

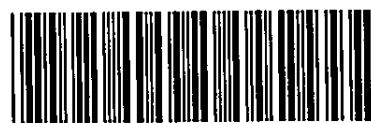
RC27955

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Consolidated Financial Statements and  
Other Financial Information  
Year Ended December 31, 2009  
With Summarized Financial Information for 2008  
With Report of Independent Auditors**

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**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Consolidated Financial Statements and  
Other Financial Information  
Year Ended December 31, 2009  
With Summarized Financial Information for 2008

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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
International AIDS Vaccine Initiative, Inc

We have audited the accompanying consolidated statement of financial position of International AIDS Vaccine Initiative, Inc (IAVI) as of December 31, 2009, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of IAVI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information was derived from IAVI's 2008 consolidated financial statements, which were audited by other auditors whose report dated July 30, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of IAVI's internal control over financial reporting. Our audit included 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 IAVI'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, and 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 consolidated financial position of IAVI at December 31, 2009, and the consolidated 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other financial information (2009 consolidating statements of financial position and activities (total net assets) and schedule of conditional contributions, budgeted expenditures, and projected annual operating deficit (unaudited)) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mitchell & Titus, LLP*

August 10, 2010

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Consolidated Statement of Financial Position

	December 31	
	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 40,820,000	\$ 39,685,917
Accrued investment income	101,451	270,361
Long-term investments	44,470,802	38,840,193
Loan receivable	12,878,129	12,878,129
Grants and other receivables	26,834,012	37,532,423
Restricted investments	662,875	473,848
Restricted cash	2,990,576	4,047,223
Refundable advances, security deposits, and other assets	3,306,516	5,025,398
Property, equipment and leasehold improvements, net	27,823,991	26,941,957
Total assets	<u>\$ 159,888,352</u>	<u>\$ 165,695,449</u>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Liabilities</i>		
Grants payable	\$ 11,158,637	\$ 7,046,548
Accounts payable and accrued expenses	3,658,580	4,890,733
Loans payable	17,149,899	14,373,758
Deferred rent payable	1,300,612	843,585
Deferred grant revenue	10,400,000	11,200,000
Deferred compensation payable	662,875	473,848
Total liabilities	<u>44,330,603</u>	<u>38,828,472</u>
Commitments and contingencies		
<b>NET ASSETS</b>		
<i>International AIDS Vaccine Initiative, Inc. controlling interest</i>		
Unrestricted and board-designated	107,387,634	120,566,147
Temporarily restricted – vaccine development partnership and country commitments	<u>8,726,790</u>	<u>6,300,830</u>
Total International AIDS Vaccine Initiative, Inc. controlling interest	116,114,424	126,866,977
<i>Non-controlling interest</i>		
Unrestricted	<u>(556,675)</u>	<u>-</u>
Total net assets	<u>115,557,749</u>	<u>126,866,977</u>
<b>Total liabilities and net assets</b>	<u>\$ 159,888,352</u>	<u>\$ 165,695,449</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Consolidated Statement of Activities

Year Ended December 31, 2009

With Summarized Financial Information for 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2009</u>	<u>2008</u>
<b>Support, revenue, and reclassifications</b>				
Grants and contributions	\$ 73,745,654	\$ 8,036,758	\$ 81,782,412	\$ 90,386,505
Investment income, net	4,292,177	-	4,292,177	3,479,346
Net loss on foreign currencies	(752,755)	-	(752,755)	(3,530,237)
Other income	1,322,063	-	1,322,063	650,000
Net assets released from restrictions	5,610,798	(5,610,798)	-	-
Total support, revenue, and reclassifications	<u>84,217,937</u>	<u>2,425,960</u>	<u>86,643,897</u>	<u>90,985,614</u>
<b>Expenses</b>				
<i>Program services</i>				
Vaccine advocacy and education	10,066,476	-	10,066,476	9,807,258
Policy/access	2,046,052	-	2,046,052	2,360,732
Research and development	72,002,762	-	72,002,762	69,528,056
Total program services	<u>84,115,290</u>	<u>-</u>	<u>84,115,290</u>	<u>81,696,046</u>
<i>Supporting services</i>				
General and administrative	10,863,919	-	10,863,919	10,993,904
Fund raising	2,924,143	-	2,924,143	3,611,014
Total supporting services	<u>13,788,062</u>	<u>-</u>	<u>13,788,062</u>	<u>14,604,918</u>
Total expenses	<u>97,903,352</u>	<u>-</u>	<u>97,903,352</u>	<u>96,300,964</u>
Foreign exchange translation adjustment	49,773	-	49,773	87,922
Total expenses and foreign exchange translation adjustment	<u>97,953,125</u>	<u>-</u>	<u>97,953,125</u>	<u>96,388,886</u>
Capital contribution to IAVI Lab LLC	-	-	-	10,000
Change in net assets	(13,735,188)	2,425,960	(11,309,228)	(5,393,272)
Less change in net assets attributable to non-controlling interest	<u>(556,675)</u>	<u>-</u>	<u>(556,675)</u>	<u>-</u>
<b>Change in net assets attributable to International AIDS Vaccine Initiative, Inc. controlling interest</b>	<u>\$ (13,178,513)</u>	<u>\$ 2,425,960</u>	<u>\$ (10,752,553)</u>	<u>\$ (5,393,272)</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Consolidated Statement of Changes in Net Assets**

**Years Ended December 31, 2009 and 2008**

	<b>International AIDS Vaccine Initiative, Inc. Controlling Interest</b>		<b>Non-controlling Interest</b>	
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
Net assets, January 1, 2008	\$ 116,386,489	\$ 15,873,760	\$ -	\$ 132,260,249
Capital contribution to IAVI Lab LLC	-	-	10,000	10,000
Other changes in net assets	<u>4,179,658</u>	<u>(9,572,930)</u>	<u>(10,000)</u>	<u>(5,403,272)</u>
Net assets, December 31, 2008	120,566,147	6,300,830	-	126,866,977
Change in net assets	<u>(13,178,513)</u>	<u>2,425,960</u>	<u>(556,675)</u>	<u>(11,309,228)</u>
<b>Net assets, December 31, 2009</b>	<b><u>\$ 107,387,634</u></b>	<b><u>\$ 8,726,790</u></b>	<b><u>\$ (556,675)</u></b>	<b><u>\$ 115,557,749</u></b>

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

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2009  
With Summarized Financial Information for 2008

	Program Services			Supporting Services			Total Expenses	
	Vaccine Advocacy and Education	Program Services		Supporting Services		Total Supporting Services	2009	2008
		Policy/Access	Research and Development	General and Administrative	Fund- Raising			
Grants	\$ 1,378,547	\$ 206,651	\$ 46,230,819	\$ 171,977	\$ 159,674	\$ 331,651	\$ 48,147,668	\$ 49,602,169
Salaries, wages, and benefits	4,879,358	1,427,960	12,877,793	6,924,945	2,080,584	9,005,529	28,190,640	25,572,057
Consultants and honoraria	1,098,803	100,605	1,834,079	809,324	220,581	1,029,905	4,063,392	5,162,761
Travel	1,212,382	121,110	1,425,890	395,993	135,456	531,449	3,290,831	4,296,509
Other professional services	82,224	16,150	298,756	249,881	105,282	355,163	752,293	1,173,997
Legal fees	14,657	53	155,060	585,042	-	585,042	754,812	672,568
Occupancy	352,851	72,308	2,448,206	380,076	85,412	465,488	3,338,853	2,274,532
Printing and publications	581,831	9,732	4,343	930	36,017	36,947	632,853	650,834
Telecommunications	142,624	12,551	452,639	106,219	7,958	114,177	721,991	595,134
Accounting and auditing fees	-	-	-	237,559	-	237,559	237,559	223,909
Supplies	57,215	7,605	326,325	173,706	16,348	190,054	581,199	898,869
Postage and shipping	18,642	1,809	122,342	28,262	6,697	34,959	177,752	172,246
Equipment rental and maintenance	38,992	6,278	495,806	74,795	5,590	80,385	621,461	568,971
Depreciation and amortization	107,534	40,621	4,262,805	376,558	31,686	408,244	4,819,204	3,224,686
Insurance	39,244	10,898	379,473	112,745	7,061	119,806	549,421	616,824
Other	61,572	11,721	688,426	235,907	25,797	261,704	1,023,423	594,898
<b>Total expenses</b>	<b>\$ 10,066,476</b>	<b>\$ 2,046,052</b>	<b>\$ 72,002,762</b>	<b>\$ 10,863,919</b>	<b>\$ 2,924,143</b>	<b>\$ 13,788,062</b>	<b>\$ 97,903,352</b>	<b>\$ 96,300,964</b>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**Consolidated Statement of Cash Flows**

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (11,309,228)	\$ (5,393,272)
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	4,819,204	3,224,686
Deferred rent	457,027	621,711
Net realized and unrealized (gains) and losses on investments	(2,236,450)	372,293
Net loss on foreign currencies	752,755	3,530,237
Capital contribution to IAVI Lab LLC	-	(10,000)
<i>Changes in operating assets and liabilities</i>		
Accrued investment income	168,910	144,316
Grants and other receivables	10,758,528	(24,695,274)
Restricted investments	(189,027)	(18,044)
Refundable advances, security deposits, and other assets	1,718,882	890,148
Grants payable	4,112,089	(689,952)
Accounts payable and accrued expenses	(486,569)	(492,133)
Deferred grant revenue	(800,000)	11,200,000
Deferred compensation payable	189,027	18,044
Net cash provided by (used in) operating activities	<u>7,955,148</u>	<u>(11,297,240)</u>
<b>INVESTING ACTIVITIES</b>		
Net (purchases) sales of investments	(3,394,159)	31,046,453
Change in restricted cash	1,056,647	(979,223)
Payments for property, equipment, and leasehold improvements	(6,446,822)	(19,202,855)
Advances on loan receivable	-	(12,878,129)
Net cash used in investing activities	<u>(8,784,334)</u>	<u>(2,013,754)</u>
<b>FINANCING ACTIVITIES</b>		
Borrowings on loans payable	2,776,141	14,373,758
Capital contribution to IAVI Lab LLC	-	10,000
Net cash provided by financing activities	<u>2,776,141</u>	<u>14,383,758</u>
Effect of exchange rate changes on cash	<u>(812,872)</u>	<u>(896,847)</u>
Net increase in cash and cash equivalents	1,134,083	175,917
Cash and cash equivalents at beginning of year	<u>39,685,917</u>	<u>39,510,000</u>
Cash and cash equivalents at end of year	<u><u>\$ 40,820,000</u></u>	<u><u>\$ 39,685,917</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 195,423</u>	<u>\$ 30,209</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Property, equipment, and leasehold improvements purchased through accounts payable and accrued expenses	<u>\$ 336,695</u>	<u>\$ 1,082,279</u>

The accompanying notes are an integral part of these financial statements



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization

The accompanying consolidated financial statements include the accounts of International AIDS Vaccine Initiative, Inc., Stichting International AIDS Vaccine Initiative, The Netherlands (the Stichting), IAVI Holdings LLC, IAVI Lab LLC, and IAVI Historic Holdings LLC (collectively, IAVI). IAVI Holdings LLC, IAVI Lab LLC, and IAVI Historic Holdings LLC are three entities formed in 2008 (see Note 9) and had members' equity (deficit) at December 31, 2009 of approximately (\$1,000), \$207,000, and \$763,000, respectively. International AIDS Vaccine Initiative, Inc. is the sole member of IAVI Holdings LLC and IAVI Historic Holdings LLC and the majority member of IAVI Lab LLC. IAVI is a global initiative dedicated to ensuring the development of safe, effective, accessible, preventive HIV vaccines for use throughout the world. IAVI has offices in four countries around the world, including a headquarters in New York City. The Stichting is a separate foundation based in the Netherlands. All entities are under the control of a common Board of Directors. All intercompany balances and transactions were eliminated in consolidation.

IAVI focuses on four major areas of activity:

- Implementing a focused and innovative research and development program that not only catalyzes action by multiple stakeholders but helps drive the field. Expenditures related to these activities are classified as research and development.
- Securing and sustaining high-level global commitment for accelerated vaccine research and development. Expenditures related to these activities are classified as vaccine advocacy and education.
- Promoting adoption of public policies that support rapid development and distribution of preventive vaccines. Expenditures related to these activities are classified as policy/access.
- Engaging as partners the countries most affected by the epidemic and where the need for a vaccine is most pressing. Expenditures related to these activities are classified as promoting adoption of public policies and vaccine advocacy.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Notes to Consolidated Financial Statements**

**December 31, 2009**

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**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*(continued)*

Fund Accounting and Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to IAVI, the accounts of IAVI are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purpose. In the accompanying consolidated financial statements, funds that have similar characteristics have been combined into two net asset categories: unrestricted and temporarily restricted.

Unrestricted net assets are either not restricted by donors or the donor-imposed restrictions have expired. As reflected in the accompanying consolidated statement of financial position, IAVI's Board of Directors has designated a portion of the unrestricted net assets of IAVI for operating expenses, development commitments, and feasibility and efficacy trial commitments.

Temporarily restricted net assets contain donor-imposed restrictions that permit IAVI to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of IAVI.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on bases determined by management.

Cash Equivalents

IAVI considers highly liquid financial instruments purchased with maturities of three months or less, other than those designated for long-term use or otherwise restricted, to be cash equivalents.

At December 31, 2009, cash and cash equivalents were primarily held in four financial institutions.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Notes to Consolidated Financial Statements**

**December 31, 2009**

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**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*(continued)*

Revenue Recognition

IAVI records as revenue the following types of contributions, when they are received unconditionally, at their fair value cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts. All grants and contributions receivable at December 31, 2009 and 2008 are receivable within the next year. At December 31, 2009, grants from a U S government agency, foreign government agencies, and foundations represented approximately 61%, 17%, and 15% of grants and other receivables, respectively. At December 31, 2008, grants from a U S government agency and foreign government agencies represented approximately 29% and 59% of grants and other receivables, respectively.

Temporarily Restricted Contributions

IAVI records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. It is IAVI's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class.

Donated Goods and Services

In accordance with U S generally accepted accounting principles, IAVI records in-kind contributions that meet the criteria for recognition as revenue and expense in the accompanying consolidated financial statements. Contributed fixed assets are recorded as contribution revenue at their estimated fair value on the date received and are depreciated over their estimated useful lives.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

---

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*(continued)*

During 2009, IAVI received in-kind contributions of legal services of approximately \$369,000. In addition, IAVI received discounted airfare, website banner space, donated supplies and equipment, and professional services of approximately \$33,000, \$112,000, \$301,000, and \$230,000, respectively, during the year ended December 31, 2009. During 2008, IAVI received in-kind contributions of legal services of approximately \$113,000. In addition, IAVI received discounted airfare, website banner space, and donated service and equipment of approximately \$33,000, \$85,000, and \$859,000, respectively, during the year ended December 31, 2008. In-kind contributions are reflected as contribution revenue in the accompanying consolidated statement of activities and are expensed in the year received.

Grant Expenses

IAVI recognizes grant award expenses when the awards are unconditionally granted. During 2009 and 2008, IAVI advanced funds to certain grantees under conditional grant arrangements and the conditions were not met as of December 31, 2009 and 2008. These advances amounted to approximately \$2.0 million and \$3.9 million and are included in refundable advances, security deposits, and other assets in the accompanying consolidated statements of financial position as of December 31, 2009 and 2008, respectively.

Long-Term Investments

Investments are stated at fair value as determined by quoted market prices or by inputs that are observable in the market. Marketable securities acquired by donation are recorded at fair value on the date of receipt. Realized gains and losses are computed using the specific identification method.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*(continued)*

Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements have been recorded at cost when purchased or, if donated, at their estimated fair value on date of receipt and are stated net of depreciation and amortization. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements are amortized over the term of the related lease or the estimated useful lives of the assets, whichever is shorter.

Foreign Currency Translation and Transactions

Realized and unrealized gains and losses resulting from transactions denominated in a currency other than the functional currency are included in determining the change in net assets. The functional currency of the Stichting is a local currency other than the U.S. dollar.

The foreign exchange translation adjustment is reported as a component of the applicable net asset classification and results from the translation of the Stichting's assets, liabilities, and operations into U.S. dollars at appropriate exchange rates.

Reclassifications

Certain reclassifications have been made to prior-year amounts reported in the accompanying consolidated statements of activities to conform to the current year presentation.

New Accounting Pronouncement

Effective for 2009, IAVI adopted the new requirements of Accounting Standards Codification (ASC) 810-10-45, *Consolidations*, as it relates to the non-controlling interest in IAVI Lab LLC. The non-controlling deficit balance is presented in the accompanying consolidated statement of financial position. An accompanying consolidated statement of changes in net assets reports the changes in the controlling and non-controlling interests. Had IAVI not adopted ASC 810-10-45, the change in net assets attributable to IAVI's controlling interest would have been a decrease in net assets of \$11,309,228.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*(continued)*

Summarized Financial Information for 2008

The accompanying consolidated 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 presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with IAVI's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

**NOTE 2 LONG-TERM INVESTMENTS**

Long-term investments consisted of the following:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Fixed-income securities		
Government and agency securities	\$ 12,505,375	\$ 14,563,861
Corporate securities	13,780,763	5,027,356
Asset and mortgage-backed securities	12,601,441	18,317,096
International obligations	2,719,227	92,706
Total fixed-income securities	41,606,806	38,001,019
Money market funds/time deposits	2,863,996	839,174
	<u>\$ 44,470,802</u>	<u>\$ 38,840,193</u>

Restricted investments consist of mutual funds held as part of deferred compensation arrangements at both December 31, 2009 and 2008.

Investment income, net consisted of the following:

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Interest and dividend income	\$ 2,206,722	\$ 4,002,884
Net realized gains on sales of investments	1,123,618	191,956
Net change in unrealized gains and losses on investments	1,112,832	(564,249)
Investment fees and commissions	(150,995)	(151,245)
	<u>\$ 4,292,177</u>	<u>\$ 3,479,346</u>

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 3      PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

Property, equipment, and leasehold improvements consisted of the following

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Lab equipment	\$ 16,667,879	\$ 14,128,093
Office furniture and equipment	3,886,861	3,580,404
Software	1,079,623	416,533
Vehicles	191,419	191,419
Leasehold improvements	20,314,477	18,122,572
	<u>42,140,259</u>	<u>36,439,021</u>
Less accumulated depreciation and amortization	14,316,268	9,497,064
	<u>\$ 27,823,991</u>	<u>\$ 26,941,957</u>

Depreciation and amortization expense was \$4,819,204 and \$3,224,686 for the years ended December 31, 2009 and 2008, respectively

**NOTE 4      FAIR VALUE MEASUREMENTS**

IAVI employs the methods described in ASC 820, *Fair Value Measurements*, to value its assets and liabilities, when applicable. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and it establishes a framework for measuring fair value. ASC 820 applies to other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

**NOTE 4 FAIR VALUE MEASUREMENTS (continued)**

ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. The hierarchy prioritizes the inputs into three broad levels as follows:

Level 1: Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3: Inputs are unobservable inputs based on IAVI's own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2009:

	Carrying Value (Fair Value at December 31, 2009)	Fair Value Measurements at December 31, 2009 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 40,820,000	\$ 40,820,000	\$ -	\$ -
Long-term investments	44,470,802	2,863,996	41,606,806	-
Restricted investment	662,875	662,875	-	-
Restricted cash	2,990,576	2,990,576	-	-

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2008:

	Carrying Value (Fair Value at December 31, 2008)	Fair Value Measurements at December 31, 2008 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 39,685,917	\$ 39,685,917	\$ -	\$ -
Long-term investments	38,840,193	839,174	38,001,019	-
Restricted investment	473,848	473,848	-	-
Restricted cash	4,047,223	4,047,223	-	-



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 5      NET ASSETS**

The Board of Directors has designated a portion of unrestricted net assets for estimated operating expenses for the subsequent year. Such amount totaled \$40,820,000 at December 31, 2009 (\$39,685,917 at December 31, 2008).

The Board of Directors has also designated a portion of unrestricted net asset toward the "Restricted Fund for Vaccine Development Commitments." This fund totaled approximately \$37,487,000 at December 31, 2009 (approximately \$32,897,500 at December 31, 2008). The fund reflects 50% of award commitments that meet the following criteria:

- Amounts reflect five-year forecast expenditures for already established vaccine development projects
- Amounts include all aspects of IAVI's development program, including but not limited to preclinical work, manufacturing, regulatory, clinical development up to Phase IIb, and core lab work

The Board of Directors has also created a fund for "Efficacy Trial Preparation and Feasibility Assessments." This fund includes fixed and variable costs for the next five years of on-site field labs for 12 African and Indian sites, as well as contracts for data management. At December 31, 2009, approximately \$85,052,000 was estimated to be required for this purpose; however, the Board has designated for this fund the remaining balance of unrestricted net assets of approximately \$29,081,000.

At December 31, 2009 and 2008, temporarily restricted net assets of \$8,726,790 and \$6,300,830, respectively, have been restricted by multiple donors to fund research, development, and country commitments. This amount, along with the Board-designated funds for development commitments and efficacy trial commitments, brings the total commitments for such relationships to approximately \$74,738,000 and \$87,181,000 at December 31, 2009 and 2008, respectively.

The Board of Directors has discretion to review and change unrestricted net asset designations.

Net assets released from restrictions in 2009 and 2008 reflect the use of funds in connection with development commitments of \$5,610,798 and \$15,873,760, respectively.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Notes to Consolidated Financial Statements**

**December 31, 2009**

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**NOTE 6      EMPLOYEE BENEFIT PLANS**

IAVI has a defined contribution retirement plan for employees under Section 403(b) of the Code. The plan allows eligible employees to contribute pre-tax dollars from their salaries up to the maximum amount specified by the Internal Revenue Code. The plan requires payment of between 5% and 9% of salary per employee per year. IAVI matches employee contributions up to 2% per year.

IAVI's contributions to retirement plans were approximately \$1,918,000 and \$1,450,000 during the years ended December 31, 2009 and 2008, respectively.

During 2005, IAVI established a deferred compensation plan under Section 457(b) of the Code. The plan allows certain eligible management and highly compensated employees to voluntarily defer a portion of compensation. Amounts deferred by plan participants are held by an outside trustee. Such amounts are included in restricted investments and deferred compensation payable in the accompanying consolidated statements of financial position at December 31, 2009 and 2008. IAVI does not contribute to the plan.

IAVI is a custodian of assets with an offsetting liability relating to a deferred compensation plan for its president that is applicable to prior employment. Restricted investments consist of amounts segregated under this plan that will be used to pay deferred compensation at the president's completion of employment. All changes in the investment are directly attributable to the compensation payable and IAVI does not participate in any increases or decreases from activities in the investment.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2009

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**NOTE 7      CONTRIBUTORS**

Grants and contributions for the year ended December 31, 2009 were received from the following contributors

U S Agency for International Development	\$ 32,896,228
U K Department for International Development	16,291,998
Ministry of Foreign Affairs of The Netherlands**	6,541,271
Bill & Melinda Gates Foundation ( T- Cell)*	6,318,089
Ministry of Foreign Affairs and Cooperation, Spain	5,544,317
Norwegian Royal Ministry of Foreign Affairs	3,262,251
Foundation for the National Institutes of Health*	2,095,976
Bill & Melinda Gates Foundation (Innovation fund)*	2,000,000
The Starr Foundation	2,000,000
Swedish International Development Cooperation Agency	1,361,400
The City of New York Economic Development Corporation	800,000
The World Bank (through its development grant facility)	500,000
Becton, Dickinson and Company	375,933
Pfizer, Inc	283,090
Basque Autonomous Government	278,926
White & Case, LLP	238,486
Dr Muhammad Mahmood	173,077
Duke University	133,662
Google	111,684
Proskauer Rose, LLP	103,218
James B Pendleton Charitable Trust	80,000
The John D Evans Foundation	75,000
Other	<u>317,806</u>
<b>Total</b>	<b><u>\$ 81,782,412</u></b>

\*Of these amounts, a total of \$8,726,790 was temporarily restricted to fund programmatic activities

\*\*Total expenses charged to this grant amounted to \$7,696,505, \$7,497,000, \$7,249,906 and \$121,238 for the years ended December 31, 2009, 2008, 2007 and 2006, respectively, (from unrestricted and restricted)

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 8      COMMITMENTS AND CONTINGENCIES**

Conditional Contributions

At December 31, 2009, IAVI has been approved for certain conditional grants from public and private sources. In accordance with US generally accepted accounting principles, such conditional contributions are not recognized as revenue until such time as the related conditions have been met. These contributions are intended to fund IAVI's operations for a period of between two and four years and are conditioned upon IAVI expending funds for the program purposes specified in the respective proposals submitted to the various grantors. In some cases, for IAVI to receive funds in accordance with the agreements underlying these conditional contributions, IAVI must develop new programs, identify new vaccine development partners, and achieve project milestones. Programs are subject to annual review by the grantors. In the event that IAVI is unable to expend funds in accordance with the various program objectives or is unable to meet program objectives, grantors may discontinue funding. Total conditional contributions outstanding at December 31, 2009 amounted to approximately \$85,808,000.

Operating Leases

IAVI leases its office space and certain office equipment under non-cancellable operating lease agreements. The New York office lease, as amended, provides for escalations resulting from increases in real estate taxes and other expenses as well as for a rent-free period during 2002. The New York office lease expires in October 2012. In June 2007, IAVI entered into a lease agreement at the Brooklyn Army Terminal for laboratory and office space. This lease term commenced in January 2008 and the lease includes a 10-month free rent period and escalation charges during the lease term. In addition, as part of the Historic Tax Credits Program discussed in Note 9, IAVI subleases the Brooklyn Army Terminal space to an outside party and then leases the property back from this outside party. Future minimum lease payments relating to these operating leases and minimum rental amounts to be received under a sublease are as follows:

<u>Year ending December 31</u>	<u>Minimum Payments</u>	<u>Minimum Sublease Rentals</u>
2010	\$ 2,286,843	\$ 619,200
2011	2,165,007	632,100
2012	2,160,594	696,600
2013	1,476,405	715,950
2014	1,689,255	812,700
Thereafter	15,941,820	7,759,350
	<u>\$ 25,719,924</u>	<u>\$ 11,235,900</u>

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 8      COMMITMENTS AND CONTINGENCIES** *(continued)*

Aggregate minimum lease payments are being amortized on the straight-line basis over the term of the lease. The difference between rent expense so calculated and amounts paid in accordance with the terms of the lease has been reflected as deferred rent payable, a liability in the accompanying consolidated statement of financial position. Rent expense was approximately \$3,137,000 and \$2,102,000 for the years ended December 31, 2009 and 2008, respectively. Sublease income amounted to approximately \$922,000 for the year ended December 31, 2009. Sublease payments are being amortized on a straight-line basis over the term of the sublease agreement. The difference between sublease income so calculated and amounts received in accordance with the terms of the sublease amounted to approximately \$303,000 at December 31, 2009 and is included in refundable advances, security deposits, and other assets in the accompanying consolidated statement of financial position.

Letter of Credit

IAVI has an outstanding standby letter of credit of \$120,000 as security for a lease, which is renewable annually until March 2010. The letter of credit is secured by a time deposit of approximately \$120,000, which is restricted as to use and expires in June 2010. The time deposit is included in cash and cash equivalents in the accompanying consolidated statement of financial position at December 31, 2009.

IAVI also has an outstanding standby letter of credit of \$2,219,015 to secure the construction at the Brooklyn Army Terminal. The letter of credit is secured by cash of \$2,249,109, which is presented as restricted cash in the accompanying consolidated statement of financial position as of December 31, 2009.

**NOTE 9      FINANCING**

In February 2008, IAVI entered into a financing arrangement to fund a portion of the costs of improvements to be made to IAVI's new leasehold for laboratory and office space at the Brooklyn Army Terminal (see Note 8). Under this arrangement, the City of New York, through the Economic Development Corporation (EDC), will provide funding of \$12 million. IAVI expects to receive additional funding of approximately \$3.3 million through December 31, 2009 through a new markets tax credits program and expects to receive approximately \$2.25 million through a historic tax credits program. In conjunction with, and as required under these financing arrangements, IAVI formed three subsidiary entities: IAVI Holdings LLC and IAVI Lab LLC, formed in February 2008 as required under the new markets tax credit program, and IAVI Historic Holdings LLC, formed in October 2008 as required under the historic tax credits program.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 9 FINANCING (continued)**

Economic Development Corporation

In 2008, IAVI received \$11.2 million of the \$12 million funding from the EDC, the balance of the funds was contingent upon completion of the build out, which occurred in 2009 and will be paid in 2010 upon final approval of the EDC.

The grant from the EDC is recorded as deferred revenue in IAVI's financial statements and is being recognized straight-line over the life of the 15-year lease period. In both 2008 and 2009, \$800,000 in revenue was recognized from the EDC.

New Markets Tax Credits Program

Under the new markets tax credits program, IAVI has received \$3.3 million in new funds (\$2.6 million in 2009 and \$0.7 million in 2008) to support the construction of the lab. These funds are being made available through a series of loans and capital contributions made through the new IAVI subsidiaries and unrelated financing entities established for this purpose. At December 31, 2009, IAVI Holdings LLC had an outstanding loan receivable of \$12,878,129 from the new markets tax credit leveraged investment structure earning interest at a rate of 4.2665% per year. Of that amount, interest at a rate of 0.50% per year is payable quarterly and the remaining interest on the loan accrues and is deferred until April 5, 2015, the maturity date. All principal is due on the maturity date. This investment structure uses these funds to invest in community development entities, which then use the funds to loan IAVI Lab LLC funds for payment of construction costs. As of December 31, 2009, IAVI Lab LLC had outstanding loans payable of \$17,149,899, accruing interest at a rate of 1.23% per year. Interest is payable quarterly. Principal on the outstanding loans payable is due on April 1, 2015, the maturity date of the loans. Initially, approximately \$922,000 of the borrowed funds was reserved for debt service on the loan payable. The balance of the reserved funds remaining at December 31, 2009 of approximately \$741,000 is included in restricted cash in the accompanying consolidated statement of financial position.

Revenue recognition of the new markets tax credits funds is being made over the life of the seven-year compliance period of this arrangement and is in the form of interest income on the loan receivable and interest expense on the loans payable. In 2009 and 2008, IAVI recorded interest income of approximately \$585,000 and \$229,000, respectively, and interest expense of approximately \$209,000 and \$71,000, respectively, on this arrangement.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 9 FINANCING** *(continued)*

In 2015, the bank that owns the investment structure may put its interest in the investment structure to IAVI for a put price of \$1,000. If the bank does not exercise its put right, IAVI may call the bank's interest in the investment structure for a call price equal to the fair value of the interest. Exercise of the put or the call would provide IAVI Holdings LLC with ownership of the investment structure and the ability to forgive the loan receivable from the investment structure and the loans payable to the community development entities (which are majority-owned by the investment structure). IAVI Holdings LLC may also direct the investment structure to assign IAVI Lab LLC's loans payable to the community development entities to IAVI Holdings LLC to extinguish the loan receivable from the investment structure. The principal and remaining accrued interest on the loan receivable and loans payable under the new markets tax credits program are expected to be extinguished through these transactions prior to the loans' maturity dates. IAVI has determined that the fair values of the put and call rights were nominal at December 31, 2009 and 2008.

Historic Tax Credits Program

In October 2008, IAVI entered into another financing arrangement under the historic tax credits program. Under this arrangement, IAVI granted 100% of its interest in IAVI Lab LLC to IAVI Historic Holdings LLC, the newly formed IAVI subsidiary. The Banc of America Historic New Ventures LLC (Banc of America), through an entity named NYSC Master Tenant LLC, may contribute an aggregate amount of approximately \$5.5 million to IAVI Lab LLC in exchange for a 20% interest in IAVI Lab LLC. Capital contributions of \$10,000 have been contributed as of December 31, 2009. Future contributions may be received in two installments scheduled approximately 18 months and five years from initiation of the program if certain conditions are met. Concurrently, IAVI Lab LLC entered into a development services agreement with IAVI Inc. and the BioBat Inc., an unrelated development company, in which it will pay a developer fee (the lesser of \$4.5 million, or 20%, of qualified rehabilitation expenditures) upon final completion of the rehabilitation of the historic building and satisfaction of certain other conditions. Unpaid development fees are required to be paid prior to any distributions being made to the members of IAVI Lab LLC. The net of the capital contributions, less fees and expenditures, is expected to result in approximately \$2.25 million in additional funding for IAVI.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

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**NOTE 9 FINANCING (continued)**

To qualify for the historic tax credits program, IAVI extended the term of its lease agreement for the Brooklyn Army Terminal (see Note 8) space to 55 years. The landlord (the EDC) may convert the lease back to the original 15-year lease term if the historic tax credits program is not completed. Rent expense and EDC grant revenue recognition, as well as the lease commitments disclosed in Note 8, are based on a 15-year lease term. Also in connection with the historic tax credits program, IAVI Lab LLC subleased the Brooklyn Army Terminal Space to NYSC Master Tenant LLC, which in turn subleased it back to IAVI.

In 2015, Banc of America may put its 20% interest in IAVI Lab LLC back to IAVI for a put price. The put price will be calculated based on a percentage of the Banc of America's capital contributions and other factors. If the Banc of America does not exercise its put right, IAVI may call the 20% interest for a call price equal to (i) the greater of an amount sufficient to pay the tax liability incurred by Banc of America upon the sale of its interest and (ii) the fair market value of the 20% interest. IAVI has determined that the fair values of the put and call rights were nominal at December 31, 2009 and 2008.

**NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used by IAVI for fair value measurements made in the accompanying financial statements under ASC 820:

*Cash equivalents* Carrying amounts of cash equivalents are based on quoted market prices.

*Grants receivable* Grants receivable are reported at their fair values at the date of gift. Fair values are measured based on present value of future cash flows, with consideration of expectations about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also include consideration of donor's credit risk.

*Long-term investments* These assets are stated at fair value as determined by quoted market prices or by inputs that are observable in the market.

*Restricted investments* Restricted investments are stated at fair value as determined by quoted market prices.



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2009

**NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS** *(continued)*

The following methods and assumptions were used by IAVI to estimate its fair value disclosures for financial instruments that are not measured and recorded at fair value under ASC 820

*Cash and restricted cash* The carrying amounts reported in the accompanying statements of financial position represent their fair values

*Loan receivable* It is not practicable to estimate the fair value of the loan receivable. The loan was made as part of the new markets tax credits program discussed in Note 9 and is expected to be extinguished prior to its maturity. Therefore, the loan receivable does not represent a typical loan arrangement entered into for investment purposes. The terms of the loan are discussed in Note 9

*Other receivables* The carrying values of the short-term other receivables approximate fair value.

*Grants payable* Grants payable are scheduled to be paid within the next fiscal year and their carrying values approximate their fair values

*Loans payable* It is not practicable to estimate the fair values of the loans payable. The loans were made as part of the new markets tax credits program discussed in Note 9 and are expected to be extinguished prior to their maturity dates. The loans payable do not represent typical borrowing arrangements. The terms of the loans payable are discussed in Note 9

The carrying values and fair values of IAVI's financial instruments are as follows at December 31

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 40,820,000	\$ 40,820,000	\$ 39,685,917	\$ 39,685,917
Long-term investments	44,470,802	44,470,802	38,840,193	38,840,193
Loan receivable	12,878,129	**	12,878,129	**
Grants and other receivables	26,834,012	26,834,012	37,532,423	37,532,423
Restricted investments	662,875	662,875	473,848	473,848
Restricted cash	2,990,576	2,990,576	4,047,223	4,047,223
Grants payable	11,158,637	11,158,637	7,046,548	7,046,548
Loans payable	17,149,899	**	14,373,758	**

\*\*Fair values are not determinable

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Notes to Consolidated Financial Statements**

**December 31, 2009**

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**NOTE 11      INCOME TAXES**

IAVI is a Section 501(c)(3) not-for-profit organization, incorporated in the State of Delaware, and is exempt from federal income tax under Section 501(a) of the Internal Revenue Code. It also is exempt from state and local income taxes. The Stichting operates from Amsterdam and is not subject to Dutch corporate income tax or gift tax. IAVI Holdings LLC, IAVI Lab LLC, and IAVI Historic Holdings LLC operate as limited liability companies. IAVI Holdings LLC and IAVI Historic Holdings LLC are taxed as corporations and IAVI Lab LLC is taxed as a partnership.

At December 31, 2009, IAVI Historic Holdings LLC had net operating loss carryforwards for federal tax purposes of approximately \$3,484,000, expiring in years through 2029. IAVI Historic Holdings LLC had deferred taxes at December 31, 2009 and 2008 related to the utilization of the net operating loss carryforwards of approximately \$1,219,000 and \$440,000, respectively. A valuation allowance of an equal amount has been provided as of December 31, 2009 and 2008 due to the uncertainty of the realization of the deferred tax assets.

**NOTE 12      SUBSEQUENT EVENTS**

IAVI evaluated events and transactions occurring between January 1, 2010 and August 10, 2010, which is the date that the financial statements were available to be issued, for disclosure and recognition in the financial statements.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**Consolidating Statement of Financial Position**  
**December 31, 2009**

	<b>IAVI**</b>	<b>The Stichting</b>	<b>Consolidated</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 39,575,981	\$ 1,244,019	\$ 40,820,000
Accrued investment income	96,264	5,187	101,451
Long-term investments	44,176,818	293,984	44,470,802
Loan receivable	12,878,129	-	12,878,129
Grants and other receivables	26,828,550	5,462	26,834,012
Restricted investment	662,875	-	662,875
Restricted cash	2,990,576	-	2,990,576
Refundable advances, security deposits, and other assets	3,299,346	7,170	3,306,516
Property, equipment, and leasehold improvements, net	27,818,391	5,600	27,823,991
<b>Total assets</b>	<b>\$ 158,326,930</b>	<b>\$ 1,561,422</b>	<b>\$ 159,888,352</b>
<b>Liabilities and net assets</b>			
<i>Liabilities</i>			
Grants payable	\$ 11,158,637	\$ -	\$ 11,158,637
Accounts payable and accrued expenses	3,320,938	337,642	3,658,580
Loans payable	17,149,899	-	17,149,899
Deferred rent payable	1,300,612	-	1,300,612
Deferred grant revenue	10,400,000	-	10,400,000
Deferred compensation payable	662,875	-	662,875
<b>Total liabilities</b>	<b>43,992,961</b>	<b>337,642</b>	<b>44,330,603</b>
<b>Net assets</b>			
<i>International AIDS Vaccine Initiative, Inc controlling interest</i>			
Unrestricted and board-designated	106,163,854	1,223,780	107,387,634
Temporarily restricted – vaccine development partnership and country commitments	8,726,790	-	8,726,790
<b>Total International AIDS Vaccine Initiative, Inc controlling interest</b>	<b>114,890,644</b>	<b>1,223,780</b>	<b>116,114,424</b>
<i>Non-controlling interest</i>			
Unrestricted	(556,675)	-	(556,675)
<b>Total net assets</b>	<b>114,333,969</b>	<b>1,223,780</b>	<b>115,557,749</b>
<b>Total liabilities and net assets</b>	<b>\$ 158,326,930</b>	<b>\$ 1,561,422</b>	<b>\$ 159,888,352</b>

\*\*Includes International AIDS Vaccine Initiative, Inc , IAVI Lab LLC, IAVI Holdings LLC, and IAVI Historic Holdings LLC

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**Consolidating Statement of Activities (Total Net Assets)**  
**Year Ended December 31, 2009**

	<u>IAVI**</u>	<u>The Stichting</u>	<u>Consolidated</u>
<b>Support and revenue</b>			
Grants and contributions	\$ 81,782,292	\$ 120	\$ 81,782,412
Due to/from International AIDS Vaccine Initiative, Inc	(547,969)	547,969	-
Investment income, net	4,255,001	37,176	4,292,177
Net (loss) gain on foreign currencies	(751,870)	(885)	(752,755)
Other income	1,322,063	-	1,322,063
Total support and revenue	<u>86,059,517</u>	<u>584,380</u>	<u>86,643,897</u>
<b>Expenses</b>			
<i>Program services</i>			
Vaccine advocacy and education	8,568,017	1,498,459	10,066,476
Policy/access	1,890,728	155,324	2,046,052
Research and development	71,649,596	353,166	72,002,762
Total program services	<u>82,108,341</u>	<u>2,006,949</u>	<u>84,115,290</u>
<i>Supporting services</i>			
General and administrative	10,378,101	485,818	10,863,919
Fund raising	2,528,391	395,752	2,924,143
Total supporting services	<u>12,906,492</u>	<u>881,570</u>	<u>13,788,062</u>
Total expenses	<u>95,014,833</u>	<u>2,888,519</u>	<u>97,903,352</u>
Foreign exchange translation adjustment	-	49,773	49,773
Total expenses and foreign exchange translation adjustment	<u>95,014,833</u>	<u>2,938,292</u>	<u>97,953,125</u>
Contribution from International AIDS Vaccine Initiative, Inc	<u>(2,189,357)</u>	<u>2,189,357</u>	<u>-</u>
Change in net assets	(11,144,673)	(164,555)	(11,309,228)
Less change in net assets attributable to non-controlling interest	<u>(556,675)</u>	<u>-</u>	<u>(556,675)</u>
<b>Change in net assets attributable to International AIDS Vaccine, Inc controlling interest</b>	<u>\$ (10,587,998)</u>	<u>\$ (164,555)</u>	<u>\$ (10,752,553)</u>

\*\*Includes International AIDS Vaccine Initiative, Inc , IAVI Lab LLC, IAVI Holdings LLC, and IAVI Historic Holdings LLC

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Schedule of Conditional Contributions, Budgeted Expenditures and  
Projected Annual Operating Deficit (Unaudited)  
Years 2010 – 2012**

IAVI has entered into contracts, memoranda of understanding and confidential proposals that are still under review with organizations to provide funding in future years for an array of research and development activities that are contingent on specific performance. Historically, such arrangements have accounted for 48% of the first year of budgeted expenditures and approximately 35% and 15% of the following two years of budgeted expenditures as presented in the table below.

Conditional contributions (unaudited), projected program expenditures (unaudited) and projected operating deficits arising from unidentified funding sources (unaudited) are expected to be realized as follows:

<u>Year</u>	<u>Conditional Contributions (Unaudited)</u>	<u>Total Budgeted Expenditures (Unaudited)</u>	<u>Projected Annual Operating Deficit (Unidentified Incremental Funding Sources) (Unaudited)</u>
2010	\$ 40,167,780	\$ 90,949,000	\$ (50,781,220)
2011	19,758,358	93,122,000	(73,363,642)
2012	16,866,767	98,459,000	(81,592,233)
	<u>\$ 76,792,905</u>	<u>\$ 282,530,000</u>	<u>\$ (205,737,095)</u>

Note: The unaudited projected annual operating deficits, as reflected in the table above, do not reflect the use of any net assets accumulated as of December 31, 2009.