



# **Consolidated Financial Statements**

## **Partners In Health**

**June 30, 2018 and 2017**



# PARTNERS IN HEALTH

## *Consolidated Financial Statements*

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## *Independent Auditors' Report*

Board of Directors  
Partners In Health  
Boston, Massachusetts

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Partners In Health as of June 30, 2018 and 2017, 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.

*Maye Hayeman McCann P.C.*

November 8, 2018  
Boston, Massachusetts

**PARTNERS IN HEALTH**

*Consolidated Statements of Financial Position*

	<i>June 30,</i>	
	<i>2018</i>	<i>2017</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 27,566,825	\$ 22,320,044
Contributions receivable	185,227	195,391
Grants and other receivables, net	7,804,088	10,256,136
Prepaid expenses and other assets	5,709,001	4,290,577
Investments, at fair value	28,101,324	29,951,545
Property and equipment, net	<u>12,352,394</u>	<u>5,481,081</u>
<b>Total assets</b>	<b>\$ <u>81,718,859</u></b>	<b>\$ <u>72,494,774</u></b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 14,498,302	\$ 12,755,985
Deferred revenue	<u>2,398,559</u>	<u>9,315,884</u>
<b>Total liabilities</b>	<b><u>16,896,861</u></b>	<b><u>22,071,869</u></b>
Net assets:		
Unrestricted	31,280,370	24,350,285
Temporarily restricted	27,592,576	21,175,568
Permanently restricted	<u>5,949,052</u>	<u>4,897,052</u>
<b>Total net assets</b>	<b><u>64,821,998</u></b>	<b><u>50,422,905</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>81,718,859</u></b>	<b>\$ <u>72,494,774</u></b>

**PARTNERS IN HEALTH**

*Consolidated Statements of Activities*

*Years Ended June 30, 2018 and 2017*

	<u>2018</u>			<u>2017</u>	
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
Revenue, gains and other support:					
Contributions	\$ 72,658,920	\$ 33,531,647	\$ 1,052,000	\$ 107,242,567	\$ 95,723,540
Government and other grants and contracts	64,043	33,654,640	-	33,718,683	31,254,410
Gifts in kind and contributed services	5,953,302	2,089,633	-	8,042,935	3,353,231
Investment return	369,551	255,775	-	625,326	1,017,024
Gain on sale of asset and other income	1,916,937	205,112	-	2,122,049	1,381,951
Amounts appropriated for expenditure under spending policy	39,724	(39,724)	-	-	-
Net assets released from restrictions	63,276,393	(63,276,393)	-	-	-
<b>Total revenue, gains and other support</b>	<b>144,278,870</b>	<b>6,420,690</b>	<b>1,052,000</b>	<b>151,751,560</b>	<b>132,730,156</b>
Expenses:					
Program services	124,345,114	-	-	124,345,114	134,543,827
Development	6,398,257	-	-	6,398,257	4,991,374
General and administration	9,880,349	-	-	9,880,349	9,558,980
<b>Total expenses</b>	<b>140,623,720</b>	<b>-</b>	<b>-</b>	<b>140,623,720</b>	<b>149,094,181</b>
Changes in net assets from operations	3,655,150	6,420,690	1,052,000	11,127,840	(16,364,025)
Change in value of charitable gift annuity	-	(3,682)	-	(3,682)	(15,112)
Reclassification of capital assets expensed in prior year (Note 2)	3,094,100	-	-	3,094,100	-
Foreign currency translation adjustment	180,835	-	-	180,835	105,664
<b>Change in net assets for the year</b>	<b>6,930,085</b>	<b>6,417,008</b>	<b>1,052,000</b>	<b>14,399,093</b>	<b>(16,273,473)</b>
Net assets, beginning of year	24,350,285	21,175,568	4,897,052	50,422,905	66,696,378
<b>Net assets, end of year</b>	<b>\$ 31,280,370</b>	<b>\$ 27,592,576</b>	<b>\$ 5,949,052</b>	<b>\$ 64,821,998</b>	<b>\$ 50,422,905</b>

**PARTNERS IN HEALTH**

*Consolidated Statement of Activities*

*Year Ended June 30, 2017*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Revenue, gains and other support:				
Contributions	\$ 58,320,734	\$ 37,350,406	\$ 52,400	\$ 95,723,540
Government and other grants and contracts	1,090,194	30,164,216	-	31,254,410
Gifts in kind and contributed services	2,781,329	571,902	-	3,353,231
Investment return	588,079	428,945	-	1,017,024
Gain on sale of asset and other income	757,474	624,477	-	1,381,951
Transfers to endowment	-	(25,000)	25,000	-
Amounts appropriated for expenditure under spending policy	285,637	(285,637)	-	-
Net assets released from restrictions	65,521,610	(65,521,610)	-	-
<b>Total revenue, gains and other support</b>	<b><u>129,345,057</u></b>	<b><u>3,307,699</u></b>	<b><u>77,400</u></b>	<b><u>132,730,156</u></b>
Expenses:				
Program services	134,543,827	-	-	134,543,827
Development	4,991,374	-	-	4,991,374
General and administration	9,558,980	-	-	9,558,980
<b>Total expenses</b>	<b><u>149,094,181</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>149,094,181</u></b>
Changes in net assets from operations	(19,749,124)	3,307,699	77,400	(16,364,025)
Change in value of charitable gift annuity	-	-	(15,112)	(15,112)
Foreign currency translation adjustment	105,664	-	-	105,664
<b>Change in net assets for the year</b>	<b><u>(19,643,460)</u></b>	<b><u>3,307,699</u></b>	<b><u>62,288</u></b>	<b><u>(16,273,473)</u></b>
Net assets, beginning of year	43,993,745	17,867,869	4,834,764	66,696,378
<b>Net assets, end of year</b>	<b><u>\$ 24,350,285</u></b>	<b><u>\$ 21,175,568</u></b>	<b><u>\$ 4,897,052</u></b>	<b><u>\$ 50,422,905</u></b>

**PARTNERS IN HEALTH**  
**Consolidated Statements of Functional Expenses**  
**Years Ended June 30,**

		2018															
		Program Services											Multi-Site Support		Institutional Support		Total Expenses
		Haiti	Rwanda	Sierra Leone	Liberia	Lesotho	Peru	Malawi	Russia	endTB	UGHE	US Strategy	Mexico		Development	Administration	
Human resources	\$	1,445,939	\$ 6,575,212	\$ 3,091,995	\$ 3,403,128	\$ 4,752,659	\$ 4,087,736	\$ 3,034,273	\$ 148,763	\$ 1,424,826	\$ 2,263,645	\$ 320,133	\$ 384,731	\$ 6,921,231	\$ 1,413,900	\$ 5,822,006	\$ 45,090,177
Consumables		6,353,110	4,855,125	1,125,888	1,095,716	1,153,910	1,036,858	820,028	1,326	3,241,058	124,587	10,948	276,061	474,594	87,242	27,413	20,683,864
Durable goods		229,575	247,185	37,268	72,644	75,300	645,782	70,037	115	36,646	53,323	312	652	65,738	19,177	238,418	1,792,172
Operations		1,506,360	3,432,500	1,111,258	1,749,124	1,432,548	2,484,183	919,169	96,386	1,156,829	1,439,450	123,030	118,651	3,661,793	4,053,470	1,273,797	24,558,548
Administration		5,381	244,338	252,343	513,895	86,898	977,014	193,611	5,034	305,202	297,839	1,338	41,841	175,593	824,468	2,497,153	6,421,948
Infrastructure & equipment		182,770	1,040,250	90,174	181,518	48,775	35,005	100,481	-	-	54,471	9,579	29,353	180,196	-	21,561	1,974,133
Grants to partner organizations		31,700,727	691,097	4,695	4,507	427	587,332	62,882	-	5,199,277	4,608	1,238,474	12,000	596,852	-	-	40,102,878
<b>Total functional expenses</b>	<b>\$</b>	<b>41,423,862</b>	<b>17,085,707</b>	<b>5,713,621</b>	<b>7,020,532</b>	<b>7,550,517</b>	<b>9,853,910</b>	<b>5,200,481</b>	<b>251,624</b>	<b>11,363,838</b>	<b>4,237,923</b>	<b>1,703,814</b>	<b>863,289</b>	<b>12,075,997</b>	<b>6,398,257</b>	<b>9,880,348</b>	<b>140,623,720</b>
		2017															
		Program Services											Multi-Site Support		Institutional Support		Total Expenses
		Haiti	Rwanda	Sierra Leone	Liberia	Lesotho	Peru	Malawi	Russia	endTB	UGHE	US Strategy	Mexico		Development	Administration	
Human resources	\$	1,783,223	\$ 6,585,827	\$ 4,385,726	\$ 4,782,196	\$ 4,216,232	\$ 3,346,116	\$ 2,813,904	\$ 620,085	\$ 1,104,049	\$ 1,523,773	\$ 658,565	\$ 447,449	\$ 9,723,924	\$ 928,927	\$ 5,470,386	\$ 48,390,382
Consumables		6,315,496	2,255,006	1,203,851	2,194,637	913,635	549,368	821,234	94,598	185,481	118,382	11,594	286,480	51,005	98,040	270,895	15,369,702
Durable goods		309,030	362,866	99,507	272,194	78,452	406,930	54,345	6,443	21,703	52,470	11,722	6,697	92,128	19,515	174,642	1,968,644
Operations		985,193	3,289,884	1,336,019	2,901,172	1,257,635	1,974,985	1,039,531	241,064	700,096	3,395,243	177,402	92,116	5,237,728	3,111,152	984,533	26,723,753
Administration		26,754	199,326	37,831	242,604	61,357	618,452	122,222	18,336	60,440	346,954	12,081	4,383	542,801	833,740	2,638,757	5,766,038
Infrastructure & equipment		2,126,241	895,821	48,657	789,200	58,348	177,082	197,082	-	(535)	47,555	-	4,883	260,278	-	19,767	4,624,306
Grants to partner organizations		35,904,611	660,455	-	105,679	-	108,945	-	23,389	7,745,652	5,000	1,667,821	11,500	18,304	-	-	46,251,356
<b>Total functional expenses</b>	<b>\$</b>	<b>47,450,548</b>	<b>14,249,185</b>	<b>7,111,591</b>	<b>11,287,682</b>	<b>6,585,659</b>	<b>7,181,805</b>	<b>5,048,318</b>	<b>1,003,915</b>	<b>9,816,886</b>	<b>5,489,377</b>	<b>2,539,185</b>	<b>853,508</b>	<b>15,926,168</b>	<b>4,991,374</b>	<b>9,558,980</b>	<b>149,094,181</b>

See accompanying notes to the consolidated financial statements.



**PARTNERS IN HEALTH**  
**Consolidated Statements of Cash Flows**

*Years Ended June 30,*

	<i>2018</i>	<i>2017</i>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 14,399,093	\$ (16,273,473)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,521,701	1,595,296
Net realized and unrealized gains on investments	(48,092)	(121,023)
Net realized and unrealized (gain) loss on foreign currency contract	325,759	(22,554)
(Gain) loss on sale of property and equipment	(697,643)	139,595
Change in value of charitable gift annuity	(3,682)	(15,112)
Cash collected on contributions restricted for long-term investment	(1,052,000)	(52,400)
Loss on value of charitable gift annuity	3,682	15,112
Reclassification of capital assets expensed in prior year	(3,094,100)	-
Changes in operating assets and liabilities:		
Contributions receivable	10,164	(190,808)
Grants and other receivables, net	2,452,048	(4,531,052)
Prepaid expenses and other assets	(1,418,424)	959,134
Accounts payable and accrued expenses	1,742,317	941,998
Deferred revenue	(6,917,325)	9,315,884
<b>Net cash provided by (used in) operating activities</b>	<b><u>7,223,498</u></b>	<b><u>(8,239,403)</u></b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(5,626,236)	(270,764)
Proceeds from sale of property and equipment	1,024,965	-
Proceeds from the sale of investments	7,438,371	6,600,159
Purchases of investments	(5,865,817)	(6,579,849)
<b>Net cash provided by investing activities</b>	<b><u>(3,028,717)</u></b>	<b><u>(250,454)</u></b>
<b>Cash flows from financing activities:</b>		
Cash collected on contributions restricted for long-term investment	1,052,000	52,400
<b>Net cash provided by financing activities</b>	<b><u>1,052,000</u></b>	<b><u>52,400</u></b>
<b>Net change in cash and cash equivalents</b>	<b>5,246,781</b>	<b>(8,437,457)</b>
Cash and cash equivalents, beginning of year	22,320,044	30,757,501
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 27,566,825</u></b>	<b><u>\$ 22,320,044</u></b>

See accompanying notes to the consolidated financial statements.

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### ***Note 1 - Organization***

Partners In Health, a Nonprofit Corporation (“PIH” or the “Organization”) is an international nongovernmental organization dedicated to delivering high 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), Partners In Health Ethiopia, The University of Global Health Equity (Rwanda), and Partners In Health Canada. Partners In Health Russia ceased operations during 2018. 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. PIH will issue grants to and will subcontract with the partner organizations.

### ***Note 2 - 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, Liberia, Sierra Leone, Rwanda, Lesotho, Malawi, Mexico, Ethiopia, and Canada. 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), Partners In Health Ethiopia, The University of Global Health Equity, 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, vacation accruals, and valuation of gifts in kind and contributed services.

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *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. Cash and cash equivalents held by investment managers are considered to be part of investments.

PIH maintains its cash balances at several financial institutions, which, at times, may exceed federally insured limits. In addition, cash and cash equivalents in foreign institutions are subject to differing rules and risks. PIH monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

#### *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 amounts on accounts receivable are determined on the basis of loss experience, known and inherent risks and current economic conditions.

#### *Investments*

Investments are carried at fair value. Changes in fair value are reported in the accompanying consolidated statements of activities as investment return.

Purchases and sales of securities are reflected on a trade-date basis. Realized 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 except in the case of facilities and equipment of hospitals and health care centers operated in partnership with local governments. PIH provides for depreciation and amortization using the straight-line method over the estimated useful lives:

Buildings and improvements	25-40 years
Leasehold improvements	Over lesser of asset life or lease term
Vehicles and equipment	3-5 years
Capitalized software	5-10 years

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Property and Equipment (Continued)*

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. In 2018, PIH evolved this policy to deal with a case in which it will retain full ownership of a facility operated in Rwanda from a practice of expensing such consistent with the above policy, to one in which such costs are capitalized. Prior year costs, which were previously expensed, totaled \$3,094,100 which is shown as non-operating gain for fiscal year 2018 to reflect prior costs expensed as capital assets.

#### *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 net assets* – includes unrestricted funds for general operations, support used in operations after meeting initial grantor or donor restrictions, and unrestricted net assets. Also included in unrestricted net assets is a board-designated fund established to set aside monies for the purpose of assuring longer term stability and sustainability and ensuring steady support for core programs, while allowing for planning and implementation of longer term initiatives. 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, 2018 and 2017, the fund’s balance was \$15,554,278 and \$15,444,025, respectively. The large majority of this fund is invested in corporate fixed income, 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 and appreciation on permanently restricted funds.
- *Permanently restricted net assets* – net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by our actions. The restrictions stipulate that resources be maintained permanently but permit PIH to expend the income generated in accordance with the provisions of the investment policy and agreements.

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Recognition of Revenue and Deferred 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 verifiably committed 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 or permanently restricted net assets. One donor made up approximately 23% of contribution revenue for the year ended June 30, 2018.

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.

#### *Foreign Currency Translation*

The functional currency for the majority of PIH's affiliates 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 weekly or monthly spot rate. 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 statements 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.

#### *Reclassifications*

Certain amounts reported in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### ***Note 3 - 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.

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.

No allowance for doubtful accounts was considered necessary at June 30, 2018 or 2017.

### ***Note 4 - Investments and Fair Value of Financial Instruments***

All investments have daily liquidity, except the private equity investments, which are illiquid. The private equity fund investments are valued at NAV and consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. 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.

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 for investments other than those valued at NAV. The three levels of the fair value hierarchy are described below.

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

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

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

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 4 - Investments and Fair Value of Financial Instruments (Continued)*

The following tables summarize PIH's investments in accordance with the fair value hierarchy as of June 30:

<b>2018</b>					
<i>Investments</i>					
<i>Measured</i>					
<i>Total</i>	<i>at NAV</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
<b><i>Investments</i></b>					
Cash equivalents	\$ 1,969,236	\$ -	\$ 1,969,236	\$ -	\$ -
Mutual funds	1,106,096	-	1,106,096	-	-
Equity securities	4,771,090	-	4,771,090	-	-
Fixed income	19,540,720	-	-	19,540,720	-
Real estate investment trusts	200,039	-	-	200,039	-
Private equity and alternatives	489,766	489,766	-	-	-
Split interest agreements:					
Insurance contract	24,377	-	-	-	24,377
	<u>24,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,377</u>
<b>Total assets at fair value</b>	<b>\$ 28,101,324</b>	<b>\$ 489,766</b>	<b>\$ 7,846,422</b>	<b>\$ 19,740,759</b>	<b>\$ 24,377</b>
<b>2017</b>					
<i>Investments</i>					
<i>Measured</i>					
<i>Total</i>	<i>at NAV</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
<b><i>Investments</i></b>					
Cash equivalents	\$ 1,417,797	\$ -	\$ 1,417,797	\$ -	\$ -
Mutual funds	923,087	-	923,087	-	-
Equity securities	3,677,462	-	3,677,462	-	-
Fixed income	22,984,039	-	-	22,984,039	-
Real estate investment trusts	325,003	-	-	325,003	-
Private equity and alternatives	596,098	596,098	-	-	-
Split interest agreements:					
Insurance contract	28,059	-	-	-	28,059
	<u>28,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,059</u>
<b>Total assets at fair value</b>	<b>\$ 29,951,545</b>	<b>\$ 596,098</b>	<b>\$ 6,018,346</b>	<b>\$ 23,309,042</b>	<b>\$ 28,059</b>

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 4 - Investments and Fair Value of Financial Instruments (Continued)*

The composition of investment return is as follows as of June 30:

	<b>2018</b>	<b>2017</b>
Interest and dividends	\$ 899,311	\$ 873,447
Net realized gains	203,736	88,974
Net unrealized gains (losses)	<u>(481,403)</u>	<u>54,603</u>
<b>Investment return</b>	<b>\$ <u>621,644</u></b>	<b>\$ <u>1,017,024</u></b>

There were no significant transfers between the levels within the fair value hierarchy during fiscal 2018 or 2017. The Level 3 rollforward has been omitted given insignificance of amounts.

Unfunded capital commitments were \$184,860 at June 30, 2018.

### *Note 5 - Property and Equipment*

Property and equipment is summarized as follows at June 30:

	<b>2018</b>	<b>2017</b>
Land	\$ 1,404,886	\$ 310,076
Building and improvements	7,455,381	905,891
Equipment and furniture	2,361,196	2,123,072
Vehicles	4,448,084	4,314,867
Capitalized software	<u>2,331,730</u>	<u>2,307,993</u>
Total property and equipment, gross	18,001,277	9,961,899
Less accumulated depreciation and amortization	<u>(5,648,883)</u>	<u>(4,480,818)</u>
<b>Total property and equipment, net</b>	<b>\$ <u>12,352,394</u></b>	<b>\$ <u>5,481,081</u></b>

Depreciation and amortization of \$1,521,701 and \$1,595,296 for the years ended June 30, 2018 and 2017, respectively, are included as expenses in the consolidated statements of activities. During 2018, PIH sold a building in Peru and several vehicles for a gain of approximately \$697,643.



# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 6 - Net Assets and Endowment Related Matters*

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets include the following at June 30:

<b>2018</b>					
		<b><i>Beginning Balance</i></b>	<b><i>Additions</i></b>	<b><i>Releases and Transfer to Endowment</i></b>	<b><i>Ending Balance</i></b>
UGHE	\$	8,323,669	\$ 12,327,221	\$ (7,910,855)	\$ 12,740,035
Multi-Site Support		1,109,073	23,143,044	(20,171,455)	4,080,662
Haiti		3,021,624	14,506,458	(14,734,529)	2,793,553
Rwanda		4,084,816	3,369,136	(4,846,613)	2,607,339
Liberia		1,885,004	2,223,243	(1,844,021)	2,264,226
US Strategy		1,276,733	1,646,794	(1,751,512)	1,172,015
Sierra Leone		182,758	1,998,206	(1,422,014)	758,950
Mexico		595,192	740,423	(835,241)	500,374
Accumulated Unspent Gains		223,946	252,094	(39,724)	436,316
Malawi		26,046	465,486	(402,527)	89,005
Lesotho		345,500	1,824,751	(2,092,625)	77,626
Peru		101,207	7,236,269	(7,265,001)	72,475
		<b>21,175,568</b>	<b>69,733,125</b>	<b>(63,316,117)</b>	<b>27,592,576</b>
<b>Total</b>	<b>\$</b>	<b>21,175,568</b>	<b>\$ 69,733,125</b>	<b>\$ (63,316,117)</b>	<b>\$ 27,592,576</b>
<b>2017</b>					
		<b><i>Beginning Balance</i></b>	<b><i>Additions</i></b>	<b><i>Releases and Transfer to Endowment</i></b>	<b><i>Ending Balance</i></b>
UGHE	\$	3,425,313	\$ 10,611,837	\$ (5,713,481)	\$ 8,323,669
Rwanda		4,547,449	4,225,479	(4,688,112)	4,084,816
Haiti		3,323,147	21,912,385	(22,213,908)	3,021,624
Liberia		3,987,587	2,923,498	(5,026,081)	1,885,004
Multi-Site Support		713,642	15,721,170	(15,325,739)	1,109,073
US Strategy		989,171	3,045,282	(2,757,720)	1,276,733
Mexico		479,048	820,022	(703,878)	595,192
Lesotho		-	2,247,386	(1,901,886)	345,500
Sierra Leone		98,485	1,352,853	(1,268,580)	182,758
Peru		59,900	5,327,050	(5,285,743)	101,207
Malawi		46,101	198,477	(218,532)	26,046
Accumulated Unspent Gains		148,696	360,887	(285,637)	223,946
EndTB		47,293	-	(47,293)	-
Russia		2,037	393,620	(395,657)	-
		<b>17,867,869</b>	<b>69,139,946</b>	<b>(65,832,247)</b>	<b>21,175,568</b>
<b>Total</b>	<b>\$</b>	<b>17,867,869</b>	<b>\$ 69,139,946</b>	<b>\$ (65,832,247)</b>	<b>\$ 21,175,568</b>

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 6 - Net Assets and Endowment Related Matters (Continued)*

#### *Permanently Restricted Net Assets*

The PIH endowment is a grouping of several endowment funds, including the Ophelia Dahl Endowment, designed to provide longer term funding for both general operations and specific initiatives.

Endowment net assets consisted of the following at June 30, 2018 and 2017:

	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets at July 1, 2016	\$ <u>148,696</u>	\$ <u>4,834,764</u>	\$ <u>4,983,460</u>
Contributions and additions	-	52,400	52,400
Transfers for establishment of endowment	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Total additions and transfers	<u>(25,000)</u>	<u>77,400</u>	<u>52,400</u>
Investment return:			
Interest and dividends, net of investment expenses	109,549	-	109,549
Net realized and unrealized gains	<u>276,338</u>	<u>-</u>	<u>276,338</u>
Total investment return	<u>385,887</u>	<u>-</u>	<u>385,887</u>
Expenditures:			
Change in value of charitable gift annuity	-	(15,112)	(15,112)
Amounts appropriated for expenditure	<u>(285,637)</u>	<u>-</u>	<u>(285,637)</u>
Total expenditures	<u>(285,637)</u>	<u>(15,112)</u>	<u>(300,749)</u>
Net change in endowment assets and those functioning as endowment assets	<u>75,250</u>	<u>62,288</u>	<u>137,538</u>
Endowment assets and those functioning as endowment assets at June 30, 2017	<u>223,946</u>	<u>4,897,052</u>	<u>5,120,998</u>
Contributions and additions	<u>-</u>	<u>1,052,000</u>	<u>1,052,000</u>
Total additions and transfers	<u>-</u>	<u>1,052,000</u>	<u>1,052,000</u>
Investment return:			
Interest and dividends, net of investment expenses	120,110	-	120,110
Net realized and unrealized gains	<u>135,666</u>	<u>-</u>	<u>135,666</u>
Total investment return	<u>255,776</u>	<u>-</u>	<u>255,776</u>
Expenditures:			
Change in value of charitable gift annuity	(3,682)	-	(3,682)
Amounts appropriated for expenditure	<u>(39,724)</u>	<u>-</u>	<u>(39,724)</u>
Total expenditures	<u>(43,406)</u>	<u>-</u>	<u>(43,406)</u>
Net change in endowment assets and those functioning as endowment assets	<u>212,370</u>	<u>1,052,000</u>	<u>1,264,370</u>
<b>Endowment assets and those functioning as endowment assets at June 30, 2018</b>	<b>\$ <u>436,316</u></b>	<b>\$ <u>5,949,052</u></b>	<b>\$ <u>6,385,368</u></b>

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 6 - Net Assets and Endowment Related Matters (Continued)*

#### *Permanently Restricted Net Assets (Continued)*

The funds held by the permanently and temporarily restricted net assets categories all represent corpus and accumulated unspent gains that are available to support the various programs of PIH. These funds support general operations without further proviso and are subject to the appropriation policies of the Board of Directors.

#### *Interpretation of Relevant Law*

The Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by PIH in a manner consistent with the standard of prudence prescribed by state law.

#### *Spending Policy*

State law allows the Board of Directors to appropriate a percentage of net asset appreciation as is prudent considering PIH's long- and short-term needs, present and anticipated financial requirements, and expected total return on investments, price level trends, and general economic conditions. The Organization's endowment spending policy is calculated as 80% of distributions in the prior year adjusted for the applicable inflation/deflation rate plus 20% times 4% to 5% of the average 12 month market value of the endowment. For the year ended June 30, 2018, \$273,718 was calculated and approved for spending, of which \$39,724 was spent in accordance with the corresponding purpose. For the year ended June 30, 2017, \$285,637 was appropriated for spending.

#### *Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets included those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate of return objectives, PIH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). PIH targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, PIH seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 7 - Line of Credit*

PIH maintains a \$6 million line of credit with a bank 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% (4.592% at June 30, 2018). PIH must repay the full principal and interest outstanding by December 31<sup>st</sup> each year and cannot borrow again for a period of 60 days. The line is subject to annual review by its bank each January. The Organization is also obligated to its bank under a letter of credit agreement for \$500,000 which uses part of the amount available under the line of credit. The letter of credit serves as collateral for PIH's headquarters lease. There were no outstanding borrowings on the line at June 30, 2018 and 2017.

### *Note 8 - Gifts in Kind and Contributed Services*

PIH receives donations of medicines and other goods, as well as contributed legal services without charge. PIH also has relationships with various hospitals that provide healthcare and pathology services for PIH patients for minimal fees or free of charge. The estimated fair value of these donations are 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.

Gifts in kind and contributed services is summarized as follows as of June 30:

	<i>2018</i>	<i>2017</i>
Donated medicines and goods	\$ 6,865,423	\$ 2,186,555
Contributed services	<u>1,177,512</u>	<u>1,166,676</u>
<b>Estimated fair value of donations</b>	<b><u>\$ 8,042,935</u></b>	<b><u>\$ 3,353,231</u></b>

## PARTNERS IN HEALTH

### *Notes to Consolidated Financial Statements*

#### *Note 9 - Grants to Partner Organizations*

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

	<b>2018</b>	<b>2017</b>
Zanmi Lasante (Haitian NGO)	\$ 31,563,316	\$ 35,270,293
Médecins Sans Frontières (French NGO)	2,536,610	5,592,230
IRD FZC (UAE NGO working in Pakistan)	1,923,332	1,308,504
Harvard Medical School	1,108,561	875,492
Community Outreach & Patient Empowerment (COPE)	862,572	1,242,521
Brigham and Women's Hospital	351,243	403,141
University of Rwanda	180,009	178,261
Rwanda Military Hospital	178,715	324,431
Stanford University	149,322	57,587
Boston Medical Center	81,458	-
Eugene Bell Foundation (US NGO working in North Korea)	72,135	81,144
Rwanda Network of People Living with HIV	64,752	-
Rwanda Diabetes Association	60,456	-
Partners in Agriculture	-	202,720
Summits Education	-	150,000
Last Mile Health (US NGO working in Liberia)	-	90,255
Other	970,397	474,777
<b>Total</b>	<b>\$ 40,102,878</b>	<b>\$ 46,251,356</b>

Grants to Zanmi Lasante in Haiti are for costs of operations, including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, and social support. Grants from PIH to Médecins Sans Frontières (MSF), IRD FZC, Harvard Medical School, Brigham and Women's Hospital, and Eugene Bell Foundation are related to specific activities each organization is performing as a sub-recipient on an endTB grant from UNITAID. Grants to Community Outreach & Patient Empowerment (COPE) are for specific activities taking place in the Navajo Nation. Grants to Rwanda Military Hospital, University of Rwanda, and Stanford University are for activities related to a hepatitis-C clinical trial grant from Gilead Sciences, Inc. Grants to Boston Medical Center and Rwanda Diabetes Association are for activities related to grants for the treatment of non-communicable diseases in Haiti and Rwanda. Grants to the Rwanda Network of People Living with HIV are to support specific grant activities related to improving services for vulnerable populations.

#### *Note 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 \$76,184 and \$274,555 in cash on behalf of fiscal sponsorees as of June 30, 2018 and 2017, respectively.

# PARTNERS IN HEALTH

## *Notes to Consolidated Financial Statements*

### *Note 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 2018 to hedge against foreign currency fluctuations related to the South African Rand. \$(325,759) and \$22,554 is included in net change in unrealized gains/(losses) as of June 30, 2018 and 2017, respectively.

The following is a summary of the foreign currency contract outstanding as of June 30, 2018:

<i>Country</i>	<i>Maturity Dates</i>	<i>Forward Position in U.S. Dollars</i>	<i>Local Currency</i>
South Africa	July 31, 2018 - March 31, 2020	\$ 4,280,000	56,137,669 Rand

### *Note 12 - Commitments*

#### *Leases*

PIH leases certain office space under non-cancelable leases through 2027. Total rental expense amounted to \$3,207,195 in fiscal 2018 and \$3,147,302 in fiscal 2017.

Future minimum lease rentals as of June 30, 2018 are as follows:

	<i>Base</i>	<i>Sublease</i>	<i>Net</i>
2019	\$ 2,205,204	\$ 563,300	\$ 1,641,904
2020	2,071,496	182,620	1,888,876
2021	1,935,216	-	1,935,216
2022	1,818,246	-	1,818,246
2023	1,817,296	-	1,817,296
Thereafter	<u>9,403,375</u>	<u>-</u>	<u>9,403,375</u>
	<b><u>\$ 19,250,833</u></b>	<b><u>\$ 745,920</u></b>	<b><u>\$ 18,504,913</u></b>

### *Note 13 - Retirement Plan*

Partners In Health has a defined contribution retirement plan that covers substantially all U.S.-based employees. The retirement plan is an IRS Code Section 401(k) plan. The Organization provided contributions to the plan of approximately \$320,000 and \$387,000 during the years ended June 30, 2018 and 2017, respectively.

### *Note 14 - 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, 2018 through November 8, 2018, which was the date the consolidated financial statements were available to be issued, and determined that no other subsequent event activity required disclosure.