



Pangaea Global AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Report on Financial Statements

**June 30, 2008 (with Summarized Comparative
Information as of June 30, 2007)**

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)

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June 30, 2008

**(with Summarized Comparative Information as of and for the year ended
June 30, 2007)**

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Report of Independent Auditors

The Board of Directors of
Pangaea Global AIDS Foundation

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, expenses by function, and cash flows present fairly, in all material respects, the financial position of Pangaea Global AIDS Foundation ("Pangaea") at June 30, 2008, 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. These financial statements are the responsibility of Pangaea's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Pangaea's 2007 financial statements, and in our report dated October 22, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 17, 2008

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2008
(with Summarized Comparative Information as of June 30, 2007)

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 415,424	\$ 360,557
Investments	2,153,400	120,989
Related party receivable	-	2,405,224
Accounts receivable	55,188	161,836
Prepaid expenses and other assets	78,283	25,837
Property and equipment, net	<u>53,998</u>	<u>1,975</u>
Total assets	<u>\$ 2,756,293</u>	<u>\$ 3,076,418</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 282,803	\$ 59,628
Accrued payroll and related liabilities	217,405	130,678
Related party payable	44,063	-
Deferred revenue	<u>7,391</u>	<u>152,478</u>
Total liabilities	<u>551,662</u>	<u>342,784</u>
Contingencies (Note 8)		
Net assets		
Unrestricted	2,034,596	2,733,634
Temporarily restricted	<u>170,035</u>	<u>-</u>
Total net assets	<u>2,204,631</u>	<u>2,733,634</u>
Total liabilities and net assets	<u>\$ 2,756,293</u>	<u>\$ 3,076,418</u>

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

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)

Statement of Activities

Year Ended June 30, 2008

(with Summarized Comparative Information for the year ended June 30, 2007)

	June 30, 2008			June 30,
	Unrestricted	Temporarily Restricted	Total	2007 Total
Public support and revenues				
Government grants	\$ 145,087	\$ -	\$ 145,087	\$ 108,803
Contributions	1,775,108	500,000	2,275,108	1,845,121
Investment income and net realized and unrealized gain	48,995	-	48,995	1,380
Other revenue	6,741	-	6,741	7,109
Donated services	5,547	-	5,547	5,336
Net assets released from restrictions	<u>329,965</u>	<u>(329,965)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	2,311,443	170,035	2,481,478	1,967,749
Expenses				
Program services	1,559,344	-	1,559,344	1,583,955
Support services	1,445,886	-	1,445,886	189,859
Fund development	<u>5,251</u>	<u>-</u>	<u>5,251</u>	<u>136,280</u>
Total expenses	3,010,481	-	3,010,481	1,910,094
(Decrease) increase in net assets	(699,038)	170,035	(529,003)	57,655
Net assets, beginning of year	<u>2,733,634</u>	<u>-</u>	<u>2,733,634</u>	<u>2,675,979</u>
Net assets, end of year	<u>\$ 2,034,596</u>	<u>\$ 170,035</u>	<u>\$ 2,204,631</u>	<u>\$ 2,733,634</u>

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

Pangaea Global AIDS Foundation
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Statement of Functional Expenses

Year Ended June 30, 2008

(with Summarized Comparative Information for the year ended June 30, 2007)

	<u>Program Services</u>	<u>Support Services</u>	<u>Fund Development</u>	<u>2008 Total Expenses</u>	<u>2007 Total Expenses</u>
Expenses					
Salaries and employee benefits	\$ 713,858	\$ 875,092	\$ 1,763	\$ 1,590,713	\$ 828,673
Professional and technical services and dues	550,243	354,749	3,488	908,480	759,800
Travel	145,027	68,627	-	213,654	185,390
Outreach and promotion	668	6,821	-	7,489	10,503
Telephone and internet	13,035	20,381	-	33,416	10,646
Staff development	-	16,876	-	16,876	9,046
Printing and materials	1,318	7,066	-	8,384	15,851
Grants	72,000	-	-	72,000	-
Occupancy	25,058	38,995	-	64,053	40,676
Operations	31,318	46,615	-	77,933	41,557
Depreciation	4,655	7,280	-	11,935	2,616
Donated professional services	2,164	3,384	-	5,548	5,336
	<u>\$ 1,559,344</u>	<u>\$ 1,445,886</u>	<u>\$ 5,251</u>	<u>\$ 3,010,481</u>	<u>\$ 1,910,094</u>

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

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)

Statement of Cash Flows

Year Ended June 30, 2008

(with Summarized Comparative Information for the year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (529,003)	\$ 57,655
Loss on disposal of capital assets	-	1,906
Depreciation and amortization	11,935	2,616
Net realized and unrealized loss (gain) on investments	31,967	(996)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Changes in operating assets and liabilities		
Accounts and contributions receivable	2,511,872	(150,463)
Prepaid expenses and other assets	(52,446)	18,078
Accounts payable and accrued expenses	223,175	(27,532)
Accrued payroll and related liabilities	86,727	23,945
Deferred revenue	(145,087)	(36,523)
Net cash provided by (used in) operating activities	<u>2,139,140</u>	<u>(111,314)</u>
Cash flows from investing activities		
Capital expenditures	(19,894)	-
Purchase of investments	(3,220,230)	(120,056)
Proceeds from sales of investments	<u>1,155,851</u>	<u>63</u>
Net cash used in investing activities	<u>(2,084,273)</u>	<u>(119,993)</u>
Net increase (decrease) in cash	54,867	(231,307)
Cash, beginning of year	<u>360,557</u>	<u>591,864</u>
Cash, end of year	<u>\$ 415,424</u>	<u>\$ 360,557</u>
Supplemental disclosures of cash flow information		
Accrued purchases of property and equipment	\$ 44,063	\$ -

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

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2008

1. Organization

Pangaea Global AIDS Foundation ("Pangaea") is a California non-profit public benefit corporation. The purpose of Pangaea is to help end the pandemic and human suffering caused by HIV with specific focus on the global epidemic.

Over 95% of the world's HIV/AIDS cases are in the developing world where efforts to fight HIV face enormous challenges. Severe poverty, hunger, and a lack of general health and medical care pose enormous barriers to bringing HIV under control and relieving already massive human suffering. Conscious of these formidable challenges, Pangaea concentrates its efforts on broadening access to life sustaining HIV treatment and care in resource poor settings and underserved populations through activities that are grounded in existing health care infrastructure. Pangaea's priorities reflect the reality that an effective HIV response must integrate a sustained medical effort with a strategic prevention effort.

Key Program Activities in 2007-2008

Pangaea continued to partner with the Clinton Foundation's HIV/AIDS Initiative ("CHAI") to assist the governments of China and Ukraine develop and implement treatment programs for their injection drug using ("IDU") population infected with HIV/AIDS. Pangaea's work in China was further supported by the Gilead Foundation which supported the development of treatment capacity and care delivery for the IDU related HIV/AIDS population in detention centers in Yunnan Province. In Tanzania, Pangaea provided start-up support for a new program to train high risk youth to become health workers in areas with significant HIV/AIDS treatment capacity, this program will become fully active in 2008/09. In South Africa, Pangaea provided start-up support for a mid-level provider training program in the Eastern Cape which is expected to expand in 2008/09. In Cambodia, Pangaea supported an initiative to provide improved prevention interventions for young women working in bars and drinking establishments on the edge of commercial sex work which will form a basis for expanded program activities in that country.

Pangaea was also active with UNAIDS in helping it formulate and launch its UNAIDS 2031 initiative recognizing the first 25 years of the epidemic and to better define the direction and challenges of the disease over the next 25 years. It convened a group of experts in prevention to provide the Executive Director of UNAIDS with advice and guidance on high potential approaches to help sharpen future priorities. Pangaea is an active participant in the UNAIDS 2031 Programmatic Working Group seeking to identify and prioritize the critical areas of focus for more effective treatment and prevention over the next 25 years.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of Pangaea have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, applicable to nonprofit organizations. Accordingly, net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of Pangaea and the changes therein are classified and reported as follows:

Unrestricted

Contributions are recorded when received or unconditionally promised and considered to be available for general support of Pangaea's operations unless specifically restricted by the donor.

Pangaea Global AIDS Foundation
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Notes to Financial Statements
June 30, 2008

Temporarily Restricted

Temporarily restricted net assets relate primarily to contributions whose use by Pangaea is limited by donor-imposed stipulations with respect to time and/or purpose that can be fulfilled by actions of Pangaea pursuant to those stipulations.

Permanently Restricted

Pangaea had no permanently restricted net assets as of June 30, 2008 and June 30, 2007.

Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised. Pangaea records gifts of cash and other assets as temporarily restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction. Temporarily restricted contributions are reported as temporarily restricted support and net assets released from restriction when the restriction is met in the same year as the contribution is received.

Government and other contract revenue is recognized in accordance with the terms of the contract which is generally when the related expenditures are incurred.

Investments

All debt and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices. Investments also include cash equivalents consisting of all highly liquid investments purchased with maturities of ninety days or less at the time of acquisition and held for long-term investment purposes. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities represent the difference between the original cost of the investment and the proceeds received from the sale of securities. Dividend and interest income are recognized when earned.

Property and Equipment

Property and equipment are presented in the financial statements at acquisition cost or, in the case of donated property, at estimated fair value at the date of gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which have been determined to be three to five years from the date of acquisition or donation of equipment.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of activities.

Deferred Revenue

Deferred revenue represents funds which have been received from grants or contracts that are considered to be exchange transactions. The funds are for specific programs which have not yet been completed or taken place.

Contributions of Services

Contributions of services are recognized when received if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by an individual possessing those skills, and (c) would typically need to be purchased if not donated. A substantial number of volunteers have donated significant amounts of time in Pangaea's program activities. The value of such donated volunteer services received was \$48,945 for the year ended June 30, 2008. The value of such donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not meet the above criteria.

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June 30, 2008

Functional Expense Allocations

Expenses such as personnel costs, professional services, occupancy costs, travel, and operating costs, are allocated among program services, support services and fund development classifications based on occupancy and employee ratios and on estimates made by Pangaea's management. Support services costs increased during the fiscal year due to the implementation of a three year business plan to increase Pangaea's capacity. Pangaea added several key positions which provided additional expertise and set the foundation for programmatic growth in the future.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Concentrations of Credit Risk

Financial instruments which potentially subject Pangaea to credit risk consist primarily of cash, cash equivalents and investments. Pangaea maintains cash, cash equivalents and investments with a major financial institution. At times, such amounts may exceed FDIC limits. Pangaea manages credit risk by establishing minimum credit standards for financial institutions and limiting the amount of credit exposure with any one institution. Pangaea's investments have been placed with banking institutions and investment managers. Pangaea closely monitors these investments and as of June 30, 2008, has not experienced significant losses.

Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a full presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Pangaea's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

3. Related Party Transactions

The San Francisco AIDS Foundation ("the Foundation") created Pangaea in an effort to end the pandemic and human suffering caused by HIV on a global level. The Foundation continues to support Pangaea's initiatives through contributions as well as providing certain management and general administrative services.

Pangaea is governed by its own Board of Directors and is not considered to be part of the Foundation's reporting entity.

During the year ended June 30, 2008, Pangaea was granted \$1,000,000 by the Foundation to support its treatment access projects. Pangaea paid technical assistance fees to the Foundation in the amount of \$261,372. As of June 30, 2008, Pangaea has a related party payable to the Foundation of \$44,063.

Pangaea leases office space from the Foundation on a monthly basis. Rent and other occupancy expenses for the year ended June 30, 2008 was \$81,793.

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Notes to Financial Statements
June 30, 2008

4. Investments

Pangaea's investments consisted of the following as of June 30, 2008:

Equity securities	\$ 565,966
Asset backed securities and corporate bonds	283,026
U.S. treasury and agency securities	353,590
Mutual funds	447,644
Cash equivalents	<u>503,174</u>
	<u>\$ 2,153,400</u>

5. Property and Equipment

Property and equipment at June 30, 2008 is summarized as follows:

Equipment	\$ 32,533
Furniture and fixtures	17,044
Leasehold improvements	<u>32,582</u>
	82,159
Accumulated depreciation and amortization	<u>(28,161)</u>
	<u>\$ 53,998</u>

6. Net Assets Released from Restrictions

Temporarily restricted net assets were available for the following purposes as of June 30, 2008:

Initiatives in the area of treatment and care	<u>\$ 170,035</u>
Total temporarily restricted net assets	<u>\$ 170,035</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the year ended June 30, 2008:

Initiatives in the area of treatment and care	<u>\$ 329,965</u>
Total net assets released from restrictions	<u>\$ 329,965</u>

7. Income Tax Status

Pangaea has received determination letters from the Internal Revenue Service and the State of California indicating that it is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California, respectively. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

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June 30, 2008

8. Contingencies

Amounts received and expended by Pangaea under federally funded programs are subject to audit by oversight governmental agencies. Pangaea's management believes that potential adjustments, if any, resulting from such audits will not have a significant effect on Pangaea's financial position.

9. Defined Contribution Retirement Plan

Pangaea has a defined contribution retirement plan ("Plan") under Section 403(b) of the Internal Revenue Code. The Plan covers all full-time employees of Pangaea and provides for voluntary salary deferrals up to certain amounts. Pangaea contributed \$33,016 to the Plan during the year ended June 30, 2008. Employer contributions, if any, are at the discretion of the management of Pangaea.

10. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007 except for certain provisions, which were deferred for an additional year. Management is in the process of evaluating the application of SFAS 157 to Pangaea but does not believe its adoption will have a material impact on the financial statements.