognized when cash advances exceed revenues earned against such advances.

Revenue Recognition

Contributions, including unconditional promises to give and special events income, are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind Contributions

Noncash donations are recorded as contributions at fair value at the date of donation. Donated services are only recognized as in-kind contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by GAIA. There were no in-kind contributions during 2016.

Functional Allocation of Expenses

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

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and revenue and expenses, as well as contingent assets and liabilities during the reporting periods. Actual results could differ from those estimates.

Risks and Uncertainties

GAIA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment values reported in the statements of financial position.

Summarized Financial Information

The combined financial statements include certain prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with GAIA's combined financial statements as of and for the year ended December 31, 2015, from which the summarized financial information was derived.

Concentration of Credit Risk

Cash and Cash Equivalents

GAIA maintains its bank accounts at various high quality financial institutions to minimize credit risk; however, GAIA balances may at times exceed federal deposit insurance limits. GAIA considers certificates of deposit with a maturity of three months or less to be cash equivalents.

Pledges and Major Grants Receivable

As of December 31, 2016, one donor made up 100% of total net pledges receivable and one foundation made up 94% of major grants receivable.

Revenues

For the year ended December 31, 2016, a major grant comprised of 36% of total revenues.

Income Taxes

The Internal Revenue Service has determined that GAIA US is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). GAIA is also exempt from California franchise taxes under Section 23701d of the Revenue and Taxation Code and, therefore, has made no provision for federal or California income taxes. In addition, GAIA US has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 501(a) of the Code.

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards (“IFRS”), the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and will become effective for private companies and nonprofit organizations for annual periods beginning after December 15, 2018. The FASB has issued several updates to the standard which i) defer the original effective date from January 1, 2018 to January 1, 2019, while allowing for early adoption as of January 1, 2018 (ASU 2015-14); ii) clarify the application of the principal versus agent guidance (ASU 2016-08); and iii) clarify the guidance on inconsequential and perfunctory promises and licensing (ASU 2016-10). In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606) *Narrow-Scope Improvements and Practical Expedients*, to address certain narrow aspects of the guidance including collectibility criterion, collection of sales taxes from customers, noncash consideration, contract modifications and completed contracts. This issuance does not change the core principle of the guidance in the initial topic issued in May 2014. GAIA is currently evaluating the impact of adopting this new guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The objective of the update is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet for leases with a lease term of more than 12 months. In addition, the update will require additional disclosures regarding key information about leasing arrangements. Under existing guidance, operating leases are not recorded as lease assets and lease liabilities on the balance sheet. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. GAIA is currently evaluating the impact of the adoption of this accounting guidance on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The ASU changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. The ASU will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted. GAIA is currently evaluating the impact of the adoption of this accounting guidance on its financial statements.

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

3. Fair Value Measurements and Investments

Generally accepted accounting principles establish a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The following is a brief description of these three levels:

Level 1 – Quoted prices in active markets for identical assets. Investments in this level have been valued at the closing price on the active market on which the securities are traded at December 31, 2016.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets, quoted prices for identical or similar assets in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset.

The following table presents GAIA’s assets measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Total
Investments by fair value level:		
Balanced Fund	\$ 267,694	\$ 267,694
Total investments	\$ 267,694	\$ 267,694

4. Pledges Receivable

Pledges receivable at December 31, 2016 are as follows:

Year ending December 31:	
2017	\$ 103,000
2018	100,000
2019	100,000
2020	100,000
Total pledges receivable	403,000
Less discount to present value	(20,266)
Less allowance for uncollectible pledges	(3,000)
Pledges receivable, net	\$ 379,734

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

5. Property and Equipment

Property and equipment as of December 31, 2016 are as follows:

Vehicles and motorcycles	\$ 878,234
Land and buildings	204,894
Office furniture and equipment	92,268
Total	1,175,396
Less accumulated depreciation	(548,785)
Property and equipment, net	<u>\$ 626,611</u>

Depreciation expense was \$35,714 for the year ended December 31, 2016.

6. Net Assets

Temporarily restricted net assets are held for the following purposes at December 31, 2016:

Time restriction	\$ 379,734
Purpose restrictions:	
Mobile Health Clinics 2012	794,021
Physical Therapy Nursing Scholarships	53,603
MGC 2 - Nursing expansion and Mobile Health Clinics	52,500
Mulanje Office Building	40,000
Girls Empowerment Education Program	25,000
Hospital and Clinic Benefit	15,380
Endowment fund income	17,694
WW Rankin Scholarship Fund	3,000
	<u>\$ 1,380,932</u>

Net assets were released from donor restrictions by satisfying the conditions of time and for the following restricted purposes during the year ended December 31, 2016:

Time restriction	\$ 98,563
Purpose restrictions:	
Mobile Health Clinics 2012	684,789
MGC 2 - Nursing and Mobile Health Clinic	470,926
Girls Empowerment Education Program	50,000
Physical Therapy Nursing Scholarships	17,175
Endowment funds	12,500
Hospital and Clinic Benefit	12,000
Education and Advocation	11,997
WW Rankin Scholarship Fund	8,402
Total released from restriction	<u>\$ 1,366,352</u>

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

6. Net Assets, continued

During 2015, GAIA received an endowment contribution of \$250,000. The donor specified the funds were to be permanently restricted, but could be used in an emergency with a board vote of at least 2/3. As of December 31, 2015, the funds were invested in a certificate of deposit with a maturity of three months and is shown as restricted cash equivalent on the combined statement of financial position. During 2016, the funds were invested in securities. The donor established an annual spending policy of 5% using a three year rolling average of the fair market value, beginning in 2016 based on a one year average.

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment fund	\$ 17,694	\$ 250,000	\$ 267,694

The following represents the changes in endowment net assets for the year ended December 31, 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 250,000	\$ 250,000
Investment return:			
Investment income	11,225	-	11,225
Net appreciation	18,969	-	18,969
Amount appropriated for expenditure	<u>(12,500)</u>	<u>-</u>	<u>(12,500)</u>
Endowment net assets, end of year	<u>\$ 17,694</u>	<u>\$ 250,000</u>	<u>\$ 267,694</u>

7. Retirement Plan

GAIA, at the discretion of the Board of Directors, contributes matching retirement monies of up to 3% of compensation to Individual Retirement Accounts (“IRAs”) for all employees who have an IRA. The percentage to be contributed is determined by the board on an annual basis. The contribution for the year ended December 31, 2016 was \$16,475.

8. Lease Commitments

GAIA US leases its facility under a noncancelable operating lease expiring September 2020. Lease terms call for escalating lease payments each year ranging from \$4,799 to \$6,029 per month.

Continued

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2016

8. Lease Commitments, continued

Minimum future rental payments under this noncancelable operating lease for each of the next five years and in the aggregate are as follows:

Year ending December 31:	
2017	\$ 62,756
2018	66,078
2019	70,139
2020	54,265
	<hr/>
	\$ 253,238
	<hr/>

Rental expense under these lease agreements was \$58,695 for the year ended December 31, 2016.

9. Nursing Scholarships

GAIA Malawi's intent is to provide three- and four-year scholarships to nursing students and has conditionally granted scholarships through 2019. Estimated future scholarship commitments, if all conditions were to be met, are as follows:

Year ending December 31:	
2017	\$ 93,819
2018	66,429
2019	47,829
2020	24,686
	<hr/>
	\$ 232,763
	<hr/>

10. Subsequent Events

In preparing these combined financial statements, management has evaluated events and transactions for potential recognition or disclosure through August 9, 2017, the date the financial statements were available to be issued. Management concluded that, except as noted below, no material subsequent events have occurred since December 31, 2016 that require recognition or disclosure in such financial statements.

In response to the evolving HIV epidemic in Malawi, GAIA is transitioning its village-based work from community-awareness campaigns and home-based care to focus on targeted programs for people at highest risk of HIV, including: 1) HIV prevention among youth and other high-risk populations, including adolescent girls, orphans and men, 2) targeted, door-to-door HIV testing, and 3) rapid linkage to HIV treatment and adherence support for the newly diagnosed. The former Villages program, therefore, morphed into the Targeted Community Program on May 1, 2017.

SUPPLEMENTARY INFORMATION

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

COMBINING SCHEDULE OF FINANCIAL POSITION

December 31, 2016

	<u>United States</u>	<u>Malawi</u>	<u>Eliminations</u>	<u>Combined</u>
ASSETS				
Cash and cash equivalents	\$ 464,936	\$ 65,712	\$ -	\$ 530,648
Pledges receivable, net	379,734	-	-	379,734
Major grants receivable	684,727	-	-	684,727
Other assets	6,103	-	-	6,103
Investments, at fair value	267,694	-	-	267,694
Property and equipment, net	-	626,611	-	626,611
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,803,194</u>	<u>\$ 692,323</u>	<u>\$ -</u>	<u>\$ 2,495,517</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 4,871	\$ -	\$ -	\$ 4,871
Accrued expenses	32,061	-	-	32,061
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>36,932</u>	<u>-</u>	<u>-</u>	<u>36,932</u>
Net assets:				
Unrestricted:				
Undesignated	117,330	54,427	-	171,757
Board-designated	18,000	11,285	-	29,285
Property and equipment	-	626,611	-	626,611
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total unrestricted	135,330	692,323	-	827,653
Temporarily restricted	1,380,932	-	-	1,380,932
Permanently restricted	250,000	-	-	250,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>1,766,262</u>	<u>692,323</u>	<u>-</u>	<u>2,458,585</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,803,194</u>	<u>\$ 692,323</u>	<u>\$ -</u>	<u>\$ 2,495,517</u>

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE
COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2016

	United States			Subtotal	Malawi	Eliminations	Combined			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Unrestricted	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues:										
Contributions	\$ 1,157,545	\$ 113,250	\$ -	\$ 1,270,795	\$ 1,834,354	\$ (1,758,619)	\$ 1,233,280	\$ 113,250	\$ -	\$ 1,346,530
Special events revenue, net of expenses of \$38,243	219,042	-	-	219,042	-	-	219,042	-	-	219,042
Government grant	418	-	-	418	32,265	-	32,683	-	-	32,683
Major grants	-	973,598	-	973,598	-	-	-	973,598	-	973,598
Other grants	-	120,778	-	120,778	-	-	-	120,778	-	120,778
Investment income	599	30,194	-	30,793	-	-	599	30,194	-	30,793
Other income	54,829	-	-	54,829	2,016	-	56,845	-	-	56,845
Net asset released from restrictions	1,366,352	(1,366,352)	-	-	-	-	1,366,352	(1,366,352)	-	-
Total revenues	2,798,785	(128,532)	-	2,670,253	1,868,635	(1,758,619)	2,908,801	(128,532)	-	2,780,269
Expenses:										
Program services	2,454,906	-	-	2,454,906	1,990,086	(1,758,619)	2,686,373	-	-	2,686,373
Management and general	134,232	-	-	134,232	-	-	134,232	-	-	134,232
Fundraising	272,489	-	-	272,489	-	-	272,489	-	-	272,489
Total expenses	2,861,627	-	-	2,861,627	1,990,086	(1,758,619)	3,093,094	-	-	3,093,094
Change in net assets	(62,842)	(128,532)	-	(191,374)	(121,451)	-	(184,293)	(128,532)	-	(312,825)
Net assets, beginning of year	198,172	1,509,464	250,000	1,957,636	813,774	-	1,011,946	1,509,464	250,000	2,771,410
Net assets, end of year	\$ 135,330	\$ 1,380,932	\$ 250,000	\$ 1,766,262	\$ 692,323	\$ -	\$ 827,653	\$ 1,380,932	\$ 250,000	\$ 2,458,585

GLOBAL AIDS INTERFAITH ALLIANCE AND AFFILIATE

COMBINING SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

	United States				Malawi		Combined			
	Program Services	Management and General	Fundraising	Subtotal	Program Services	Eliminations	Program Services	Management and General	Fundraising	Total
Salaries	\$ 368,984	\$ 68,684	\$ 130,750	\$ 568,418	\$ 638,179	\$ -	\$ 1,007,163	\$ 68,684	\$ 130,750	\$ 1,206,597
Payroll taxes	27,863	5,169	10,255	43,287	-	-	27,863	5,169	10,255	43,287
Employee benefits	44,879	10,302	19,754	74,935	133,070	-	177,949	10,302	19,754	208,005
Care kits	-	-	-	-	62,884	-	62,884	-	-	62,884
Community care givers stipends	-	-	-	-	66,246	-	66,246	-	-	66,246
Education and training	-	1,168	60	1,228	51,977	-	51,977	1,168	60	53,205
Health care supplies	-	-	-	-	231,515	-	231,515	-	-	231,515
Nursing scholarships	-	-	-	-	105,440	-	105,440	-	-	105,440
Professional services	56,611	13,621	46,705	116,937	5,169	-	61,780	13,621	46,705	122,106
Program support	1,870,837	-	-	1,870,837	-	(1,758,619)	112,218	-	-	112,218
School fees and supplies	-	-	-	-	7,481	-	7,481	-	-	7,481
Flood relief and Door to Door	-	-	-	-	26,662	-	26,662	-	-	26,662
Vehicle and motorcycle expenses	-	-	-	-	107,771	-	107,771	-	-	107,771
Info technology	20,830	3,836	17,470	42,136	-	-	20,830	3,836	17,470	42,136
Insurance	3,789	914	1,829	6,532	2,696	-	6,485	914	1,829	9,228
Materials and publications	10,643	2,569	5,138	18,350	-	-	10,643	2,569	5,138	18,350
Meals, meetings, and travel	1,956	8,604	5,151	15,711	30,278	-	32,234	8,604	5,151	45,989
Namunda School expenses	-	-	-	-	244,982	-	244,982	-	-	244,982
Needs assessment and monitoring	-	-	-	-	6,960	-	6,960	-	-	6,960
Office expense	3,423	4,579	2,012	10,014	46,779	-	50,202	4,579	2,012	56,793
Other	-	-	-	-	18,738	-	18,738	-	-	18,738
Postage and delivery	-	45	1,338	1,383	-	-	-	45	1,338	1,383
Rent, utilities, and security	42,917	10,359	20,719	73,995	35,048	-	77,965	10,359	20,719	109,043
Small equipment and repairs	-	-	-	-	12,218	-	12,218	-	-	12,218
Small grants	-	-	-	-	87,354	-	87,354	-	-	87,354
Taxes, licenses, and fees	268	65	10,673	11,006	2,975	-	3,243	65	10,673	13,981
Telephone and cell phone	1,906	317	635	2,858	35,818	-	37,724	317	635	38,676
Bad debt expense	-	4,000	-	4,000	-	-	-	4,000	-	4,000
Depreciation	-	-	-	-	35,714	-	35,714	-	-	35,714
Foreign exchange gain	-	-	-	-	(5,868)	-	(5,868)	-	-	(5,868)
Total expenses	\$ 2,454,906	\$ 134,232	\$ 272,489	\$ 2,861,627	\$ 1,990,086	\$ (1,758,619)	\$ 2,686,373	\$ 134,232	\$ 272,489	\$ 3,093,094