

OS AA01

Statement of details of parent law and other  
information for an overseas company



Companies House

✓ What this form is for  
You may use this form to  
accompany your accounts  
disclosed under parent law

✗ What this form is NOT for  
You cannot use this form to  
an alteration of manner of  
with accounting requirements



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01/05/2014

#57

COMPANIES HOUSE

**Part 1** Corporate company name

Corporate name of  
overseas company ①

INTERNATIONAL AIDS VACCINE INITIATIVE, INC

UK establishment  
number

B R 1 3 6 0 5

→ Filling in this form

Please complete in typescript or in  
bold black capitals

All fields are mandatory unless  
specified or indicated by \*

① This is the name of the company in  
its home state

**Part 2** Statement of details of parent law and other  
information for an overseas company

**A1** Legislation

Please give the legislation under which the accounts have been prepared and,  
if applicable, the legislation under which the accounts have been audited

Legislation ①

26 U S Code § 501

② This means the relevant rules or  
legislation which regulates the  
preparation and, if applicable, the  
audit of accounts

**A2** Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted  
accounting principles?

Please tick the appropriate box

☐ No Go to Section A3

☒ Yes Please enter the name of the organisation or other  
body which issued those principles below, and then go to Section A3

③ Please insert the name of the  
appropriate accounting organisation  
or body

Name of organisation  
or body ①

Financial Accounting Standards Board (FSAB)

**A3** Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ No Go to Section A5

☒ Yes Go to Section A4

**OS AA01**

Statement of details of parent law and other information for an overseas company

|                              |   |   |
|------------------------------|---|---|
| <b>A4 Audited accounts</b>   |   |   |
| Audited accounts             | Have the accounts been audited in accordance with a set of generally accepted auditing standards?<br>Please tick the appropriate box<br><input type="checkbox"/> No Go to Part 3 'Signature'<br><input checked="" type="checkbox"/> Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature' | Please insert the name of the appropriate accounting organisation or body |
| Name of organisation or body | Mitchell & Titus  |   |
| <b>A5 Unaudited accounts</b> |   |   |
| Unaudited accounts           | Is the company required to have its accounts audited?<br>Please tick the appropriate box<br><input type="checkbox"/> No<br><input type="checkbox"/> Yes   |   |
| <b>Part 3 Signature</b>      |   |   |
| Signature                    | I am signing this form on behalf of the overseas company  |   |
|                              | Signature<br><b>X</b> <i>Zabur M. Alhadi</i> <b>X</b>   |   |
|                              | This form may be signed by<br>Director, Secretary Permanent representative  |   |

# OS AA01

Statement of details of parent law and other information for an overseas company



## Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record

|                 |                            |
|-----------------|----------------------------|
| Contact name    | Jonathan Goldsmith         |
| Company name    | INTERNATIONAL AIDS VACCINE |
| INITIATIVE, INC |                            |
| Address         | 125 Broad Street           |
|                 |                            |
| Post town       | NYC                        |
| County/Region   | NY                         |
| Postcode        | 1 0 0 0 4                  |
| Country         | USA                        |
| DX              |                            |
| Telephone       | 212-763-4295               |



## Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



## Important information

Please note that all this information will appear on the public record



## Where to send

You may return this form to any Companies House address

### England and Wales

The Registrar of Companies, Companies House,  
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DX 33050 Cardiff

### Scotland

The Registrar of Companies, Companies House,  
Fourth floor, Edinburgh Quay 2,  
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF  
DX ED235 Edinburgh 1  
or LP - 4 Edinburgh 2 (Legal Post)

### Northern Ireland

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Second Floor, The Linenhall, 32-38 Linenhall Street,  
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This form is available in an alternative format. Please visit the forms page on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**Consolidated Financial Statements and  
Supplementary Financial Information  
For the Year Ended December 31, 2012  
With Summarized Financial Information for 2011  
With Report of Independent Auditors**



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COMPANIES HOUSE

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Consolidated Financial Statements and  
Supplementary Financial Information  
For the Year Ended December 31, 2012  
With Summarized Financial Information for 2011

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## **REPORT OF INDEPENDENT AUDITORS**

The Board of Directors  
International AIDS Vaccine Initiative, Inc

### **Report on the financial statements**

We have audited the accompanying consolidated financial statements of International AIDS Vaccine Initiative, Inc (IAVI), which comprise the consolidated statement of financial position as of December 31, 2012, the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from IAVI's 2011 financial statements and, in our report dated July 10, 2012, we expressed an unqualified opinion on those statements.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of International AIDS Vaccine Initiative, Inc at December 31, 2012, 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

**Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information (consolidating statements of financial position and activities) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Mitchell & Titus, LLP*

July 15, 2013

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

|  | <b>December 31,</b>          |                              |
|--|------------------------------|------------------------------|
|  | <b>2012</b>                  | <b>2011</b>                  |
| <b>ASSETS</b>  |                              |                              |
| Cash and cash equivalents                                | \$ 12,102,775                | \$ 21,937,055                |
| Accrued investment income                                | 87,997                       | 158,450                      |
| Long-term investments                                    | 30,176,249                   | 34,501,955                   |
| Loan receivable  | 12,878,129                   | 12,878,129                   |
| Grants and other receivables                             | 24,113,686                   | 14,242,971                   |
| Restricted investments                                   | 413,002                      | 831,884                      |
| Restricted cash  | 1,329,417                    | 1,476,139                    |
| Refundable advances, security deposits, and other assets | 1,574,916                    | 2,136,843                    |
| Property, equipment and leasehold improvements, net      | 18,615,325                   | 22,096,307                   |
| <b>Total assets</b>                                      | <b><u>\$ 101,291,496</u></b> | <b><u>\$ 110,259,733</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                        |                              |                              |
| <i>Liabilities</i>                                       |                              |                              |
| Contracts payable  | \$ 2,442,367                 | \$ 4,734,198                 |
| Accounts payable and accrued expenses                    | 4,730,687                    | 4,441,479                    |
| Loans payable  | 17,881,565                   | 17,922,697                   |
| Deferred rent payable                                    | 1,687,852                    | 1,555,773                    |
| Lease incentive obligation                               | 994,583                      | 1,066,917                    |
| Deferred grant revenue                                   | 12,107,136                   | 8,800,000                    |
| Deferred compensation payable                            | 413,002                      | 831,884                      |
| <b>Total liabilities</b>                                 | <b><u>40,257,192</u></b>     | <b><u>39,352,948</u></b>     |
| Commitments and contingencies                            |                              |                              |
| <b>NET ASSETS</b>  |                              |                              |
| Unrestricted-Board designated                            | 48,670,340                   | 46,510,137                   |
| Temporarily restricted                                   | 12,363,964                   | 24,396,648                   |
| <b>Total net assets</b>                                  | <b><u>61,034,304</u></b>     | <b><u>70,906,785</u></b>     |
| <b>Total liabilities and net assets</b>                  | <b><u>\$ 101,291,496</u></b> | <b><u>\$ 110,259,733</u></b> |

The accompanying notes are an integral part of these financial statements



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Consolidated Statement of Activities

For the Year Ended December 31, 2012

With Summarized Financial Information for 2011

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>          |                        |
|---|---------------------|-----------------------------------|-----------------------|------------------------|
|   |                     |                                   | <u>2012</u>           | <u>2011</u>            |
| <b>OPERATING SUPPORT, REVENUE,<br/>AND RECLASSIFICATIONS</b>  |                     |                                   |                       |                        |
| Grants and contributions                                      | \$ 57,556,372       | \$ 2,519,292                      | \$ 60,075,664         | \$ 58,738,360          |
| Investment income, net  | 1,298,840           | -                                 | 1,298,840             | 1,360,714              |
| Net gain (loss) on foreign currencies                         | 291,781             | -                                 | 291,781               | (4,922)                |
| Other income  | 373,184             | -                                 | 373,184               | 1,064,228              |
| Net assets released from restrictions                         | 14,551,976          | (14,551,976)                      | -                     | -                      |
| Total support, revenue, and<br>reclassifications              | <u>74,072,153</u>   | <u>(12,032,684)</u>               | <u>62,039,469</u>     | <u>61,158,380</u>      |
| <b>OPERATING EXPENSES</b>                                     |                     |                                   |                       |                        |
| <i>Program services</i>                                       |                     |                                   |                       |                        |
| Vaccine advocacy, education and<br>policy/access              | 6,766,992           | -                                 | 6,766,992             | 8,889,349              |
| Research and development                                      | 52,454,943          | -                                 | 52,454,943            | 59,902,407             |
| Total program services  | <u>59,221,935</u>   | <u>-</u>                          | <u>59,221,935</u>     | <u>68,791,756</u>      |
| <i>Supporting services</i>                                    |                     |                                   |                       |                        |
| General and administrative                                    | 9,825,676           | -                                 | 9,825,676             | 11,466,845             |
| Fund-raising  | 2,878,050           | -                                 | 2,878,050             | 3,057,659              |
| Total supporting services                                     | <u>12,703,726</u>   | <u>-</u>                          | <u>12,703,726</u>     | <u>14,524,504</u>      |
| Total expenses  | <u>71,925,661</u>   | <u>-</u>                          | <u>71,925,661</u>     | <u>83,316,260</u>      |
| Foreign exchange translation adjustment                       | <u>(13,711)</u>     | <u>-</u>                          | <u>(13,711)</u>       | <u>(187,907)</u>       |
| Total expenses and foreign exchange<br>translation adjustment | <u>71,911,950</u>   | <u>-</u>                          | <u>71,911,950</u>     | <u>83,128,353</u>      |
| <b>Change in net assets</b>                                   | <u>\$ 2,160,203</u> | <u>\$ (12,032,684)</u>            | <u>\$ (9,872,481)</u> | <u>\$ (21,969,973)</u> |

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Consolidated Statements of Changes in Net Assets  
For the Years Ended December 31, 2012 and 2011

|  | <b>International AIDS Vaccine Initiative, Inc. Controlling Interest</b> |                               | <b>Non-controlling Interest</b> |                      |
|--|---|-------------------------------|---------------------------------|----------------------|
|  | <b>Unrestricted</b>   | <b>Temporarily Restricted</b> | <b>Unrestricted</b>             | <b>Total</b>         |
| Net assets, January 1, 2010  | \$ 84,807,482   | \$ 9,279,032                  | \$ (1,209,756)                  | \$ 92,876,758        |
| Return of capital contributions to non-controlling interest holder | -   | -                             | (10,000)                        | (10,000)             |
| Other changes in net assets during 2011                            | (36,466,723)  | 15,117,616                    | (610,866)                       | (21,959,973)         |
| Termination of non-controlling interest in IAVI Lab LLC            | (1,830,622)   | -                             | 1,830,622                       | -                    |
| Changes in net assets  | (38,297,345)  | 15,117,616                    | 1,209,756                       | (21,969,973)         |
| Net assets, December 31, 2011                                      | 46,510,137  | 24,396,648                    | -                               | 70,906,785           |
| Changes in net assets  | 2,160,203   | (12,032,684)                  | -                               | (9,872,481)          |
| <b>Net assets, December 31, 2012</b>                               | <b>\$ 48,670,340</b>  | <b>\$ 12,363,964</b>          | <b>\$ -</b>                     | <b>\$ 61,034,304</b> |

The accompanying notes are an integral part of these financial statements

# INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

## Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2012

With Summarized Financial Information for 2011

|                                  | Program Services                                       |                             | Supporting Services       |                               |                     | Total Expenses                  |                      |
|----------------------------------|--|-----------------------------|---------------------------|-------------------------------|---------------------|---------------------------------|----------------------|
|                                  | Vaccine<br>Advocacy,<br>Education and<br>Policy/Access | Research and<br>Development | Total Program<br>Services | General and<br>Administrative | Fund-Raising        | Total<br>Supporting<br>Services |                      |
|                                  | 2012   | 2011                        | 2012                      | 2011                          | 2012                | 2011                            |                      |
| Contract expenses                | \$ 906,025   | \$ 26,920,192               | \$ 27,826,217             | \$ 118,866                    | \$ 174,860          | \$ 293,726                      | \$ 33,839,874        |
| Salaries, wages, and benefits    | 3,948,597  | 13,932,116                  | 17,880,713                | 7,025,696                     | 1,863,124           | 8,888,820                       | 29,294,288           |
| Consultants and honoraria        | 368,399  | 1,459,123                   | 1,827,522                 | 378,994                       | 417,149             | 796,143                         | 2,274,231            |
| Travel                           | 545,737  | 1,043,807                   | 1,589,544                 | 355,195                       | 123,311             | 478,506                         | 2,384,581            |
| Professional services            | 102,256  | 191,353                     | 293,609                   | 415,154                       | 5,350               | 420,504                         | 1,094,372            |
| Occupancy                        | 262,256  | 2,312,003                   | 2,574,259                 | 384,899                       | 101,857             | 486,756                         | 4,156,639            |
| Printing and publications        | 260,247  | 532                         | 260,779                   | 49                            | 1,184               | 1,233                           | 332,277              |
| Telecommunications               | 117,428  | 240,326                     | 357,754                   | 131,673                       | 36,277              | 167,950                         | 617,218              |
| Office expenses                  | 47,391   | 262,123                     | 309,514                   | 105,281                       | 19,088              | 124,369                         | 1,133,736            |
| Equipment rental and maintenance | 60,732   | 1,233,316                   | 1,294,048                 | 141,137                       | 28,574              | 169,711                         | 1,298,825            |
| Depreciation and amortization    | 61,051   | 3,970,188                   | 4,031,239                 | 379,588                       | 46,711              | 426,299                         | 5,377,012            |
| Insurance                        | 36,747   | 173,217                     | 209,964                   | 200,973                       | 24,521              | 225,494                         | 480,334              |
| Other                            | 50,126   | 716,647                     | 766,773                   | 188,171                       | 36,044              | 224,215                         | 1,032,873            |
| <b>Total expenses</b>            | <b>\$ 6,766,992</b>                                    | <b>\$ 52,454,943</b>        | <b>\$ 59,221,935</b>      | <b>\$ 9,825,676</b>           | <b>\$ 2,878,050</b> | <b>\$ 12,703,726</b>            | <b>\$ 83,316,260</b> |

The accompanying notes are an integral part of these financial statements

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

|   | <b>Year Ended December 31,</b> |                      |
|---|--------------------------------|----------------------|
|   | <b>2012</b>                    | <b>2011</b>          |
| <b>OPERATING ACTIVITIES</b>   |                                |                      |
| Change in net assets  | \$ (9,872,481)                 | \$ (21,969,973)      |
| <i>Adjustments to reconcile change in net assets to net cash used in operating activities</i>           |                                |                      |
| Depreciation and amortization   | 4,457,538                      | 5,377,012            |
| Deferred rent   | 132,079                        | 45,944               |
| Amortization of lease incentive obligation  | (72,334)                       | (18,083)             |
| Net realized and unrealized (gains) losses on investments   | (35,202)                       | 206,616              |
| Net (gain) loss on foreign currencies   | (291,781)                      | 4,922                |
| Gain on forgiveness of loan payable   | (41,132)                       | -                    |
| <i>Changes in operating assets and liabilities</i>  |                                |                      |
| Accrued investment income   | 70,453                         | (79,519)             |
| Grants and other receivables  | (9,781,606)                    | 1,174,263            |
| Restricted investments  | 418,882                        | 51,763               |
| Refundable advances, security deposits, and other assets  | 561,927                        | 931,778              |
| Contracts payable   | (2,322,875)                    | (573,737)            |
| Accounts payable and accrued expenses   | 339,870                        | 307,185              |
| Deferred grant revenue  | 3,307,136                      | (800,000)            |
| Deferred compensation payable   | (418,882)                      | (51,763)             |
| Net cash used in operating activities   | (13,548,408)                   | (15,393,592)         |
| <b>INVESTING ACTIVITIES</b>   |                                |                      |
| Net sales of investments  | 4,360,908                      | 4,791,043            |
| Change in restricted cash   | 146,722                        | 289,017              |
| Payments for property, equipment, and leasehold improvements  | (1,027,218)                    | (1,602,750)          |
| Net cash provided by investing activities   | 3,480,412                      | 3,477,310            |
| <b>FINANCING ACTIVITIES</b>   |                                |                      |
| Borrowings on loans payable   | -                              | 813,199              |
| Net cash provided by financing activities   | -                              | 813,199              |
| Effect of exchange rate changes on cash   | 233,716                        | (225,944)            |
| Net decrease in cash and cash equivalents   | (9,834,280)                    | (11,329,027)         |
| Cash and cash equivalents, beginning of year  | 21,937,055                     | 33,266,082           |
| <b>Cash and cash equivalents, end of year</b>   | <b>\$ 12,102,775</b>           | <b>\$ 21,937,055</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>  |                                |                      |
| Cash paid for interest  | \$ 214,461                     | \$ 280,742           |
| Cash paid for income taxes  | \$ -                           | \$ 6,446             |
| <b>NONCASH INVESTING ACTIVITIES</b>   |                                |                      |
| Property, equipment, and leasehold improvements purchased through accounts payable and accrued expenses | \$ -                           | \$ 50,662            |
| Leasehold improvements purchased under lease incentive obligation                                       | \$ -                           | \$ 1,085,000         |

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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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). International AIDS Vaccine Initiative, Inc. is the sole member of IAVI Holdings LLC and IAVI Historic Holdings LLC. IAVI Historic Holdings LLC is the sole member of IAVI Lab LLC. IAVI is a global initiative dedicated to ensuring the development of safe, effective, accessible, preventive HIV vaccines for use globally. IAVI has offices in five countries around the world, including US headquarters in New York City. The Stichting is a separate foundation based in the Netherlands. All entities are under the control of one common Board of Directors. All intercompany balances and transactions were eliminated in consolidation.

IAVI focuses on two major areas of activity:

1. 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.
2. Securing and sustaining high-level global commitment for accelerated vaccine research and development by promoting adoption of public policies that support rapid development and distribution of preventive vaccines, especially in the countries most affected by the epidemic and where the need for a vaccine is the most urgent. Expenditures related to these activities are classified as vaccine advocacy, education and policy/access.

Fund Accounting and Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to IAVI, its accounts are maintained in accordance with the principles of fund accounting. This procedure classifies resources 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.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 1      ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**  
*(continued)*

Unrestricted net assets are either not restricted by donors or the donor-imposed restrictions have expired. As reflected in the accompanying consolidated statements of financial position, IAVI's Board of Directors has designated its unrestricted net assets 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 that were determined by management.

Cash Equivalents

IAVI considers highly liquid financial instruments purchased with maturities of three months or less, other than those that are restricted as to use or held as part of long-term investments, to be cash equivalents.

At December 31, 2012, cash and cash equivalents were held primarily in three financial institutions.

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, 2012 and 2011 are expected to be received within the next year. At December 31, 2012, grants from U.S. government agencies, foreign government agencies, and foundations and other organizations represented approximately 46%, 53%, and 1% of grants receivable, respectively. At December 31, 2011, grants from a U.S. government agency, foreign government agencies, and foundations represented approximately 47%, 48%, and 5% of grants receivable, respectively. A U.S. government agency and a foreign government agency accounted for a combined 71% and 60% of total grants and contributions revenue for 2012 and 2011, respectively.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 1      ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**  
*(continued)*

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. IAVI's policy records 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 (GAAP), 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.

IAVI received donated website banner space and professional services valued at approximately \$634,000, and \$198,000 during the year ended December 31, 2012, respectively. During 2011, IAVI received in-kind contributions of legal services of approximately \$147,000. In addition, IAVI received discounted airfare, website banner space, and professional services of approximately \$33,000, \$266,000, and \$134,000 during the year ended December 31, 2011, respectively. In-kind contributions are reflected in grants and contributions revenue in the accompanying consolidated statements of activities and are expensed in the year received.

Cost-reimbursement Contract Expenses

IAVI recognizes contract expenses when the expenses are reported by the contractors. During 2012 and 2011, IAVI advanced funds to certain contractors that were not yet expended as of December 31, 2012 and 2011. These advances amounted to approximately \$617,000 and \$838,000 and are included in refundable advances, security deposits, and other assets in the accompanying consolidated statements of financial position as of December 31, 2012 and 2011, respectively.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 1      ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**  
*(continued)*

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. GAAP 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.

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.

All assets and liabilities denominated in foreign currencies are remeasured in U.S. dollars using the appropriate December 31<sup>st</sup> exchange rates.



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**  
(continued)

Summarized Financial Information for 2011

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. GAAP. Accordingly, such information should be read in conjunction with IAVI's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Reclassifications

Certain expenses in the 2011 consolidated statements of activities and functional expenses have been reclassified to conform to the current year presentation.

**NOTE 2 LONG-TERM INVESTMENTS**

Long-term investments consisted of the following:

|                                       | <u>December 31,</u>  |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | <u>2012</u>          | <u>2011</u>          |
| <i>Fixed-income securities</i>        |                      |                      |
| U.S. government and agency securities | \$ 17,507,169        | \$ 11,840,502        |
| U.S. corporate obligations            | 6,421,063            | 11,228,633           |
| Asset- and mortgage-backed securities | 4,685,497            | 4,489,371            |
| International corporate obligations   | 1,295,311            | 3,250,877            |
| Municipal bonds                       | 145,874              | -                    |
| Total fixed-income securities         | 30,054,914           | 30,809,383           |
| Cash/money market funds               | 121,335              | 3,692,572            |
|                                       | <u>\$ 30,176,249</u> | <u>\$ 34,501,955</u> |

Restricted investments consist of mutual funds held as part of deferred compensation arrangements at both December 31, 2012 and 2011.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 2      LONG-TERM INVESTMENTS** *(continued)*

Investment income, net consisted of the following

|  | <u>Year Ended December 31,</u> |                     |
|--|--------------------------------|---------------------|
|  | <u>2012</u>                    | <u>2011</u>         |
| Interest and dividend income                             | \$ 1,344,094                   | \$ 1,722,900        |
| Net realized gains on sales of investments               | 225,229                        | 116,259             |
| Net change in unrealized gains and losses on investments | (190,027)                      | (322,875)           |
| Investment fees and commissions                          | (80,456)                       | (155,570)           |
|  | <u>\$ 1,298,840</u>            | <u>\$ 1,360,714</u> |

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

Property, equipment, and leasehold improvements consisted of the following

|   | <u>December 31,</u>  |                      |
|---|----------------------|----------------------|
|   | <u>2012</u>          | <u>2011</u>          |
| Lab equipment   | \$ 18,056,439        | \$ 17,743,497        |
| Office furniture and equipment                        | 6,099,623            | 5,935,292            |
| Software  | 1,691,175            | 1,642,881            |
| Vehicles  | 142,027              | 191,283              |
| Leasehold improvements                                | <u>21,943,087</u>    | <u>21,480,138</u>    |
|   | 47,932,351           | 46,993,091           |
| <i>Less</i> Accumulated depreciation and amortization | <u>29,317,026</u>    | <u>24,896,784</u>    |
|   | <u>\$ 18,615,325</u> | <u>\$ 22,096,307</u> |

Depreciation and amortization expense was \$4,457,538 and \$5,377,012 for the years ended December 31, 2012 and 2011, respectively

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 4 FAIR VALUE MEASUREMENTS**

IAVI employs the methods described in Accounting Standards Codification (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.

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, 2012:

|                           | Carrying Value<br>(Fair Value at<br>December 31, 2012) | Fair Value Measurements at<br>December 31, 2012 Using |   |   |
|---------------------------|--|---|---|---|
|                           |  | Quoted Prices in<br>Active Markets<br>(Level 1)       | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Cash and cash equivalents | \$ 12,102,775  | \$ 12,102,775   | \$ -  | \$ -  |
| Long-term investments     | 30,176,249   | 121,335   | 30,054,914  | -   |
| Restricted investments    | 413,002  | 413,002   | -   | -   |
| Restricted cash           | 1,329,417  | 1,329,417   | -   | -   |

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2012**

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2011

|                           | Carrying Value<br>(Fair Value at<br>December 31, 2011) | Fair Value Measurements at<br>December 31, 2011 Using |   |   |
|---------------------------|--|---|---|---|
|                           |  | Quoted Prices in<br>Active Markets<br>(Level 1)       | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Cash and cash equivalents | \$ 21,937,055  | \$ 21,937,055   | \$ -  | \$ -  |
| Long-term investments     | 34,501,955   | 3,692,572   | 30,809,383  | -   |
| Restricted investments    | 831,884  | 831,884   | -   | -   |
| Restricted cash           | 1,476,139  | 1,476,139   | -   | -   |

**NOTE 5 NET ASSETS**

The Board of Directors has designated all unrestricted net assets as an operating reserve. The Board of Directors has discretion to review and change unrestricted net asset designations.

At December 31, 2012 and 2011, temporarily restricted net assets of \$12,363,964 and \$24,396,648, respectively, were restricted by multiple donors to fund research, development, and country commitments.

At December 31, 2012, there are no temporarily restricted net assets remaining from the Ministry of Foreign Affairs of the Netherlands grant to support the Product Development Partnership Fund. All funds received have been expended. Expenditures for 2012 amounted to \$4,837,033.

Net assets released from restrictions in 2012 and 2011 reflect the use of funds in connection with development commitments of \$14,551,976 and \$8,126,875, respectively.

**NOTE 6 EMPLOYEE BENEFIT PLANS**

IAVI has a defined contribution retirement plan for employees under Section 403(b) of the Internal Revenue Code (the Code). The plan allows eligible employees to contribute pre-tax dollars from their salaries up to the maximum amount specified by the 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 \$1,733,000 and \$1,840,000 during the years ended December 31, 2012 and 2011, respectively.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 6      EMPLOYEE BENEFIT PLANS** *(continued)*

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, 2012 and 2011. IAVI does not contribute to the plan.

At December 31, 2011, IAVI was also the custodian of assets, offset by a liability relating to a deferred compensation plan for a former officer that is applicable to prior employment. Such amounts were completely paid out in fiscal 2012.

**NOTE 7      COMMITMENTS AND CONTINGENCIES**

Conditional Contributions

At December 31, 2012, IAVI has been approved for certain conditional grants from public and private sources. In accordance with U.S. GAAP, 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 assorted grantors. In some instances, for IAVI to receive funds according 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. If IAVI is unable to expend funds in accordance with the program objectives or is unable to meet its program objectives, grantors may discontinue funding. Total conditional contributions outstanding at December 31, 2012 amounted to approximately \$59,697,000.

Operating Leases

IAVI leases its office space and certain office equipment under non-cancellable operating lease agreements.

In October 2010, IAVI entered into a lease agreement for new office space in New York City. The lease term commenced in 2011 and has a 15-year term. IAVI has the right to terminate the lease after 10 years for a termination fee. IAVI also has the right to renew the lease for an additional five years after the first 15 years is completed. The lease calls for escalation charges over the term.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 7      COMMITMENTS AND CONTINGENCIES** *(continued)*

Operating Leases *(continued)*

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 included a 10-month rent-free period and escalation charges during the lease term.

Future minimum lease payments relating to the operating leases are as follows:

| <b>Year Ending<br/>December 31,</b> | <b>Minimum<br/>Payments</b> |
|-------------------------------------|-----------------------------|
| 2013                                | \$ 1,988,140                |
| 2014                                | 1,895,909                   |
| 2015                                | 1,903,898                   |
| 2016                                | 1,809,101                   |
| 2017                                | 1,860,491                   |
| Thereafter                          | 14,666,924                  |
|                                     | <u>\$ 24,124,463</u>        |

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 were reflected as deferred rent payable, a liability in the accompanying consolidated statement of financial position. Rent expense was approximately \$2,736,000 and \$3,661,000 for the years ended December 31, 2012 and 2011, respectively. Sublease income amounted to approximately \$777,000 for the year ended December 31, 2011. The sublease was terminated, effective December 31, 2011.

Under the terms of the New York office space lease, the landlord reimbursed IAVI for certain leasehold improvement costs that amounted to \$1,085,000. The costs are included in property, equipment, and leasehold improvements, net in the accompanying consolidated statement of financial position. As of December 31, 2012, a lease incentive obligation of approximately \$995,000 was reflected in the accompanying consolidated statement of financial position. Such amount will be amortized as a reduction of rent expense over the term of the lease.

Letter of Credit

IAVI has an outstanding standby letter of credit of \$1,000,000 serving as a security deposit under its lease for office space in New York. The letter of credit is secured by \$1,024,329 and \$1,024,750 in cash, which is presented as restricted cash in the accompanying consolidated statement of financial position as of December 31, 2012 and 2011, respectively.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2012

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**NOTE 7      COMMITMENTS AND CONTINGENCIES** *(continued)*

Line of Credit

In March 2011, IAVI entered into a \$25,000,000 secured line of credit arrangement, which expired on January 31, 2013. No loans were drawn against the line during 2011 or 2012. The arrangement was renewed in June 2013, with an expiration date of June 30, 2014. Under the line, the bank may provide loans, at the bank's discretion, and is not committed to lend to IAVI.

General

Various claims and regulatory reviews arise in the ordinary course of IAVI's activities. Based upon information currently available, management believes that any liability arising therefrom will not materially affect the consolidated financial position and operations of IAVI.

**NOTE 8      FINANCING**

*Brooklyn Army Terminal*

In February 2008, IAVI entered into a financing arrangement to fund a portion of the costs of improvements to be made to IAVI's leasehold for laboratory and office space at the Brooklyn Army Terminal. Under this arrangement, the City of New York, through the Economic Development Corporation (EDC), provided funding of \$12 million. IAVI received funding of approximately \$3.3 million through a new markets tax credits program. To facilitate the new markets tax credit program, IAVI formed two subsidiary entities, IAVI Holdings LLC and IAVI Lab LLC, in February 2008 and to facilitate the historic tax credit program, IAVI formed a subsidiary entity, IAVI Historic Holdings, in October 2008.

Economic Development Corporation

The grant from the EDC is recorded as deferred revenue in IAVI's consolidated financial statements and is being recognized on a straight-line basis over the life of the 15-year lease period. In both 2012 and 2011, \$800,000 in revenue was recognized from the EDC.

IAVI has received \$3.3 million in new funds to support the construction of the lab under the new markets tax credits program through a series of loans and capital contributions made through IAVI's subsidiaries and unrelated special purpose vehicles (SPVs) established for this purpose.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 8      FINANCING** *(continued)*

Economic Development Corporation *(continued)*

IAVI Holdings LLC made a loan of \$12.9 million to SPV (1). At December 31, 2012 and 2011, IAVI Holdings LLC had an outstanding loan receivable of \$12.9 million from SPV (1) earning interest at 4.27% per year (0.50% of which is payable quarterly with the remaining accruing until the April 5, 2015 maturity date of the loan). All principal is due on the maturity date. SPV (1) invested the proceeds of that loan in SPVs (2) and (3).

SPVs (2) and (3) utilized those funds to make 2 loans totaling \$17,149,899 to IAVI Lab LLC for payment of construction costs. As of December 31, 2012 and 2011, IAVI Lab LLC had outstanding loans payable of \$17,149,899 accruing interest, payable quarterly, at 1.23% per year. Principal on the outstanding loans payable is due on April 1, 2015 and April 1, 2028, the maturity dates of the loans.

Initially, approximately \$922,000 of funds borrowed by IAVI Lab LLC was reserved for debt service on the loans payable. The balance of these reserved funds remaining at December 31, 2012 was approximately \$305,000 and was included in restricted cash in the accompanying consolidated statement of financial position.

Revenue is being recognized over the life of the seven-year compliance period of this arrangement in the form of interest income on the loan receivable and interest expense on the loans payable. In 2012 and 2011, IAVI recorded interest income of approximately \$652,000 and \$625,000, respectively, and interest expense of approximately \$214,000 and \$214,000, respectively, on this arrangement. At the end of this compliance period, under the new market tax credit program, it is anticipated that IAVI will recognize additional revenue related to extinguishment of the loan receivable and loans payable, and no additional cash outlays are anticipated.

Historic Tax Credits Program

In October 2008, IAVI entered into another financing arrangement under the historic tax credits program. This arrangement was terminated effective as of December 31, 2011. A non-controlling interest in IAVI Lab LLC was terminated as a result of the termination of this transaction.



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 7      COMMITMENTS AND CONTINGENCIES *(continued)***

Line of Credit

In March 2011, IAVI entered into a \$25,000,000 secured line of credit arrangement, which expired on January 31, 2013. No loans were drawn against the line during 2011 or 2012. The arrangement was renewed in June 2013, with an expiration date of June 30, 2014. Under the line, the bank may provide loans, at the bank's discretion, and is not committed to lend to IAVI.

General

Various claims and regulatory reviews arise in the ordinary course of IAVI's activities. Based upon information currently available, management believes that any liability arising therefrom will not materially affect the consolidated financial position and operations of IAVI.

**NOTE 8      FINANCING**

*Brooklyn Army Terminal*

In February 2008, IAVI entered into a financing arrangement to fund a portion of the costs of improvements to be made to IAVI's leasehold for laboratory and office space at the Brooklyn Army Terminal. Under this arrangement, the City of New York, through the Economic Development Corporation (EDC), provided funding of \$12 million. IAVI received funding of approximately \$3.3 million through a new markets tax credits program. To facilitate the new markets tax credit program, IAVI formed two subsidiary entities, IAVI Holdings LLC and IAVI Lab LLC, in February 2008 and to facilitate the historic tax credit program, IAVI formed a subsidiary entity, IAVI Historic Holdings, in October 2008.

Economic Development Corporation

The grant from the EDC is recorded as deferred revenue in IAVI's consolidated financial statements and is being recognized on a straight-line basis over the life of the 15-year lease period. In both 2012 and 2011, \$800,000 in revenue was recognized from the EDC.

IAVI has received \$3.3 million in new funds to support the construction of the lab under the new markets tax credits program through a series of loans and capital contributions made through IAVI's subsidiaries and unrelated special purpose vehicles (SPVs) established for this purpose.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 8      FINANCING** *(continued)*

Economic Development Corporation *(continued)*

IAVI Holdings LLC made a loan of \$12.9 million to SPV (1). At December 31, 2012 and 2011, IAVI Holdings LLC had an outstanding loan receivable of \$12.9 million from SPV (1) earning interest at 4.27% per year (0.50% of which is payable quarterly with the remaining accruing until the April 5, 2015 maturity date of the loan). All principal is due on the maturity date. SPV (1) invested the proceeds of that loan in SPVs (2) and (3).

SPVs (2) and (3) utilized those funds to make 2 loans totaling \$17,149,899 to IAVI Lab LLC for payment of construction costs. As of December 31, 2012 and 2011, IAVI Lab LLC had outstanding loans payable of \$17,149,899 accruing interest, payable quarterly, at 1.23% per year. Principal on the outstanding loans payable is due on April 1, 2015 and April 1, 2028, the maturity dates of the loans.

Initially, approximately \$922,000 of funds borrowed by IAVI Lab LLC was reserved for debt service on the loans payable. The balance of these reserved funds remaining at December 31, 2012 was approximately \$305,000 and was included in restricted cash in the accompanying consolidated statement of financial position.

Revenue is being recognized over the life of the seven-year compliance period of this arrangement in the form of interest income on the loan receivable and interest expense on the loans payable. In 2012 and 2011, IAVI recorded interest income of approximately \$652,000 and \$625,000, respectively, and interest expense of approximately \$214,000 and \$214,000, respectively, on this arrangement. At the end of this compliance period, under the new market tax credit program, it is anticipated that IAVI will recognize additional revenue related to extinguishment of the loan receivable and loans payable, and no additional cash outlays are anticipated.

Historic Tax Credits Program

In October 2008, IAVI entered into another financing arrangement under the historic tax credits program. This arrangement was terminated effective as of December 31, 2011. A non-controlling interest in IAVI Lab LLC was terminated as a result of the termination of this transaction.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2012

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**NOTE 8**      **FINANCING** *(continued)*

*Other loan payable*

In August 2011, IAVI entered into a loan agreement with a research partner under which the partner lent funds to IAVI to refurbish laboratory space used by IAVI. IAVI's obligation at December 31, 2012 and 2011 amounted to \$731,666 and \$772,798, respectively. The loan does not bear interest and is to be repaid in equal annual installments commencing on August 1, 2012 through August 1, 2021. Future repayments are scheduled as follows: approximately \$81,000 in each of the years 2013 – 2017 and approximately \$327,000 in years thereafter.

The partner may waive annual repayment requirements if research funding that the partner receives from IAVI meets certain annual thresholds and if additional external funding received by the partner, in the partner's reasonable opinion, is sufficient to allow the partner to waive the annual payment. The partner waived the annual installment due in 2012.

**NOTE 9**      **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.

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

*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, 2012

**NOTE 9 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

*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 8 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 8.

*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 related to the new markets tax credits program discussed in Note 8. These loans are expected to be extinguished prior to their maturity dates and do not represent typical borrowing arrangements. The fair value of the other loan payable has been estimated using discounted cash flow techniques and a discount rate of 3.25%.

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

|                                  | 2012           |               | 2011           |               |
|----------------------------------|----------------|---------------|----------------|---------------|
|                                  | Carrying Value | Fair Value    | Carrying Value | Fair Value    |
| Cash and cash equivalents        | \$ 12,102,775  | \$ 12,102,775 | \$ 21,937,055  | \$ 21,937,055 |
| Long-term investments            | 30,176,249     | 30,176,249    | 34,501,955     | 34,501,955    |
| Loan receivable                  | 12,878,129     | **            | 12,878,129     | **            |
| Grants and other receivables     | 24,113,686     | 24,113,686    | 14,242,971     | 14,242,971    |
| Restricted investments           | 413,002        | 413,002       | 831,884        | 831,884       |
| Restricted cash                  | 1,329,417      | 1,329,417     | 1,476,139      | 1,476,139     |
| Contracts payable                | 2,442,367      | 2,442,367     | 4,734,198      | 4,734,198     |
| Loans payable—tax credit program | 17,149,899     | **            | 17,149,899     | **            |
| Other loan payable               | 731,666        | 629,149       | 772,798        | 649,273       |

\*\*Fair values are not determinable

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

Notes to Consolidated Financial Statements

December 31, 2012

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**NOTE 10      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 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. IAVI Lab LLC was taxed as a partnership through December 31, 2011. As a result of the termination of the historic tax credits transaction (see Note 8), IAVI Lab LLC is considered to be a disregarded entity for tax purposes, effective December 31, 2011. There were no tax expenses for 2012. Total tax expenses for 2011 amounted to approximately \$5,700.

At December 31, 2012, IAVI Historic Holdings LLC had net operating loss carryforwards for Federal tax purposes of approximately \$11,604,000, expiring in years through 2032. IAVI Historic Holdings LLC had deferred taxes at December 31, 2012 and December 31, 2011 related to the utilization of the net operating loss carryforwards of approximately \$4,642,000 and \$3,277,000, respectively. A valuation allowance of an equal amount has been provided as of December 31, 2012 and 2011 due to the uncertainty of the realization of the deferred tax assets.

ASC 740, *Income Taxes*, provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2012 and 2011, IAVI has documented its consideration of ASC 740 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, as well as corporate tax returns for the limited liability companies, are subject to examination by the Internal Revenue Service, generally for three years after filed.

**NOTE 11      SUBSEQUENT EVENTS**

IAVI evaluated events and transactions that occurred between January 1, 2013 and July 15, 2013, which is the date that the financial statements were available to be issued, for disclosure and recognition in the financial statements. There were no events or transactions during the subsequent event period requiring disclosure or recognition in the consolidated financial statements.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**Consolidating Statement of Financial Position**  
**As of December 31, 2012**

|  | <u>IAVI**</u>         | <u>The Stichting</u> | <u>Consolidated</u>   |
|--|-----------------------|----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                      |                       |
| Cash and cash equivalents                                | \$ 11,254,559         | \$ 848,216           | \$ 12,102,775         |
| Accrued investment income                                | 87,997                | -                    | 87,997                |
| Long-term investments                                    | 30,176,249            | -                    | 30,176,249            |
| Loan receivable  | 12,878,129            | -                    | 12,878,129            |
| Grants and other receivables                             | 24,106,668            | 7,018                | 24,113,686            |
| Restricted investments                                   | 413,002               | -                    | 413,002               |
| Restricted cash  | 1,329,417             | -                    | 1,329,417             |
| Refundable advances, security deposits, and other assets | 1,558,396             | 16,520               | 1,574,916             |
| Property, equipment, and leasehold improvements, net     | 18,615,325            | -                    | 18,615,325            |
| <b>Total assets</b>                                      | <u>\$ 100,419,742</u> | <u>\$ 871,754</u>    | <u>\$ 101,291,496</u> |
| <b>LIABILITIES AND NET ASSETS</b>                        |                       |                      |                       |
| <i>Liabilities</i>                                       |                       |                      |                       |
| Grants payable   | \$ 2,345,859          | \$ 96,508            | \$ 2,442,367          |
| Accounts payable and accrued expenses                    | 4,537,444             | 193,243              | 4,730,687             |
| Loans payable  | 17,881,565            | -                    | 17,881,565            |
| Deferred rent payable                                    | 1,687,852             | -                    | 1,687,852             |
| Lease incentive obligation                               | 994,583               | -                    | 994,583               |
| Deferred grant revenue                                   | 12,107,136            | -                    | 12,107,136            |
| Deferred compensation payable                            | 413,002               | -                    | 413,002               |
| <b>Total liabilities</b>                                 | <u>39,967,441</u>     | <u>289,751</u>       | <u>40,257,192</u>     |
| <b>NET ASSETS</b>  |                       |                      |                       |
| Unrestricted and Board-designated                        | 48,088,337            | 582,003              | 48,670,340            |
| Temporarily restricted                                   | 12,363,964            | -                    | 12,363,964            |
| <b>Total net assets</b>                                  | <u>60,452,301</u>     | <u>582,003</u>       | <u>61,034,304</u>     |
| <b>Total liabilities and net assets</b>                  | <u>\$ 100,419,742</u> | <u>\$ 871,754</u>    | <u>\$ 101,291,496</u> |

\*\*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)**  
**For the Year Ended December 31, 2012**

|  | <u>IAVI**</u>          | <u>The Stichting</u> | <u>Consolidated</u>   |
|--|------------------------|----------------------|-----------------------|
| <b>OPERATING SUPPORT AND REVENUE</b>   |                        |                      |                       |
| Grants and contributions   | \$ 60,065,355          | \$ 10,309            | \$ 60,075,664         |
| Investment income, net   | 1,294,289              | 4,551                | 1,298,840             |
| Net gain on foreign currencies   | 289,160                | 2,621                | 291,781               |
| Other income   | 373,184                | -                    | 373,184               |
| Total support and revenue  | <u>62,021,988</u>      | <u>17,481</u>        | <u>62,039,469</u>     |
| <b>OPERATING EXPENSES</b>  |                        |                      |                       |
| <i>Program services</i>  |                        |                      |                       |
| Vaccine advocacy, education and policy/access                                  | 5,517,376              | 1,249,616            | 6,766,992             |
| Research and development   | 52,303,655             | 151,288              | 52,454,943            |
| Total program services   | <u>57,821,031</u>      | <u>1,400,904</u>     | <u>59,221,935</u>     |
| <i>Supporting services</i>   |                        |                      |                       |
| General and administrative   | 9,687,532              | 138,144              | 9,825,676             |
| Fund raising   | 2,318,576              | 559,474              | 2,878,050             |
| Total supporting services  | <u>12,006,108</u>      | <u>697,618</u>       | <u>12,703,726</u>     |
| Total expenses   | <u>69,827,139</u>      | <u>2,098,522</u>     | <u>71,925,661</u>     |
| Foreign exchange translation adjustment  | -                      | (13,711)             | (13,711)              |
| Total expenses and foreign exchange translation adjustment                     | <u>69,827,139</u>      | <u>2,084,811</u>     | <u>71,911,950</u>     |
| Contribution from International AIDS Vaccine Initiative, Inc. to The Stichting | (2,395,761)            | 2,395,761            | -                     |
| <b>Change in net assets</b>  | <u>\$ (10,200,912)</u> | <u>\$ 328,431</u>    | <u>\$ (9,872,481)</u> |

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