Consolidated Financial Statements and Report of Independent Certified Public Accountants

Partners In Health

June 30, 2011 and 2010

Contents

Grant Thornton

Audit • Tax • Advisory
Grant Thornton LLP
226 Causeway Street, 6th Floor
Boston, MA 02114-2155
T 617.723.7900
F 617.723.3640
www.GrantThornton.com

Report of Independent Certified Public Accountants

To the Board of Directors of
Partners In Health

We have audited the accompanying consolidated statement of financial position of Partners In Health (the "Organization") as of June 30, 2011 and the related consolidated statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Organization's June 30, 2010 consolidated financial statements. The financial statements of the Organization as of June 30, 2010 and for the year then ended were audited by other auditors whose report dated November 19, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. 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 the Organization'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
November 18, 2011

PARTNERS IN HEALTH
Consolidated Statements of Financial Position
June 30, 2011 and 2010

Assets		2011		2010
Cash and cash equivalents	**$**	**7,898,979**	$	4,476,242
Contributions receivable (note E)		**825,130**		2,105,797
Grants and other receivables, net (note E)		**7,687,136**		11,686,438
Prepaid expenses and other assets		**535,019**		311,305
Investments, at fair value (note C)		**46,970,516**		71,510,319
Property and equipment, net (note F)		**2,885,992**		3,047,056
Total assets	**$**	**66,802,772**	$	93,137,157
Liabilities and Net Assets				
Accounts payable and accrued expenses	**$**	**4,380,337**	$	3,312,064
Amounts owed - fiscal agencies (note J)		**512,599**		390,937
Total liabilities		**4,892,936**		3,703,001
Net assets:				
Unrestricted:				
Foreign currency translation adjustments		**398,951**		298,275
Undesignated		**8,164,927**		9,686,508
Board-designated: Thomas J. White Fund		**17,373,638**		15,381,697
Total unrestricted net assets		**25,937,516**		25,366,480
Temporarily restricted (note D)		**35,972,320**		64,067,676
Total net assets		**61,909,836**		89,434,156
Total liabilities and net assets	**$**	**66,802,772**	$	93,137,157

The accompanying notes are an integral part of these financial statements.

PARTNERS IN HEALTH
Consolidated Statement of Activities
Year ended June 30, 2011

	Unrestricted			
	Undesignated	Board-designated: Thomas J. White Fund	Temporarily restricted	Total
Revenue and other support:				
Contributions, grants and gifts in kind:				
Individuals and family foundations	$ 27,753,627	$ 1,423,088	$ 10,419,184	$ 39,595,899
Foundations and corporations	2,506,183	-	17,393,644	19,899,827
Governments, multilateral and research organizations	-	-	23,220,089	23,220,089
Gifts in kind and contributed services (note H)	451,907	-	3,997,710	4,449,617
Other income	240,651	-	111,221	351,872
Net assets released from restrictions (note D)	83,240,594	-	(83,240,594)	-
Total revenue and other support	114,192,962	1,423,088	(28,098,746)	87,517,304
Expenses (notes H and I):				
Program services	109,642,141	-	-	109,642,141
Development	3,792,530	-	-	3,792,530
General and administration	2,931,964	221,542	-	3,153,506
Total expenses	116,366,635	221,542	-	116,588,177
Excess of revenue over expense	(2,173,673)	1,201,546	(28,098,746)	(29,070,873)
Investment income, net	652,092	790,395	3,390	1,445,877
Change in net assets	(1,521,581)	1,991,941	(28,095,356)	(27,624,996)
Foreign currency translation adjustments	100,676	-	-	100,676
Net assets at beginning of year	9,984,783	15,381,697	64,067,676	89,434,156
Net assets at end of year	$ 8,563,878	$ 17,373,638	$ 35,972,320	$ 61,909,836

The accompanying notes are an integral part of these financial statements.

PARTNERS IN HEALTH
Consolidated Statement of Activities
Year ended June 30, 2010

	Unrestricted			
	Undesignated	Board-designated: Thomas J. White Fund	Temporarily restricted	Total
Revenue and other support:				
Contributions, grants and gifts in kind:				
Individuals and family foundations	$ 27,952,956	$ 950,000	$ 53,345,220	$ 82,248,176
Foundations and corporations	3,933,297	-	42,105,266	46,038,563
Governments, multilateral and research organizations	-	-	17,427,541	17,427,541
Special events	948,441	-	350,079	1,298,520
Gifts in kind and contributed services (note H)	611,232	-	4,159,224	4,770,456
Other income	171,364	-	3,510	174,874
Transfers to Thomas J. White Fund, net of support for designated operating expenses	(406,239)	406,239	-	-
Net assets released from restrictions (note D)	61,075,326	-	(61,075,326)	-
Total revenue and other support	94,286,377	1,356,239	56,315,514	151,958,130
Expenses (notes H and I):				
Program services	86,327,448	-	-	86,327,448
Development	3,042,305	-	-	3,042,305
General and administration	2,464,245	42,541	-	2,506,786
Total expenses	91,833,998	42,541	-	91,876,539
Excess of revenue over expense	2,452,379	1,313,698	56,315,514	60,081,591
Investment income, net	141,130	426,678	1,179	568,987
Change in net assets	2,593,509	1,740,376	56,316,693	60,650,578
Foreign currency translation adjustments	56,690	-	-	56,690
Net assets at beginning of year	7,334,584	13,641,321	7,750,983	28,726,888
Net assets at end of year	$ 9,984,783	$ 15,381,697	$ 64,067,676	$ 89,434,156

The accompanying notes are an integral part of these financial statements.

PARTNERS IN HEALTH
Consolidated Statements of Functional Expenses
Years ended June 30, 2011 and 2010

	Program services								Institutional support		
2011	**Haiti**	**Rwanda**	**Peru**	**Lesotho**	**Malawi**	**Russia / Kazakhstan**	**PACT (US)**	**Other (1)**	**Development**	**Administration**	**Total**
Human resources	$ 2,079,089	$ 6,955,272	$ 3,169,498	$ 3,497,804	$ 1,582,268	$ 1,016,154	$ 111,935	$ 5,603,684	$ 2,533,902	$ 1,129,871	$ 27,679,477
Consumables	5,220,902	2,378,475	723,006	977,637	638,112	649,475	-	65,987	28,714	68,097	10,750,405
Durable goods	1,844,452	1,345,672	174,478	187,984	83,050	6,060	-	109,270	49,073	132,164	3,932,203
Infrastructure	1,754,330	1,585,533	252,015	1,092,281	386,671	8,488	-	838,762	-	103,403	6,021,483
Operations	2,804,649	2,498,783	1,670,477	978,071	548,087	605,000	1,475	721,371	31,246	1,209,230	11,068,389
Social support payments	13,415	786,263	130,775	32,075	123,719	5,702	-	76,424	-	8,870	1,177,243
Travel, professional services, printing and other	5,104,938	569,009	1,267,361	456,604	158,963	113,617	45,761	1,299,912	1,149,595	501,871	10,667,631
Grants to partner organizations	42,835,779	-	107,559	-	4,568	969,637	1,020,840	352,963	-	-	45,291,346
Total expenses	$ 61,657,554	$ 16,119,007	$ 7,495,169	$ 7,222,456	$ 3,525,438	$ 3,374,133	$ 1,180,011	$ 9,068,373	$ 3,792,530	$ 3,153,506	$ 116,588,177

	Program services								Institutional support		
2010	**Haiti**	**Rwanda**	**Peru**	**Lesotho**	**Malawi**	**Russia / Kazakhstan**	**PACT (US)**	**Other (1)**	**Development**	**Administration**	**Total**
Human resources	$ 2,383,571	$ 6,497,373	$ 1,666,817	$ 2,989,041	$ 1,320,387	$ 742,679	$ 90,505	$ 2,197,851	$ 1,541,363	$ 853,751	$ 20,283,338
Consumables	6,146,495	2,484,034	391,145	955,125	627,502	424,694	-	42,430	74,117	81,343	11,226,885
Durable goods	2,203,591	1,076,558	128,573	265,551	148,444	1,886	-	61,632	56,604	130,847	4,073,686
Infrastructure	52,398	3,008,473	113,192	474,245	360,813	8,998	-	421,346	-	94,097	4,533,562
Operations	1,736,551	1,898,779	669,099	988,983	481,659	382,840	4,610	307,007	2,827	733,773	7,206,128
Social support payments	1,507,971	757,142	177,090	82,133	270,089	1,574	-	60,101	-	-	2,856,100
Travel, professional services, printing and other	664,790	414,126	710,327	319,765	82,586	360,930	2,623	1,137,119	1,367,394	612,975	5,672,635
Grants to partner organizations	32,940,192	1,140	23,761	-	26,797	913,875	937,859	1,180,581	-	-	36,024,205
Total expenses	$ 47,635,559	$ 16,137,625	$ 3,880,004	$ 6,074,843	$ 3,318,277	$ 2,837,476	$ 1,035,597	$ 5,408,067	$ 3,042,305	$ 2,506,786	$ 91,876,539

(1) Other includes cross-site clinical and program management, procurement, medical informatics, training, communication and advocacy, and depreciation

The accompanying notes are an integral part of these financial statements.

PARTNERS IN HEALTH

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	**$ (27,624,996)**	$ 60,650,578
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**676,450**	652,256
Net realized and unrealized gains on investments	**(118,225)**	(154,503)
Foreign currency translation adjustments	**100,676**	56,690
Changes in:		
Contributions receivable	**1,280,667**	255,707
Grants and other receivable, net	**3,999,302**	(6,487,373)
Prepaid expenses and other assets	**(223,714)**	(168,970)
Accounts payable and accrued expenses and amounts owed-fiscal agencies	**1,189,935**	1,134,524
Net cash (used in) provided by operating activities	**(20,719,905)**	55,938,909
Cash flows from investing activities:		
Purchases of property and equipment	**(515,386)**	(974,304)
Proceeds of investment securities	**26,023,089**	4,486,062
Purchases of investment securities	**(1,365,061)**	(60,192,396)
Net cash provided by (used in) investing activities	**24,142,642**	(56,680,638)
Net increase (decrease) in cash and cash equivalents	**3,422,737**	(741,729)
Cash and cash equivalents at beginning of year	**4,476,242**	5,217,971
Cash and cash equivalents at end of year	**$ 7,898,979**	$ 4,476,242

The accompanying notes are an integral part of these financial statements.

NOTE A - 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.

During fiscal year 2011, PIH established a sister organization in Canada, PIH Partners In Health Canada. Subsequent to June 30, 2011, PIH also established a nongovernmental sister organization in Mexico, Compañeros En Salud.

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

NOTE B – 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, Rwanda, Lesotho, Malawi and Canada. All inter organizational balances and transactions are eliminated in consolidation.

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:

- *Unrestricted undesignated net assets* – includes unrestricted funds for general operations, support used in operations after meeting initial grantor or donor restrictions, and unrestricted net assets.

- *Unrestricted board-designated net assets* – 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.

Use of Estimates

PIH uses estimates and assumptions in preparing these consolidated financial statements in accordance with GAAP. 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Significant estimates include useful lives of assets, valuation of investments, allowance for doubtful accounts and valuation of gifts in kind.

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. Contributions that are received shortly after the fiscal year end that are dated and designated by donors for that fiscal year are accrued as contributions receivable.

On January 12, 2010, a massive earthquake struck Port Au Prince in Haiti. Although PIH is not a disaster relief organization, because of its network of 12 hospitals and health facilities and over 4,400 local healthcare staff at the time, PIH played a major role in the immediate relief efforts and in ongoing rebuilding and strengthening the country. PIH received substantial financial support for these efforts from individuals, foundations, corporations and the public sector, resulting in the significant increase in revenues in fiscal year 2010 and corresponding increase in expenses for Haiti. The surplus generated in fiscal year 2010 is being spent down in fiscal year 2011 and fiscal year 2012, as planned.

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.

Fair Value Measurements

Fair value is the price that PIH would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Level 2 - Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in valuing a portfolio instrument. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3 - Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect PIH's own assumptions about the factors market participants would use in valuing a portfolio instrument, and would be based on the best information available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, PIH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because PIH uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investment held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on PIH's ability to timely redeem its interest rather than on inputs used. See "Investments" below and Note C for further discussion.

Changes in valuation techniques may result in transfers in or out of current assigned level within the hierarchy. 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 the year.

Investments

Investments are reported at estimated fair value. If an investment is held directly by PIH and an active market with quoted prices exists, PIH reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. PIH also holds shares or units in traditional institutional funds, as well as in alternative investments in private equity funds. The private equity funds generally hold assets that require the estimation of fair values in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, the estimated fair values may differ significantly from the value that would have been reported had a ready market for the investment existed and the differences could be material. Such valuations are determined by fund managers and generally consider variables, such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The fair value of fixed income securities is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

PIH has applied the accounting guidance in Accounting Standards Updates No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of PIH's interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore possible that if PIH were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

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 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 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 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.

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 fiscal year. The resulting translation adjustments are recorded in unrestricted net assets.

Functional Expenses

All direct costs of fundraising are expensed as incurred and are included in development expenses in the statements of activities and functional expenses.

Reclassifications

Certain financial information for the year ended June 30, 2010 has been reclassified to conform to the 2011 presentation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

PIH is an organization described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from income taxes under IRC Section 501(a). PIH has determined that it has taken no significant uncertain tax positions and accordingly no provision for income taxes has been recorded.

PIH recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

PIH has applied this more-likely-than-not threshold to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of that date. In addition, there have been no material changes in unrecognized benefits since adoption.

It is the PIH's policy to record estimated interest and penalties (if any) as part of management and general expense. Management believes that the PIH's income tax returns for fiscal years 2007 and prior are no longer subject to examination by taxing authorities.

NOTE C - INVESTMENTS

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2011.

	June 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Cash and cash equivalents	**$ 6,473,207**	**$ -**	**$ -**	**$ 6,473,207**
Fixed income:				
U.S. Treasuries	**-**	**3,383,356**	**-**	**3,383,356**
Federal Agency Bonds	**-**	**5,191,062**	**-**	**5,191,062**
U.S. Fixed Income, Core	**-**	**26,824,552**	**-**	**26,824,552**
Equities:				
U.S. Equity, Large Growth	**1,049,620**	**-**	**-**	**1,049,620**
U.S. Equity, Large Value	**745,917**	**-**	**-**	**745,917**
U.S. Equity Small Capitalization	**167,442**	**-**	**-**	**167,442**
Commodity Related Securities	**678,995**	**-**	**-**	**678,995**
Non-U.S. Equity, Developed	**1,468,793**	**-**	**-**	**1,468,793**
Non-U.S. Equity, Emerging	**362,684**	**-**	**-**	**362,684**
Private Equity	**-**	**-**	**624,888**	**624,888**
Total	**$ 10,946,658**	**$ 35,398,970**	**$ 624,888**	**$ 46,970,516**

NOTE C – INVESTMENTS - Continued

The following table summarizes PIH's investments in accordance with the fair value hierarchy as of June 30, 2010.

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 34,248,630	$ -	$ -	$ 34,248,630
Fixed income:				
U.S. Treasuries	-	3,380,096	-	3,380,096
Federal Agency Bonds	-	5,508,945	-	5,508,945
U.S. Fixed Income, Core	-	26,406,257	-	26,406,257
Equities:				
U.S. Equity, Large Growth	353,306	-	-	353,306
U.S. Equity, Large Value	284,203	-	-	284,203
U.S. Equity Small Capitalization	105,587	-	-	105,587
Non-U.S. Equity, Developed	564,295	-	-	564,295
Non-U.S. Equity, Emerging	187,314	-	-	187,314
Private Equity	-	-	471,686	471,686
Total	$ 35,743,335	$ 35,295,298	$ 471,686	$ 71,510,319

All investments have daily liquidity, except the private equity investments, which are illiquid. The fixed income investments are included in Level 2 because their prices are determined based on market data rather than direct observable prices.

The private equity fund investments classified in Level 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of PIH's interest therein, its classification in Level 3 is based on PIH's ability to redeem its interest at or near the date of the statement of financial position. 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.

NOTE C – INVESTMENTS - Continued

The following table presents PIH's activity for the fiscal year ended June 30, 2011 for investments in Level 3:

	Private equity funds	Hedge/ absolute return funds	Total
Level 3 rollforward:			
Beginning value as of July 1, 2010:	$ 471,686	$ -	$ 471,686
Purchases	124,284	-	124,284
Dispositions	(16,669)	-	(16,669)
Net unrealized gains	45,587	-	45,587
Fair value at June 30, 2011	**$ 624,888**	**$ -**	**$ 624,888**

The following table presents PIH's activity for the fiscal year ended June 30, 2010 for investments in Level 3:

	Private equity funds	Hedge/ absolute return funds	Total
Level 3 rollforward:			
Beginning value as of July 1, 2009:	$ 298,128	$ 82,694	$ 380,822
Purchases	161,578	-	161,578
Dispositions	-	(75,153)	(75,153)
Net realized losses	-	(7,541)	(7,541)
Net unrealized gains	11,980	-	11,980
Fair value at June 30, 2010	$ 471,686	$ -	$ 471,686

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 (TJW), is used as a primary repository of funds raised for longer term support. In fiscal year 2010, the Board designated an additional $500,000 of unrestricted funds for the TJW. At June 30, 2011 and 2010, the fund's balance was $17,373,638 and $15,381,697, 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 equity and fixed income securities.

NOTE C – INVESTMENTS - Continued

The composition of investment return is as follows:

	Year ended June 30, 2011	2010
Interest and dividends	**$ 1,327,652**	$ 414,484
Net realized gains (losses)	**290,911**	(308,107)
Net change in unrealized gains (losses)	**(172,686)**	462,610
Total investment return, net	**$ 1,445,877**	$ 568,987

Commitments

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, 2011 was $498,186.

NOTE D – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010 are available for the following purposes:

	2011	2010
Patient care	**$ 24,882,932**	$ 40,990,634
Training	**156,881**	750,386
Research	**576,828**	219,409
Infrastructure	**8,264,093**	18,082,852
Other	**2,091,586**	4,024,395
	$ 35,972,320	$ 64,067,676

NOTE D – TEMPORARILY RESTRICTED NET ASSETS - Continued

For the years ended June 30, 2011 and 2010, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2011	2010
Purpose restrictions accomplished:		
Zanmi Lasante (Haiti)	**$ 64,350,684**	$ 44,586,381
Socios En Salud (Peru)	**5,769,289**	922,360
Partners In Health-Russia & Kazakhstan	**3,021,388**	2,565,429
Inshuti Mu Buzima (Rwanda)	**5,454,299**	5,970,855
Bo Mphato Litšebeletsong tsa Bophelo (Lesotho)	**888,427**	3,733,539
Abwenzi Pa Za Umoyo (Malawi)	**524,061**	654,319
Medical Informatics	**1,010,062**	557,355
PACT (Boston)	**132,342**	320,739
Other	**2,090,042**	1,764,349
Net assets released from restrictions	**$ 83,240,594**	$ 61,075,326

NOTE E - RECEIVABLES

Contributions receivable represents contributions received shortly after the fiscal year end for which they were designated by donors.

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.

Grants and other receivables are presented net of allowance for doubtful accounts of $1,065,000 as of June 30, 2010. There was no allowance for doubtful accounts recorded as of June 30, 2011.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	June 30, 2011	June 30, 2010
Land	**$ 732,557**	$ 781,886
Building and improvements	**555,828**	461,329
Equipment and furniture	**1,571,264**	1,368,221
Vehicles	**1,981,964**	1,716,202
Capitalized software	**513,262**	511,850
	5,354,875	4,839,488
Less accumulated depreciation and amortization	**(2,468,883)**	(1,792,433)
	$ 2,885,992	$ 3,047,055

Depreciation and amortization of $676,450 and $652,256 for the years ended June 30, 2011 and 2010, respectively, are included as expenses in the consolidated statements of activities.

On May 28, 2009, PIH entered into a 5-year lease agreement with Harvard University commencing on October 1, 2009 (amended August 5, 2009) for 6,303 square feet of office space at 641 Huntington Avenue. Subsequent to the expansion of office space at 888 Commonwealth Avenue (see below), PIH terminated the lease with Harvard effective May 10, 2011. Base rent was $30 per square foot.

On August 7, 2009, PIH entered into a 10-year lease agreement with Boston University commencing September 1, 2009 for 12,900 square feet of office space at 888 Commonwealth Avenue. Effective September 1, 2010, the office space was expanded to 21,906 square feet. Base rent in the first two years is $27 per square foot, escalating every two years to a level of $34 per square foot in years 9 and 10.

PIH also holds three short term leases for operating space, including a warehouse in Miami, FL for staging of products being sent to Haiti; a small office in Beverly, MA for coordinating the Mirebalais hospital construction; and a facility in Philadelphia, PA that coordinates care for several patients from PIH international partner sites who received donated medical care locally.

Total rent expense for facilities of $1,320,000 and $675,000 for the years ended June 30, 2011 and 2010, respectively, are included in the consolidated statements of activities.

NOTE G – LINE OF CREDIT

PIH maintains a $4 million line of credit with RBS Citizens, N.A. d/b/a Citizens Bank primarily for seasonal liquidity needs in advance of the calendar year end giving period. Borrowings accrue interest at a fluctuating per annum interest rate equal to the LIBOR Advantage Rate plus 3.0% (3.187% at June 30, 2011). 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. PIH must also maintain a minimum of net liquid assets of at least $3,000,000 as defined in the agreement. The line is subject to an internal annual review by Citizens Bank each January. There were no borrowings on the line at June 30, 2011 and no borrowings during the fiscal year. At June 30, 2011, PIH was in compliance with all covenants.

NOTE H – GIFTS IN KIND AND CONTRIBUTED SERVICES

PIH receives donations of medicines and other goods and contributed legal services without charge. The estimated fair value of these donations is recorded as contributions in the consolidated statements of activities and allocated to program services, development or administration according to the nature of the item contributed as follows:

	2011	2010
Donated medicines and goods	**$ 4,170,966**	$ 4,356,898
Contributed legal services	**278,651**	352,811
Office space	**-**	60,746
Estimated fair value of donations	**$ 4,449,617**	$ 4,770,455

Office space was provided by the Harvard Medical School Department of Global Health and Social Medicine at no charge to PIH to conduct its administrative affairs through August 31, 2009.

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 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.

NOTE I – GRANTS TO PARTNER ORGANIZATIONS

Grants to partner organizations are recorded in the consolidated statements of activities under Program Services and include the following:

	2011	2010
Zanmi Lasante in Haiti	**$ 38,475,306**	$ 32,090,192
l'Hopital de l'Universite d'Etat d'Haiti (HUEH)	**3,503,913**	-
Brigham and Women’s Hospital	**1,020,840**	937,859
Partner organizations in Russia	**969,637**	913,875
Agency for Technical Cooperation and Development	**525,148**	-
Harvard Medical School	**-**	1,000,000
Clinton Health Access Initiative	**-**	800,000
Other	**798,621**	282,279
	$ 45,293,465	$ 36,024,205

Grants to Zanmi Lasante in Haiti are for costs of operations, including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, social support, etc. The grants paid to l’Hopital de l’Universite d’Etat d’Haiti were for salary support for medical professionals and staff and hospital equipment. Grants to Brigham and Women’s Hospital are for the Prevention and Access to Care and Treatment Program (PACT) in Boston, MA primarily for salary support for program staff and community healthcare workers. The grant for the Agency for Technical Cooperation and Development was for cholera activities in health and water, sanitation and hygiene. The grant to Harvard Medical School (HMS) covered salaries of individuals in the HMS Department of Global Health and Social Medicine, who work closely with PIH. Payments to the Clinton Health Access Initiative were to the CHAI subsidiary in the Dominican Republic, who assisted PIH with relief efforts after the earthquake in Haiti.

In 2009, the Tomsk Oblast Country Coordinating Mechanism (CCM) in cooperation with PIH applied for a continuation of a Global Fund grant and, beginning December 1, 2009, this 6-year grant was launched. The grant amount is for 9,248,300 Euros. This grant allows the Tomsk TB service in collaboration with PIH to provide treatment of all forms of drug-resistant tuberculosis and to disseminate knowledge of MDR-TB management to 20 territories in Siberia and Far-East regions of Russia.

PIH Russia dispenses 90% of these funds to six sub-recipients: the Tomsk TB Dispensary and the Tomsk TB Hospital, which provide TB and MDR-TB treatment to all 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; the Russian Red Cross, which distributes medications and social support to patients in the more remote, rural areas of Tomsk Oblast; the Tomsk anti-AIDS center, which screens HIV+ patients for TB and provide tuberculosis prophylaxis; and Novosibirsk TB Research Institute (TBRI), which organizes TB and MDR-TB trainings for the 20 territories in Siberia and Far East of Russia, all under the supervision of the TBRI.

NOTE J – FISCAL AGENCIES

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. The largest of these is Village Health Works, a U.S. not for profit organization operating in Burundi. Amounts received and paid are reflected as additions and reductions, respectively, to a liability to the organization.

NOTE K – SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, PIH evaluated subsequent events after the consolidated balance sheet date of June 30, 2011 through November 18, 2011, which was the date the consolidated financial statements were available to be issued.