



Pangaea Global AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Report on Financial Statements

**June 30, 2007 (with Summarized Comparative
Information as of June 30, 2006)**

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
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June 30, 2007
(with Summarized Comparative Information as of June 30, 2006)

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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, cash flows, and expenses by function present fairly, in all material respects, the financial position of Pangaea Global AIDS Foundation ("Pangaea") at June 30, 2007, 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 2006 financial statements, and in our report dated September 1, 2006, 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 22, 2007

Pangaea Global AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2007

(with Summarized Comparative Information as of June 30, 2006)

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 360,557	\$ 591,864
Investments	120,989	-
Related party receivable	2,405,224	2,086,015
Accounts receivable	161,836	330,582
Prepaid expenses and other assets	25,837	43,915
Property and equipment, net	<u>1,975</u>	<u>6,497</u>
Total assets	<u>\$ 3,076,418</u>	<u>\$ 3,058,873</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 59,628	\$ 87,160
Accrued payroll and related liabilities	130,678	106,733
Deferred revenue	<u>152,478</u>	<u>189,001</u>
Total liabilities	<u>342,784</u>	<u>382,894</u>
Contingencies (Note 8)		
Net assets		
Unrestricted	2,733,634	2,625,979
Temporarily restricted	<u>-</u>	<u>50,000</u>
Total net assets	<u>2,733,634</u>	<u>2,675,979</u>
Total liabilities and net assets	<u>\$ 3,076,418</u>	<u>\$ 3,058,873</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, 2007
(with Summarized Comparative Information as of June 30, 2006)

	June 30, 2007			June 30,
	Unrestricted	Temporarily Restricted	Total	2006 Total
Public support and revenues				
Government grants	\$ 108,803	\$ -	\$ 108,803	\$ 19,929
Contributions	1,845,121	-	1,845,121	4,943,394
Other revenue	8,489	-	8,489	1,981
Donated services	5,336	-	5,336	-
Net assets released from restrictions	50,000	(50,000)	-	-
Total public support and revenues	2,017,749	(50,000)	1,967,749	4,965,304
Expenses				
Program services	1,583,955	-	1,583,955	4,490,786
Support services	189,859	-	189,859	347,845
Fund development	136,280	-	136,280	67,616
Total expenses	1,910,094	-	1,910,094	4,906,247
Increase (decrease) in net assets	107,655	(50,000)	57,655	59,057
Net assets, beginning of period	2,625,979	50,000	2,675,979	2,616,922
Net assets, end of period	<u>\$ 2,733,634</u>	<u>\$ -</u>	<u>\$ 2,733,634</u>	<u>\$ 2,675,979</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, 2007
(with Summarized Comparative Information as of June 30, 2006)

	<u>Program Services</u>	<u>Support Services</u>	<u>Fund Development</u>	<u>2007 Total Expenses</u>	<u>2006 Total Expenses</u>
Expenses					
Salaries and employee benefits	\$ 743,705	\$ -	\$ 84,968	\$ 828,673	\$ 627,517
Professional and technical services and dues	557,440	189,859	12,501	759,800	1,153,850
Travel	161,362	-	24,028	185,390	196,815
Outreach and promotion	5,784	-	4,719	10,503	2,970
Telephone and internet	10,244	-	402	10,646	14,967
Staff and volunteer development	9,046	-	-	9,046	7,752
Printing and materials	6,189	-	9,662	15,851	3,364
Grants	-	-	-	-	2,815,967
Occupancy	40,676	-	-	40,676	32,146
Operations	41,557	-	-	41,557	49,546
Depreciation	2,616	-	-	2,616	1,353
Donated professional services	5,336	-	-	5,336	-
	<u>\$ 1,583,955</u>	<u>\$ 189,859</u>	<u>\$ 136,280</u>	<u>\$ 1,910,094</u>	<u>\$ 4,906,247</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, 2007
(with Summarized Comparative Information as of June 30, 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Increase in net assets from operations	\$ 57,655	\$ 59,057
Loss on disposal of capital assets	1,906	-
Depreciation	2,616	1,353
Net realized and unrealized gains on investments	(996)	-
Adjustment to reconcile change in net assets to net cash (used in) provided by operating activities		
Changes in operating assets and liabilities		
Accounts and contributions receivable	(150,463)	19,701
Prepaid expenses and other assets	18,078	(26,799)
Accounts payable and accrued expenses	(27,532)	42,142
Accrued payroll and related liabilities	23,945	40,641
Grants payable	-	(161,184)
Deferred revenue	(36,523)	142,986
Net cash (used in) provided by operating activities	<u>(111,314)</u>	<u>117,897</u>
Cash flows from investing activities		
Capital expenditures	-	(7,850)
Purchase of investments	(120,056)	-
Proceeds from sales of investments	63	-
Net cash used in investing activities	<u>(119,993)</u>	<u>(7,850)</u>
Net (decrease) increase in cash	(231,307)	110,047
Cash, beginning of year	<u>591,864</u>	<u>481,817</u>
Cash, end of year	<u>\$ 360,557</u>	<u>\$ 591,864</u>

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, 2007

1. Organization

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

Today 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 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.

National Scale-up of HIV/AIDS Treatment

At the national government level, Pangaea has partnered with the Clinton Foundation's HIV/AIDS Initiative (“CHAI”) to assist the governments of China, South Africa, Rwanda, the Bahamas, and Ukraine in the development and/or implementation of countrywide plans for providing HIV/AIDS care and treatment. During fiscal 2007, Pangaea worked as treatment partner with CHAI in China and Ukraine to assist the governments in developing and implementing regional models of treatment and care, clinical training of health professionals, and systems for monitoring and evaluation. Pangaea has also partnered with CHAI to evaluate how best to improve the infrastructure in Papua New Guinea. In partnership with I-TECH (International Training and Education Center on HIV), Pangaea assisted the Ethiopian government in strengthening its treatment infrastructure.

Infectious Diseases Institute

In Uganda, Pangaea partnered with Pfizer Inc, Makerere University (Kampala), and the Academic Alliance for AIDS Care and Prevention in Africa to create a regional HIV/AIDS training center and clinic, the Infectious Diseases Institute (“IDI”). The IDI treats HIV/AIDS patients, trains physicians and other health care workers, conducts research, and develops models of HIV/AIDS care and prevention. In its role as implementation partner, Pangaea was responsible for managing the construction of the IDI facility, ensuring that the project was completed on time and within budget, establishing the fiscal and administrative management support for all phases of the project, and managing implementation of all IDI programs. Ownership of the IDI was transferred from Pangaea to Makerere University on June 30, 2005.

During fiscal 2006, Pangaea provided oversight of Pfizer's grants to IDI for operating support through December 2005 and also consulted with the IDI to ensure ongoing sustainability through robust governance processes, grants and contacts management capacity, succession planning, and management development.

Private Sector Efforts to Provide HIV/AIDS Training and Treatment for Employees

Pangaea also provides consulting services to the private sector. In fiscal 2006, it advised Chevron Corporation on the implementation of its global HIV/AIDS policy. Key components of the work that Pangaea has undertaken for Chevron are creation and delivery of manager and employee HIV/AIDS training and development of guidelines for testing and treatment. In fiscal 2007, Pangaea continued its work with Chevron by providing training to its managers.

Pangaea Global AIDS Foundation
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Notes to Financial Statements
June 30, 2007

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.

Permanently Restricted

Pangaea had no permanently restricted net assets as of 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 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 are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. 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.

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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 \$19,000 for the year ended June 30, 2007. 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 occupancy and employee ratios and on estimates made by Pangaea's management.

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 accounts receivable. Pangaea maintains cash 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. As of June 30, 2007, 99% of receivables was due from one external foundation. Historically, all amounts outstanding have been collected.

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 consolidated financial statements for the year ended June 30, 2006, 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.

Pangaea Global AIDS Foundation
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Notes to Financial Statements
June 30, 2007

During the year ended June 30, 2007, Pangaea was granted \$1,017,705 by the Foundation to support its treatment access projects. Pangaea paid technical assistance fees to the Foundation in the amount of \$217,299. As of June 30, 2007, Pangaea has a related party receivable from the Foundation of \$2,405,224.

Pangaea leases office space from the Foundation on a monthly basis. Rent and other occupancy expenses for the year ended June 30, 2007 was \$62,217.

4. Investments

Pangaea's investments consisted of the following as of June 30, 2007:

Equity securities	\$ 118,686
Cash equivalents	2,303
	<u>\$ 120,989</u>

5. Property and Equipment

Property and equipment at June 30, 2007 is summarized as follows:

Equipment	\$ 18,201
Accumulated depreciation	<u>(16,226)</u>
	<u>\$ 1,975</u>

6. Net Assets Released from Restrictions

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, 2007:

Initiatives in the area of education	\$ 50,000
Total net assets released from restrictions	<u>\$ 50,000</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.

Pangaea Global AIDS Foundation
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June 30, 2007

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 consolidated financial position or change in net assets.

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 \$1,280 to the Plan during the year ended June 30, 2007. Employer contributions, if any, are at the discretion of the management of Pangaea.