



**TOUCH FOUNDATION, INC.**

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154

## **Independent Auditors' Report**

The Board of Trustees  
Touch Foundation, Inc.:

We have audited the accompanying statement of financial position of Touch Foundation, Inc. (the Foundation) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative financial statements of the Foundation as of and for the year ended June 30, 2007 were audited by other auditors whose report dated February 4, 2008 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 the Foundation'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 financial position of Touch Foundation, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the basic 2008 financial statements taken as a whole. The supplementary information included in schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2008 financial statements taken as a whole.

**KPMG LLP**

March 30, 2009

**TOUCH FOUNDATION, INC.**

Statement of Financial Position

June 30, 2008

(With comparative amounts at June 30, 2007)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 1,997,669	4,402,185
Investments	—	5,357
Contributions and grants receivables, net (note 3)	2,042,737	1,545,074
Prepaid assets	29,358	3,232
Furniture and equipment, net of accumulated depreciation of \$10,459 and \$6,770 in 2008 and 2007, respectively	35,885	9,674
Total assets	<u>\$ 4,105,649</u>	<u>5,965,522</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 547,418	253,389
Grants payable, net (note 4)	958,362	1,162,526
	<u>1,505,780</u>	<u>1,415,915</u>
Net assets:		
Unrestricted	195,631	414,356
Temporarily restricted (note 9)	2,404,238	4,135,251
Total net assets	<u>2,599,869</u>	<u>4,549,607</u>
Total liabilities and net assets	<u>\$ 4,105,649</u>	<u>5,965,522</u>

See accompanying notes to financial statements.

**TOUCH FOUNDATION, INC.**

Statement of Activities

Year ended June 30, 2008

(With summarized financial information for the year ended June 30, 2007)

	<b>2008</b>			<b>2007 total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Total</b>	
Revenues and public support:				
Contributions (notes 6 and 9)	\$ 2,085,033	675,156	2,760,189	6,880,638
Government grants	1,143,000	—	1,143,000	—
Donated goods and services (notes 5 and 6)	2,618,708	—	2,618,708	1,027,715
Donated stock (note 5)	170,002	—	170,002	78,733
	<u>6,016,743</u>	<u>675,156</u>	<u>6,691,899</u>	<u>7,987,086</u>
Special event income	339,350	—	339,350	529,399
Direct benefit to donors	(165,742)	—	(165,742)	(135,944)
Net special event income	<u>173,608</u>	<u>—</u>	<u>173,608</u>	<u>393,455</u>
Investment income	<u>107,651</u>	<u>—</u>	<u>107,651</u>	<u>141,734</u>
Total revenues and public support before net assets released from restrictions	6,298,002	675,156	6,973,158	8,522,275
Net assets released from restrictions	<u>2,406,169</u>	<u>(2,406,169)</u>	<u>—</u>	<u>—</u>
Total revenues and public support	<u>8,704,171</u>	<u>(1,731,013)</u>	<u>6,973,158</u>	<u>8,522,275</u>
Expenses and losses:				
Grant and program activities (note 4)	<u>7,365,592</u>	<u>—</u>	<u>7,365,592</u>	<u>4,784,211</u>
Supporting services:				
Management and general	719,219	—	719,219	585,618
Fund-raising	838,085	—	838,085	864,196
Total supporting services	<u>1,557,304</u>	<u>—</u>	<u>1,557,304</u>	<u>1,449,814</u>
Total expenses before rescission	<u>8,922,896</u>	<u>—</u>	<u>8,922,896</u>	<u>6,234,025</u>
Rescission of contributions receivable, net of discount (note 3)	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,572,000</u>
Total expenses and losses	<u>8,922,896</u>	<u>—</u>	<u>8,922,896</u>	<u>7,806,025</u>
Change in net assets	<u>(218,725)</u>	<u>(1,731,013)</u>	<u>(1,949,738)</u>	<u>716,250</u>
Net assets:				
Beginning of year	<u>414,356</u>	<u>4,135,251</u>	<u>4,549,607</u>	<u>3,833,357</u>
End of year	<u>\$ 195,631</u>	<u>2,404,238</u>	<u>2,599,869</u>	<u>4,549,607</u>

See accompanying notes to financial statements.

**TOUCH FOUNDATION, INC.**

## Statement of Cash Flows

Year ended June 30, 2008

(With comparative amounts for the year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,949,738)	716,250
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	3,689	3,189
Donated stock	(170,002)	(78,733)
Net realized and unrealized loss (gain) on investment	4,471	(1,410)
Decrease (increase) in:		
Contributions and grants receivable	(497,663)	1,542,426
Prepaid assets	(26,126)	12,875
Increase (decrease) in:		
Accounts payable and accrued expenses	294,029	226,306
Grants payable	(204,164)	800,536
Net cash (used in) provided by operating activities	<u>(2,545,504)</u>	<u>3,221,439</u>
Cash flows from investing activities:		
Acquisition of furniture and equipment	(29,900)	(4,583)
Proceeds from sale of donated stock	170,888	74,786
Net cash provided by investing activities	<u>140,988</u>	<u>70,203</u>
Net (decrease) increase in cash and cash equivalents	(2,404,516)	3,291,642
Cash and cash equivalents:		
Beginning of year	4,402,185	1,110,543
End of year	<u>\$ 1,997,669</u>	<u>4,402,185</u>

See accompanying notes to financial statements.

# TOUCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

### (1) Organization

Touch Foundation, Inc. (the Foundation) is a not-for-profit public charity organization formed under the laws of the state of Connecticut that began operations in August 2004. The Foundation is working to address health system capacity issues in Tanzania. Its objective is to enable Tanzanians to produce adequate numbers of health workers and implement high priority health system improvements. While working in Tanzania to develop and implement an effective approach, the Foundation is committed to collecting, codifying, and disseminating the knowledge generated by its work so that it can be used to replicate solutions elsewhere.

### (2) Summary of Significant Accounting Policies

#### (a) *Basis of Accounting*

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting.

#### (b) *Net Asset Classifications*

The Foundation reports information regarding its financial position and activities according to two classes of net assets as follows:

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the Foundation.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

#### (c) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and money market accounts with an initial maturity of three months or less.

#### (d) *Government Grants*

Government grants are recognized as earned, as the related costs are incurred under the grant agreements.

#### (e) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **TOUCH FOUNDATION, INC.**

### Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

**(f) Comparative Information**

The statement of activities includes the summarized comparative information for the year ended June 30, 2007. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**(g) Functional Allocation of Expenses**

The costs of providing the Foundation's programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the program and supporting services in reasonable ratios determined by management.

**(h) Investments**

Investments are stated at fair value based upon quoted market prices.

**(i) Contributions**

Contributions or promises to give (pledges) to the Foundation are recognized as revenue upon receipt of either cash or other assets or of unconditional contributions. Contributions, primarily obtained from individuals in the United States and global financial institutions, are considered available for unrestricted use unless specifically restricted by the donor. Donated services and goods are reported at their fair values, as both revenue and expense, in the accompanying statement of activities.

**(j) Furniture and Equipment**

Furniture and equipment are stated at cost. Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets, ranging from three to five years.

**(k) Income Taxes**

The Foundation is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been recorded in the accompanying financial statements. The Foundation is also exempt from New York and Connecticut income taxes under the related state provisions. Management believes that the Foundation will continue to be exempted from tax.

**(l) Grants**

Grants are recorded when approved by the board of directors and all conditions are met. Grants that are expected to be paid in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year the grant was approved.

## TOUCH FOUNDATION, INC.

### Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

**(m) Contributions Receivable**

Unconditional contributions that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise to give is received. Management evaluates the contributions receivable for purposes of establishing an allowance for doubtful accounts. Contributions receivable are written off if and when deemed uncollectible.

**(n) Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), which addresses accounting for, and disclosure of, uncertain tax positions. FIN 48 prescribes a model for how an entity should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions, presuming the tax authorities' full knowledge of the position and all relevant facts. FIN 48 will require an entity to recognize the benefit of tax positions when it is "more likely than not" that the provision will be sustainable based on the merits of the position. The Foundation is currently evaluating the impact that FIN 48 will have on its financial statements.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 provides a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to previous accounting pronouncements that require or permit fair value measurements. FASB Statement No. 157 emphasizes that fair value is a market-based measurement, and not an entity-specific measurement, and sets out a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity's own assumptions (unobservable inputs). FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact that FASB Statement No. 157 will have on its financial statements.

**TOUCH FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

**(3) Contributions and Grants Receivables**

The Foundation's contributions and grants receivables at June 30, 2008 and 2007 are expected to be collected as follows:

	<u>2008</u>	<u>2007</u>
Within one year	\$ 1,852,513	1,362,354
One to five years	203,000	200,414
	<u>2,055,513</u>	<u>1,562,768</u>
Less discount to present value (at rates ranging from 2.63% to 4.73%)	<u>(12,776)</u>	<u>(17,694)</u>
	<u>\$ 2,042,737</u>	<u>1,545,074</u>

Contributions and grants receivables from four donors accounted for approximately 98% and 94% of the total contributions and grants receivable balance for the years ended June 30, 2008 and 2007, respectively. Four donors accounted for approximately 63% and 90% of contributions and grants for the years ended June 30, 2008 and 2007 respectively.

During fiscal year 2007, the chairman of the board of trustees resigned from his position and rescinded his remaining pledge of \$1,572,000, net of present value discount. The board of trustees accepted his resignation and his rescission.

**(4) Grant Expenses and Payable**

During September 2006 (subsequently amended in June 2007), the Foundation awarded a grant to Bugando University College of Health Sciences (BUCHS) to cover certain operating and capital expenses. This grant was conditioned on the Foundation raising such funds and BUCHS providing appropriate evidence of need and prior expenditures. The total amount granted under this agreement totaled \$2,076,000. Funds remitted to BUCHS during the year ended June 30, 2007 amounted to approximately \$1,855,000. As of June 30, 2007, \$221,000 remained payable to BUCHS, which was paid during the year ended June 30, 2008.

During June 2007, the Foundation awarded a grant to BUCHS to cover certain operating and capital expenses. This grant was conditioned on the Foundation raising such funds and BUCHS providing appropriate evidence of need and prior expenditures. The total amount granted under this agreement totaled approximately \$2,901,000. Funds remitted to BUCHS during the year ended June 30, 2008 amounted to approximately \$2,711,000. As of June 30, 2008, \$190,000 remained payable to BUCHS, which was paid during the year ending June 30, 2009.

**TOUCH FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

During July 2006, the Foundation entered into an affiliated grant agreement with Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (WCMC) to support the WCMC-Touch Weill Bugando Program within BUCHS. The amount granted was approximately \$1,033,000 payable over a three-year period with a renewal option, upon consent of both parties. The Foundation will provide certain funding to WCMC-Touch Weill Bugando Program based on appropriate evidence of need and expenditure. As of June 30, 2008, approximately \$758,000, net of discount for grants due in excess of one year (discounted at 2.17%, approximately \$9,000) remained payable to WCMC.

Amounts promised by the Foundation at June 30, 2008 and 2007 have been recorded as grants payable. The Foundation's grants payable are expected to be paid as follows at June 30, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Payable:		
Within one year	\$ 761,775	736,720
One to three years	205,211	467,040
	966,986	1,203,760
Present value reduction of grants due in excess of one year (at rates ranging from 2.17% to 4.73%)	(8,624)	(41,234)
	\$ 958,362	1,162,526

**(5) Donated Goods and Services**

Contributions of services are recognized by the Foundation as both revenues and expenses if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Donated goods and services consisted of the following at June 30, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Faculty and medical services	\$ 822,000	587,453
Consulting services	1,500,903	229,400
Legal services	191,418	145,002
Use of facilities	63,787	51,360
Administrative, accounting, and publishing services	—	14,500
Auction items	40,600	—
	\$ 2,618,708	1,027,715

In addition, the Foundation received donated stock of \$170,002 and \$78,733 for the years ended June 30, 2008 and 2007, respectively.

## **TOUCH FOUNDATION, INC.**

### Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

#### **(6) Related-Party Transactions**

Consulting services donated by McKinsey & Company (McKinsey), amounting to approximately \$1,461,000 for the year ended June 30, 2008, related to consulting on the Twiga and Lake Zone Initiatives. Consulting services donated by McKinsey, amounting to \$229,400 for the year ended June 30, 2007, related to consulting on the organizational redesign at Bugando. A director of McKinsey is the President of the Foundation.

Legal services donated by Stroock & Stroock & Lavan, LLP (Stroock) amounting to approximately \$191,000 and \$145,000 for the years ended June 30, 2008 and 2007, consisted of advice on organizational and board matters, governance issues, tax compliance, grant making, agreements, intellectual property, fund-raising and employment issues. A partner of Stroock is a trustee of the Foundation, and a special counsel of Stroock is the Secretary of the Foundation.

Contributions received from the members of the board of trustees amounted to approximately \$1,002,000 and \$1,530,000 for the years ended June 30, 2008 and 2007, respectively. Contributions receivable from these related parties amounted to approximately \$826,000 and \$1,450,000, net of discount at June 30, 2008 and 2007, respectively.

#### **(7) Concentrations**

Cash held by Citibank, N.A. that exceeds the Federal Deposit Insurance Corporation (FDIC) limits exposes the Foundation to a concentration of credit risk. Balances throughout the years ended June 30, 2008 and 2007 exceeded the FDIC limit. The excess of deposit balances amounted to approximately \$1,929,000 and \$4,413,000 at June 30, 2008 and 2007, respectively.

#### **(8) Employee Benefit Plan**

In August 2005, the Foundation established a 401(k) profit-sharing plan for all eligible employees. Contributions to the plan are determined pursuant to a formula. Total contributions made on behalf of the employees amounted to \$19,596 and \$15,521 for the years ended June 30, 2008 and 2007, respectively.

**TOUCH FOUNDATION, INC.**

Notes to Financial Statements

June 30, 2008

(With comparative amounts at June 30, 2007)

**(9) Temporarily Restricted Net Assets**

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

	<b>Balance at June 30</b>	
	<b>2008</b>	<b>2007</b>
Time restricted – general operations*	\$ 203,000	200,414
BUCHS operations and infrastructure*	1,143,782	3,090,000
WCMC – Touch Weill Bugando Program*	610,500	826,306
Touch Abbott Lab Program*	459,732	—
Scholarship Fund*	—	36,225
Present value	(12,776)	(17,694)
	<u>\$ 2,404,238</u>	<u>4,135,251</u>

\* Shown at gross value.

In 2007, the Foundation received a temporary restricted gift of approximately \$5.0 million from a donor, which was recognized in 2007, of which \$2.4 million was spent in 2008.

## TOUCH FOUNDATION, INC.

## Schedule of Functional Expenses

Year ended June 30, 2008

(With summarized financial information for the year ended June 30, 2007)

	Program services	2008 Supporting services			2008 expenses	2007 total
		Management and general	Fund-raising	Subtotal		
Grants	\$ 2,944,595	—	—	—	2,944,595	2,882,520
Donated goods and services	2,366,628	189,261	62,819	252,080	2,618,708	1,027,715
Salaries and related expenses	900,715	379,159	573,518	952,677	1,853,392	1,234,105
Travel	536,356	43,113	20,495	63,608	599,964	311,460
Professional and consulting fees	450,430	55,966	18,734	74,700	525,130	407,788
Telephone	75,574	3,688	11,369	15,057	90,631	51,783
Printing, publications, and postage	66,978	31,871	63,827	95,698	162,676	213,351
Office supplies and other miscellaneous	12,049	10,987	20,410	31,397	43,446	34,195
Maintenance	9,427	3,976	5,993	9,969	19,396	6,472
Depreciation	1,793	756	1,140	1,896	3,689	3,189
Insurance	1,047	442	666	1,108	2,155	2,053
Special events	—	—	59,114	59,114	59,114	59,394
Total expenses	\$ 7,365,592	719,219	838,085	1,557,304	8,922,896	6,234,025

See accompanying independent auditors' report.