

Consolidated Financial Statements

Partners In Health

June 30, 2016 and 2015



PARTNERS IN HEALTH

Consolidated Financial Statements

Table of Contents

Financial Statements:

Independent Auditors' Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-21



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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 statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Partners In Health as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Auditors

The financial statements of Partners In Health as of June 30, 2015 were audited by other auditors whose report, dated December 23, 2015, expressed an unmodified opinion on those statements.

Maye Hoffman McCann P.C.

November 29, 2016
Boston, Massachusetts

PARTNERS IN HEALTH

Consolidated Statements of Financial Position

	<i>June 30,</i>	
	<i>2016</i>	<i>2015</i>
Assets		
Cash and cash equivalents	\$ 30,757,501	\$ 84,629,779
Contributions receivable	4,583	81,616
Grants and other receivables, net	5,725,084	13,934,206
Prepaid expenses and other assets	5,249,711	3,184,851
Investments, at fair value	29,828,278	1,433,597
Property and equipment, net	<u>6,945,208</u>	<u>6,587,907</u>
Total assets	\$ <u>78,510,365</u>	\$ <u>109,851,956</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 11,813,987	\$ 8,438,932
Deferred revenue	<u>-</u>	<u>266,678</u>
Total liabilities	<u>11,813,987</u>	<u>8,705,610</u>
Net assets:		
Unrestricted:		
Foreign currency translation adjustment	(696,557)	(533,204)
Undesignated	9,602,149	9,602,149
Board-designated: Thomas J. White Fund	<u>35,088,153</u>	<u>57,602,926</u>
Total unrestricted net assets	43,993,745	66,671,871
Temporarily restricted	17,867,869	34,474,475
Permanently restricted	<u>4,834,764</u>	<u>-</u>
Total net assets	<u>66,696,378</u>	<u>101,146,346</u>
Total liabilities and net assets	\$ <u>78,510,365</u>	\$ <u>109,851,956</u>

PARTNERS IN HEALTH

Consolidated Statements of Activities

Years Ended June 30, 2016 and 2015

	2016				2015	
	<i>Unrestricted</i>		<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
	<i>Undesignated</i>	<i>Board-designated: Thomas J. White Fund</i>				
Revenue, gains and other support:						
Contributions	\$ 48,122,691	\$ 50,000	\$ 27,796,825	\$ 520,112	\$ 76,489,628	\$ 153,314,965
Government and other grants and contracts	518,974	-	29,553,399	-	30,072,373	39,281,962
Gifts in kind and contributed services	1,504,652	-	2,784,042	-	4,288,694	3,505,066
Investment return	130,049	571,204	346,225	-	1,047,478	139,562
Gain on sale of asset and other income	1,106,776	-	228,639	-	1,335,415	775,603
Transfers for establishment of endowment	-	-	(4,314,652)	4,314,652	-	-
Transfers to support designated operating expenses	23,104,645	(23,104,645)	-	-	-	-
Net assets released from restrictions	73,001,084	-	(73,001,084)	-	-	-
Total revenue, gains and other support	147,488,871	(22,483,441)	(16,606,606)	4,834,764	113,233,588	197,017,158
Expenses:						
Program services	134,966,043	-	-	-	134,966,043	125,383,823
Development	3,283,725	-	-	-	3,283,725	2,321,642
General and administration	9,239,103	31,332	-	-	9,270,435	6,012,225
Total expenses	147,488,871	31,332	-	-	147,520,203	133,717,690
Changes in net assets from operations	-	(22,514,773)	(16,606,606)	4,834,764	(34,286,615)	63,299,468
Foreign currency translation adjustment	(163,353)	-	-	-	(163,353)	(442,042)
Change in net assets for the year	(163,353)	(22,514,773)	(16,606,606)	4,834,764	(34,449,968)	62,857,426
Net assets, beginning of year	9,068,945	57,602,926	34,474,475	-	101,146,346	38,288,920
Net assets, end of year	\$ 8,905,592	\$ 35,088,153	\$ 17,867,869	\$ 4,834,764	\$ 66,696,378	\$ 101,146,346

PARTNERS IN HEALTH

Consolidated Statement of Activities

Year Ended June 30, 2015

	<i>Unrestricted</i>			<i>Total</i>
	<i>Undesignated</i>	<i>Board-designated: Thomas J. White Fund</i>	<i>Temporarily Restricted</i>	
Revenue, gains and other support:				
Contributions	\$ 53,056,700	\$ 42,001,421	\$ 58,256,844	\$ 153,314,965
Government and other grants and contracts	23,687	-	39,258,275	39,281,962
Gifts in kind and contributed services	944,805	-	2,560,261	3,505,066
Investment return	105,126	34,375	61	139,562
Gain on sale of asset and other income	579,154	-	196,449	775,603
Net assets released from restrictions	79,046,027	-	(79,046,027)	-
Total revenue, gains and other support	133,755,499	42,035,796	21,225,863	197,017,158
Expenses:				
Program services	125,383,823	-	-	125,383,823
Development	2,321,642	-	-	2,321,642
General and administration	5,999,298	12,927	-	6,012,225
Total expenses	133,704,763	12,927	-	133,717,690
Changes in net assets from operations	50,736	42,022,869	21,225,863	63,299,468
Foreign currency translation adjustment	(442,042)	-	-	(442,042)
Change in net assets for the year	(391,306)	42,022,869	21,225,863	62,857,426
Net assets, beginning of year	9,460,251	15,580,057	13,248,612	38,288,920
Net assets, end of year	\$ 9,068,945	\$ 57,602,926	\$ 34,474,475	\$ 101,146,346

PARTNERS IN HEALTH
Consolidated Statements of Functional Expenses

Years Ended June 30, 2016 and 2015

	Program Services											Institutional Support		2016 Total Expenses	
	Haiti	Rwanda	Sierra Leone	Liberia	Lesotho	Peru	Malawi	Russia	endTB	US Strategy	Mexico	Multi-Site Support	Development		Administration
Human resources	\$ 2,244,027	\$ 7,903,204	\$ 6,719,190	\$ 4,053,109	\$ 3,132,338	\$ 2,752,703	\$ 2,581,303	\$ 818,204	\$ 2,056,917	\$ 779,716	\$ 447,622	\$ 9,183,032	\$ 723,364	\$ 5,605,739	\$ 49,000,468
Consumables	7,895,978	4,012,069	2,041,280	819,273	589,311	394,814	637,222	94,814	2,350,906	39,192	208,224	78,751	49,113	623,377	19,834,324
Durable goods	727,716	171,034	779,755	467,708	220,999	144,819	346,137	57,900	33,479	27,115	6,770	1,373,539	18,220	245,658	4,620,849
Infrastructure	1,469,058	736,556	945,540	672,451	33,232	5,030	376,284	-	-	-	757	1,853	-	172,079	4,412,840
Operations	985,426	2,028,723	2,353,780	2,071,663	732,501	882,014	969,977	241,233	111,817	4,009	98,916	1,872,053	44,597	1,162,704	13,559,413
Travel, prof svcs, printing & other	1,848,481	2,114,539	606,450	748,224	406,691	942,046	323,060	178,868	1,022,053	277,790	40,885	4,047,506	2,448,430	1,458,021	16,463,044
Social support payments	44,152	793,879	113,647	189,934	13,134	63,909	61,771	7,183	964	-	-	700	-	-	1,289,273
Grants to partner organizations	33,314,336	23,847	8,578	47,699	-	46,528	-	24,029	3,708,028	464,218	15,940	683,931	-	2,858	38,339,992
Total functional expenses	\$ 48,529,174	\$ 17,783,851	\$ 13,568,220	\$ 9,070,061	\$ 5,128,206	\$ 5,231,863	\$ 5,295,754	\$ 1,422,231	\$ 9,284,164	\$ 1,592,040	\$ 819,114	\$ 17,241,365	\$ 3,283,724	\$ 9,270,436	\$ 147,520,203

	Program Services											Institutional Support		2015 Total Expenses	
	Haiti	Rwanda	Sierra Leone	Liberia	Lesotho	Peru	Malawi	Russia	endTB	US Strategy	Mexico	Multi-Site Support	Development		Administration
Human resources	\$ 2,469,170	\$ 7,219,531	\$ 7,737,944	\$ 3,306,179	\$ 4,890,570	\$ 2,856,064	\$ 2,551,779	\$ 724,314	\$ 167,340	\$ 428,682	\$ 395,438	\$ 8,014,526	\$ 731,971	\$ 3,468,879	\$ 44,962,387
Consumables	4,797,278	3,362,152	3,133,589	1,226,043	914,437	218,626	458,195	112,726	49,775	40,305	177,982	80,443	70,328	97,632	14,739,511
Durable goods	400,306	306,517	721,694	629,274	70,794	154,020	225,123	26,540	6,092	16,887	4,809	837,962	14,856	144,384	3,559,258
Infrastructure	613,063	1,521,545	122,350	222,994	234,295	6,957	640,933	-	-	-	240	44,690	-	1,042	3,408,109
Operations	1,384,852	2,982,800	3,930,774	1,213,694	898,470	1,630,306	704,626	302,263	10,890	1,013	85,950	349,659	9,434	1,173,413	14,678,144
Travel, prof svcs, printing & other	422,660	1,642,312	1,646,818	945,025	620,493	1,285,483	548,455	256,607	78,801	154,638	27,882	3,410,254	1,483,886	1,126,870	13,650,184
Social support payments	53,450	738,800	91,055	9,410	22,767	72,288	42,655	3,697	-	-	-	8,932	-	-	1,043,054
Grants to partner organizations	32,678,208	17,015	(4)	2,674,895	-	70,580	(10)	-	271,081	202,987	23,869	1,738,422	-	-	37,677,043
Total functional expenses	\$ 42,818,987	\$ 17,790,672	\$ 17,384,220	\$ 10,227,514	\$ 7,651,826	\$ 6,294,324	\$ 5,171,756	\$ 1,426,147	\$ 583,979	\$ 844,512	\$ 716,170	\$ 14,484,888	\$ 2,310,475	\$ 6,012,220	\$ 133,717,690

PARTNERS IN HEALTH

Consolidated Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2016</i>	<i>2015</i>
Cash flows from operating activities:		
Change in net assets	\$ (34,449,968)	\$ 63,299,468
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,380,952	745,297
Net realized and unrealized (gains) losses on investments	(1,047,478)	(135,687)
Net realized and unrealized (gains) losses on foreign currency contract	(52,860)	102,397
Gain on sale of property and equipment	(527,624)	-
Foreign currency translation adjustments	(163,353)	(442,042)
Donated financial assets immediately converted to cash	226,981	53,262
Changes in operating assets and liabilities:		
Contributions receivable	77,033	2,343,335
Grants and other receivables, net	8,209,122	(7,167,197)
Prepaid expenses and other assets	(2,064,860)	(1,055,205)
Accounts payable and accrued expenses	3,375,055	3,855,571
Deferred revenue	(266,678)	-
	<u>(25,303,678)</u>	<u>61,599,199</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(1,542,049)	(2,821,519)
Proceeds from sale of property and equipment	700,000	-
Proceeds from the sale of investments	124,774	138,249
Purchases of investments	(27,851,325)	(3,570)
	<u>(28,568,600)</u>	<u>(2,686,840)</u>
Net cash used in investing activities		
Net change in cash and cash equivalents	(53,872,278)	58,912,359
Cash and cash equivalents, beginning of year	<u>84,629,779</u>	<u>25,717,420</u>
Cash and cash equivalents, end of year	\$ <u>30,757,501</u>	\$ <u>84,629,779</u>

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. 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.

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), Companeros 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.

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

Investments

Investments consist of cash and cash equivalents (which have initial maturities in excess of three months), mutual funds, fixed income securities, equity securities, real estate investment trusts, private equity holdings and insurance contracts. Investments are carried at fair value. Changes in fair value are reported in the accompanying consolidated statements of activities as investment income.

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

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

Property and Equipment

Property and equipment is stated at cost, or if donated, at fair value at the date of donation. PIH provides for depreciation and amortization using the straight-line method over the estimated useful lives:

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.

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* – a board-designated fund was 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, 2016 and 2015, the fund’s balance was \$35,088,153 and \$57,602,926, 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 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 agreements.

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 or permanently restricted net assets.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Recognition of Revenue (Continued)

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 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 2015 financial statements have been reclassified to conform to the 2016 presentation.

During 2016, the Organization retrospectively adopted FASB ASU No. 2015-07, *Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, and investments valued at net asset value ("NAV") are now presented in a separate column in the related footnote disclosure for 2016 and 2015.

Note 3 - Investments and Fair Value of Financial Instruments

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

	2016	2015
Interest and dividends	\$ 448,025	\$ 175,711
Net realized gains (losses)	(9,386)	26,719
Net changes in unrealized gains (losses)	<u>608,839</u>	<u>(62,868)</u>
Total investment return	\$ <u>1,047,478</u>	\$ <u>139,562</u>

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments (Continued)

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 recognizes transfers between fair value hierarchy levels at the approximate date or change in circumstances that causes the transfer.

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

Level 1 - 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.

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2016:

	<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>
<i>Investments</i>					
Cash and cash equivalents	\$ 2,210,166	\$ -	\$ 2,210,166	\$ -	\$ -
Equity	2,664,838	-	2,664,838	-	-
Fixed income	23,485,062	-	-	23,485,062	-
Real estate investment trusts	363,661	-	-	363,661	-
Private equity and alternatives	1,071,578	1,071,578	-	-	-
Split interest agreements:					
Insurance contract	32,973	-	-	-	32,973
Total assets at fair value	\$ 29,828,278	\$ 1,071,578	\$ 4,875,004	\$ 23,848,723	\$ 32,973

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments (Continued)

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

<i>Investments</i>	<i>Total</i>	<i>Investments Measured at NAV</i>	<i>Level 1</i>
Cash and cash equivalents	\$ 367,219	\$ -	\$ 367,219
Mutual funds	226,993	-	226,993
Private equity funds	<u>839,385</u>	<u>839,385</u>	<u>-</u>
Total assets at fair value	\$ <u>1,433,597</u>	\$ <u>839,385</u>	\$ <u>594,212</u>

At June 30, 2016, \$343,723 of the investments measured at net asset value ("NAV") have redemption periods of 90 days or less and \$727,855 have redemption periods of over 90 days.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the years ended June 30, 2016 and 2015:

	<i>Level 3 Roll Forward</i>
Charitable gift annuity balance at June 30, 2015	\$ -
Contributions	<u>32,973</u>
Charitable gift annuity balance at June 30, 2016	\$ <u>32,973</u>

PIH recognizes transfers between fair value hierarchy levels at the approximate date or change in circumstances that causes the transfer. There were no significant transfers between the levels within the fair value hierarchy during fiscal 2016 or 2015.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value of Financial Instruments (Continued)

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, 2016 was \$184,860.

Note 4 - Net Assets and Endowment Related Matters

Temporarily Restricted Net Assets

Temporarily restricted net assets include the following at June 30, 2016:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Releases and Transfer to Endowment</i>	<i>Ending Balance</i>
Rwanda	\$ 3,714,246	\$ 5,206,300	\$ (4,373,097)	\$ 4,547,449
Liberia	7,238,855	6,398,849	(9,650,117)	3,987,587
UGHE	3,621,584	2,359,996	(2,556,267)	3,425,313
Haiti	6,591,610	16,444,219	(19,712,682)	3,323,147
US Strategy	226,891	2,555,315	(1,793,035)	989,171
Multi-Site Support	3,819,829	4,911,636	(7,869,127)	862,338
Mexico	97,200	1,066,650	(684,802)	479,048
Sierra Leone	8,394,220	5,480,294	(13,776,029)	98,485
Peru	280,872	2,679,620	(2,900,592)	59,900
EndTB	-	10,616,323	(10,569,030)	47,293
Malawi	474,525	669,976	(1,098,400)	46,101
Russia	7,111	486,101	(491,175)	2,037
Lesotho	7,532	1,833,851	(1,841,383)	-
Total	\$ 34,474,475	\$ 60,709,130	\$ (77,315,736)	\$ 17,867,869

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 4 - Net Assets and Endowment Related Matters (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets include the following at June 30, 2015:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Releases</i>	<i>Ending Balance</i>
Rwanda	\$ 1,573,064	\$ 7,550,381	\$ (5,409,199)	\$ 3,714,246
Liberia	-	22,883,921	(15,645,066)	7,238,855
UGHE	-	4,160,693	(539,109)	3,621,584
Haiti	7,732,436	23,047,017	(24,187,843)	6,591,610
US Strategy	41,916	1,104,231	(919,256)	226,891
Multi-Site Support	2,553,148	6,204,431	(4,937,750)	3,819,829
Mexico	358,022	455,244	(716,066)	97,200
Sierra Leone	-	27,547,993	(19,153,773)	8,394,220
Peru	125,601	3,852,205	(3,696,934)	280,872
Malawi	852,699	2,040,559	(2,418,733)	474,525
Russia/Kazakhstan	-	724,491	(717,380)	7,111
Lesotho	11,726	700,724	(704,918)	7,532
Total	\$ <u>13,248,612</u>	\$ <u>100,271,890</u>	\$ <u>(79,046,027)</u>	\$ <u>34,474,475</u>

Permanently Restricted Net Assets

The PIH endowment, established during fiscal year 2016, 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.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 4 - Net Assets and Endowment Related Matters (Continued)

Permanently Restricted Net Assets (Continued)

Endowment net assets consisted of the following at June 30, 2016:

	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets at June 30, 2015	\$ -	\$ -	\$ -	\$ -
Contributions and additions	-	-	520,112	520,112
Transfers for establishment of endowment	-	-	4,314,652	4,314,652
Total additions and transfers	<u>-</u>	<u>-</u>	<u>4,834,764</u>	<u>4,834,764</u>
Investments return:				
Interest and dividends, net of investment expenses	-	24,022	-	24,022
Net realized and unrealized gains	-	124,674	-	124,674
Total investments return	<u>-</u>	<u>148,696</u>	<u>-</u>	<u>148,696</u>
Net change in endowment assets and those functioning as endowment assets	<u>-</u>	<u>148,696</u>	<u>4,834,764</u>	<u>4,983,460</u>
Endowment assets and those functioning as endowment assets at June 30, 2016	<u>\$ -</u>	<u>\$ 148,696</u>	<u>\$ 4,834,764</u>	<u>\$ 4,983,460</u>

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.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 4 - Net Assets and Endowment Related Matters (Continued)

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. As the endowment has not been in existence for 12 full months, no amounts were appropriated for spending during fiscal year 2016.

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.

Note 5 - Receivables

Contributions receivable represent pledges receivable as well as contributions received shortly after the fiscal year end for which PIH was notified by donors prior to year end. All contributions receivable are expected to be collected in fiscal year 2017.

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.

Contributions and grants receivable balances are presented net of allowance for doubtful accounts of \$900,914 and \$164,196 at June 30, 2016 and 2015, respectively.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 6 - Property and Equipment

Property and equipment is summarized as follows:

	2016	2015
Land	\$ 292,659	\$ 466,178
Building and improvements	918,272	633,680
Equipment and furniture	2,944,225	1,967,205
Vehicles	6,618,037	6,096,456
Capitalized software	2,490,664	2,479,891
Total property and equipment, gross	<u>13,263,857</u>	<u>11,643,410</u>
Less accumulated depreciation and amortization	<u>(6,318,649)</u>	<u>(5,055,503)</u>
Total property and equipment, net	\$ <u>6,945,208</u>	\$ <u>6,587,907</u>

Depreciation and amortization of \$1,380,952 and \$745,297 for the years ended June 30, 2016 and 2015, respectively, are included as expenses in the consolidated statements of activities. The building and improvements amount contains \$393,871 of non-cash leasehold improvements, which are also included in accrued expenses, as of June 30, 2016. During 2016, PIH sold land and the building on that land in Peru for approximately \$700,000 for a gain of \$527,624.

Note 7 - Line of Credit

PIH maintains a \$6 million line of credit with RBS Citizens, N.A. d/b/a Citizens Bank primarily for seasonal liquidity needs in advance of the calendar year end giving period. Borrowings accrue interest at a fluctuating per annum interest rate equal to the one month LIBOR Advantage Rate plus 2.5% (2.96% at June 30, 2016). PIH must repay the full principal and interest outstanding no less than once during each fiscal year for a period of sixty consecutive calendar days. The line is subject to an internal annual review by Citizens Bank each January. There were no outstanding borrowings on the line at June 30, 2016.

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 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.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Note 8 - Gifts in Kind and Contributed Services (Continued)

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

	2016	2015
Donated medicines and goods	\$ 2,211,580	\$ 1,014,184
Contributed services	<u>2,077,114</u>	<u>2,490,882</u>
Estimated fair value of donations	<u>\$ 4,288,694</u>	<u>\$ 3,505,066</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.

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:

	2016	2015
Zanmi Lasante (Haitian NGO)	\$ 33,852,540	\$ 33,629,327
Médecins Sans Frontières (French NGO)	1,639,824	-
IRD FZC (UAE NGO working in Pakistan)	886,740	271,081
Harvard Medical School	581,748	-
Brigham and Women's Hospital	500,148	-
Navajo Nation	463,318	202,987
Eugene Bell Foundation (US NGO working in North Korea)	99,568	-
Last Mile Health (US NGO working in Liberia)	47,699	2,674,895
Other	<u>268,407</u>	<u>898,753</u>
Total	<u>\$ 38,339,992</u>	<u>\$ 37,677,043</u>

Grants to Zanmi Lasante in Haiti are for costs of operations, including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, and social support. Grants 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 Last Mile Health are related to funding raised jointly for treating Ebola in Liberia. Grants to Navajo Nation are related to various sub-recipient organizations working on the CDC Reach grant.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

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 \$713,057 and \$98,471 in cash on behalf of fiscal sponsorees as of June 30, 2016 and 2015, respectively.

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 2016 to hedge against foreign currency fluctuations related to the South African Rand. \$12,339 and (\$102,307) is included in net change in unrealized gains/(losses) as of June 30, 2016 and 2015, respectively.

The following is a summary of the foreign currency contract outstanding as of June 30, 2016:

<i>Country</i>	<i>Maturity Dates</i>	<i>Forward Position in U.S. Dollars</i>	<i>Local Currency</i>
South Africa	July 31, 2016 - December 31, 2016	\$ 1,200,000	18,205,960 RAND

Note 12 - Commitments

Leases

PIH leases certain office space under non-cancelable leases. Total rental expense amounted to \$2,201,684 in fiscal 2016 and \$1,951,199 in fiscal 2015.

Future minimum lease rentals as of June 30, 2016 are as follows:

2017	\$ 1,597,757
2018	1,748,416
2019	1,761,220
2020	1,690,370
2021	1,728,956
Thereafter	<u>11,163,042</u>
Total future minimum lease payments	\$ <u>19,689,761</u>

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

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). The Organization provided contributions to the plan of approximately \$371,000 and \$240,000 during the years ended June 30, 2016 and 2015, 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, 2016 through November 29, 2016, which was the date the consolidated financial statements were available to be issued, and determined that no subsequent event activity required disclosure.