

Consolidated Financial Statements and
Report of Independent Certified Public Accountants

PARTNERS IN HEALTH

June 30, 2015 and 2014

PARTNERS IN HEALTH

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Governors
Partners In Health

We have audited the accompanying consolidated financial statements of Partners In Health (the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, 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 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.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’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 Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Partners In Health as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
December 23, 2015

PARTNERS IN HEALTH
Consolidated Statements of Financial Position
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 84,629,779	\$ 25,717,420
Contributions receivable (Note 5)	81,616	2,424,951
Grants and other receivables, net (Note 5)	14,098,402	6,931,205
Prepaid expenses and other assets	3,020,655	2,027,326
Investments, at fair value (Note 3)	1,433,597	1,485,851
Property and equipment, net (Note 6)	<u>6,587,907</u>	<u>4,511,685</u>
Total assets	<u>\$ 109,851,956</u>	<u>\$ 43,098,438</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 8,438,932	\$ 4,809,518
Deferred revenue	<u>266,678</u>	<u>-</u>
Total liabilities	<u>8,705,610</u>	<u>4,809,518</u>
Net assets:		
Unrestricted:		
Foreign currency translation adjustments	(533,204)	(91,162)
Undesignated	9,602,149	9,551,413
Board-designated: Thomas J. White Fund	<u>57,602,926</u>	<u>15,580,057</u>
Total unrestricted net assets	66,671,871	25,040,308
Temporarily restricted (Note 4)	<u>34,474,475</u>	<u>13,248,612</u>
Total net assets	<u>101,146,346</u>	<u>38,288,920</u>
Total liabilities and net assets	<u>\$ 109,851,956</u>	<u>\$ 43,098,438</u>

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

PARTNERS IN HEALTH
Consolidated Statement of Activities
For the year ended June 30, 2015

	<u>Unrestricted</u>			<u>Total</u>
	<u>Undesignated</u>	<u>Board- Designated: Thomas J. White Fund</u>	<u>Temporarily Restricted</u>	
REVENUE AND OTHER SUPPORT				
Contributions	\$ 53,056,700	\$ 42,001,421	\$ 58,256,844	\$ 153,314,965
Government and other grants and contracts	23,687	-	39,258,275	39,281,962
Gifts in kind and contributed services (Note 8)	944,805	-	2,560,261	3,505,066
Investment income, net	105,126	34,375	61	139,562
Other income	579,154	-	196,449	775,603
Net assets released from restrictions (Note 4)	<u>79,046,027</u>	<u>-</u>	<u>(79,046,027)</u>	<u>-</u>
Total revenue and other support	<u>133,755,499</u>	<u>42,035,796</u>	<u>21,225,863</u>	<u>197,017,158</u>
EXPENSES (Notes 8 and 9)				
Program services	125,383,823	-	-	125,383,823
Development	2,321,642	-	-	2,321,642
General and administration	<u>5,999,298</u>	<u>12,927</u>	<u>-</u>	<u>6,012,225</u>
Total expenses	<u>133,704,763</u>	<u>12,927</u>	<u>-</u>	<u>133,717,690</u>
Change in net assets from operations	50,736	42,022,869	21,225,863	63,299,468
Foreign currency translation adjustments	(442,042)	-	-	(442,042)
Net assets at beginning of period	<u>9,460,251</u>	<u>15,580,057</u>	<u>13,248,612</u>	<u>38,288,920</u>
Net assets at end of period	<u>\$ 9,068,945</u>	<u>\$ 57,602,926</u>	<u>\$ 34,474,475</u>	<u>\$ 101,146,346</u>

The accompanying notes are an integral part of this consolidated financial statement.

PARTNERS IN HEALTH
Consolidated Statement of Activities
For the year ended June 30, 2014

	<u>Unrestricted</u>			<u>Total</u>
	<u>Undesignated</u>	<u>Board- Designated: Thomas J. White Fund</u>	<u>Temporarily Restricted</u>	
REVENUE AND OTHER SUPPORT				
Contributions	\$ 37,239,003	\$ 65,000	\$ 20,867,901	\$ 58,171,904
Government and other grants and contracts	89,074	-	23,056,241	23,145,315
Gifts in kind and contributed services (Note 8)	2,173,291	-	4,283,276	6,456,567
Investment income, net	163,861	116,121	553	280,535
Other income	236,497	-	574,390	810,887
Net assets released from restrictions (Note 4)	<u>47,351,731</u>	<u>-</u>	<u>(47,351,731)</u>	<u>-</u>
Total revenue and other support	<u>87,253,457</u>	<u>181,121</u>	<u>1,430,630</u>	<u>88,865,208</u>
EXPENSES (Notes 8 and 9)				
Program services	82,072,761	-	-	82,072,761
Development	3,212,015	-	-	3,212,015
General and administration	<u>3,609,156</u>	<u>32,048</u>	<u>-</u>	<u>3,641,204</u>
Total expenses	<u>88,893,932</u>	<u>32,048</u>	<u>-</u>	<u>88,925,980</u>
Change in net assets from operations	(1,640,475)	149,073	1,430,630	(60,772)
Foreign currency translation adjustments	<u>(137,829)</u>	<u>-</u>	<u>-</u>	<u>(137,829)</u>
Net assets at beginning of period	<u>11,238,555</u>	<u>15,430,984</u>	<u>11,817,982</u>	<u>38,487,521</u>
Net assets at end of period	<u>\$ 9,460,251</u>	<u>\$ 15,580,057</u>	<u>\$ 13,248,612</u>	<u>\$ 38,288,920</u>

The accompanying notes are an integral part of this consolidated financial statement.

PARTNERS IN HEALTH
Consolidated Statements of Functional Expenses
For the years ended June 30, 2015 and 2014

2015	Program Services										Institutional Support		Total	
	Haiti	Sierra Leone	Rwanda	Liberia	Lesotho	Peru	Malawi	Russia/ Kazakhstan	US Strategy	Mexico/ Guatemala	Multi-Site Support	Development		Administration
Human resources	\$ 2,469,170	\$ 7,737,943	\$ 6,946,176	\$ 3,306,179	\$ 4,890,570	\$ 2,856,064	\$ 2,563,113	\$ 739,429	\$ 428,682	\$ 395,438	\$ 8,420,756	\$ 739,986	\$ 3,468,880	\$ 44,962,386
Consumables	4,797,277	3,133,590	3,358,311	1,226,043	914,437	218,626	459,958	114,325	40,305	177,982	130,694	70,331	97,632	14,739,511
Durable goods	400,306	721,694	231,903	629,274	70,794	154,020	225,123	29,497	16,887	4,809	915,705	14,856	144,388	3,559,256
Infrastructure	613,063	122,350	1,521,545	222,994	234,295	6,957	640,933	-	-	240	44,690	-	1,042	3,408,109
Operations	1,384,852	3,930,770	2,980,644	1,213,694	898,470	1,630,306	706,793	305,712	1,013	85,950	356,812	9,716	1,173,413	14,678,145
Travel, professional services, printing and other	422,660	1,646,818	1,108,552	944,767	620,493	1,285,483	552,516	272,879	154,638	27,882	3,999,874	1,486,753	1,126,870	13,650,185
Social support payments	53,450	91,055	738,844	9,410	22,767	72,288	42,655	3,697	-	-	8,889	-	-	1,043,055
Grants to partner organizations	32,678,208	-	17,015	2,674,895	-	70,580	-	-	202,987	23,869	2,009,489	-	-	37,677,043
Total expenses	<u>\$42,818,986</u>	<u>\$17,384,220</u>	<u>\$16,902,990</u>	<u>\$10,227,256</u>	<u>\$7,651,826</u>	<u>\$6,294,324</u>	<u>\$5,191,091</u>	<u>\$1,465,539</u>	<u>\$844,512</u>	<u>\$716,170</u>	<u>\$15,886,909</u>	<u>\$2,321,642</u>	<u>\$6,012,225</u>	<u>\$133,717,690</u>

2014	Program Services										Institutional Support		Total	
	Haiti	Sierra Leone	Rwanda	Liberia	Lesotho	Peru	Malawi	Russia/ Kazakhstan	US Strategy	Mexico/ Guatemala	Multi-Site Support	Development		Administration
Human resources	\$ 2,970,900	\$ -	\$ 6,983,284	\$ -	\$ 3,880,364	\$ 2,975,241	\$ 2,053,038	\$ 661,059	\$ 171,726	\$ 280,339	\$ 7,415,033	\$ 2,186,849	\$ 1,752,545	\$ 31,330,378
Consumables	3,563,750	-	3,601,629	-	883,435	524,025	681,417	212,780	5,556	125,241	112,706	68,537	46,577	9,825,653
Durable goods	1,224,879	-	638,684	-	266,673	154,500	204,189	9,971	376	67,929	100,313	20,371	161,328	2,849,213
Infrastructure	241,195	-	1,817,471	-	71,103	74	448,157	-	-	-	683	-	3,025	2,581,708
Operations	1,096,094	-	3,169,356	-	791,514	1,475,027	620,646	373,669	(6,357)	73,002	338,718	18,012	1,085,767	9,035,448
Travel, professional services, printing and other	591,494	-	802,995	-	482,097	862,378	233,687	94,320	36,144	31,656	2,177,262	918,246	591,962	6,822,241
Social support payments	20,450	-	749,544	-	17,525	66,256	44,741	-	-	-	36,132	-	-	934,648
Grants to partner organizations	23,503,808	-	1,008	-	-	240,444	-	704,736	230,000	49,300	817,395	-	-	25,546,691
Total expenses	<u>\$33,212,570</u>	<u>\$-</u>	<u>\$17,763,971</u>	<u>\$-</u>	<u>\$6,392,711</u>	<u>\$6,297,945</u>	<u>\$4,285,875</u>	<u>\$2,056,535</u>	<u>\$437,445</u>	<u>\$627,467</u>	<u>\$10,998,242</u>	<u>\$3,212,015</u>	<u>\$3,641,204</u>	<u>\$88,925,980</u>

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

PARTNERS IN HEALTH
Consolidated Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 63,299,468	\$ (60,772)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	745,297	456,321
Net unrealized gains on investments	(135,687)	(52,142)
Net unrealized (gains) losses on foreign currency contract	102,397	(193,160)
Foreign currency translation adjustments	(442,042)	(137,829)
Capitalized gifts in kind/contributed services	-	(1,836,422)
Donated financial assets immediately converted to cash	53,262	878,406
Changes in		
Contributions receivable	2,343,335	(496,286)
Grants and other receivables, net	(7,167,197)	1,016,286
Prepaid expenses and other assets	(1,055,205)	2,444,169
Accounts payable and accrued expenses	<u>3,855,571</u>	<u>(1,456,334)</u>
Net cash provided by operating activities	<u>61,599,199</u>	<u>562,237</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,821,519)	(562,982)
Sales of investment securities	138,249	111,792
Purchases of investment securities	<u>(3,570)</u>	<u>(118,637)</u>
Net cash used in investing activities	<u>(2,686,840)</u>	<u>(569,827)</u>
Net increase (decrease) in cash and cash equivalents	58,912,359	(7,590)
Cash and cash equivalents at beginning of period	<u>25,717,420</u>	<u>25,725,010</u>
Cash and cash equivalents at end of period	<u>\$ 84,629,779</u>	<u>\$ 25,717,420</u>

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

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

1. ORGANIZATION

Partners In Health, a Nonprofit Corporation (“PIH” or the “Organization”) is an international nongovernmental organization dedicated to delivering quality health care to people and communities suffering from the joint burdens of poverty and disease. PIH’s work has three goals: to provide high quality care for patients, to alleviate the root causes of disease, and to share lessons learned around the world.

PIH consolidates the accounts of Socios En Salud (Peru), Partners In Health Russia, Partners In Health Kazakhstan, Partners In Health Liberia, Partners In Health Sierra Leone, Inshuti Mu Buzima (Rwanda), Bo Mphato Litšebeletsong tsa Bophelo (Lesotho), Abwenzi Pa Za Umoyo (Malawi), Compañeros En Salud (Mexico), and Partners In Health Canada. All of these entities were established and are governed under the laws of their respective countries.

Partner organizations (Note 9) are not consolidated in the accompanying financial statements as PIH does not have control of these organizations as defined under generally accepted accounting principles. Cash disbursements to partner organizations are presented as grants to partner organizations in the Consolidated Statements of Functional Expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of PIH and affiliates located in Canada, Kazakhstan, Lesotho, Liberia, Malawi, Mexico, Peru, Russia, Rwanda, and Sierra Leone. All inter-organizational balances and transactions are eliminated in consolidation.

Income Taxes

PIH is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. Socios En Salud (Peru), Partners In Health Russia, Partners In Health Kazakhstan, Partners In Health Liberia, Partners In Health Sierra Leone, Inshuti Mu Buzima (Rwanda), Bo Mphato Litšebeletsong tsa Bophelo (Lesotho), Abwenzi Pa Za Umoyo (Malawi), Compañeros En Salud (Mexico), and Partners In Health Canada were established and are governed under the laws of their respective countries. PIH is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies, the reported amounts of revenues and other support, and the expenses during the reporting periods. Actual results could vary from these estimates.

Significant estimates include useful lives of assets, valuation of investments, collectability of contributions, grants, and other receivables, and valuation of gifts in kind and contributed services.

PARTNERS IN HEALTH
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

Cash and Cash Equivalents

PIH considers cash on hand, deposits in banks, certificates of deposit and short-term marketable securities with an original maturity of less than 90 days to be cash and cash equivalents.

Contributions, Grants and Other Receivables

Contributions, grants and other receivables are carried at their estimated collectible amounts. Receivables are periodically evaluated for collectability based on past credit history with the donors or funding sources and their current financial condition. Provisions for uncollectible accounts on accounts receivable are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

Investments

Investments consist of cash and cash equivalents (which have initial maturities in excess of three months), mutual funds, and private equity holdings. Investments are carried at fair value. Changes in fair value are reported in the accompanying Consolidated Statements of Activities as investment income.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the Consolidated Statements of Activities in the period in which the securities are sold. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

All investment securities are exposed to various risks such as interest rate, market, and credit risks. 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 such changes could materially affect the amounts reported in the Consolidated Statements of Financial Position.

Property and Equipment

Property and equipment is stated at cost, or if donated, at fair value at the date of donation. PIH provides for depreciation and amortization using the straight-line method over the estimated useful lives of the applicable assets, which are 25 to 40 years for buildings and improvements, 3 to 15 years for vehicles and equipment, and 5 to 10 years for capitalized software. Repairs and maintenance are expensed as incurred.

PIH deploys a portion of its funds for the construction and equipping of hospitals and healthcare centers on behalf of local governments. These facilities are used by PIH and the local governments in partnership to deliver health care services. PIH also funds the construction of wells and schools for communities and homes for patients in great need. PIH considers these facilities, including the furniture and equipment contained therein, the property of the local government or the relevant individuals, and thus associated construction, renovation, and equipment costs are expensed as incurred.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

Classification of Net Assets

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

- *Unrestricted undesignated net assets* – are not subject to donor-imposed restrictions and include amounts available for the Organization’s operations.
- *Unrestricted board-designated net assets* – includes donated funds earmarked by the Board of Governors for the purposes of assuring longer-term stability and sustainability, and ensuring steady support for core programs, while allowing for planning and implementation of longer-term initiatives. In 2002, a board-designated fund was established to set aside monies for the purpose of providing a stable stream of funding for PIH projects. This fund, called the Thomas J. White Fund (“TJW”), is used as a primary repository of funds raised for longer-term support. At June 30, 2015 and 2014, the fund’s balance was \$57,602,926 and \$15,580,057, respectively, and is recorded in board-designated unrestricted net assets in the Consolidated Statements of Financial Position. The large majority of this fund is held in cash and cash equivalents, with the balance invested in private equity funds.
- *Temporarily restricted net assets* – includes funds whose use by PIH is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of PIH pursuant to those specifications.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Expirations of temporary restrictions on net assets, that is, when the donor-imposed stipulated purpose has been met and/or the stipulated time period has elapsed, are reported as releases from restriction between the applicable classes of net assets.

Recognition of Revenue

There are two primary types of revenue: contributions and exchange transactions. Contributions, including unconditional promises to give, are recognized as revenue in the period received at net realizable value. Conditional contributions are not recorded until the condition is met. Contribution revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions, in which case they are reported as increases in temporarily restricted net assets.

Funds provided under certain grants and contracts are considered exchange transactions because the grantor or contracting agency is receiving something in exchange for the transfer of funds. These funds are deemed to be earned and reported as revenue when PIH has either incurred expenditures or completed the deliverables in compliance with the specific terms and conditions of the grant or contract. Grant or contract funds received for which no corresponding expenditure or performance has yet been made are accounted for as deferred revenue. Expenditures and performance made in advance of funds received are recorded as grants or accounts receivable.

PARTNERS IN HEALTH
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

Foreign Currency Translation

The functional currency for each affiliate is the local currency. The translation into U.S. dollars is performed for assets and liabilities using exchange rates in effect at the date of the Consolidated Statements of Financial Position. Revenues and expenses are translated into U.S. dollars using a weighted average exchange rate for the fiscal year. The resulting translation adjustments are recorded in unrestricted net assets.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among program services, development, and general and administration categories in accordance with the standards for accounting for joint activities.

3. INVESTMENTS

Investments which are reported at fair value consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 367,219	\$ 297,395
Mutual funds	226,993	248,767
Private equity	<u>839,385</u>	<u>939,689</u>
Total investments	<u>\$ 1,433,597</u>	<u>\$ 1,485,851</u>

The composition of investment income is as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 175,711	\$ 56,056
Net realized gains (losses)	26,719	(20,825)
Net change in unrealized gains (losses)	<u>(62,868)</u>	<u>245,304</u>
Total investment income	<u>\$ 139,562</u>	<u>\$ 280,535</u>

PARTNERS IN HEALTH
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net asset balances and activity consists of the following at and for the year ended June 30, 2015:

	Balance June 30, 2014	Net Additions	Releases	Balance June 30, 2015
Program/location restricted:				
Sierra Leone	\$ -	\$ 27,547,993	\$ 19,153,773	\$ 8,394,220
Rwanda	1,573,064	11,711,074	5,948,308	7,335,830
Liberia	-	22,883,921	15,645,066	7,238,855
Haiti	7,732,436	23,047,017	24,187,843	6,591,610
Multi-site support	2,553,148	6,204,431	4,937,750	3,819,829
Malawi	852,699	2,040,559	2,418,733	474,525
Peru	125,601	3,852,205	3,696,934	280,872
US Strategy	41,916	1,104,231	919,256	226,891
Mexico/Guatemala	358,022	455,244	716,066	97,200
Lesotho	11,726	700,724	704,918	7,532
Russia/Kazakhstan	-	724,491	717,380	7,111
	<u>\$ 13,248,612</u>	<u>\$ 100,271,890</u>	<u>\$ 79,046,027</u>	<u>\$ 34,474,475</u>

Temporarily restricted net asset balances and activity consists of the following at and for the year ended June 30, 2014:

	Balance June 30, 2013	Net Additions	Releases	Balance June 30, 2014
Program/location restricted:				
Haiti	\$ 7,858,744	\$ 29,228,818	\$ 29,355,126	\$ 7,732,436
Multi-site support	662,821	5,159,682	3,269,355	2,553,148
Rwanda	2,431,010	5,395,320	6,253,266	1,573,064
Malawi	29,438	1,530,531	707,270	852,699
Mexico/Guatemala	203,290	849,354	694,622	358,022
Peru	189,398	4,916,972	4,980,769	125,601
US Strategy	77,211	174,394	209,689	41,916
Lesotho	56,278	485,825	530,377	11,726
Russia/Kazakhstan	309,792	1,041,465	1,351,257	-
	<u>\$ 11,817,982</u>	<u>\$ 48,782,361</u>	<u>\$ 47,351,731</u>	<u>\$ 13,248,612</u>

PARTNERS IN HEALTH
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

5. RECEIVABLES

Contributions receivable represent pledges receivable as well as contributions received shortly after the fiscal year-end for which PIH was notified by donors prior to year-end. All contributions receivable are expected to be collected in fiscal year 2016.

Grants receivable represent amounts accrued for work completed under grant contracts with governments, multilateral and research institutions, and institutional foundations. All amounts are due within the fiscal year and, therefore, are recorded at face value.

As of June 30, 2015 and June 30, 2014, the contribution and grants receivable balances included \$25,218,427 and \$7,285,662 respectively, in revenue to be billed. Contributions and grants receivable balances are presented net of allowance for doubtful accounts of \$164,196 at both June 30, 2015 and 2014.

6. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows as of June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 466,178	\$ 726,232
Buildings and improvements	633,680	770,335
Equipment and furniture	1,967,205	2,052,977
Vehicles	6,096,456	2,995,299
Capitalized software	<u>2,479,891</u>	<u>2,442,739</u>
	11,643,410	8,987,582
Less: Accumulated depreciation and amortization	<u>(5,055,503)</u>	<u>(4,475,897)</u>
	<u>\$ 6,587,907</u>	<u>\$ 4,511,685</u>

Depreciation and amortization of \$745,297 and \$456,321 for the years ended June 30, 2015 and 2014, respectively, are included as expenses in the accompanying Consolidated Statements of Activities.

As of June 30, 2015, Partners In Health through its Socios En Salud (Peru) entity held one building for sale. This property was sold subsequent to year-end (Note 16).

7. LINE OF CREDIT

PIH maintains a \$6 million line of credit with RBS Citizens, N.A. d/b/a Citizens Bank primarily for seasonal liquidity needs in advance of the calendar year-end giving period. Borrowings accrue interest at a fluctuating per annum interest rate equal to the one month LIBOR Advantage Rate plus 2.5% (0.187% at June 30, 2015). PIH must repay the full principal and interest outstanding no less than once during each fiscal year for a period of sixty consecutive calendar days. The line is subject to an internal annual review by Citizens Bank each January. There were no outstanding borrowings on the line at June 30, 2015 and June 30, 2014. At June 30, 2015, PIH was in compliance with all financial covenants.

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8. GIFTS IN KIND AND CONTRIBUTED SERVICES

PIH receives donations of medicines and other goods, as well as contributed legal services without charge. The estimated fair value of these donations is recorded as contributions in the Consolidated Statements of Activities and allocated to program services, development, or administration according to the nature of the item contributed as follows:

	<u>2015</u>	<u>2014</u>
Donated medicines and goods	\$ 1,014,184	\$ 4,054,130
Contributed services	<u>2,490,882</u>	<u>2,402,437</u>
Estimated fair value of donations	<u>\$ 3,505,066</u>	<u>\$ 6,456,567</u>

PIH works in close collaboration with Harvard Medical School (HMS) and Brigham and Women's Hospital (BWH) for purposes of patient care, research, and dissemination of knowledge in the area of global public health. Certain physicians and staff members of HMS and BWH reside within the PIH field sites for varying time periods and conduct work that supports these partner organizations' shared goals of improving the state of health in areas of extreme poverty. PIH also collaborates on research projects with HMS and BWH, serving as a sub-recipient on certain grants and as a principal recipient on others.

PIH also has relationships with various hospitals that provide healthcare and pathology services for PIH patients for minimal fees or free of charge.

9. GRANTS TO PARTNER ORGANIZATIONS

Grants to partner organizations are recorded in the Consolidated Statements of Activities under program services and include the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Zanmi Lasante (Haiti NGO)	\$ 33,629,327	\$ 23,503,808
Last Mile Health (Liberia NGO)	2,674,895	5,002
IRD FZC (Pakistan NGO)	271,081	-
Other	<u>1,101,740</u>	<u>2,037,881</u>
	<u>\$ 37,677,043</u>	<u>\$ 25,546,691</u>

Grants to Zanmi Lasante in Haiti are for costs of operations, including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, and social support. Grants to Last Mile Health are related to funding raised jointly for treating Ebola in Liberia. Grants from PIH to IRD FZC are related to specific activities IRD FZC is performing as a sub-recipient on the endTB grant from UNITAID.

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10. FISCAL SPONSOR TRANSACTIONS

PIH receives donations and disburses funds on behalf of several organizations who work in coincident or contiguous areas to PIH projects, who are pursuing similar missions, and who do not yet have the infrastructure for this financial processing. PIH was holding \$98,471 and \$52,743 in cash on behalf of fiscal sponsorees as of June 30, 2015 and 2014, respectively.

11. DERIVATIVES AND FOREIGN CURRENCY TRANSACTIONS

The Organization's use of derivatives is limited to one foreign currency contract. PIH entered into a forward contract during fiscal year 2015 to hedge against foreign currency fluctuations related to the South African Rand. (\$102,397) and \$193,160 is included in net change in unrealized gains/(losses) as of June 30, 2015 and 2014, respectively.

The following is a summary of the foreign currency contract outstanding as of June 30, 2015.

<u>Country</u>	<u>Maturity Dates</u>	<u>Forward Position in U.S. Dollars</u>	<u>Local Currency</u>
South Africa	July 31, 2015 - December 31, 2015	1,200,000	14,368,280 RAND

12. FAIR VALUE MEASUREMENTS

PIH measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement price (an exit price). A fair value hierarchy has been established to prioritize the inputs used in valuation techniques to measure fair value. The three levels of the fair value hierarchy are described below.

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Inputs to the valuation methodology are other observable inputs, including quoted prices for similar assets and liabilities in active or non-active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are not directly observable but are corroborated by observable market data.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability.

Mutual funds

When quoted prices are available in an active market, mutual funds are classified within Level 1 of the fair value hierarchy.

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Private equity

Private equity consists of investments in two limited partnerships. The fair value of such investments is determined using the net asset value (NAV) per share as a practical expedient. Investments that are redeemable at or near year-end at NAV per share are classified within Level 2 of the fair value hierarchy. All other private equity investments are classified within Level 3 of the fair value hierarchy.

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2015:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 367,219	\$ -	\$ -	\$ 367,219
Mutual funds	226,993	-	-	226,993
Private equity funds	<u>-</u>	<u>-</u>	<u>839,385</u>	<u>839,385</u>
Total assets	<u>\$ 594,212</u>	<u>\$ -</u>	<u>\$ 839,385</u>	<u>\$ 1,433,597</u>

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2014:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 297,395	\$ -	\$ -	\$ 297,395
Mutual funds	248,767	-	-	248,767
Private equity funds	<u>-</u>	<u>-</u>	<u>939,689</u>	<u>939,689</u>
Total assets	<u>\$ 546,162</u>	<u>\$ -</u>	<u>\$ 939,689</u>	<u>\$ 1,485,851</u>

PIH recognizes transfers between fair value hierarchy levels at the approximate date or change in circumstances that causes the transfer. There were no significant transfers between the levels within the fair value hierarchy during the years ended June 30, 2015 or 2014.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 939,689	\$ 885,395
Purchases	5,347	51,675
Dispositions	(138,249)	(111,793)
Net unrealized gains	<u>32,598</u>	<u>114,412</u>
Ending balance	<u>\$ 839,385</u>	<u>\$ 939,689</u>

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13. COMMITMENTS

Investments

Private equity investments are generally made through limited partnerships. Under the terms of these agreements, PIH is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. PIH cannot anticipate such changes because they are based on unforeseen events, but should they occur, they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments as of June 30, 2015 was \$194,218.

Leases

PIH leases certain office space under non-cancelable leases. Total rental expense amounted to \$1,951,199 and \$1,048,229 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease rentals as of June 30, 2015 are as follows:

2016	\$ 852,396
2017	814,822
2018	823,605
2019	829,081
2020	127,347
Thereafter	<u>-</u>
	<u>\$ 3,447,251</u>

14. RETIREMENT PLAN

The Organization has a defined contribution retirement plan that covers substantially all employees. The retirement plan is an IRS Code section 403(b). The Organization provided contributions to the plan of approximately \$240,000 and \$183,000 during the years ended June 30, 2015 and 2014, respectively.

15. CONCENTRATIONS

Cash and cash equivalents

PIH maintains cash balances in excess of federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to significant credit risks. Cash held at foreign bank accounts was \$3,505,698 and \$2,414,572 at June 30, 2015 and 2014, respectively.

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Contributions

During the year ended June 30, 2015, the Organization received an unrestricted contribution from a donor of approximately \$42,000,000, 21% of total revenue. The full amount of this gift is reflected in the board-designated TJ White Fund.

16. SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, PIH evaluated subsequent events after the Consolidated Statement of Financial Position date of June 30, 2015 through December 23, 2015, which was the date the consolidated financial statements were available to be issued.

In September 2015, PIH entered into a purchase and sale agreement for the building held for sale in Peru. The sale price is approximately \$700,000.