

PHYSICIANS FOR HUMAN RIGHTS, INC.

FINANCIAL STATEMENTS

June 30, 2015

CONTENTS

INDEPENDENT AUDITORS' REPORT	1 - 2
<hr/>	
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities and changes in net assets	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7 - 15
<hr/>	
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 <i>Government Auditing Standards</i>	16 - 17

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Physicians for Human Rights, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Physicians for Human Rights, Inc., which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Physicians for Human Rights, Inc. as of June 30, 2015, 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.

Emphasis of Matter

We draw attention to Note 13 to the financial statements, the June 30, 2014 net assets was restated to correct a misstatement related to the revenue recognition associated with certain grants and contracts. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of Physicians for Human Rights, Inc.'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 Physicians for Human Rights, Inc.'s internal control over financial reporting and compliance.

Rachelon Trechette,
McCroy, Michael & Co.

Providence, Rhode Island
February 29, 2016

PHYSICIANS FOR HUMAN RIGHTS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 988,231
Accounts receivable	11,144
Grant and contribution receivables	1,584,649
Prepaid expenses and other	47,940
Total current assets	<u>2,631,964</u>

PROPERTY AND EQUIPMENT, net

393,732

OTHER ASSETS

Grant and contribution receivables, net of current portion	500,000
Investments	3,863,871
Deposits	49,658
	<u>4,413,529</u>
	<u>\$ 7,439,225</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Line of credit	\$ 1,483,211
Accounts payable	201,691
Accrued expenses	337,736
Deferred revenue	201,618
Total current liabilities	<u>2,224,256</u>

OTHER LIABILITY

Deferred rental obligation	<u>53,823</u>
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NET ASSETS

Unrestricted	1,971,893
Temporarily restricted	3,189,253
	<u>5,161,146</u>
	<u>\$ 7,439,225</u>

See Notes to Financial Statements

PHYSICIANS FOR HUMAN RIGHTS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and service contracts	\$ 2,491,143	\$ 1,772,110	\$ 4,263,253
Federal support	1,202,919	-	1,202,919
Contributions and memberships	725,299	-	725,299
Contributed services	782,955	-	782,955
Other	3,450	-	3,450
Interest income	148	-	148
Investment income	14,222	-	14,222
Net assets released from restrictions	1,382,472	(1,382,472)	-
Total support and revenue	<u>6,602,608</u>	<u>389,638</u>	<u>6,992,246</u>
SPECIAL EVENTS			
Gala revenue	1,043,759	-	1,043,759
Gala expense	(273,278)	-	(273,278)
	<u>770,481</u>	<u>-</u>	<u>770,481</u>
OPERATING EXPENSES			
Program services	6,700,343	-	6,700,343
Fundraising	574,897	-	574,897
Management and general	642,612	-	642,612
Total operating expenses	<u>7,917,852</u>	<u>-</u>	<u>7,917,852</u>
Increase (decrease) in net assets before other expenses	<u>(544,763)</u>	<u>389,638</u>	<u>(155,125)</u>
OTHER EXPENSES			
Interest expense	52,217	-	52,217
Straight-line rent adjustment	53,823	-	53,823
	<u>106,040</u>	<u>-</u>	<u>106,040</u>
Increase (decrease) in net assets	<u>(650,803)</u>	<u>389,638</u>	<u>(261,165)</u>
NET ASSETS, beginning, as previously reported	3,643,536	3,789,580	7,433,116
Prior period adjustment	(1,020,840)	(989,965)	(2,010,805)
NET ASSETS, beginning, restated	<u>2,622,696</u>	<u>2,799,615</u>	<u>5,422,311</u>
NET ASSETS, ending	<u>\$ 1,971,893</u>	<u>\$ 3,189,253</u>	<u>\$ 5,161,146</u>

See Notes to Financial Statements

PHYSICIANS FOR HUMAN RIGHTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	Program Services	Fundraising	Management and General	Total
PERSONNEL				
Salaries	\$ 2,122,276	\$ 306,401	\$ 209,128	\$ 2,637,805
Payroll taxes and benefits	358,310	76,600	52,282	487,192
Retirement plan contribution	82,100	-	4,963	87,063
	<u>2,562,686</u>	<u>383,001</u>	<u>266,373</u>	<u>3,212,060</u>
OCCUPANCY				
Rent	397,117	-	-	397,117
Utilities	49,448	-	375	49,823
	<u>446,565</u>	<u>-</u>	<u>375</u>	<u>446,940</u>
EXPENSES				
Bank and payroll fees	-	-	38,716	38,716
Consultants and stipends	2,258,686	74,662	245,130	2,578,478
Contract services	92,629	7,483	26,978	127,090
Depreciation	93,232	11,765	5,283	110,280
Equipment rental	11,928	-	7,184	19,112
Filing fees	-	30	1,027	1,057
Insurance	45,594	-	-	45,594
Internet/telephone expense	86,140	133	-	86,273
Meetings and conferences	71,416	-	9,351	80,767
Miscellaneous	72,246	295	19,204	91,745
Office supplies	42,026	8	11,164	53,198
Postage and delivery	13,904	14,722	-	28,626
Printing and duplication	50,363	3,044	-	53,407
Professional fees	34,566	-	-	34,566
Program supplies	50,054	1,295	1,370	52,719
Telemarketing and direct mail	-	65,951	-	65,951
Travel	768,308	12,508	10,457	791,273
	<u>3,691,092</u>	<u>191,896</u>	<u>375,864</u>	<u>4,258,852</u>
	<u>\$ 6,700,343</u>	<u>\$ 574,897</u>	<u>\$ 642,612</u>	<u>\$ 7,917,852</u>

See Notes to Financial Statements

PHYSICIANS FOR HUMAN RIGHTS, INC.

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (261,165)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Realized loss on sale of investments	78,789
Unrealized gain on investments	(32,167)
Depreciation	110,280
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(5,880)
Grant and contribution receivables	(105,260)
Prepaid expenses and other	53,070
Increase (decrease) in:	
Accounts payable	119,366
Accrued expenses	33,840
Deferred revenue	37,584
Deferred rental obligation	53,823
Net cash provided by operating activities	<u>82,280</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(62,570)
Purchases of investments	(1,404,481)
Proceeds from sales of investments	1,769,757
Net cash provided by investing activities	<u>302,706</u>
CASH FLOWS FROM FINANCING ACTIVITY	
Net advances on line of credit	(3,680)
Net cash used in financing activity	<u>(3,680)</u>
Net increase in cash and cash equivalents	381,306
CASH AND CASH EQUIVALENTS	
Beginning	606,925
Ending	<u>\$ 988,231</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 52,217</u>

See Notes to Financial Statements

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Physicians for Human Rights (the “Entity”) is a not-for-profit 501c(3) organization that uses medicine and science to document and call attention to mass atrocities and severe human rights violations. The Entity leverages the specialized skills and credible voices of health professionals to document human rights violations and seek justice for victims of these crimes. PHR’s investigations and expertise are used to advocate for persecuted health workers, prevent torture, document mass atrocities, and hold those who violate human rights accountable. PHR’s headquarters are located in New York, New York, with additional offices in Boston, Massachusetts and Washington, DC.

A summary of the significant accounting policies follows:

Basis of presentation: The Entity prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP), as a not-for-profit organization. This guidance requires the Entity to report information regarding its financial position and activities according to three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets - consist of unrestricted amounts that are available for use in carrying out the mission of the Entity as they carry no donor-imposed time or purpose restrictions.

Temporarily restricted net assets - consist of those amounts, which are restricted for a specific purpose. When a restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Entity has elected to report restricted contributions whose restrictions are met in the same reporting period as they are received as unrestricted support.

The Entity has no permanently restricted net assets.

Temporary net asset restriction expirations are reported as reclassifications between the applicable classes of net assets.

Contributions: Contribution and grant revenue are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions. Restricted net assets are transferred to unrestricted net assets upon satisfaction of time or purpose restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in support and revenue.

Conditional promises to give are not included in support and revenue until all of the conditions are substantially met.

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Contributions (continued): Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Grant revenue: Grant revenue on cost-reimbursement grants or contracts is recognized by the Entity when the program expenditures have been incurred and is reflected as part of grants and service contracts and federal support in the accompanying statement of activities and changes in net assets. Certain federal direct support from government agencies is subject to independent audit under the Office of Management and Budget Circular A-133 and review by federal grantor agencies, while certain foreign grants have their own grant audit requirements and review by foreign grantor agencies. Results of such audits or reviews could result in disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Entity's management believes the costs ultimately disallowed, if any, would not materially affect the financial statements.

Cash and cash equivalents: Cash and cash equivalents include highly liquid investments with initial maturities of three months or less.

Financial instruments: The Entity has cash deposits at financial institutions which have a federally insured limit of \$250,000. At June 30, 2015, the Entity's uninsured cash balance was approximately \$1,195,000. Management feels the risk of loss related to these excess deposits is minimal based upon the reported strength of the institutions.

Grant and contribution receivables: On a periodic basis, the Entity evaluates its grant and contribution receivables and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Property and equipment: Property and equipment are recorded at cost, or if donated, at the estimated fair market value at the date of the donation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Furniture and equipment	3 - 10
Computer software	2 - 5
Leasehold improvements	10

Maintenance and repair costs are charged to expense as incurred and major renewals and betterments are capitalized. When property and equipment are retired or sold, the related carrying value and accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income.

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The fair values of investments are based on quoted market prices. Unrealized gains and losses are included in the statement of activities in the appropriate net asset category.

Deferred revenue: Deferred revenue represents payments on certain government grants and contracts in advance of the fulfillment of certain conditions as set forth in the grant or contract agreements. Failure to fulfill these conditions could result in the return of funds to the providing agencies.

Functional expenses: Costs associated with the Entity's programs and administrative activities are summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs are allocated among the program and support services benefited.

Advertising: Advertising costs are expensed as incurred. Such expenses were \$65,951 for the year ended June 30, 2015.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes: The Entity is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

The Entity recognizes and measures its unrecognized tax benefits in accordance with GAAP. Under that guidance the Entity assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

The Entity's federal and state income tax returns are open and subject to examination from the 2012 return year and forward.

Note 2. GRANT AND CONTRIBUTION RECEIVABLES

Grant and contribution receivables consisted of the following at June 30, 2015:

Receivables in less than one year	\$ 1,584,649
Receivables in one to three years	500,000
	<u>\$ 2,084,649</u>

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2015:

Furniture and equipment	\$	369,798
Computer software		5,855
Leasehold improvements		125,677
		<u>501,330</u>
Less accumulated depreciation		(107,598)
	<u>\$</u>	<u>393,732</u>

Note 4. INVESTMENTS

Investments consisted of the following at June 30, 2015:

	Cost	Fair Value
Fixed income	\$ 774,865	\$ 755,843
Equities	2,151,702	2,380,882
Mutual funds	733,083	727,146
	<u>\$ 3,659,650</u>	<u>\$ 3,863,871</u>

The fair values of corporate and government notes by contractual maturity are as follows as of June 30, 2015:

Due from one year to five years	\$	701,487
Due from six years to ten years	\$	54,356

Investment return and its classification in the statement of activities and changes in net assets for the year ended June 30, 2015 are as follows:

Unrestricted:		
Interest and dividends, net of investment fees of \$64,018	\$	60,844
Unrealized gain on investments		32,167
Realized loss on sale of investments		(78,789)
	<u>\$</u>	<u>14,222</u>

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 5. FAIR VALUE MEASUREMENTS

GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Stocks, exchange traded and closed-end funds, and corporate and government bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value of shares held by the Entity at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Entity believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 5. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Entity's investments at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Stocks				
Basic materials	\$ 89,086	\$ -	\$ -	\$ 89,086
Conglomerates	74,023	-	-	74,023
Consumer goods	99,493	-	-	99,493
Financial	174,676	-	-	174,676
Healthcare	127,562	-	-	127,562
Industrial goods	48,975	-	-	48,975
Services	158,301	-	-	158,301
Technology	253,252	-	-	253,252
Utilities	35,679	-	-	35,679
Exchange traded and closed-end funds	1,319,835	-	-	1,319,835
Mutual funds	727,146	-	-	727,146
Bonds				
Corporate	660,025	-	-	660,025
Government	95,818	-	-	95,818
Total investments at fair value	<u>\$ 3,863,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,863,871</u>

Note 6. LINE OF CREDIT

The Entity has a demand revolving line of credit secured by its investment portfolio the balance of which also serves as the borrowing base on the line of credit, with such base reduced by available letters of credit. The line of credit is subject to interest at the 30-day LIBOR rate plus 3.00% (3.18% at June 30, 2015). As of June 30, 2015, the amount outstanding under the line of credit was \$1,483,211. As part of the available borrowings under the line of credit agreement, the Entity has a letter of credit in the amount of \$239,950 in favor of its landlord, which has been renewed through July 2016. There are no amounts outstanding on the letter of credit as of June 30, 2015. The Entity had \$897,821 available for draw on its line of credit as of June 30, 2015.

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 7. TEMPORARILY RESTRICTED NET ASSETS

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

Time restricted for general use	\$ 2,025,000
Purpose restricted to program costs	423,849
Long-term fund (institutional building)	740,404
	<u>\$ 3,189,253</u>

Note 8. CONTRIBUTED SERVICES

The Entity receives contributions of medical and scientific consultation, office space rental, research and representation services that qualify for financial statement recognition. The fair value of contributed items totaled \$728,955 in 2015.

Note 9. REIMBURSEMENT GRANTS

The Entity has certain reimbursement grants and contracts for which revenue is recognized as associated reimbursable costs are incurred. At June 30, 2015, the Entity has \$4,212,831 in available reimbursements under these agreements that have yet to be recognized as support and revenue.

Note 10. DEFINED CONTRIBUTION PLANS

The Entity sponsors a defined contribution plan for all employees meeting certain eligibility requirements, which qualifies as a 403(b) plan under the Internal Revenue Code. The Entity made contributions of \$64,906 during the year ended June 30, 2015.

Additionally, the Entity has a 457(b) eligible deferred compensation plan for a certain officer of the Entity. Such agreement allows for contributions to be made to the plan through salary reductions from the officer's compensation as well as matching and discretionary contributions from the Entity. The Entity made contributions of \$12,231 during the year ended June 30, 2015. The asset related to this plan is included in investments and the liability related to this plan is included in accrued expenses in the statement of financial position. The total amount of this asset and liability was \$26,294 as of June 30, 2015.

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11. COMMITMENTS

The Entity leases its main offices in New York, New York under a noncancelable lease through June 2024. The lease requires monthly payments of base rent plus the Entity's proportionate share of increases in operating costs. The base rent escalates on an annual basis over the term of the lease. As such, rental expense is recognized on a straight-line basis, with the amount paid under this agreement of approximately \$295,000 as compared to rental expense recognized of \$328,000 for the year ended June 30, 2015. The difference between rent expense recorded and the amount paid is credited to deferred rent obligation in the accompanying statement of financial position.

The Entity also leases space in Boston, Massachusetts and Washington D.C. under a noncancelable lease expiring in July 2016 and March 2016, respectively. Aggregate payments on these leases were approximately \$96,000 for the year ended June 30, 2015.

Future minimum payments required under these operating leases are as follows:

Years ended June 30	Boston	New York	Washington, D.C.	Total
2016	\$ 74,280	\$ 302,517	\$ 13,973	\$ 390,770
2017	-	310,080	-	310,080
2018	-	317,832	-	317,832
2019	-	325,778	-	325,778
2020	-	333,923	-	333,923
Thereafter	-	1,421,285	-	1,421,285
	<u>\$ 74,280</u>	<u>\$ 3,011,415</u>	<u>\$ 13,973</u>	<u>\$ 3,099,668</u>

Additionally, the Entity leases office space in Tallahassee, Florida under a tenant-at-will arrangement. Rent expense was \$3,600 for year ended June 30, 2015.

The Entity entered into a three year computer software licensing agreement in October 2013. License fee expense was \$53,145 for the year ended June 30, 2015.

Future minimum payments required under this agreement are as follows:

Years ended June 30	
2016	\$ 62,100
2017	14,625
	<u>\$ 76,725</u>

PHYSICIANS FOR HUMAN RIGHTS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 12. CONCENTRATIONS OF RISK

During the year ended June 30, 2015, the Entity received approximately 76% of its grants, service contracts and federal support revenue from three grantors. Included in grant and contribution receivables at June 30, 2015 is approximately \$1,577,000 due from these grantors.

Note 13. PRIOR PERIOD ADJUSTMENT

The Entity has certain restrictive grant agreements that have historically been recognized in full as receivable to the Entity upon execution of the agreement. Upon careful examination of the underlying terms and nature of each grant, a redetermination was made to recognize revenue on such grants upon incurring associated costs. Additionally, as part of this reexamination it was identified that certain grants providing unrestricted support for a specified period of time were reported as unrestricted upon receiving the grant. Management has reclassified such support as temporarily restricted with the restrictions releasing over the term delineated in the grant agreement. The effect of these adjustments was a reduction as of June 30, 2014 in the grant and contribution receivables and an increase in deferred revenue of \$1,847,233 and \$163,572, respectively. This decreased net assets as of June 30, 2014 by \$2,010,805 when compared to the amounts previously reported.

The following table sets forth the effect on revenues reported for the year ended June 30, 2015 resulting from management's redetermination of recognizing revenues on cost reimbursement grants as costs are incurred rather than upon execution of the grant agreement:

Grants, service contracts and federal support recognized under previous interpretation	\$ 7,918,191
Revenue reduction for total amount of 2015 reimbursement grant awards	(5,630,736)
Revenue additions resulting from incurring of reimbursable costs on:	
Fiscal 2015 awards	1,568,815
Pre-fiscal 2015 awards	1,464,509
Grants, service contracts and federal support recognized under amended interpretation	<u>\$ 5,320,779</u>

Note 14. SUBSEQUENT EVENTS

The Entity has evaluated subsequent events through February 29, 2016, the date the financial statements were available to be issued and determined that there have been no events that have occurred that would require adjustment to the financial statements.

**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**

To the Board of Directors
Physicians for Human Rights, Inc.
New York, New York

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 financial statements of Physicians for Human Rights, Inc. (the Entity), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Entity'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 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.

**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 (CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entity's 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.

*Rachelon Trechetta,
McCrory, Michael & Co.*

Providence, Rhode Island
February 29, 2016