

Pangaea Global AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Report on Financial Statements

**June 30, 2009 (with Summarized Comparative
Information as of and for the year ended June 30,
2008)**

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

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June 30, 2009

**(with Summarized Comparative Information as of and for the year ended
June 30, 2008)**

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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, 2009, 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 2008 financial statements, and in our report dated October 17, 2008, 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

December 16, 2009

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2009
(with Summarized Comparative Information as of June 30, 2008)

	<u>2009</u>	<u>2008</u>
Assets		
Cash	\$ 128,723	\$ 415,424
Investments	1,403,662	2,153,400
Related party receivable	6,058	-
Accounts receivable	160,904	55,188
Prepaid expenses	28,777	78,283
Property and equipment, net	<u>34,415</u>	<u>53,998</u>
Total assets	<u>\$ 1,762,539</u>	<u>\$ 2,756,293</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 366,694	\$ 282,803
Accrued payroll and related liabilities	133,263	217,405
Related party payable	-	44,063
Deferred revenue	<u>350,713</u>	<u>7,391</u>
Total liabilities	<u>850,670</u>	<u>551,662</u>
Contingencies (Note 8)		
Net assets		
Unrestricted	762,969	2,034,596
Temporarily restricted	<u>148,900</u>	<u>170,035</u>
Total net assets	<u>911,869</u>	<u>2,204,631</u>
Total liabilities and net assets	<u>\$ 1,762,539</u>	<u>\$ 2,756,293</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 and Changes in Net Assets
Year Ended June 30, 2009

(with Summarized Comparative Information for the year ended June 30, 2008)

	June 30, 2009			June 30,
	Unrestricted	Temporarily Restricted	Total	2008 Total
Public and government support				
Government grants	\$ 385,120	\$ -	\$ 385,120	\$ 145,087
Contributions and grants				
Individuals	16,045	-	16,045	51,948
Corporations and foundations	1,324,902	625,812	1,950,714	2,223,160
Donated services	3,941	-	3,941	5,547
Total	<u>1,730,008</u>	<u>625,812</u>	<u>2,355,820</u>	<u>2,425,742</u>
Net assets released from restrictions	<u>646,947</u>	<u>(646,947)</u>	<u>-</u>	<u>-</u>
Total public and government support	2,376,955	(21,135)	2,355,820	2,425,742
Revenues and gains				
Net realized and unrealized loss on investments	(165,866)	-	(165,866)	(31,967)
Investment income	81,380	-	81,380	82,703
Other revenue	-	-	-	5,000
Total public and government support, revenues and gains	<u>2,292,469</u>	<u>(21,135)</u>	<u>2,271,334</u>	<u>2,481,478</u>
Expenses				
Program services	2,020,604	-	2,020,604	1,559,344
Support services	1,534,674	-	1,534,674	1,445,886
Fund development	8,818	-	8,818	5,251
Total expenses	<u>3,564,096</u>	<u>-</u>	<u>3,564,096</u>	<u>3,010,481</u>
Decrease in net assets	<u>(1,271,627)</u>	<u>(21,135)</u>	<u>(1,292,762)</u>	<u>(529,003)</u>
Net assets, beginning of year	<u>2,034,596</u>	<u>170,035</u>	<u>2,204,631</u>	<u>2,733,634</u>
Net assets, end of year	<u>\$ 762,969</u>	<u>\$ 148,900</u>	<u>\$ 911,869</u>	<u>\$ 2,204,631</u>

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

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

Statement of Functional Expenses

Year Ended June 30, 2009

(with Summarized Comparative Information for the year ended June 30, 2008)

	<u>Program Services</u>	<u>Support Services</u>	<u>Fund Development</u>	<u>2009 Total Expenses</u>	<u>2008 Total Expenses</u>
Expenses					
Salaries and employee benefits	\$ 748,960	\$ 882,645	\$ 3,781	\$ 1,635,386	\$ 1,590,713
Professional and technical services and dues	961,794	498,828	4,357	1,464,979	908,480
Travel	206,953	42,862	-	249,815	213,654
Outreach and promotion	5,108	6,648	680	12,436	7,489
Telephone	18,107	21,431	-	39,538	33,416
Staff development	-	6,892	-	6,892	16,876
Program materials	16,000	-	-	16,000	8,384
Grants	-	-	-	-	72,000
Occupancy	25,464	30,137	-	55,601	64,053
Operations	27,369	32,392	-	59,761	77,933
Depreciation and amortization	9,044	10,703	-	19,747	11,935
Donated professional services	1,805	2,136	-	3,941	5,548
	<u>\$ 2,020,604</u>	<u>\$ 1,534,674</u>	<u>\$ 8,818</u>	<u>\$ 3,564,096</u>	<u>\$ 3,010,481</u>

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

Pangaea Global AIDS Foundation
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Statement of Cash Flows

Year Ended June 30, 2009

(with Summarized Comparative Information for the year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Decrease in net assets	\$ (1,292,762)	\$ (529,003)
Depreciation and amortization	19,747	11,935
Net realized and unrealized loss on investments	165,866	31,967
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Changes in operating assets and liabilities		
Accounts receivable	(111,774)	2,511,872
Prepaid expenses	49,506	(52,446)
Accounts payable and accrued expenses	39,828	223,175
Accrued payroll and related liabilities	(84,142)	86,727
Deferred revenue	343,322	(145,087)
Net cash (used in) provided by operating activities	<u>(870,409)</u>	<u>2,139,140</u>
Cash flows from investing activities		
Capital expenditures	-	(19,894)
Purchase of investments	(361,016)	(3,220,230)
Proceeds from sales of investments	944,724	1,155,851
Net cash provided by (used in) investing activities	<u>583,708</u>	<u>(2,084,273)</u>
Net (decrease) increase in cash	(286,701)	54,867
Cash, beginning of year	415,424	360,557
Cash, end of year	<u>\$ 128,723</u>	<u>\$ 415,424</u>
Supplemental disclosures of cash flow information		
Accrued purchases of property and equipment	\$ -	\$ 44,063
Donated professional services	\$ 3,941	\$ 5,548

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, 2009

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.

A substantial amount 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 belief that an effective HIV response must integrate a sustained medical effort with a strategic prevention effort.

Key Program Activities in 2008-2009

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 partnered with local agencies to train high risk youth to become health workers in areas with significant HIV/AIDS treatment capacity. Pangaea also began two new efforts in southern Africa and in China. In Zimbabwe, Pangaea began establishing a platform for a multi-year effort focused on improving primary health care infrastructure and HIV/AIDS services specifically in the maternal and child population. In China, Pangaea was asked by the Gates Foundation to provide technical assistance to a 15-city program targeting men-who-have-sex-with-men, commercial sex workers and IDUs who are at particular risk of acquiring HIV and experience difficulties in accessing treatment services if HIV-infected. Pangaea works with clinics, non-governmental organizations and centers for disease control to improve systems of prevention and care. In addition to these project areas, Pangaea also focuses on HIV policy in the workplace through continued work with Chevron, and in the area of implementation science, establishing a research agenda for HIV/AIDS in collaboration with the National Institutes of Health.

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.

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.

Pangaea Global AIDS Foundation
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Permanently Restricted

Pangaea had no permanently restricted net assets as of June 30, 2009.

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 \$41,993 for the year ended June 30, 2009. 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.

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 the expense type, employee ratios and on estimates made by Pangaea's management.

Pangaea Global AIDS Foundation
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June 30, 2009

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 and investments. Pangaea maintains cash 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.

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, 2008, 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, 2009, Pangaea was granted \$910,000 by the Foundation to support its treatment access projects. Pangaea paid technical assistance fees to the Foundation in the amount of \$273,000. As of June 30, 2009, Pangaea has a related party receivable from the Foundation of \$6,058.

Pangaea leases office space from the Foundation on a monthly basis. Rent and other occupancy expenses for the year ended June 30, 2009 was \$67,241.

Pangaea made a professional services contract of \$50,000 to a global nonprofit organization where the executive director (a volunteer position) is also a member of management of Pangaea. The global nonprofit organization subcontracted \$20,000 of these funds to a staff member of Pangaea to perform a needs assessment in Southern Africa. In addition, Pangaea made a professional services contract for \$40,000 to another nonprofit organization with which the same member of Pangaea management is affiliated. These transactions were approved by Pangaea's executive management and the individual did not receive any compensation from these contracts.

Pangaea Global AIDS Foundation
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Notes to Financial Statements
June 30, 2009

4. Investments

Pangaea's investments consisted of the following as of June 30, 2009:

Cash equivalents	\$ 255,962
U.S. treasury bills	374,174
Mutual funds	477,140
Corporate debt securities	59,462
Mortgage-backed securities	222,754
Other asset-backed securities	14,170
	<u>\$ 1,403,662</u>

Effective July 1, 2008, Pangaea adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by Pangaea for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The following tables present the financial instruments carried at fair value as of June 30, 2009, by caption on the statement of financial position by the SFAS 157 valuation hierarchy defined above:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
Cash equivalents	\$ 255,962	\$ -	\$ -	\$ 255,962
U.S. treasury bills	374,174	-	-	374,174
Mutual funds	477,140	-	-	477,140
Corporate debt securities	-	59,462	-	59,462
Mortgage-backed securities	-	222,754	-	222,754
Other asset-backed securities	-	14,170	-	14,170
Total investments	<u>\$ 1,107,276</u>	<u>\$ 296,386</u>	<u>\$ -</u>	<u>\$ 1,403,662</u>

5. Property and Equipment

Property and equipment at June 30, 2009 is summarized as follows:

Equipment	\$ 30,103
Furniture and fixtures	17,044
Leasehold improvements	<u>32,582</u>
	79,729
Accumulated depreciation and amortization	<u>(45,314)</u>
	<u>\$ 34,415</u>

Depreciation and amortization expense for the years ended June 30, 2009 and 2008 was \$19,747 and \$11,935, respectively.

6. Net Assets Released from Restrictions

Temporarily restricted net assets were available for the following purposes as of June 30, 2009:

Initiatives in the area of treatment and care	<u>\$ 148,900</u>
Total temporarily restricted net assets	<u>\$ 148,900</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, 2009:

Initiatives in the area of treatment and care	\$ 569,652
Assessment of treatment and care in China	<u>77,295</u>
Total net assets released from restrictions	<u>\$ 646,947</u>

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June 30, 2009

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.

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 \$35,834 to the Plan during the year ended June 30, 2009. Employer contributions, if any, are at the discretion of the management of Pangaea.

10. Subsequent Events

Pangaea has performed an evaluation of subsequent events through December 16, 2009, which is the date the financial statements were available to be issued.