



PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Financial Statements and Supplementary Information

June 30, 2007

(With Independent Auditors' Report Thereon)

PARTNERS IN HEALTH, A NONPROFIT CORPORATION
Consolidated Financial Statements and Supplementary Information
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Independent Auditors' Report

The Board of Directors
Partners In Health, A Nonprofit Corporation:

We have audited the accompanying consolidated statements of financial position of Partners In Health, A Nonprofit Corporation (Partners In Health) as of June 30, 2007 and December 31, 2006, and the related consolidated statements of activities and cash flows for the six month period ended June 30, 2007. These consolidated financial statements are the responsibility of Partners In Health's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Partners In Health's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Partners In Health as of June 30, 2007 and December 31, 2006, and the changes in its net assets and its cash flows for the six month period ended June 30, 2007 in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 for the six month period ended June 30, 2007 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic consolidated financial statements taken as a whole.

KPMG LLP

December 21, 2007

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Statements of Financial Position

Assets	June 30, 2007	December 31, 2006
Cash and cash equivalents	\$ 7,565,975	7,996,737
Accounts receivable	635,193	858,138
Contributions receivable	—	1,916,168
Grants receivable	529,942	1,676,771
Prepaid expenses and other assets	211,674	301,605
Investments (note 3)	23,466,157	15,878,651
Real estate and equipment, less accumulated depreciation of \$312,656 and \$285,338 in 2007 and 2006, respectively (note 7)	815,274	526,933
Total assets	<u>\$ 33,224,215</u>	<u>29,155,003</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 2,472,039	962,670
Total liabilities	<u>2,472,039</u>	<u>962,670</u>
Net assets:		
Unrestricted:		
Currency translation adjustments	167,889	107,053
Undesignated	8,498,325	9,904,161
Board-designated: Thomas J. White Fund	16,009,069	14,612,906
Total unrestricted net assets	<u>24,675,283</u>	<u>24,624,120</u>
Temporarily restricted (note 4)	6,051,893	3,543,213
Permanently restricted (note 5)	25,000	25,000
Total net assets	<u>30,752,176</u>	<u>28,192,333</u>
Total liabilities and net assets	<u>\$ 33,224,215</u>	<u>29,155,003</u>

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Statement of Activities

Six month period ended June 30, 2007

	<u>Unrestricted</u>				<u>Total</u>
	<u>Undesignated</u>	<u>Board- designated: Thomas J. White Fund</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Support and revenue:					
Contributions	\$ 4,537,002	—	4,038,486	—	8,575,488
Grants and gifts in kind	57,256	—	9,986,344	—	10,043,600
Contributions	904,263	—	—	—	904,263
Transfer of amount designated by Board	(904,263)	904,263	—	—	—
Investment income	259,339	313,591	19,579	—	592,509
Realized and unrealized gains on investments, net	(8,844)	300,650	—	—	291,806
Other income	95,360	—	83,423	—	178,783
Net assets released from restrictions	11,619,152	—	(11,619,152)	—	—
	<u>16,559,265</u>	<u>1,518,504</u>	<u>2,508,680</u>	<u>—</u>	<u>20,586,449</u>
Expenditures:					
Funded programs	17,092,275	—	—	—	17,092,275
Development expenses	258,732	100,609	—	—	359,341
Administrative expenses	614,095	21,732	—	—	635,827
	<u>17,965,102</u>	<u>122,341</u>	<u>—</u>	<u>—</u>	<u>18,087,443</u>
Change in net assets	(1,405,837)	1,396,163	2,508,680	—	2,499,006
Currency translation adjustments	60,837	—	—	—	60,837
Net assets at beginning of period	10,011,214	14,612,906	3,543,213	25,000	28,192,333
Net assets at end of period	\$ <u>8,666,214</u>	<u>16,009,069</u>	<u>6,051,893</u>	<u>25,000</u>	<u>30,752,176</u>

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Statement of Cash Flows

Six month period ended June 30, 2007

Cash flows from operating activities:	
Change in net assets	\$ 2,499,006
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	27,318
Net realized and unrealized gains on investments	(291,806)
Currency translation adjustments	60,837
Changes in:	
Accounts receivable	222,945
Contributions receivable	1,916,168
Prepaid expenses and other assets	89,931
Grants receivable	1,146,829
Accounts payable and accrued expenses	1,509,369
Net cash provided by operating activities	<u>7,180,597</u>
Cash flows from investing activities:	
Purchases of equipment	(315,659)
Purchases of investment securities, net	<u>(7,295,700)</u>
Net cash used in investing activities	<u>(7,611,359)</u>
Net decrease in cash and cash equivalents	(430,762)
Cash and cash equivalents at beginning of period	<u>7,996,737</u>
Cash and cash equivalents at end of period	<u><u>\$ 7,565,975</u></u>

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2007

(1) Organization

Partners In Health, A Nonprofit Corporation (Partners In Health or the Company) was organized in January 1988 as a nonprofit trust to provide community health services and to redress inequities of access to healthcare. The organization's mission is to provide a preferential option for the poor in healthcare. By establishing long-term relationships with partner organizations based in settings of poverty, Partners In Health strives to achieve two overarching goals: to bring the benefits of modern medical science to those most in need of them and to serve as an antidote to despair.

Partners In Health is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Partners In Health is the parent company of Socios En Salud (Peru), Partners In Health-Russia, Inshuti Mu Buzima (Rwanda), Partners In Health-Lesotho, and Partners In Health-Malawi, each of which are recognized charities in their respective countries.

In 2007, Partners In Health changed its year-end from December 31 to June 30.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation and Consolidation*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of Partners In Health and its wholly owned subsidiaries located in Peru, Russia, Rwanda, Lesotho and Malawi. All intercompany balances and transactions are eliminated in consolidation.

(b) *Classification of Net Assets*

Partners In Health's accounting policy with respect to contributions reflects the provisions of Statement of Financial Accounting Standard (SFAS) No. 116, which generally requires that contributions received, including unconditional promises to give, be recognized as increases in net assets in the period received at their fair values.

Net assets and 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:

- *Undesignated net assets* – includes unrestricted funds for general operations, support used in account operations after meeting initial grantor or donor restrictions and unrestricted net assets.
- *Board designated net assets* – includes donated funds earmarked by the board for the purpose of assuring longer term stability and sustainability, ensuring steady support for core programs, while allowing for planning and implementation of longer term initiatives.
- *Temporarily restricted net assets* – includes funds whose use by Partners In Health is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of Partners In Health pursuant to those specifications.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2007

- *Permanently restricted net assets* – includes funds that are subject to donor restrictions requiring that the principal be invested in perpetuity and only income thereon be used by Partners In Health.

(c) Use of Estimates

Partners In Health uses estimates and assumptions in preparing these consolidated financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and the reported support and revenues and expenditures during the reporting period. Actual results could vary from the estimates that were used.

(d) Recognition of Revenue

Partners In Health reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulation of time restriction ends or a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted resources and reported in the consolidated statements of activities as net assets released from restrictions.

Federal and nonfederal grants used in community health activities are recognized as unrestricted resources in the year that the grant requirements are met.

(e) Cash and Cash Equivalents

Partners In Health considers cash on hand, deposits in banks, certificates of deposit and short-term marketable securities with an original maturity of less than 90 days as cash and cash equivalents. A portion of PIH's investment portfolio is invested in cash and cash equivalents for liquidity purposes.

(f) Investments

Investments, which consist of money market funds, fixed income and equity securities, are measured at fair value in the consolidated statements of financial position. Private equity and certain other nonmarketable securities are valued using current estimates of fair value obtained from the general partner or investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. PIH management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining fair values of investments.

Investment income, including realized and unrealized gains and losses on investments, interest and dividends, is reflected as support and revenue in the accompanying consolidated statement of activities.

(g) Real Estate, Equipment, and Depreciation

Real estate and equipment is stated at cost or if donated, at fair market value at date of donation.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2007

Partners In Health provides for depreciation using the straight-line method over estimated useful lives of the applicable assets, which are 25 to 40 years for buildings and improvements, and 3 to 15 years for vehicles and equipment. Repairs and maintenance are expensed as incurred.

PIH deploys a portion of its funds for the construction of hospitals and healthcare centers on behalf of local governments. These facilities are used by PIH and the local governments in partnership to deliver healthcare services. PIH also funds the construction of wells and schools for communities and homes for patients in great need. The costs of these facilities, which are the property of the local government or the relevant individuals, are expensed as incurred.

(h) *Foreign Currency Translation*

Financial statements of operating subsidiaries outside of the United States are measured using the local currency as the functional currency. Adjustments from translating these financial statements into U.S. dollars are accumulated in unrestricted net assets.

(i) *Reclassifications*

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

(3) **Investments**

Investments include:

	June 30, 2007	December 31, 2006
Cash and cash equivalents	\$ 13,854,715	15,804,850
Fixed income bonds and notes	2,008,718	—
Equity securities	6,547,922	73,801
Private equity and hedge funds	1,054,802	—
	<u>\$ 23,466,157</u>	<u>15,878,651</u>

In 2002, a board-designated fund was established to set aside monies for the purpose of providing a stable stream of funding for PIH projects. This fund, called the Thomas J. White Fund for PIH, is used as a primary repository of funds raised for longer-term support. At June 30, 2007, the fund's balance was \$16,009,069 and is recorded in board designated unrestricted net assets in the consolidated statement of financial position. A portion of this fund is invested in cash and cash equivalents with the balance invested in fixed income and equity securities.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2007

The composition of investment income is as follows for the six month period ended June 30, 2007:

Interest and dividend income	\$ 592,511
Net realized losses on investments	(666)
Net change in unrealized gains on investments	<u>292,470</u>
Investment income	<u><u>\$ 884,315</u></u>

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 are available for the following purposes:

Patient care	\$ 4,559,766
Training	577,131
Research	117,376
Infrastructure	760,150
Advocacy	<u>37,470</u>
	<u><u>\$ 6,051,893</u></u>

For the six month period ended June 30, 2007, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes:

Purpose restrictions accomplished:	
Zanmi Lasante	\$ 5,609,192
Socios En Salud	54,280
Russia	1,302,276
Rwanda	2,773,338
PACT	268,885
Lesotho	528,984
Malawi	580,448
Other	<u>501,749</u>
Net restrictions released	<u><u>\$ 11,619,152</u></u>

(5) Permanently Restricted Net Assets

Partners In Health maintains certain endowments that have been donated over the years to provide income for administrative purposes and various programs, including education, medical services and board-designated uses. Endowment funds are those for which the donor has stipulated that the principal is to be maintained in perpetuity and that only the income from the investments may be expended.

(6) Financial Instruments

Partners In Health maintains its cash accounts at various financial institutions. Accounts at certain financial institutions are insured up to \$100,000 per depositor by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2007, Partners In Health had cash balances of \$4,420,608 in excess of insured limits.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2007

Partners In Health has not experienced any losses in such amounts, and monitors the creditworthiness of the financial institutions with which it conducts business. Management believes that the organization is not exposed to any significant credit risk with respect to its cash balances.

(7) Real Estate and Equipment

Real estate and equipment is summarized as follows:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Motor vehicles	\$ 379,479	135,565
Office equipment	339,121	267,376
Real estate	<u>409,330</u>	<u>409,330</u>
	1,127,930	812,271
Less accumulated depreciation	<u>(312,656)</u>	<u>(285,338)</u>
	<u>\$ 815,274</u>	<u>526,933</u>

(8) Related-Party Transactions

PIH works in close collaboration with Harvard Medical School (HMS), the Harvard School of Public Health (HSPH), 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, HSPH 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.

Harvard Medical School Department of Social Medicine provides approximately 1,645 square feet of office space at no charge to Partners In Health to conduct its administrative affairs. The fair market value of this space, which is included in contributions on the consolidated statement of activities and allocated to administrative expenses, has been estimated at \$23,030 for the six month period ended June 30, 2007.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2007

(9) Program Support

Partners In Health provides support directly to its partner organization in Haiti, Zanmi Lasante. For the six month period ended June 30, 2007, these payments supported the following:

Program resources	\$	6,515,595
Pharmaceuticals		1,256,915
Payroll expenses		130,618
Travel		354,648
Communications and utilities		63,630
Shipping, freight, and postage		612
Outside services		99,360
Education and conferences		63,120
Supplies, repairs, and maintenance		7,959
Other		33,444
Total expenses	\$	<u>8,525,901</u>

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Schedule of Functional Program Expenses

Six month period ended June 30, 2007

	Haiti programs (see note 9)	Peru programs	Russia programs	Rwanda programs	Lesotho programs	Malawi programs	PACT program	Other programs	Total
Program resources	\$ 8,525,901	301,479	902,380	461,839	56,557	204,738	341,365	201,939	10,996,198
Pharmaceuticals	—	96,433	39,872	220,307	84,881	31,133	—	8,988	481,614
Payroll expenses	—	416,588	284,973	1,423,863	127,899	114,861	18,709	483,302	2,870,195
Outside services	—	629,273	98,417	32,664	106,913	180	—	117,806	985,253
Travel	—	30,132	51,345	197,736	87,311	41,189	4,384	167,977	580,074
Communications and utilities	—	10,669	13,819	129,883	25,740	28,077	—	60,601	268,789
Education and conferences	—	961	36,873	170,817	11,448	11,966	—	27,940	260,005
Supplies, repairs, and maintenance	—	12,376	27,096	336,727	67,775	50,807	—	1,262	496,043
Office expenses	—	9,397	54,726	11,051	22,902	12,784	—	—	110,860
Shipping, freight, and postage	—	1,119	528	8,036	1,620	275	—	3,355	14,933
Equipment and equipment rental	—	220	—	—	—	—	—	—	220
Foreign currency loss and other	—	2,236	919	18,521	2,770	2,051	—	1,594	28,091
Total expenses	\$ <u>8,525,901</u>	<u>1,510,883</u>	<u>1,510,948</u>	<u>3,011,444</u>	<u>595,816</u>	<u>498,061</u>	<u>364,458</u>	<u>1,074,764</u>	<u>17,092,275</u>

See accompanying independent auditors' report.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Schedules of Development Expenses

Six month period ended June 30, 2007

Payroll, payroll taxes, and employee benefits	\$	213,167
Office supplies and expense		2,440
Printing and publications		13,948
Processing fees		31,133
Travel expenses		18,454
Postage		5,481
Outside services		72,551
Communications and utilities		2,167
	\$	<u>359,341</u>

See accompanying independent auditors' report.

PARTNERS IN HEALTH, A NONPROFIT CORPORATION

Consolidated Schedules of Administrative Expenses

Six month period ended June 30, 2007

Payroll, payroll taxes, and employee benefits	\$	226,418
Accounting fees		74,400
Communications and utilities		62,066
Rent expense		23,030
Temporary labor		147,614
Office supplies and expense		21,323
Bank, payroll, and investment fees		34,933
Travel expenses		11,684
Depreciation		2,828
Postage		6,385
Insurance		23,872
Legal fees		1,274
	\$	<u>635,827</u>

See accompanying independent auditors' report.