Consolidated Financial Statements, Supplemental Information and Reports Required for Audits in Accordance with *Government Auditing Standards* and the *Uniform Guidance*

Partners In Health

June 30, 2017 and 2016

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PARTNERS IN HEALTH

Consolidated Financial Statements, Supplemental Information and Reports Required for Audits in Accordance with Government Auditing Standards and the Uniform Guidance

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Independent Auditors' Report

Board of Directors
Partners In Health
Boston, Massachusetts

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, 2017 and 2016, 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 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 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, 2017 and 2016, 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.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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, including comparing and reconciling such 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 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 November 14, 2017 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 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.

Mayer Hoffman McCann P.C.

November 14, 2017
Boston, Massachusetts

PARTNERS IN HEALTH

Consolidated Statements of Financial Position

	June 30,	
	2017	***2016***
Assets		
Cash and cash equivalents	$ 22,320,044	$ 30,757,501
Contributions receivable	195,391	4,583
Grants and other receivables, net	10,256,136	5,725,084
Prepaid expenses and other assets	4,290,577	5,249,711
Investments, at fair value	29,951,545	29,828,278
Property and equipment, net	5,481,081	6,945,208
Total assets	**$ 72,494,774**	**$ 78,510,365**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 12,755,985	$ 11,813,987
Deferred revenue	9,315,884	-
Total liabilities	**22,071,869**	**11,813,987**
Net assets:		
Unrestricted	24,350,285	43,993,745
Temporarily restricted	21,175,568	17,867,869
Permanently restricted	4,897,052	4,834,764
Total net assets	**50,422,905**	**66,696,378**
Total liabilities and net assets	**$ 72,494,774**	**$ 78,510,365**

See accompanying notes to the consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statements of Activities

Years Ended June 30, 2017 and 2016

	2017				2016
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Total*
Revenue, gains and other support:					
Contributions	$ 58,320,734	$ 37,350,406	$ 52,400	$ 95,723,540	$ 76,489,628
Government and other grants and contracts	1,090,194	30,164,216	-	31,254,410	30,072,373
Gifts in kind and contributed services	2,781,329	571,902	-	3,353,231	4,288,694
Investment return	588,079	428,945	-	1,017,024	1,047,478
Gain on sale of asset and other income	757,474	624,477	-	1,381,951	1,335,415
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)	-	-	-
Total revenue, gains and other support	**129,345,057**	**3,307,699**	**77,400**	**132,730,156**	**113,233,588**
Expenses:					
Program services	134,543,827	-	-	134,543,827	134,906,511
Development	4,991,374	-	-	4,991,374	3,302,864
General and administration	9,558,980	-	-	9,558,980	9,310,828
Total expenses	**149,094,181**	**-**	**-**	**149,094,181**	**147,520,203**
Changes in net assets from operations	(19,749,124)	3,307,699	77,400	(16,364,025)	(34,286,615)
Change in value of charitable gift annuity	-	-	(15,112)	(15,112)	-
Foreign currency translation adjustment	105,664	-	-	105,664	(163,353)
Change in net assets for the year	**(19,643,460)**	**3,307,699**	**62,288**	**(16,273,473)**	**(34,449,968)**
Net assets, beginning of year	43,993,745	17,867,869	4,834,764	66,696,378	101,146,346
Net assets, end of year	**$ 24,350,285**	**$ 21,175,568**	**$ 4,897,052**	**$ 50,422,905**	**$ 66,696,378**

See accompanying notes to the consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statement of Activities

Year Ended June 30, 2016

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Revenue, gains and other support:				
Contributions	$ 48,172,691	$ 27,796,825	$ 520,112	$ 76,489,628
Government and other grants and contracts	518,974	29,553,399	-	30,072,373
Gifts in kind and contributed services	1,504,652	2,784,042	-	4,288,694
Investment return	701,253	346,225	-	1,047,478
Gain on sale of asset and other income	1,106,776	228,639	-	1,335,415
Transfers for establishment of endowment	-	(4,314,652)	4,314,652	-
Net assets released from restrictions	73,001,084	(73,001,084)	-	-
Total revenue, gains and other support	**125,005,430**	**(16,606,606)**	**4,834,764**	**113,233,588**
Expenses:				
Program services	134,906,511	-	-	134,906,511
Development	3,302,864	-	-	3,302,864
General and administration	9,310,828	-	-	9,310,828
Total expenses	**147,520,203**	**-**	**-**	**147,520,203**
Changes in net assets from operations	(22,514,773)	(16,606,606)	4,834,764	(34,286,615)
Foreign currency translation adjustment	(163,353)	-	-	(163,353)
Change in net assets for the year	**(22,678,126)**	**(16,606,606)**	**4,834,764**	**(34,449,968)**
Net assets, beginning of year	66,671,871	34,474,475	-	101,146,346
Net assets, end of year	**$ 43,993,745**	**$ 17,867,869**	**$ 4,834,764**	**$ 66,696,378**

See accompanying notes to the consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statements of Functional Expenses

Years Ended June 30, 2017 and 2016

	Program Services													*Institutional Support*		*2017*
	Haiti	***Rwanda***	***Sierra Leone***	***Liberia***	***Lesotho***	***Peru***	***Malawi***	***Russia***	***endTB***	***UGHE***	***US Strategy***	***Mexico***	***Multi-Site Support***	***Development***	***Administration***	***Total Expenses***
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	177,009	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
Total functional expenses	**$ 47,450,548**	**$ 14,249,185**	**$ 7,111,591**	**$ 11,287,682**	**$ 6,585,659**	**$ 7,181,805**	**$ 5,048,318**	**$ 1,003,915**	**$ 9,816,886**	**$ 5,489,377**	**$ 2,539,185**	**$ 853,508**	**$ 15,926,168**	**$ 4,991,374**	**$ 9,558,980**	**$ 149,094,181**

	Program Services													*Institutional Support*		*2016*
	Haiti	***Rwanda***	***Sierra Leone***	***Liberia***	***Lesotho***	***Peru***	***Malawi***	***Russia***	***endTB***	***UGHE***	***US Strategy***	***Mexico***	***Multi-Site Support***	***Development***	***Administration***	***Total Expenses***
Human resources	$ 2,244,027	$ 7,587,135	$ 6,715,800	$ 3,998,525	$ 3,135,843	$ 2,802,647	$ 2,593,705	$ 818,240	$ 622,011	$ 848,041	$ 779,716	$ 447,622	$ 8,291,186	$ 741,155	$ 5,631,213	$ 47,256,866
Consumables	7,908,191	4,269,537	2,511,803	1,087,946	645,906	406,179	804,656	106,737	2,353,338	53,627	39,285	249,421	33,654	88,163	623,668	21,182,111
Durable goods	352,078	97,309	261,563	134,796	37,622	30,368	(214,754)	23,062	(17,804)	71,634	27,115	(20,809)	563,613	18,220	226,856	1,590,869
Operations	2,091,625	4,736,369	2,483,862	2,534,271	1,017,013	1,628,185	1,096,792	464,700	935,810	1,183,976	266,691	92,153	3,924,581	1,858,716	2,045,178	26,359,922
Administration	760,972	259,373	122,882	261,461	75,213	312,928	78,180	(44,375)	196,592	64,940	15,016	6,451	1,998,922	596,610	575,256	5,280,421
Infrastructure & equipment	1,844,696	810,281	1,463,731	1,005,363	216,609	5,030	937,175	14,918	51,283	734	-	28,335	(522,088)	-	205,799	6,061,866
Grants to partner organizations	33,327,586	23,847	8,578	47,699	-	46,528	-	24,029	3,708,028	-	464,218	15,940	2,118,837	-	2,858	39,788,148
Total functional expenses	**$ 48,529,175**	**$ 17,783,851**	**$ 13,568,219**	**$ 9,070,061**	**$ 5,128,206**	**$ 5,231,865**	**$ 5,295,754**	**$ 1,407,311**	**$ 7,849,258**	**$ 2,222,952**	**$ 1,592,041**	**$ 819,113**	**$ 16,408,705**	**$ 3,302,864**	**$ 9,310,828**	**$ 147,520,203**

PARTNERS IN HEALTH

Consolidated Statements of Cash Flows

	Years Ended June 30, 2017	2016
Cash flows from operating activities:		
Change in net assets	$ (16,273,473)	$ (34,449,968)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,595,296	1,380,952
Net realized and unrealized gains on investments	(121,023)	(546,593)
Net realized and unrealized gains on foreign currency contract	(22,554)	(52,860)
(Gain) loss on sale of property and equipment	139,595	(527,624)
Change in value of charitable gift annuity	(15,112)	-
Foreign currency translation adjustments	-	(163,353)
Donated financial assets immediately converted to cash	-	226,981
Cash collected on contributions restricted for long-term investment	(52,400)	(520,112)
Loss on value of charitable gift annuity	15,112	-
Changes in operating assets and liabilities:		
Contributions receivable	(190,808)	77,033
Grants and other receivables, net	(4,531,052)	8,209,122
Prepaid expenses and other assets	959,134	(2,064,860)
Accounts payable and accrued expenses	941,998	3,375,055
Deferred revenue	9,315,884	(266,678)
Net cash used in operating activities	**(8,239,403)**	**(25,322,905)**
Cash flows from investing activities:		
Purchase of property and equipment	(270,764)	(1,542,049)
Proceeds from sale of property and equipment	-	700,000
Proceeds from the sale of investments	6,600,159	124,774
Purchases of investments	(6,579,849)	(28,352,210)
Net cash provided by investing activities	**(250,454)**	**(29,069,485)**
Cash flows from financing activities:		
Cash collected on contributions restricted for long-term investment	52,400	520,112
Net cash provided by financing activities	**52,400**	**520,112**
Net change in cash and cash equivalents	**(8,437,457)**	**(53,872,278)**
Cash and cash equivalents, beginning of year	30,757,501	84,629,779
Cash and cash equivalents, end of year	**$ 22,320,044**	**$ 30,757,501**

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 Litsebeletsong 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.

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. 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

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 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, 2017 and 2016, the fund's balance was $15,444,025 and $35,088,153, 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 investment policy and agreements.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Recognition of Revenue and Deferred 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 2016 financial statements have been reclassified to conform to the 2017 presentation.

Note 3 - Investments and Fair Value of Financial Instruments

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

	2017	*2016*
Interest and dividends	$ 873,447	$ 448,025
Net realized gains (losses)	88,974	(9,386)
Net change in unrealized gains	54,603	608,839
	$ 1,017,024	**$ 1,047,478**

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 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.

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2017:

	Total	*Investments Measured at NAV*	*Level 1*	*Level 2*	*Level 3*
Investments					
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
Total assets at fair value	**$ 29,951,545**	**$ 596,098**	**$ 6,018,346**	**$ 23,309,042**	**$ 28,059**

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, 2016:

	Total	Investments Measured at NAV	Level 1	Level 2	Level 3
Investments					
Cash equivalents	$ 2,210,166	$ -	$ 2,210,166	$ -	$ -
Mutual funds	343,723	-	343,723	-	-
Equity securities	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	727,855	727,855	-	-	-
Split interest agreements:					
Insurance contract	32,973	-	-	-	32,973
Total assets at fair value	**$ 29,828,278**	**$ 727,855**	**$ 5,218,727**	**$ 23,848,723**	**$ 32,973**

At June 30, 2017, $0 of the investments measured at net asset value ("NAV") have redemption periods of 90 days or less and $596,098 have redemption periods of over 90 days. At June 30, 2016, $0 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, 2017 and 2016:

	Level 3 Roll Forward
Charitable gift annuity balance at July 1, 2016	$ 32,973
Contributions	-
Change in value of charitable gift annuity	(4,914)
Charitable gift annuity balance at June 30, 2017	**$ 28,059**

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 2017 or 2016.

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, 2017 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, 2017:

	Beginning Balance	Additions	Releases and Transfer to Endowment	Ending Balance
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	862,338	16,082,057	(15,611,376)	1,333,019
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
EndTB	47,293	-	(47,293)	-
Russia	2,037	393,620	(395,657)	-
Total	**$ 17,867,869**	**$ 69,139,946**	**$ (65,832,247)**	**$ 21,175,568**

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

Temporarily Restricted Net Assets (Continued)

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

	Beginning Balance	Additions	Releases and Transfer to Endowment	Ending Balance
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**

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.

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

Permanently Restricted Net Assets (Continued)

Endowment net assets consisted of the following at June 30, 2017 and 2016:

	Unrestricted Net Assets	*Temporarily Restricted Net Assets*	*Permanently Restricted Net Assets*	*Total*
Endowment assets and those functioning as endowment assets at July 1, 2016	$ -	$ -	$ -	$ -
Contributions and additions	-	-	520,112	520,112
Transfers for establishment of endowment	-	-	4,314,652	4,314,652
Total additions and transfers	-	-	4,834,764	4,834,764
Investment return:				
Interest and dividends, net of investment expenses	-	24,022	-	24,022
Net realized and unrealized gains	-	124,674	-	124,674
Total investment return	-	148,696	-	148,696
Net change in endowment assets and those functioning as endowment assets	-	148,696	4,834,764	4,983,460
Endowment assets and those functioning as endowment assets at June 30, 2016	-	148,696	4,834,764	4,983,460
Contributions and additions	-	-	52,400	52,400
Transfers for establishment of endowment	-	(25,000)	25,000	-
Total additions and transfers	-	(25,000)	77,400	52,400
Investment return:				
Interest and dividends, net of investment expenses	-	109,549	-	109,549
Net realized and unrealized gains	-	276,338	-	276,338
Total investment return	-	385,887	-	385,887
Expenditures:				
Change in value of charitable gift annuity		-	(15,112)	(15,112)
Amounts appropriated for expenditure	-	(285,637)	-	(285,637)
Total expenditures	-	(285,637)	(15,112)	(300,749)
Net change in endowment assets and those functioning as endowment assets	-	75,250	62,288	137,538
Endowment assets and those functioning as endowment assets at June 30, 2017	**$ -**	**$ 223,946**	**$ 4,897,052**	**$ 5,120,998**

The funds held by the permanently and temporarily restricted net asset 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.

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

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, 2017, $285,637 was appropriated for spending. As the endowment had not been in existence for 12 full months, no amounts were appropriated for spending during fiscal year 2016. The spend policy draw for fiscal year 2018 has been calculated to be $273,718 and is pending approval of the Finance Committee.

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.

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 $0 and $900,914 at June 30, 2017 and 2016, respectively.

Note 6 - Property and Equipment

Property and equipment is summarized as follows:

	2017	*2016*
Land	$ 310,076	$ 292,659
Building and improvements	905,891	918,272
Equipment and furniture	2,123,072	2,944,225
Vehicles	4,314,867	6,618,037
Capitalized software	2,307,993	2,490,664
Total property and equipment, gross	9,961,899	13,263,857
Less accumulated depreciation and amortization	(4,480,818)	(6,318,649)
Total property and equipment, net	**$ 5,481,081**	**$ 6,945,208**

Depreciation and amortization of $1,595,296 and $1,380,952 for the years ended June 30, 2017 and 2016, respectively, are included as expenses in the consolidated statements of activities. 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 Citizens Financial Group, Inc. 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% (3.72% at June 30, 2017). 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. The Organization maintains a letter of credit for $500,000 against the line of credit, which serves as collateral for PIH's headquarters lease. There were no outstanding borrowings on the line at June 30, 2017 and 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 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:

	2017	***2016***
Donated medicines and goods	$ 2,186,555	$ 2,211,580
Contributed services	1,166,676	2,077,114
Estimated fair value of donations	**$ 3,353,231**	**$ 4,288,694**

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:

	2017	2016
Zanmi Lasante (Haitian NGO)	$ 35,270,293	$ 33,852,540
Médecins Sans Frontières (French NGO)	5,592,230	3,074,730
IRD FZC (UAE NGO working in Pakistan)	1,308,504	886,740
Community Outreach & Patient Empowerment (COPE)	1,242,521	463,318
Harvard Medical School	875,492	581,748
Brigham and Women's Hospital	403,141	500,148
Rwanda Military Hospital	324,431	-
Partners in Agriculture	202,720	-
University of Rwanda	178,261	-
Summits Education	150,000	-
Last Mile Health (US NGO working in Liberia)	90,255	47,699
Eugene Bell Foundation (US NGO working in North Korea)	81,144	99,568
Stanford University	57,587	-
Clinton Health Access Initiative	45,867	-
Zanmi Lasante (French NGO)	41,652	-
Other	387,258	281,657
Total	**$ 46,251,356**	**$ 39,788,148**

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 Partners in Agriculture, Summits Education, Clinton Health Access Initiative, and Zanmi Lasante Paris are for partner organizations that all carry out work in Haiti related to agriculture, education, program evaluation, and clean water. Grants to Last Mile Health are related to a CDC grant for Liberia post-Ebola activities.

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 $274,555 and $713,057 in cash on behalf of fiscal sponsorees as of June 30, 2017 and 2016, 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 2017 to hedge against foreign currency fluctuations related to the South African Rand. $22,554 and $12,339 is included in net change in unrealized gains/(losses) as of June 30, 2017 and 2016, respectively.

The following is a summary of the foreign currency contract outstanding as of June 30, 2017:

Country	***Maturity Dates***	***Forward Position in U.S. Dollars***	***Local Currency***
South Africa	July 31, 2017 - March 31, 2018	$ 1,800,000	24,614,940 Rand

Note 12 - Commitments

Leases

PIH leases certain office space under non-cancelable leases. Total rental expense amounted to $3,147,302 in fiscal 2017 and $2,201,684 in fiscal 2016.

Future minimum lease rentals as of June 30, 2017 are as follows:

2018	$	1,995,360
2019		1,868,363
2020		1,848,310
2021		1,832,035
2022		1,771,743
Thereafter		9,409,000
Total future minimum lease payments	**$**	**18,724,811**

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 $387,000 and $371,000 during the years ended June 30, 2017 and 2016, respectively.

Note 14 - Subsequent Events

Subsequent to year end, Partners In Health sold the office building they owned in Peru for $850,000.

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, 2017 through November 14, 2017, which was the date the consolidated financial statements were available to be issued, and determined that no other subsequent event activity required disclosure.

Supplemental Information

PARTNERS IN HEALTH

Consolidated Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*	*Passed through to Sub Recipients*
Agency for International Development (USAID)				
Pass-through Programs for 98.001 - USAID Foreign Assistance for Programs Overseas:				
Passed through University Research Co., LLC				
TB CARE II	98.001	FY11-A02-7500	$ 978,104	$ -
Passed through JSI Research & Training Institute, Inc.				
Advancing Partners and Communities	98.001	APC-GM-0099	36,750	-
Passed through Global Communities				
Rwanda Improved Services for Vulnerable Populations	98.001	ISVP-15-01-PIH	223,865	-
Total USAID Pass-through Programs for 98.001 - USAID Foreign Assistance for Programs Overseas			**1,238,719**	**-**
Total CFDA #98.001 USAID Direct and Pass-through Programs			**1,238,719**	**-**
Direct Program for 98.003 - USAID Ocean Freight Reimbursement Program (OFR):				
Overseas Transportation for Voluntary Relief Shipments Exclusive of PL 480 Title II Food Donations	98.003		36,647	-
Total USAID Direct and Pass-through Programs			**1,275,366**	**-**
Department of Health and Human Services (HHS)				
HHS Direct Programs:				
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		7,069,248	-
Racial and Ethnic Approaches to Community Health	93.738		906,316	362,203
Global Health Security Partner Engagement: Expanding Efforts and Strategies to Protect and Improve Public Health Globally	93.318		485,559	90,295
Total HHS Direct Programs			**8,461,123**	**452,498**

PARTNERS IN HEALTH

Consolidated Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*	*Passed through to Sub Recipients*
Research and Development Cluster				
Pass-through Programs for 93.855:				
Passed through President and Fellows of Harvard College, Harvard Medical School:				
Randomized Trial of High-Dose Rifampin in Patients with New Smear-Positive TB	93.855	149843.5040509.0304	$ 2,587	$ -
Passed through The General Hospital Corp. d/b/a Massachusetts General Hospital:				
Immune Responses to Viobrio Cholerae Infection and Vaccination in Haiti	93.855	221574	73,319	-
Passed through Boston University:				
Phase 2 Pharmacodynamic Study of High-dose Levoflaxacin in MDR-TB Treatment	93.855	UO1AI100805	329,233	-
Passed through President and Fellows of Harvard College, Harvard Medical School				
Integrated Discovery and Development of Innovative TB Diagnostics	93.855	5U19AI109755-02	713,744	-
Passed through Brigham and Women's Hospital:				
Human Subjects Core, Metabolic Factors That Control the Spectrum of Human Tuberculosis (TBRU)	93.855	1U19A111224-01	677,816	-
Passed through Brigham and Women's Hospital:				
Finding and Treating Unsuspected and Resistant TB to Reduce Hospital Transmission of Human Tuberculosis (TBRU)	93.855	R01AI112748	368,948	-
Total CFDA #93.855 HHS Pass-through Programs			**2,165,647**	**-**
Pass-through Program for 93.879:				
Passed through Brigham and Women's Hospital:				
Reducing Cancer Health Disparities in Navajo Nation	93.879	G08LM012143-01	18,558	-
Total Research and Development Cluster			**2,184,205**	**-**
Pass-through Program for 93.286:				
Passed through from University of Massachusetts-Lowell:				
A Sociotechnical Systems approach for Improving Tuberculosis	93.286		20,267	-
Pass-through Program for 93.989:				
Passed through Brigham and Women's Hospital:				
Innovative Interdisciplinary Approaches to Sustainable Airborne Infection Control	93.989		87,707	-
Pass-through Program for 93.266:				
Passed through Brigham and Women's Hospital:				
HRSA, Resilient and Responsive Health Systems	93.266		50,659	-
Total HHS Direct and Pass-through Programs			**10,803,961**	**452,498**
Total Expenditures of Federal Awards			**$ 12,079,327**	**$ 452,498**

See Independent Auditors' Report and accompanying Notes to Consolidated Schedule of Expenditures of Federal Awards.

PARTNERS IN HEALTH

Notes to Consolidated Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Note 1 - Basis of Presentation

The accompanying Consolidated Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Partners In Health under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Partners In Health, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of Partners In Health.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Partners In Health has elected not to use the 10-percent de minimis indirect cost rate under the Uniform Guidance.

Reporting Under Government Auditing Standards

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors
Partners In Health
Boston, Massachusetts

We have audited, in accordance with the 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, 2017, 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, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

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

Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

November 14, 2017
Boston, Massachusetts

Reporting Under the Uniform Guidance

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Independent Auditors' Report on Compliance For Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Board of Directors
Partners In Health
Boston, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited Partners In Health's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs 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 the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing 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 requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

November 14, 2017
Boston, Massachusetts

PARTNERS IN HEALTH

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section 1	***Summary of Auditors' Results***

<u>Financial Statements</u>

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified?	None Reported
3. Noncompliance material to financial statements noted?	No

<u>Federal Awards</u>

1. Internal control over major federal programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified?	None Reported
2. Type of auditors' report issued on compliance for major federal programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

4. Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
93.067	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)

5. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
6. Auditee qualified as a low-risk auditee?	Yes

PARTNERS IN HEALTH

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section 2

Financial Statement Findings

None noted.

Section 3

Federal Award Findings and Questioned Costs

None noted.