

**Consolidated Financial Statements and Report of
Independent Certified Public Accountants**

Partners In Health

June 30, 2014 and 2013

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6
Consolidated Statements of Functional Expenses	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Supplemental Information	
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance Related to Major Programs (OMB Circular A-133) and on Internal Control Over Compliance	28
Schedule of Findings and Questioned Costs	31



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees
Partners In Health

Report on the financial statements

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, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2014 and 2013, 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.

Emphasis of matter

As discussed in Note B to the consolidated financial statements, PIH adopted new accounting guidance during the year ended June 30, 2014 related to the accounting for donated securities on the cash flow statement. Our opinion is not modified with respect to this matter.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2014, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 19, 2014, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Grant Thornton LLP

Boston, Massachusetts
December 19, 2014

PARTNERS IN HEALTH

Consolidated Statements of Financial Position

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 25,717,420	\$ 25,725,010
Contributions receivable (note E)	2,424,951	1,928,665
Grants and other receivables, net (note E)	6,931,205	7,947,491
Prepaid expenses and other assets	2,027,326	4,471,495
Investments, at fair value (note C)	1,485,851	2,118,110
Property and equipment, net (note F)	4,511,685	2,562,601
	<u>43,098,438</u>	<u>44,753,372</u>
Total assets	\$ 43,098,438	\$ 44,753,372
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 4,756,775	\$ 6,265,852
Amounts owed - fiscal agencies (note J)	52,743	-
	<u>4,809,518</u>	<u>6,265,852</u>
Total liabilities	\$ 4,809,518	\$ 6,265,852
Net assets:		
Unrestricted:		
Foreign currency translation adjustments	\$ (91,162)	\$ 46,667
Undesignated	9,551,413	11,191,887
Board-designated: Thomas J. White Fund	15,580,057	15,430,984
	<u>25,040,308</u>	<u>26,669,538</u>
Total unrestricted net assets	25,040,308	26,669,538
Temporarily restricted (note D)	13,248,612	11,817,982
	<u>38,288,920</u>	<u>38,487,520</u>
Total net assets	38,288,920	38,487,520
Total liabilities and net assets	\$ 43,098,438	\$ 44,753,372

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

PARTNERS IN HEALTH
Consolidated Statement of Activities
Year ended June 30, 2014

	Unrestricted			Total
	Undesignated	Board- designated: Thomas J. White Fund	Temporarily restricted	
Revenue and other support:				
Contributions, grants and gifts in kind:				
Individuals and family foundations	\$ 35,848,776	\$ 65,000	\$ 8,216,138	\$ 44,129,914
Foundations and corporations	1,390,227	-	12,643,594	14,033,821
Governments, multilateral and research organizations	89,074	-	23,056,241	23,145,315
Special events	-	-	8,169	8,169
Gifts in kind and contributed services (note H)	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 D)	47,351,731	-	(47,351,731)	-
Total revenue and other support	87,253,457	181,121	1,430,630	88,865,208
Expenses (notes H and I):				
Program services	82,072,761	-	-	82,072,761
Development	3,212,015	-	-	3,212,015
General and administration	3,609,156	32,048	-	3,641,204
Total expenses	88,893,932	32,048	-	88,925,980
Change in net assets from operations	(1,640,475)	149,073	1,430,630	(60,772)
Foreign currency translation adjustments	(137,829)	-	-	(137,829)
Net assets at beginning of period	11,238,555	15,430,984	11,817,982	38,487,521
Net assets at end of period	\$ 9,460,251	\$ 15,580,057	\$ 13,248,612	\$ 38,288,920

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

PARTNERS IN HEALTH
Consolidated Statement of Activities
Year ended June 30, 2013

	Unrestricted			Total
	Undesignated	Board-designated: Thomas J. White Fund	Temporarily restricted	
Revenue and other support:				
Contributions, grants and gifts in kind:				
Individuals and family foundations	\$ 36,462,600	\$ 1,020,000	\$ 13,890,545	\$ 51,373,145
Foundations and corporations	2,155,205	-	13,026,866	15,182,071
Governments, multilateral and research organizations	204,707	-	19,985,625	20,190,332
Special events	599,928	-	6,465	606,393
Gifts in kind and contributed services (note H)	65,729	-	3,352,501	3,418,230
Investment income, net	(11,442)	589,082	686	578,326
Other income	374,056	-	165,701	539,757
Net assets released from restrictions (note D)	53,886,347	-	(53,886,347)	-
Total revenue and other support	<u>93,737,130</u>	<u>1,609,082</u>	<u>(3,457,958)</u>	<u>91,888,254</u>
Expenses (notes H and I):				
Program services	89,298,150	-	-	89,298,150
Development	3,350,502	-	-	3,350,502
General and administration	2,789,444	148,589	-	2,938,033
Total expenses	<u>95,438,096</u>	<u>148,589</u>	<u>-</u>	<u>95,586,685</u>
Change in net assets from operations	(1,700,966)	1,460,493	(3,457,958)	(3,698,431)
Foreign currency translation adjustments	44,260	-	-	44,260
Net assets at beginning of period	<u>12,895,261</u>	<u>13,970,491</u>	<u>15,275,940</u>	<u>42,141,692</u>
Net assets at end of period	\$ <u>11,238,555</u>	\$ <u>15,430,984</u>	\$ <u>11,817,982</u>	\$ <u>38,487,521</u>

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

PARTNERS IN HEALTH
Consolidated Statements of Functional Expenses
Years ended June 30, 2014 and 2013

2014	Program services									Institutional support		Total
	Haiti	Rwanda	Peru	Lesotho	Malawi	Russia/ Kazakhstan	US Strategy	Mexico/ Guatemala	Multi-Site Support	Development	Administration	
Human resources	\$ 2,970,900	\$ 6,983,284	\$ 2,975,241	\$ 3,880,364	\$ 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	524,025	883,435	681,417	212,780	5,556	125,241	112,706	68,537	46,577	9,825,653
Durable goods	1,224,879	638,684	154,500	266,673	204,189	9,971	376	67,929	100,313	20,371	161,328	2,849,213
Infrastructure	241,195	1,817,471	74	71,103	448,157	-	-	-	683	-	3,025	2,581,708
Operations	1,096,094	3,169,356	1,475,027	791,514	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	862,378	482,097	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	66,256	17,525	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	\$ 33,212,570	\$ 17,763,971	\$ 6,297,945	\$ 6,392,711	\$ 4,285,875	\$ 2,056,535	\$ 437,445	\$ 627,467	\$ 10,998,242	\$ 3,212,015	\$ 3,641,204	\$ 88,925,980

2013	Program services									Institutional support		Total
	Haiti	Rwanda	Peru	Lesotho	Malawi	Russia/ Kazakhstan	US Strategy	Mexico/ Guatemala	Multi-Site Support	Development	Administration	
Human resources	\$ 3,184,319	\$ 5,985,996	\$ 2,995,760	\$ 3,024,298	\$ 1,344,385	\$ 899,214	\$ 120,930	\$ 203,307	\$ 8,191,644	\$ 1,895,417	\$ 1,072,539	\$ 28,917,809
Consumables	3,959,936	2,784,961	387,627	814,968	515,537	619,060	12	75,545	182,021	65,883	40,931	9,446,481
Durable goods	2,477,600	444,414	116,996	71,205	186,321	14,389	1,115	58,657	406,364	28,621	174,078	3,979,760
Infrastructure	2,008,346	1,023,175	-	564,105	814,787	-	-	-	2,046	-	-	4,412,459
Operations	1,034,088	3,330,734	1,325,477	776,273	417,858	1,002,371	8,791	28,343	915,200	211,104	1,086,314	10,136,553
Travel, professional services, printing and other	1,931,765	588,415	536,757	216,417	141,222	209,898	15,138	13,830	2,146,266	1,144,277	561,861	7,505,846
Social support payments	23,416	605,229	35,257	22,628	46,034	-	-	-	25,591	-	2,070	760,225
Grants to partner organizations	28,148,798	-	49,462	-	-	1,197,190	638,136	197,200	191,326	5,200	240	30,427,552
Total expenses	\$ 42,768,268	\$ 14,762,924	\$ 5,447,336	\$ 5,489,894	\$ 3,466,144	\$ 3,942,122	\$ 784,122	\$ 576,882	\$ 12,060,458	\$ 3,350,502	\$ 2,938,033	\$ 95,586,685

(1) Multi-Site Support includes cross-site clinical and program management, procurement, medical informatics, training, communication and advocacy, and depreciation.

PARTNERS IN HEALTH

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>(as adjusted)</u>
Cash flows from operating activities:		
Change in net assets	\$ (60,772)	\$ (3,698,431)
Adjustments to reconcile change in net assets to net cash provided by (used) in operating activities:		
Depreciation and amortization	456,321	689,161
Net realized and unrealized (gains) on investments	(52,142)	(472,832)
Net realized and unrealized (gains) losses on fx contract	(193,160)	131,284
Foreign currency translation adjustments	(137,829)	44,260
Capitalized gifts in kind/contributed services	(1,836,422)	-
Changes in:		
Contributions receivable	(496,285)	627,534
Grants and other receivable, net	1,016,286	(2,472,329)
Prepaid expenses and other assets	2,444,169	(2,256,454)
Accounts payable, accrued expenses and amounts owed-fiscal agencies	(1,456,334)	811,811
Donated financial assets immediately converted to cash	878,405	18,912,451
Net cash provided by operating activities	<u>562,237</u>	<u>12,316,454</u>
Cash flows from investing activities:		
Purchases of property and equipment	(562,982)	(318,179)
Sales of investment securities	111,792	4,785
Purchases of investment securities	(118,637)	(44,313)
Net cash used in investing activities	<u>(569,827)</u>	<u>(357,707)</u>
Net (decrease) increase in cash and cash equivalents	(7,590)	11,958,747
Cash and cash equivalents at beginning of period	<u>25,725,010</u>	<u>13,766,263</u>
Cash and cash equivalents at end of period	<u>\$ 25,717,420</u>	<u>\$ 25,725,010</u>

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

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements
June 30, 2014 and 2013

NOTE A - 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, 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 I) are not consolidated in the 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 Statement of Activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of PIH and affiliates located in Peru, Russia, Kazakhstan, Rwanda, Lesotho, Malawi, Mexico, and Canada. All inter organizational balances and transactions are eliminated in consolidation.

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* – includes unrestricted funds for general operations, support used in operations after meeting initial grantor or donor restrictions, and unrestricted net assets.
- *Unrestricted board-designated net assets* – includes donated funds earmarked by the board 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.
- *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.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, allowance for doubtful accounts, and valuation of gifts in kind.

Recognition of Revenue

There are two primary types of revenue: contributions and exchange transactions. Contributions are donations to PIH for which the donating entity is not receiving anything in return. 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.

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 for purposes of the statements of cash flows. 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 \$2,303,059 and \$3,540,913 at June 30, 2014 and 2013, respectively.

Reclassifications

The Organization's financial statements include prior year comparative information, some of which has been reclassified to conform with the current year presentation. One such reclassification is the movement of fiscal agency revenue and expense to a liabilities account on the balance sheet. There is no net change to total assets as a result of this change in classification.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

Fair value is the price that PIH would receive upon selling an asset in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 - Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in valuing a portfolio instrument. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3 - Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect PIH's own assumptions about the factors market participants would use in valuing a portfolio instrument, and would be based on the best information available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, PIH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because PIH uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investment held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on PIH's ability to timely redeem its interest rather than on inputs used. See "Investments" below and Note C for further discussion.

Changes in valuation techniques may result in transfers in or out of current assigned level within the hierarchy. 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 fiscal 2014 or 2013.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Investments are reported at estimated fair value. If an investment is held directly by PIH and an active market with quoted prices exists, PIH reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. PIH also holds shares or units in traditional institutional funds, as well as in alternative investments in private equity funds. The private equity funds generally hold assets that require the estimation of fair values in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, the estimated fair values may differ significantly from the value that would have been reported had a ready market for the investment existed and the differences could be material. Such valuations are determined by fund managers and generally consider variables, such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The fair value of fixed income securities is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments.

PIH has applied the accounting guidance in Accounting Standards Updates No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of net asset value ("NAV") or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of PIH's interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore possible that if PIH were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

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 - Continued
June 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Foreign Currency Translation

The functional currency for each affiliate is the local currency. The translation into U.S. dollars is performed for statement of financial position accounts using exchange rates in effect at the statements of financial position date and for revenue and expense accounts using a weighted average exchange rate for the fiscal year. The resulting translation adjustments are recorded in unrestricted net assets.

Functional Expenses

All direct costs of fundraising are expensed as incurred and are included in development expenses in the statements of activities and functional expenses.

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, Inshuti Mu Buzima (Rwanda), Bo Mphato Litsebeletsong tsa Bophelo (Lesotho), Abwenzi Pa Za Umoyo (Malawi), Companeros 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.

New Accounting Pronouncement

In October 2012, the Financial Accounting Standards Board issued Accounting Standards Update ASU 2012-05 to amend existing requirements related to the presentation of sale proceeds of donated financial assets in the statement of cash flows. This update requires an organization to classify cash receipts from the sale of donated financial assets that were liquidated nearly immediately into cash as cash inflows from operating activities. PIH adopted this update in fiscal 2014 and retrospectively adjusted the 2013 cash flow statement by \$18,912,451 related to operating and investing cash flows.

NOTE C - INVESTMENTS

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

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	\$ 297,395	\$ -	\$ -	\$ 297,395
U.S. Equity, Large Value	248,767	-	-	248,767
Private Equity	-	-	939,689	939,689
Total	\$ 546,162	\$ -	\$ 939,689	\$ 1,485,851

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
 June 30, 2014 and 2013

NOTE C - INVESTMENTS - Continued

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2013:

	June 30, 2013			Total
	Level 1	Level 2	Level 3	
Investments:				
Cash and cash equivalents	\$ 1,231,367	\$ -	\$ -	\$ 1,231,367
U.S. Equity, Large Value	1,348	-	-	1,348
Private Equity	-	-	885,395	885,395
Total	\$ 1,232,715	\$ -	\$ 885,395	\$ 2,118,110

All investments have daily liquidity, except the private equity investments, which are illiquid. Level 2 typically includes fixed income investments. PIH does not currently have any Level 2 investments.

The private equity fund investments classified in Level 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of PIH's interest therein, its classification in Level 3 is based on PIH's ability to redeem its interest at or near the date of the statement of financial position. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents PIH's activity for the fiscal year ended June 30, 2014 for investments in Level 3:

	Private equity funds
Level 3 rollforward:	
Beginning value as of July 1, 2013	\$ 885,395
Purchases	51,675
Dispositions	(111,793)
Dividends/Interest	-
Net unrealized gains	114,412
Fair value as of June 30, 2014	\$ 939,689

PARTNERS IN HEALTHNotes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013**NOTE C – INVESTMENTS - Continued**

The following table presents PIH’s activity for the fiscal year ended June 30, 2013 for investments in Level 3:

	<u>Private equity funds</u>
Level 3 rollforward:	
Beginning value as of July 1, 2012	\$ 770,236
Purchases	44,314
Dispositions	(15,392)
Dividends/Interest	58,884
Net unrealized gains	<u>27,353</u>
Fair value as of June 30, 2013	<u>\$ 885,395</u>

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, 2014 and 2013, the fund’s balance was \$15,580,057 and \$15,430,984, respectively, and is recorded in board-designated unrestricted net assets in the consolidated statements of financial position. The large majority of this fund is invested in cash and cash equivalents, with the balance invested in private equity funds.

The composition of investment return is as follows:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 56,056	\$ 236,778
Net realized gains (losses)	(20,825)	483,613
Net change in unrealized gains (losses)	<u>245,304</u>	<u>(142,065)</u>
Total investment return, net	<u>\$ 280,535</u>	<u>\$ 578,326</u>

PARTNERS IN HEALTHNotes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013**NOTE C - INVESTMENTS - Continued****Commitments**

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, 2014 was \$199,566.

NOTE D - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	June 30,	
	2014	2013
Patient care	\$ 6,339,252	\$ 7,273,068
Training/Technical Assistance	877,559	1,977,707
Infrastructure	4,306,511	885,477
Advocacy	144,312	323,631
Research	142,677	72,792
Multit-site support	1,438,301	1,285,307
Total temporarily restricted net assets	<u>\$ 13,248,612</u>	<u>\$ 11,817,982</u>

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE D - TEMPORARILY RESTRICTED NET ASSETS - Continued

For the years ended June 30, 2014 and 2013, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Purpose restrictions accomplished:		
Zanmi Lasante (Haiti)	\$ 27,663,281	\$ 31,733,978
Socios En Salud (Peru)	4,980,769	4,276,019
Partners In Health-Russia & Kazakhstan	1,351,237	3,641,997
Inshuti Mu Buzima (Rwanda)	6,068,464	7,565,688
Bo Mphato Litšebeletsong tsa Bophelo (Lesotho)	530,377	662,372
Abwenzi Pa Za Umoyo (Malawi)	707,269	286,530
Medical Informatics	335,311	453,959
Compañeros En Salud (Mexico)	632,127	450,782
Multi-site support	5,082,896	4,815,022
	<u>\$ 47,351,731</u>	<u>\$ 53,886,347</u>
Net assets released from restrictions	<u>\$ 47,351,731</u>	<u>\$ 53,886,347</u>

Included in the above net assets released from restrictions under Inshuti Mu Buzima (Rwanda), is \$38,166 related to a \$100,000 grant from the World Bank's Development Grant Facility (DGF). This grant funds a portion of the Maternal and Neonatal Survival Initiative in Rwanda.

NOTE E - 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 2015.

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 without discounting. Included in grants receivable for fiscal year 2014 is \$882,841 that is owed to Partners In Health by the State of Qatar Fund for the Reconstruction of Haiti. Of this amount, which reflects the maximum potential loss, \$328,393 is over 120 days old and 50% of this amount, or \$164,196, has been recorded as an allowance for doubtful accounts.

As of June 30, 2014 and June 30, 2013, the contribution and grants receivable balances included \$7,285,662 and \$8,442,165, respectively, in revenue to be billed. Contributions and grants receivable balances are presented net of allowance for doubtful accounts of \$164,196 and \$0 at June 30, 2014 and 2013, respectively.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
 June 30, 2014 and 2013

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	June 30,	
	2014	2013
Land	\$ 726,232	\$ 726,232
Building and improvements	770,335	720,578
Equipment and furniture	2,052,976	1,995,288
Vehicles	2,995,299	2,606,324
Capitalized software	2,442,739	533,757
Total property and equipment, gross	<u>8,987,581</u>	<u>6,582,179</u>
Less accumulated depreciation and amortization	<u>(4,475,897)</u>	<u>(4,019,577)</u>
Total property and equipment, net	<u>\$ 4,511,685</u>	<u>\$ 2,562,601</u>

Depreciation and amortization of \$456,321 and \$689,161 for the years ended June 30, 2014 and 2013, respectively, are included as expenses in the consolidated statements of activities.

As of June 30, 2014, Partners In Health through its Socios En Salud (Peru) entity held two buildings for sale. The market value of these two buildings is estimated to be approximately \$1,800,000 (\$900,000 for each building).

PIH leases certain office space under non-cancelable leases. Total rental expense under such arrangements amounted to \$1,048,229 in fiscal 2014 and \$1,334,425 in fiscal 2013. During the year ended June 30, 2014 and 2013, PIH recorded \$3,968 and \$49,605, respectively, of deferred rent expense.

Future minimum lease rentals as of June 30, 2014 are as follows:

Years ending June 30,	
2015	\$ 1,020,568
2016	797,693
2017	807,085
2018	763,387
2019	764,081
Thereafter	127,347
Total future minimum lease payments	<u>\$ 4,280,161</u>

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE G - LINE OF CREDIT

PIH maintains a \$4 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 3.0% (0.155% at June 30, 2014). 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. PIH must also maintain a minimum of net liquid assets of at least \$4,000,000 as defined in the agreement. 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, 2014 and June 30, 2013. At June 30, 2014, PIH was in compliance with all financial covenants.

NOTE H - GIFTS IN KIND AND CONTRIBUTED SERVICES

PIH receives donations of medicines and other goods and 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>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Donated medicines and goods	\$ 4,054,130	\$ 1,545,970
Contributed services	<u>2,402,437</u>	<u>1,872,260</u>
Estimated fair value of donations	<u>\$ 6,456,567</u>	<u>\$ 3,418,230</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.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE I - GRANTS TO PARTNER ORGANIZATIONS

Grants to partner organizations are recorded in the consolidated statements of activities under Program Services and include the following:

	June 30,	
	2014	2013
Zanmi Lasante in Haiti	\$ 23,503,808	\$ 27,903,644
Justice Resource Institute/Brigham and Women's Hospital	230,000	663,164
Partner organizations in Russia	704,736	1,197,190
Fundacion Socios En Salud in the Dominican Republic	341,587	346,019
Other	766,560	317,535
	<u>\$ 25,546,691</u>	<u>\$ 30,427,552</u>

Grants to Zanmi Lasante in Haiti are for costs of operations, including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, social support, etc. In addition to the grants provided by PIH, in July 2013, Zanmi Lasante received \$8.2 million in funding directly from the Haiti Reconstruction Fund. This funding, which supported the University Hospital in Mirebalais, Haiti, is not included in PIH's financial statements. Grants to Justice Resource Institute/Brigham and Women's Hospital are for the Prevention and Access to Care and Treatment Program (PACT) in Boston, MA primarily for salary support for program staff and community healthcare workers. Grants to PIH's partner organization in the Dominican Republic are for the general operations of cross-border initiative between the Dominican Republic and Haiti in which vulnerable populations are provided treatment and the community is educated about HIV/AIDS.

In 2009, the Tomsk Oblast Country Coordinating Mechanism (CCM), in cooperation with PIH, applied for a continuation of a Global Fund grant and, beginning December 1, 2009, this 6-year grant was launched. The grant amount is for 9,248,300 Euros. This grant allows the Tomsk TB service in collaboration with PIH to provide treatment of all forms of drug-resistant tuberculosis and to disseminate knowledge of MDR-TB management to 20 territories in Siberia and Far East regions of Russia.

PIH Russia dispenses 90% of these funds to six sub-recipients: the Tomsk TB Dispensary and the Tomsk TB Hospital, which provide TB and MDR-TB treatment to all TB patients throughout the region; the Tomsk Oblast Penitentiary System, which funds and operates the treatment of all TB infected patients currently incarcerated in the region; the Russian Red Cross, which distributes medications and social support to patients in the more remote, rural areas of Tomsk Oblast; the Tomsk anti-AIDS center, which screens HIV+ patients for TB and provides tuberculosis prophylaxis; and Novosibirsk TB Research Institute (TBRI), which organizes TB and MDR-TB trainings for the 20 territories in Siberia and Far East regions of Russia, all under the supervision of the TBRI.

NOTE J - 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. As of June 30, 2014, PIH was holding \$52,743 in cash on behalf of fiscal sponsorees.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements - Continued
June 30, 2014 and 2013

NOTE K - 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 both fiscal year 2014 and 2013 to hedge against foreign currency fluctuations related to the South African Rand. \$193,160 and (\$131,284) is included in net change in unrealized gains/(losses) as of June 30, 2014 and 2013, respectively.

The following is a summary of the foreign currency contract outstanding as of June 30, 2014.

Country	Maturity Dates	Forward Position in U.S. Dollars	Local Currency
South Africa	July 31, 2014 - December 31, 2014	1,200,000	13,663,860 RAND

NOTE L - SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, PIH evaluated subsequent events after the consolidated balance sheet date of June 30, 2014 through December 19, 2014, which was the date the consolidated financial statements were available to be issued.

Subsequent to the close of the fiscal year, PIH entered into a purchase and sale agreement for one of the two buildings held for sale in Peru. The sale price is \$900,000.

In October 2014, Partners In Health received notice of a large one-time contribution from an individual donor. As of December 19, 2014, Partners In Health has received \$22.4 million of this gift.

In November 2014, Partners In Health established Partners In Health Liberia, LLC for purposes of conducting Ebola-related work in Liberia. PIH is in the process of establishing Partners In Health Sierra Leone, LLC for conducting Ebola-related work in Sierra Leone. As of December 19, 2014, the Organization has committed funding of \$48.6 million for Ebola work in Liberia and Sierra Leone.

SUPPLEMENTAL INFORMATION

PARTNERS IN HEALTH
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Number</u>	<u>Federal Expenditures</u>
<u>United States Agency for International Development</u>			
USAID Foreign Assistance for Programs Overseas - Dominican Republic Cross Border Initiative	98.001		\$ 378,883
USAID Foreign Assistance for Programs Overseas - TB CARE II	98.001		917,115
USAID Foreign Assistance for Programs Overseas - Services de Sante de Qualite pur Haiti (SSQH)	98.001		372,887
Total USAID Foreign Assistance for Programs Overseas			1,668,885
USAID Ocean Freight Reimbursement Program (OFR)	98.003		54,263
Total United States Agency for International Development			1,723,148
<u>United States Department of Health and Human Services</u>			
Centers for Disease Control and Prevention:			
Global AIDS - Strengthening Integrated HIV and Cholera Care, Treatment, and Prevention Services through Directly Observed Treatment Strategies in Haiti under the President's Emergency Plan for AIDS Relief (PEPFAR)	93.067		9,444,252
Centers for Disease Control and Prevention - Investigations and Technical Assistance - Community Based Cholera Treatment in Haiti	93.283		1,856,791
<u>Research and Development Cluster</u>			
Passed through Harvard Medical School:			
Mental Health Research Grants - Developing Research Capacity for Mental Health Interventions for Youth in Haiti	93.242	149842.0002	56,406
Mental Health Research Grants - Family Based Prevention of Mental Health Problems in HIV/AIDS affected children	93.242	116945-5050919	117,221
Allergy, Immunology and Transplantation Research - Randomized Trial of High-Dose Rifampin in Patients with New Smear-Positive TB	93.855	149843.5040509	1,920,478
Passed through Brigham and Women's Hospital:			
Allergy, Immunology and Transplantation Research - Host and Microbial Risk Factors for Drug Sensitive and Resistant Tuberculosis	93.855	103086-2	794,136
Small Rural Hospital Improvement Grant Program - Prevalence, Risk Factors, and Consequences of complex MTB Infections	93.301	10505	10,342
Mental Health Research Grants - Community-based Accompaniment with Supervised Antiretrovirals in Lima, Peru	93.242	104741	252,357
Child Health and Human Development Extramural Research - Haiti Nutrition and Food Security Interventions in Comprehensive HIV Care	93.865	104599	33,318
International Research and Research Training - Innovative Interdisciplinary Approaches to Sustainable Airborne Infection Control	93.989	108388	33,124
Passed through the General Hospital Corp. d/b/a Massachusetts General Hospital:			
Allergy, Immunology and Transplantation Research - Immune Response to Vibrio Cholera Infection and Vaccination in Haiti	93.855	221574	206,339
Passed through University of Washington:			
Health Systems Strengthening and HIV/AIDS Prevention, Care and Treatment under the President's Emergency Plan for AIDS Relief - Developing User Interface Application Model	93.266	752974	7,829
Passed through Boston University:			
Allergy, Immunology and Transplantation Research - Phase 2 Pharmacodynamic Study of High-dose Levofloxacin in MDR-TB Treatment	93.855	4500001419	77,983
Passed through Altarum Institute:			
Minority Health and Health Disparities Research - Strategic Champion Demonstration Projects	93.307	SC-12-006	1,250
Total Research and Development			3,510,783
Total United States Department of Health and Human Services			14,811,826
Total Expenditures of Federal Awards			\$ 16,534,974

PARTNERS IN HEALTH

Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2014

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the federal expenditures of the Organization under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget "OMB" Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the Organization and agencies and departments of the federal government and all subawards to the Organization by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

Expenditures reported in the Schedule are reported on the accrual basis of accounting.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT
AUDITING STANDARDS*

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Board of Trustees
Partners In Health

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Partners In Health (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Boston, Massachusetts
December 19, 2014



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

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Board of Trustees
Partners In Health

Report on compliance for each major federal program

We have audited the compliance of Partners in Health (the “Organization”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended June 30, 2014. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Organization’s federal programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for each of the Organization’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on each major federal program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on internal control over compliance

Management of the Organization is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Intended purpose

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Boston, Massachusetts
February 3, 2015

PARTNERS IN HEALTH
 Schedule of Findings and Questioned Costs
 For The Year Ended June 30, 2014

Section 1

Summary of Auditor's Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |

4. Identification of major programs:

CFDA Number

93.067

Name of Federal Program or Cluster

Global Aids

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$496,049 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

PARTNERS IN HEALTH
Schedule of Findings and Questioned Costs - Continued
For the year ended June 30, 2014

Section 2

Financial Statement Findings

No financial statement findings noted

Section 3

Federal Award Findings and Questioned Costs

No federal award findings and questioned costs noted.