



PARTNERS IN HEALTH

Consolidated Financial Statements

Year ended June 30, 2008 and
six-month period ended June 30, 2007

(With Independent Auditors' Report Thereon)

PARTNERS IN HEALTH

Consolidated Financial Statements

Year ended June 30, 2008 and six-month period ended June 30, 2007

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KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

Independent Auditors' Report

The Board of Directors
Partners In Health:

We have audited the accompanying consolidated statements of financial position of Partners In Health (PIH) as of June 30, 2008 and 2007, and the related consolidated statements of activities, functional expenses and cash flows for the year ended June 30, 2008 and six-month period ended June 30, 2007. These consolidated financial statements are the responsibility of PIH'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 PIH'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 PIH as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the year ended June 30, 2008 and six-month period ended June 30, 2007, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 26, 2008

PARTNERS IN HEALTH

Consolidated Statements of Financial Position

June 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 3,922,945	7,565,975
Accounts receivable	765,715	635,193
Contributions receivable	234,428	—
Grants receivable	3,940,383	529,942
Prepaid expenses and other assets	112,331	211,674
Investments, at fair value (note 3)	23,062,471	23,466,157
Property and equipment, net (note 6)	2,615,488	815,274
Total assets	<u>\$ 34,653,761</u>	<u>33,224,215</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,977,598	2,472,039
Total liabilities	<u>1,977,598</u>	<u>2,472,039</u>
Net assets:		
Unrestricted:		
Foreign currency translation adjustments	301,093	167,889
Undesignated	10,020,941	8,498,325
Board-designated: Thomas J. White Fund	16,240,944	16,009,069
Total unrestricted net assets	26,562,978	24,675,283
Temporarily restricted (note 4)	6,088,185	6,051,893
Permanently restricted	25,000	25,000
Total net assets	<u>32,676,163</u>	<u>30,752,176</u>
Total liabilities and net assets	<u>\$ 34,653,761</u>	<u>33,224,215</u>

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statement of Activities

Year ended June 30, 2008

	Unrestricted				
	Undesignated	Board- designated: Thomas J. White Fund	Temporarily restricted	Permanently restricted	Total
Revenue and other support:					
Contributions, grants and gifts in kind (note 8)	\$ 22,609,225	856,009	29,423,183	—	52,888,417
Investment income	337,411	497,520	—	—	834,931
Realized and unrealized losses on investments, net	(241,986)	(842,470)	—	—	(1,084,456)
Other income	50,731	—	—	—	50,731
Transfers to support designated operating expenses	212,308	(212,308)	—	—	—
Net assets released from restrictions (note 4)	29,386,891	—	(29,386,891)	—	—
Total revenue and other support	52,354,580	298,751	36,292	—	52,689,623
Expenses (notes 8 and 9):					
Program services	47,975,368	—	—	—	47,975,368
Institutional support	2,856,595	66,876	—	—	2,923,471
Total expenses	50,831,963	66,876	—	—	50,898,839
Change in net assets	1,522,617	231,875	36,292	—	1,790,784
Foreign currency translation adjustments	133,203	—	—	—	133,203
Net assets at beginning of period	8,666,214	16,009,069	6,051,893	25,000	30,752,176
Net assets at end of period	\$ 10,322,034	16,240,944	6,088,185	25,000	32,676,163

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statement of Activities

Six-month period ended June 30, 2007

	Unrestricted				
	Undesignated	Board- designated: Thomas J. White Fund	Temporarily restricted	Permanently restricted	Total
Revenue and other support:					
Contributions, grants and gifts in kind (note 8)	\$ 4,594,258	904,263	14,024,830	—	19,523,351
Investment income	259,339	313,591	19,579	—	592,509
Realized and unrealized (losses) gains on investments, net	(8,844)	300,650	—	—	291,806
Other income	95,360	—	83,423	—	178,783
Transfers to support designated operating expenses	100,609	(100,609)			—
Net assets released from restrictions (note 4)	11,619,152	—	(11,619,152)	—	—
Total revenue and other support	16,659,874	1,417,895	2,508,680	—	20,586,449
Expenses (notes 8 and 9):					
Program services	17,092,275	—	—	—	17,092,275
Institutional support	973,436	21,732	—	—	995,168
Total expenses	18,065,711	21,732	—	—	18,087,443
Change in net assets	(1,405,837)	1,396,163	2,508,680	—	2,499,006
Foreign 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	\$ 8,666,214	16,009,069	6,051,893	25,000	30,752,176

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statement of Functional Expenses

Year ended June 30, 2008

	<u>Program services</u>			
	<u>Rural healthcare operations</u>	<u>Tuberculosis programs, research, training, and other</u>	<u>Institutional support</u>	<u>Total</u>
Salaries, benefits and contractors	\$ 5,282,492	5,036,797	1,717,394	12,036,683
Pharmaceuticals and program costs	5,706,475	2,965,189	—	8,671,664
Construction and renovation	1,945,086	—	—	1,945,086
Travel and transportation	1,074,224	721,387	85,576	1,881,187
Printing and communications, supplies, training and other	1,310,186	1,372,001	1,120,501	3,802,688
Grants to partner organizations (note 9)	20,293,676	2,267,855	—	22,561,531
	<u>\$ 35,612,139</u>	<u>12,363,229</u>	<u>2,923,471</u>	<u>50,898,839</u>

See accompanying notes to the consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statement of Functional Expenses

Six-month period ended June 30, 2007

	<u>Program services</u>			
	<u>Rural healthcare operations</u>	<u>Tuberculosis programs, research, training, and other</u>	<u>Institutional support</u>	<u>Total</u>
Salaries, benefits and contractors	\$ 1,806,380	2,030,359	683,622	4,520,361
Pharmaceuticals and program costs	1,059,455	710,476	—	1,769,931
Construction and renovation	274,834	—	—	274,834
Travel and transportation	326,236	246,153	30,138	602,527
Printing and communications, supplies, training and other	638,414	265,693	281,408	1,185,515
Grants to partner organizations (note 9)	8,577,848	1,156,427	—	9,734,275
	<u>\$ 12,683,167</u>	<u>4,409,108</u>	<u>995,168</u>	<u>18,087,443</u>

See accompanying notes to the consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statements of Cash Flows

Year ended June 30, 2008 and six-month period ended June 30, 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 1,790,784	2,499,006
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	273,557	27,318
Net realized and unrealized losses (gains) on investments	1,084,456	(291,806)
Foreign currency translation adjustments	133,203	60,837
Changes in:		
Accounts receivable	(130,522)	222,945
Contributions receivable	(234,428)	1,916,168
Grants receivable	(3,410,441)	1,146,829
Prepaid expenses and other assets	99,343	89,931
Accounts payable and accrued expenses	(494,441)	1,509,369
Net cash (used in) provided by operating activities	(888,489)	7,180,597
Cash flows from investing activities:		
Additions to property and equipment	(2,073,771)	(315,659)
Sales of investment securities	9,942,127	—
Purchases of investment securities	(10,622,897)	(7,295,700)
Net cash used in investing activities	(2,754,541)	(7,611,359)
Net decrease in cash and cash equivalents	(3,643,030)	(430,762)
Cash and cash equivalents at beginning of period	7,565,975	7,996,737
Cash and cash equivalents at end of period	\$ 3,922,945	7,565,975

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

Year ended June 30, 2008 and six-month period ended June 30, 2007

(1) Organization

Partners In Health, a Nonprofit Corporation (PIH) is an international nongovernmental organization dedicated to delivering quality health care to people and communities devastated by the joint burdens of poverty and disease. PIH's work has three goals: to care for patients, to alleviate the root causes of disease, and to share lessons learned around the world.

PIH 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.

PIH consolidates the accounts of Socios En Salud (Peru), Partners In Health-Russia, Inshuti Mu Buzima (Rwanda), Bo-Mphato Litšebeletsong tsa Bophelo (Lesotho), and Abwenzi Pa Za Umoyo (Malawi), each of which are recognized charities in their respective countries.

In 2007, PIH changed its fiscal 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 PIH and affiliates located in Peru, Russia, Rwanda, Lesotho, and Malawi. All inter-organizational balances and transactions are eliminated in consolidation.

(b) *Classification of Net Assets*

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 purposes of assuring longer-term stability and sustainability, and 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 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.
- *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 PIH.

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Notes to Consolidated Financial Statements

Year ended June 30, 2008 and six-month period ended June 30, 2007

(c) Use of Estimates

PIH 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 dates of the financial statements, the reported amounts of revenues and other support, and expenses during the reporting periods. Actual results could vary from those estimates.

(d) Recognition of Revenue

Contributions received, including unconditional promises to give, are recognized as increases in net assets in the period received at their fair values. Contributions of cash and other assets are reported as restricted support if they are received with donor stipulations that limit their use. When a 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 net assets and reported in the consolidated statements of activities as net assets released from restrictions. Similarly, grants used in community health activities are recognized initially as restricted support and are reclassified to unrestricted net assets once the restrictions are satisfied.

(e) 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 for purposes of the statements of cash flows. A portion of the investment portfolio is also 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. 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 revenue and other support in the accompanying consolidated statements of activities.

(g) 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 of the applicable assets, which are 25 to 40 years for buildings and improvements, 3 to 15 years

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Year ended June 30, 2008 and six-month period ended June 30, 2007

for vehicles and equipment, and 7 to 10 years for capitalized software. 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*

The functional currency for each affiliate 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 weighted average exchange rate for the period. The resulting translation adjustments are recorded in unrestricted net assets.

(i) *Functional Expenses*

All direct costs of fundraising are expensed as incurred and are included in institutional support in the statements of activities and functional expenses. Total fundraising expenses were \$1,188,983 for the year ended June 30, 2008 and \$359,341 for the six-month period ended June 30 2007.

(j) *Reclassifications*

Certain financial information for the six-month period ended June 30, 2007 has been reclassified to conform to the 2008 presentation.

(3) **Investments**

Investments include:

	June 30	
	2008	2007
Cash and cash equivalents	\$ 11,626,973	13,854,715
Fixed income bonds and notes	2,676,808	2,008,718
Equity securities	7,699,900	6,547,922
Private equity and hedge funds	1,058,790	1,054,802
	<u>\$ 23,062,471</u>	<u>23,466,157</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 Partners In Health, is used as a primary repository of funds raised for longer-term support. At June 30, 2008 and 2007, the fund's balance was \$16,240,944 and \$16,009,069, respectively, and is recorded in board-designated unrestricted net assets in the consolidated statements 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.

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Year ended June 30, 2008 and six-month period ended June 30, 2007

PIH is obliged, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions will be determined by the general partners. As of June 30, 2008, PIH had unfunded commitments of \$366,495. Subsequent to June 30, 2008, PIH made an additional \$625,000 commitment to a new limited partnership.

The composition of investment income is as follows for the year ended June 30, 2008 and six-month period ended June 30, 2007:

	2008	2007
Interest and dividends	\$ 834,931	592,509
Net realized gains (losses)	392,334	(666)
Net change in unrealized (losses) gains	(1,476,790)	292,472
Total investment (loss) return	\$ (249,525)	884,315

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes:

	2008	2007
Patient care	\$ 1,931,659	4,559,766
Training	1,897,858	577,131
Research	194,969	117,376
Infrastructure	1,706,788	760,150
Advocacy	280,362	37,470
General operations	76,549	—
	\$ 6,088,185	6,051,893

For the year ended June 30, 2008 and the six-month period ended June 30, 2007, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2008	2007
Purpose restrictions accomplished:		
Zanmi Lasante (Haiti)	\$ 7,256,776	5,609,192
Socios En Salud (Peru)	377,820	54,280
Partners In Health-Russia	2,589,816	1,302,276
Inshuti Mu Buzima (Rwanda)	8,640,993	2,773,338
Bo Mphato Litšebeletsong tsa Bophelo (Lesotho)	3,724,485	528,984
Abwenzi Pa Za Umoyo (Malawi)	3,375,627	580,448
PACT (Boston)	661,424	268,885
Other	2,759,950	501,749
Net assets released from restrictions	\$ 29,386,891	11,619,152

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Notes to Consolidated Financial Statements

Year ended June 30, 2008 and six-month period ended June 30, 2007

(5) Financial Instruments

PIH 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, 2008 and 2007, PIH had cash balances of \$2,287,135 and \$4,420,608, respectively, in excess of insured limits.

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

(6) Property and Equipment

Property and equipment is summarized as follows:

	June 30	
	2008	2007
Land	\$ 300,985	245,580
Buildings and improvements	728,594	163,750
Equipment	1,035,435	339,121
Vehicles	951,437	379,479
Capitalized software	279,234	—
	<u>3,295,685</u>	<u>1,127,930</u>
Less accumulated depreciation and amortization	<u>(680,197)</u>	<u>(312,656)</u>
	<u>\$ 2,615,488</u>	<u>815,274</u>

(7) Line of Credit

In December 2007, PIH secured a \$3 million line of credit with RBS Citizens, N.A. d/b/a Citizens Bank. Borrowings accrue interest at a fluctuating per annum interest rate equal to the Prime Rate (5% at June 30, 2008). 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. There were no borrowings on the line at June 30, 2008.

(8) Gifts in Kind and Contributed Services

PIH receives donations of medicines and other goods, contributed legal services, and the use of office space without charge. The estimated fair value of these donations was \$1,195,640 and \$48,712 in the fiscal year ended June 30, 2008 and the six-month period ended June 30, 2007, respectively, and is recorded as contributions in the consolidated statements of activities and allocated to program services or institutional support according to the nature of the item contributed. Of the \$1,195,640 in fiscal year 2008, \$883,910 represented donated medicines and goods; \$236,000 was for contributed legal services; and \$75,730 was for approximately 1,645 square feet of office space provided by the Harvard Medical School Department of Global Health and Social Medicine at no charge to PIH to conduct its administrative affairs. Of the \$48,712 in the six-month period ended June 30, 2007, \$25,682 was for contributed medicines and goods and \$23,030 was the estimated value of the office space rental.

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Notes to Consolidated Financial Statements

Year ended June 30, 2008 and six-month period ended June 30, 2007

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. PIH also collaborates on research projects with HMS, HSPH and BWH from time to time, serving as a sub-recipient on certain grants and as a principal recipient on others.

PIH also has relationships with various hospitals that provide healthcare services for PIH patients with severe health conditions for minimal fees or free of charge.

(9) Grants to Partner Organizations

Grants to partner organizations include grants to Zanmi Lasante in Haiti (\$20.0 million) for costs of operations including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, etc.; grants to three partner organizations in Russia (\$1.2 million) as described in the next paragraph; Brigham and Women's Hospital for the Prevention and Access to Care and Treatment Program (PACT) in Boston, MA (\$1.1 million) primarily for salary support for program staff and community healthcare workers; Village Health Works (\$178,000) for costs of operations and construction of a clinic in Burundi; and EAPSEC in Chiapas, Mexico (\$81,000) for costs of community healthcare operations.

As Principal Recipient for a \$10.8 million grant from the GFATM to Tomsk Oblast in Siberia from 2004 to 2009, PIH Russia dispenses 90% of these funds to three sub-recipients: the Tomsk TB Dispensary, which stores and distributes medications to TB patients throughout the region; the Tomsk Oblast Penitentiary System, which funds and operates the treatment of all TB-infected patients currently incarcerated in the region; and the Russian Red Cross, which distributes medications and social support to patients in the more remote, rural areas of Tomsk Oblast.