



Draft Audited Financial Statements 2003

Outline:

This paper contains the 2003 Financial Statements of the Global Fund and the draft Independent Auditors' Report thereon of the Fund's external auditors, Ernst & Young. The Report of the Independent Auditors will be issued on approval by the Board of the Financial Statements.

Decision Point:

The MEFA Committee recommends that the Board decide that:

1. The Board approves the 2003 Financial Statements of the Global Fund which have been audited by Ernst & Young.



Report of the independent auditors

with financial statements, prepared in accordance
with International Financial Reporting Standards,

as of 31 December 2003 of

The Global Fund to Fight AIDS, Tuberculosis and Malaria

DRAFT

To the general meeting of the Board of
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva

Geneva, xx March, 2004

Report of the independent auditors

We have audited the accompanying statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Fund") as of 31 December 2003, and the related statements of income and expenditure, changes in funds, and cash flows, and notes for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. 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. An audit also includes 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 give a true and fair view of the financial position of the Fund as of 31 December 2003, and of the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd

Mark Hawkins
Chartered Accountant
(Auditor in charge)

[A. N. Other]
Chartered Accountant/Expert-comptable

Enclosures

- Financial statements (statement of financial position, statement of income and expenditure, statement of changes in funds, statement of cash flows, and notes)

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Financial Position at 31 December 2003

In thousands of US dollars

| | <u>Notes</u> | <u>2003</u> | <u>2002</u> |
|---|--------------------|-------------------------|-----------------------|
| ASSETS | | | |
| Cash and bank balances | 2.4, 3.1 | 225 | 542 |
| Funds held in trust | 2.4, 2.5, 3.1, 3.2 | 1'741'968 | 649'948 |
| Promissory notes | 2.6, 3.3, 3.4 | 72'147 | 54'756 |
| Contributions receivable | 2.6, 3.4 | 94'495 | 74'225 |
| Prepayments and miscellaneous receivables | | <u>2'699</u> | <u>3'409</u> |
| Total ASSETS | | <u>1'911'534</u> | <u>782'880</u> |
| LIABILITIES and FUNDS | | | |
| Liabilities | | | |
| Undisbursed grants | 2.7, 3.5 | | |
| Payable within one year | | 610'885 | 22'020 |
| Payable after one year | | 272'340 | 29'101 |
| Accrued expenses | | <u>303</u> | <u>4'651</u> |
| | | <u>883'528</u> | <u>55'772</u> |
| Funds | | <u>1'028'006</u> | <u>727'108</u> |
| Total LIABILITIES and FUNDS | | <u>1'911'534</u> | <u>782'880</u> |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Income and Expenditure for the year ended 31 December 2003

In thousands of US dollars

| | <u>Notes</u> | <u>2003</u> (12 months) | <u>2002</u> (11 months) |
|---|--------------|----------------------------|----------------------------|
| INCOME | | | |
| Contributions | 2.6, 3.4 | 1'368'522 | 781'816 |
| Bank and trust fund income | 2.9 | <u>28'235</u> | <u>10'078</u> |
| Total INCOME | | <u>1'396'757</u> | <u>791'894</u> |
| EXPENDITURE | | | |
| Grants | 2.7, 3.5 | 1'063'304 | 52'019 |
| Operating expenses | 2.8, 3.6 | <u>32'555</u> | <u>12'767</u> |
| Total EXPENDITURE | | <u>1'095'859</u> | <u>64'786</u> |
| SURPLUS OF INCOME OVER EXPENDITURE | | | |
| for the year / period | | <u>300'898</u> | <u>727'108</u> |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Cash Flows for the year ended 31 December 2003

In thousands of US dollars

| | <u>Notes</u> | <u>2003</u> (12 months) | <u>2002</u> (11 months) |
|---|--------------|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Contributions received | | 1'330'862 | 652'835 |
| Banks and trust fund income | | 28'930 | 8'873 |
| | | <u>1'359'792</u> | <u>661'708</u> |
| Grants disbursed | | (231,200) | (898) |
| Payments to suppliers and personnel | | (36,889) | (10,320) |
| | | <u>(268,089)</u> | <u>(11,218)</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES being the net increase in cash and cash equivalents | | 1'091'703 | 650'490 |
| CASH AND CASH EQUIVALENTS | | | |
| at beginning of the year / period | | <u>650'490</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS | | | |
| at end of the year / period | 2.4, 3.1 | <u>1'742'193</u> | <u>650'490</u> |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Changes in Funds at 31 December 2003

| In thousands of US dollars | <u>2003</u> (12 months) | <u>2002</u> (11 months) |
|---|----------------------------|----------------------------|
| FUNDS at the beginning of the year | 727'108 | - |
| SURPLUS OF INCOME OVER EXPENDITURE | | |
| for the year / period | <u>300'898</u> | <u>727'108</u> |
| FUNDS at the end of the year | <u>1'028'006</u> | <u>727'108</u> |
| Attributed as follows: | | |
| Foundation capital | 50 | 50 |
| General Funds | <u>1'027'956</u> | <u>727'058</u> |
| | <u>1'028'006</u> | <u>727'108</u> |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

1. Activities and Organization

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund") is an independent, non-profit foundation that was incorporated in Geneva on 22 January 2002. The purpose of the Global Fund is to attract and disburse additional resources to prevent and treat AIDS, tuberculosis and malaria. The Fund provides grants to locally-developed programs, working in close collaboration with governments, non-governmental organizations, the private sector, development agencies and the communities affected by these diseases.

The Global Fund has been founded on the following principles:

- Rely on local experts to implement programs directly;
- Make available and leverage additional financial resources to combat the three diseases;
- Support programs that reflect national ownership and respect country-led formulation and implementation processes;
- Operate in a balanced manner in terms of different regions, diseases and interventions;
- Pursue an integrated and balanced approach covering prevention, treatment and care, and support in dealing with the three diseases;
- Evaluate proposals through independent review processes based on the most appropriate scientific and technical standards that take into account local realities and priorities;
- Seek to establish a simplified, rapid, innovative grant-making process and operate in a transparent and accountable manner based on clearly defined responsibilities. One accountability mechanism is the use of Local Fund Agents to assess local capacity to administer and manage the implementation of funded programs.

Financial contributions to the Global Fund are held in the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Trust Fund") until disbursed as grants or for operating expenses. The Trust Fund is administered by the International Bank for Reconstruction and Development (the "World Bank"), as Trustee. The responsibilities of the Trustee include management of contributions and investment of resources according to its own investment strategy. The Trustee makes disbursements from the Trust Fund only upon written instruction of the Global Fund.

Most contributions are received directly in the Trust Fund. Some contributions for the benefit of Global Fund are also received by the United Nations Foundation and are held in trust for the Global Fund until subsequently transferred to the Trust Fund.

Personnel and administrative services to support the operations of the Global Fund are provided by the World Health Organization ("WHO") under an agreement between WHO and the Global Fund. The Global Fund bears in full the cost of these personnel and services. Funds remitted to WHO for this purpose are treated as funds held in trust by WHO for the benefit of the Global Fund until an expenditure obligation is incurred.

These financial statements were authorized for issuance by the Board on xx March 2004.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

2. Significant Accounting Policies

2.1 Statement of Compliance

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These standards currently do not contain specific guidelines for non-profit organizations concerning the accounting treatment and presentation of the financial statements.

2.2 Basis of Presentation

The financial statements are presented in US dollars, the Global Fund's operating currency, rounded to the nearest thousand. Management elected not to operate and report in Swiss Francs, the domestic currency, as its cash flows are primarily in US dollars.

The financial statements are prepared under the historical cost convention.

The preparation of the financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified through the income statement as appropriate in the year in which the circumstances change.

2.3 Foreign Currency

All transactions in other currencies are translated into US dollars at the rate prevailing at the time of the transaction. Monetary assets and liabilities in other currencies are translated into US dollars at the year-end rate.

2.4 Cash and cash equivalents

The Global Fund considers that cash and cash equivalents include cash and bank balances and funds held in trust that are readily convertible to cash within three months.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

2. Significant Accounting Policies (continued)

2.5 Funds held in Trust

The financial statements include funds that are held in trust solely for the benefit of the Global Fund by the World Bank, the World Health Organization and the United Nations Foundation.

Assets held in trust by the World Bank are maintained in a commingled investment portfolio for all of the trust funds administered by the World Bank. These investments are actively managed and invested in high-grade instruments according to the risk management strategy adopted by the World Bank. The objectives of the investment portfolio strategy are to maintain adequate liquidity to meet foreseeable cash flow needs, preserve capital (low probability of negative total returns over the course of a fiscal year) and maximize investment returns.

Realized investment gains and losses, allocated to the Trust Fund for the Global Fund on the basis of its proportionate share of the total trust fund holdings of the World Bank, are accounted for on the accruals basis.

2.6 Contributions

Contributions governed by a written contribution agreement are recorded as income when the agreement is executed. Other contributions are recorded as income upon receipt of cash or cash equivalents, at the amount received.

Contributions are considered received when remitted in cash or cash equivalent, or deposited by a sovereign state as a promissory note, letter of credit or similar financial instrument.

Contributions receivable under written contribution agreements executed on or before the date of the statement of financial position but which have not been received at that date are recorded as an asset. Excluded are contributions receivable later than one year after the date of the statement of financial position.

Foreign currency exchange gains and losses realized between the date of the written contribution agreement and the date of the actual receipt of cash and those unrealized at the date of the statement of financial position are recorded as part of Contribution income.

Non-cash contributions donated in the form of goods or services (in-kind contributions) are not included in the financial statements as they are not material.

2.7 Grants

All grants are governed by a written grant agreement and are expensed in full when the agreement is executed.

Grants or portions of grants that have not been disbursed at the date of the statement of financial position are recorded as liabilities. The long-term portion of such liabilities represents amounts that are due to be disbursed later than one year after the date of the statement of financial position.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

2. Significant Accounting Policies (continued)

2.8 Local Fund Agent Fees

Fees to Local Fund Agents to assess local capacity prior to and during grant negotiation, and to manage and monitor implementation of funded programs as grants are disbursed, are expensed as the work is completed.

2.9 Bank and Trust Fund Income

Bank and trust fund income includes deposit interest on bank balances and realized gains and losses on investments and currencies on funds held in trust.

2.10 Employee Benefits

All personnel and related costs, including current and post employment benefits are managed by the WHO and charged in full to the Global Fund. There are no additional obligations for employee benefits outside of the Global Fund's obligations to the WHO.

3. Details relating to the financial statements

In thousands of US dollars

3.1 Cash and Cash Equivalents

| | 2003 | 2002 |
|------------------------|------------------|----------------|
| Cash and bank balances | 225 | 542 |
| Funds held in Trust | 1'741'968 | 649'948 |
| | <u>1'742'193</u> | <u>650'490</u> |

3.2 Funds held in Trust

| | 2003 | 2002 |
|------------|------------------|----------------|
| World Bank | 1'729'149 | 629'190 |
| WHO | 12'567 | 18'317 |
| UNF | 252 | 2'441 |
| | <u>1'741'968</u> | <u>649'948</u> |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

3. Details relating to the financial statements (continued)

In thousands of US dollars

3.3 Promissory Notes

| | 2003 | 2002 |
|-------------------------------|---------------|---------------|
| Maturing in 2003 | - | 51'840 |
| Maturing in 2004 | 62'460 | - |
| Total promissory notes | 62'460 | 51'840 |

3.4 Contributions and Contributions Receivable

| | 2003 | 2002 |
|--|------------------|----------------|
| Governments | 1'266'667 | 779'374 |
| Private sector | 101'855 | 2'442 |
| Total contributions | 1'368'522 | 781'816 |
| Cash received including encashed promissory notes | 1'188'790 | 651'880 |
| Realized (losses)/gains on foreign currency contributions | 13'090 | 955 |
| | 1'201'880 | 652'835 |
| Promissory notes to be encashed | 62'460 | 51'840 |
| Unrealized gains on foreign currency promissory notes to be encashed | 9'687 | 2'916 |
| | 72'147 | 54'756 |
| Total contributions received | 1'274'027 | 707'591 |
| Contributions receivable* | 88'856 | 71'028 |
| Unrealized gains on foreign currency contributions receivable | 5'639 | 3'197 |
| Total contributions receivable | 94'495 | 74'225 |
| Total contributions | 1'368'522 | 781'816 |

* Comprises amounts receivable under written contribution agreements executed on or before 31 December 2003 that had not been received at that date. In accordance with the accounting policy outlined in Note 2.6, contributions receivable after 31 December 2004 are not recognized.

3.5 Grants

| | 2003 | 2002 |
|-------------|------------------|---------------|
| Disbursed | 231'200 | 898 |
| Undisbursed | 883'225 | 51'121 |
| | 1'063'304 | 52'019 |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

3. Details relating to the financial statements (continued)

In thousands of US dollars

3.6 Operating expenses

| | 2003 | 2002 |
|------------------------------|---------------|---------------|
| Secretariat expenses | | |
| Personnel | 9'793 | 2'753 |
| Trustee fee | 1'870 | 2'320 |
| Administrative services fee | 900 | 863 |
| Other professional services | 2'078 | 3'330 |
| Travel and meetings | 3'750 | 1'027 |
| Communication materials | 966 | 135 |
| Office rental | 509 | 427 |
| Office infrastructure costs | 998 | 607 |
| Other | 1'572 | 632 |
| | <u>22'436</u> | <u>12'094</u> |
| Local Fund Agent fees | 10'119 | 673 |
| | <u>32'555</u> | <u>12'767</u> |

3.7 Personnel

As described in Note 1, personnel to support the operations of the Global Fund are provided by the WHO under an agreement between the WHO and the Global Fund. At 31 December 2003 there were 96 personnel assigned to the Global Fund (2002: 48). Of these, 55 (2002: 9) are assigned under fixed-term contracts, typically of two years duration. All other personnel are assigned under contracts of shorter duration.

3.8 Taxation

The Global Fund is exempt from tax on its activities in Switzerland.

3.9 Commitments

At 31 December 2003, the Global Fund has the following outstanding operating lease commitments:

| <u>Year</u> | <u>Office space</u> | <u>Office equipment</u> | <u>Vehicle</u> |
|-------------|---------------------|-------------------------|----------------|
| 2004 | 527 | 12 | 9 |
| 2005 | 527 | 12 | 1 |
| 2006 | 527 | 12 | - |
| 2007 | 527 | 12 | - |
| 2008 | 527 | 8 | - |
| Beyond 2008 | 1'802 | - | - |
| | <u>4'437</u> | <u>56</u> | <u>10</u> |

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Notes to the Financial Statements as at 31 December 2003

4. Financial Instruments

As described in Note 2.5, those funds held in trust by the World Bank, acting as Trustee for the Global Fund, are actively managed and invested in a commingled investment portfolio in accordance with the investment strategy established for all trust funds administered by the World Bank.

Other than those funds held in trust by the World Bank, as mentioned above, the Global Fund employs the following risk management policies to financial instruments:

Currency risk: The risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Global Fund does not hedge its exposure risk on foreign exchange as it operates primarily in US dollars, thus there is no significant impact from foreign exchange movements.

Interest rate risk: The risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Global Fund does not use derivative financial instruments to reduce its exposure risk on interest from variable rate bank balances and funds held in trust.

Market risk: The risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Global Fund has assigned the management of market risk primarily to the Trustee, and does not use derivative financial instruments to reduce its market risk exposure on other financial instruments.

Credit risk exposures: Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Global Fund does not use derivative financial instruments to reduce its credit risk exposure.

The Global Fund's maximum exposure to credit risk in relation to cash and bank balances, funds held in trust, promissory notes and contributions receivable is the carrying amount of those assets as indicated in the statement of financial position. The Global Fund places its available funds with high quality financial institutions to mitigate the risk of material loss in this regard. With respect to the Global Fund's contributions receivable, management believes these will be collected as they result from mutually signed contribution agreements primarily with governments.

5. Events subsequent to year-end

There were no events subsequent to the date of statement of financial position which may have a material bearing on the understanding of these financial statements.

6. Comparative financial information

Certain comparative balances have been itemized for compliance with the current year presentation. There is no impact on the Statement of Changes in Funds.