



PARTNERS IN HEALTH

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

PARTNERS IN HEALTH
Consolidated Financial Statements
June 30, 2009 and 2008

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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, 2009 and 2008, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 22, 2009

PARTNERS IN HEALTH

Consolidated Statements of Financial Position

June 30, 2009 and 2008

	Assets	2009	2008
Cash and cash equivalents		\$ 5,217,971	3,922,945
Accounts receivable		1,076,861	765,715
Contributions receivable		2,361,504	234,428
Grants receivable		4,122,204	3,940,383
Prepaid expenses and other assets		142,335	112,331
Investments, at fair value (note 3)		15,649,482	23,062,471
Property and equipment, net (note 6)		2,725,008	2,615,488
Total assets		<u>\$ 31,295,365</u>	<u>34,653,761</u>
Liabilities and Net Assets			
Accounts payable and accrued expenses		\$ 2,322,724	1,977,598
Amounts owed – fiscal agencies (note 10)		245,753	—
Total liabilities		<u>2,568,477</u>	<u>1,977,598</u>
Net assets:			
Unrestricted:			
Foreign currency translation adjustments		241,585	301,093
Undesignated		7,092,999	10,020,941
Board-designated: Thomas J. White Fund		13,641,321	16,240,944
Total unrestricted net assets		<u>20,975,905</u>	<u>26,562,978</u>
Temporarily restricted (note 4)		<u>7,750,983</u>	<u>6,113,185</u>
Total net assets		<u>28,726,888</u>	<u>32,676,163</u>
Total liabilities and net assets		<u>\$ 31,295,365</u>	<u>34,653,761</u>

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH

Consolidated Statement of Activities

Year ended June 30, 2009

	<u>Unrestricted</u>			<u>Total</u>
	<u>Undesignated</u>	<u>Board- designated: Thomas J. White Fund</u>	<u>Temporarily restricted</u>	
Revenue and other support:				
Contributions, grants and gifts in kind:				
Individuals and family foundations	\$ 22,637,557	1,180,025	6,313,528	30,131,110
Foundations and corporations	1,668,744	—	13,246,420	14,915,164
Governments, multilateral and research organizations	—	—	14,468,409	14,468,409
Special events	1,023,711	—	1,155,850	2,179,561
Gifts in kind and contributed services (note 8)	980,314	—	542,602	1,522,916
Other income	119,006	—	33,385	152,391
Transfers to support designated operating expenses	200,658	(200,658)	—	—
Net assets released from restrictions (note 4)	34,122,396	—	(34,122,396)	—
Total revenue and other support	<u>60,752,386</u>	<u>979,367</u>	<u>1,637,798</u>	<u>63,369,551</u>
Expenses (notes 8 and 9):				
Program services	59,854,730	—	—	59,854,730
Development	1,589,808	—	—	1,589,808
Administration	2,318,556	171,941	—	2,490,497
Total expenses	<u>63,763,094</u>	<u>171,941</u>	<u>—</u>	<u>63,935,035</u>
Excess (shortfall) of revenue over expense	<u>(3,010,708)</u>	<u>807,426</u>	<u>1,637,798</u>	<u>(565,484)</u>
Investment income (loss), net	<u>82,766</u>	<u>(3,407,049)</u>	<u>—</u>	<u>(3,324,283)</u>
Change in net assets	<u>(2,927,942)</u>	<u>(2,599,623)</u>	<u>1,637,798</u>	<u>(3,889,767)</u>
Foreign currency translation adjustments	(59,508)	—	—	(59,508)
Net assets at beginning of year	<u>10,322,034</u>	<u>16,240,944</u>	<u>6,113,185</u>	<u>32,676,163</u>
Net assets at end of year	<u>\$ 7,334,584</u>	<u>13,641,321</u>	<u>7,750,983</u>	<u>28,726,888</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended June 30, 2008

	<u>Unrestricted</u>			<u>Total</u>
	<u>Undesignated</u>	<u>Board- designated: Thomas J. White Fund</u>	<u>Temporarily restricted</u>	
Revenue and other support:				
Contributions, grants and gifts in kind:				
Individuals and family foundations	\$ 19,961,391	856,009	5,968,386	26,785,786
Foundations and corporations	953,885	—	12,176,246	13,130,131
Governments, multilateral and research organizations	—	—	11,278,551	11,278,551
Special events	498,309	—	—	498,309
Gifts in kind and contributed services (note 8)	1,195,640	—	—	1,195,640
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	<u>52,259,155</u>	<u>643,701</u>	<u>36,292</u>	<u>52,939,148</u>
Expenses (notes 8 and 9):				
Program services	47,975,368	—	—	47,975,368
Development	1,188,983	—	—	1,188,983
Administration	1,667,612	66,876	—	1,734,488
Total expenses	<u>50,831,963</u>	<u>66,876</u>	<u>—</u>	<u>50,898,839</u>
Excess of revenues over expenses	<u>1,427,192</u>	<u>576,825</u>	<u>36,292</u>	<u>2,040,309</u>
Investment income (loss), net	<u>95,425</u>	<u>(344,950)</u>	<u>—</u>	<u>(249,525)</u>
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 year	<u>8,666,214</u>	<u>16,009,069</u>	<u>6,076,893</u>	<u>30,752,176</u>
Net assets at end of year	<u>\$ 10,322,034</u>	<u>16,240,944</u>	<u>6,113,185</u>	<u>32,676,163</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Functional Expenses

Year ended June 30, 2009

	Program services			
	Rural healthcare operations	Tuberculosis programs, research, training, and other	Institutional support	Total
Human resources	\$ 9,183,169	4,562,838	1,984,681	15,730,688
Programs and operations	13,045,839	3,992,339	709,562	17,747,740
Construction and renovation	3,880,768	97,502	229,684	4,207,954
Travel, professional services, printing and other	830,512	1,615,698	1,156,378	3,602,588
Grants to partner organizations (note 9)	19,947,322	2,698,743	—	22,646,065
Total expenses	\$ <u>46,887,610</u>	<u>12,967,120</u>	<u>4,080,305</u>	<u>63,935,035</u>

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>
Human resources	\$ 5,282,492	5,036,797	1,717,394	12,036,683
Programs and operations	7,079,393	3,142,905	185,806	10,408,104
Construction and renovation	1,945,086	—	—	1,945,086
Travel, professional services, printing and other	1,011,492	1,915,672	1,020,271	3,947,435
Grants to partner organizations (note 9)	20,293,676	2,267,855	—	22,561,531
Total expenses	\$ <u>35,612,139</u>	<u>12,363,229</u>	<u>2,923,471</u>	<u>50,898,839</u>

See accompanying notes to consolidated financial statements.

PARTNERS IN HEALTH
Consolidated Statements of Cash Flows
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,889,767)	1,790,784
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	459,980	273,557
Net realized and unrealized losses on investments	3,633,602	1,084,456
Foreign currency translation adjustments	(59,508)	133,203
Changes in:		
Accounts receivable	(311,146)	(130,522)
Contributions receivable	(2,127,076)	(234,428)
Grants receivable	(181,821)	(3,410,441)
Prepaid expenses and other assets	(30,004)	99,343
Accounts payable and accrued expenses	590,879	(494,441)
Net cash used in operating activities	<u>(1,914,861)</u>	<u>(888,489)</u>
Cash flows from investing activities:		
Additions to property and equipment	(569,500)	(2,073,771)
Sales of investment securities	11,329,665	9,942,127
Purchases of investment securities	(7,550,278)	(10,622,897)
Net cash provided by (used in) investing activities	<u>3,209,887</u>	<u>(2,754,541)</u>
Cash flows from financing activities:		
Borrowings on line of credit	3,500,000	—
Repayments on line of credit	(3,500,000)	—
Net cash provided by financing activities	<u>—</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	1,295,026	(3,643,030)
Cash and cash equivalents at beginning of year	<u>3,922,945</u>	<u>7,565,975</u>
Cash and cash equivalents at end of year	<u>\$ 5,217,971</u>	<u>3,922,945</u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(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.

(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 in accordance with U.S. generally accepted accounting principles. 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:

- *Unrestricted 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.
- *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.

(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.

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Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(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. 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.

(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) Fair Value Measurements

Effective July 1, 2008, PIH adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is 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 investments 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 (g) below and note 3 for further discussion.

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Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(g) 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 investment funds involving hedge strategies and private equity. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and are priced accordingly. Private equity generally holds 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.

PIH has applied the accounting guidance in Accounting Standards Update 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.

(h) 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 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.

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Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(i) 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.

(j) 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.

(k) Reclassifications

Certain financial information for the year ended June 30, 2008 has been reclassified to conform to the 2009 presentation.

(l) Accounting for Income Tax Uncertainties

Effective July 1, 2008, PIH adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement for tax positions taken or expected to be taken in a tax return. The adoption of FIN 48 did not affect PIH's financial statements.

(3) Investments

The following table summarizes PIH's investments in the SFAS 157 fair value hierarchy as of June 30, 2009, with comparative totals as of June 30, 2008:

	2009				2008
	Level 1	Level 2	Level 3	Total	Total
Investments					
Cash and cash equivalents	\$ 13,244,048	—	—	13,244,048	11,626,973
Fixed income	—	—	—	—	2,676,808
Equity securities	1,280,366	—	—	1,280,366	7,699,900
Hedge funds	—	744,246	82,694	826,940	938,654
Private equity	—	—	298,128	298,128	120,136
Total	\$ 14,524,414	744,246	380,822	15,649,482	23,062,471

The investments classified in Levels 2 and 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 2 or 3 is based on PIH's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of

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the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents PIH's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157:

		<u>Level 3 rollforward</u>
Fair value at July 1, 2008	\$	214,001
Purchases		215,803
Net realized and unrealized losses		<u>(48,982)</u>
Fair value at June 30, 2009	\$	<u><u>380,822</u></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, 2009 and 2008, the fund's balance was \$13,641,321 and \$16,240,944, 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 securities.

The composition of investment income (loss) is as follows:

		<u>Year ended June 30</u>	
		<u>2009</u>	<u>2008</u>
Interest and dividends	\$	309,319	834,931
Net realized (losses) gains		(4,005,228)	392,334
Net change in unrealized gains (losses)		<u>371,626</u>	<u>(1,476,790)</u>
Total investment loss, net	\$	<u><u>(3,324,283)</u></u>	<u><u>(249,525)</u></u>

In August 2009, PIH redeemed substantially all of its investments in hedge funds.

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

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June 30, 2009 and 2008

expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments as of June 30, 2009 was \$763,000.

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes:

	2009	2008
Patient care	\$ 3,952,693	1,956,659
Training	1,119,259	1,897,858
Research	366,641	194,969
Infrastructure	1,781,889	1,706,788
Advocacy	497,326	280,362
Other	33,175	76,549
	\$ 7,750,983	6,113,185

For the years ended June 30, 2009 and 2008, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2009	2008
Purpose restrictions accomplished:		
Zanmi Lasante (Haiti)	\$ 14,259,626	7,256,776
Socios En Salud (Peru)	1,176,104	377,820
Partners In Health-Russia	1,834,930	2,589,816
Inshuti Mu Buzima (Rwanda)	7,240,252	8,639,343
Bo Mphato Litšebeletsong tsa Bophelo (Lesotho)	3,781,629	3,724,485
Abwenzi Pa Za Umoyo (Malawi)	3,179,807	3,375,627
Electronic medical record system	612,123	261,156
PACT (Boston)	340,635	661,424
Other	1,697,290	2,500,444
Net assets released from restrictions	\$ 34,122,396	29,386,891

(5) Financial Instruments

PIH maintains its cash accounts at various financial institutions. Accounts at certain financial institutions are insured up to \$250,000 and \$100,000 at June 30, 2009 and 2008, respectively, per depositor by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2009 and 2008, PIH had cash balances of \$6,438,790 (including cash equivalents recorded in Investments) and \$2,287,135, 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.

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Notes to Consolidated Financial Statements

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(6) Property and Equipment

Property and equipment is summarized as follows:

	June 30	
	2009	2008
Land	\$ 730,212	728,594
Buildings and improvements	305,402	300,985
Equipment	1,106,697	1,035,435
Vehicles	1,282,297	951,437
Capitalized software	440,577	279,234
	<u>3,865,185</u>	<u>3,295,685</u>
Less accumulated depreciation and amortization	<u>(1,140,177)</u>	<u>(680,197)</u>
	<u>\$ 2,725,008</u>	<u>2,615,488</u>

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. Base rent is \$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. 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.

(7) 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% (3.3% at June 30, 2009). 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, 2009. Maximum borrowings during the fiscal year were \$2,000,000 for a period of two weeks.

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Notes to Consolidated Financial Statements

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(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 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 as follows:

	2009	2008
Donated medicines and goods	\$ 1,091,848	883,910
Contributed legal services	66,592	236,000
Office space	364,476	75,730
Estimated fair value of donations	\$ 1,522,916	1,195,640

The 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.

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 the following:

	2009	2008
Zanmi Lasante in Haiti	\$ 19,939,084	20,010,319
Three partner organizations in Russia	1,126,771	1,209,659
Brigham and Women's Hospital	985,975	1,082,382
Maranyundo	399,600	—
Other	194,635	259,171
	\$ 22,646,065	22,561,531

Grants to Zanmi Lasante in Haiti are for costs of operations including salaries and benefits, pharmaceuticals, construction, equipment and furnishings, etc.; 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.

PARTNERS IN HEALTH

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

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.

(10) Fiscal Agencies

PIH receives donations and disburses funds on behalf of five 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 organizations is Village Health Works operating in Burundi. Amounts received and paid are reflected as additions and reductions, respectively, to a liability to the relevant organization.

(11) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with the recently issued FASB Statement No. 165, *Subsequent Events*, PIH evaluated subsequent events after the consolidated balance sheet date of June 30, 2009 through December 22, 2009, which was the date the consolidated financial statements were available to be issued.