

**CONSOLIDATED FINANCIAL STATEMENTS**

**INTERNATIONAL AIDS  
VACCINE INITIATIVE, INC.**

**FOR THE YEAR ENDED DECEMBER 31, 2015  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2014**

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

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# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
International AIDS Vaccine Initiative, Inc.  
New York, New York

We have audited the accompanying consolidated financial statements of the International AIDS Vaccine Initiative, Inc. (IAVI), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IAVI as of December 31, 2015, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## **Report on Summarized Comparative Information**

We have previously audited IAVI's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position on page 19 and the Consolidating Schedule of Activities and Change in Net Assets on page 20 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



July 8, 2016

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2015**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

**ASSETS**

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 16,133,220	\$ 15,824,109
Investments (Notes 2 and 13)	31,761,648	36,370,760
Loan receivable (Note 3)	-	12,878,129
Grants receivable (Note 4)	26,810,549	10,064,544
Interest receivable (Notes 3 and 12)	57,473	3,754,854
Security deposits and other assets	1,249,524	860,580
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$34,914,828 and \$35,509,405 for 2015 and 2014, respectively (Note 5)	<u>10,539,665</u>	<u>13,133,017</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 86,552,079</u></b>	<b><u>\$ 92,885,993</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Loans payable (Note 6)	\$ 444,708	\$ 17,721,038
Accounts payable and accrued liabilities	4,185,205	5,434,370
Awards and contracts payable	4,692,804	2,283,464
Refundable advances	10,501,552	5,321,720
Deferred grant revenue	5,600,000	6,400,000
Deferred rent (Note 7)	2,573,656	2,642,359
Deferred compensation payable (Notes 2 and 9)	<u>382,783</u>	<u>367,389</u>
Total liabilities	<u>28,380,708</u>	<u>40,170,340</u>

**NET ASSETS**

Unrestricted:		
Undesignated	2,847,535	3,495,794
Designated (Note 1)	<u>32,839,140</u>	<u>38,589,985</u>
Total unrestricted net assets	35,686,675	42,085,779
Temporarily restricted (Note 8)	<u>22,484,696</u>	<u>10,629,874</u>
Total net assets	<u>58,171,371</u>	<u>52,715,653</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 86,552,079</u></b>	<b><u>\$ 92,885,993</u></b>

## INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
<b>REVENUE</b>				
Grants and contributions (Notes 10 and 11)	\$ 52,002,864	\$ 21,425,696	\$ 73,428,560	\$ 51,210,007
Investment income (Note 2)	342,653	-	342,653	519,589
Other income	505,293	-	505,293	587,222
Net assets released from donor restrictions (Note 8)	<u>9,378,224</u>	<u>(9,378,224)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>62,229,034</u>	<u>12,047,472</u>	<u>74,276,506</u>	<u>52,316,818</u>
<b>EXPENSES</b>				
Program Services:				
Research and Development	52,276,441	-	52,276,441	46,553,244
Vaccine Advocacy, Policy and Public Education	<u>6,335,058</u>	<u>-</u>	<u>6,335,058</u>	<u>6,661,561</u>
Total program services	<u>58,611,499</u>	<u>-</u>	<u>58,611,499</u>	<u>53,214,805</u>
Supporting Services:				
General and Administrative	6,987,393	-	6,987,393	7,127,858
Fundraising	<u>2,782,526</u>	<u>-</u>	<u>2,782,526</u>	<u>2,589,221</u>
Total supporting services	<u>9,769,919</u>	<u>-</u>	<u>9,769,919</u>	<u>9,717,079</u>
Total expenses	<u>68,381,418</u>	<u>-</u>	<u>68,381,418</u>	<u>62,931,884</u>
Change in net assets before other items	(6,152,384)	12,047,472	5,895,088	(10,615,066)
<b>OTHER ITEMS - NON OPERATING</b>				
Interest income and gain resulting from expiration of leverage loan, net of expenses (Note 12)	530,970	-	530,970	511,142
Foreign exchange loss	(420,744)	(192,650)	(613,394)	(1,158,090)
Provision from currency exchange loss	350,000	-	350,000	(500,000)
Loss on disposal of property and equipment	<u>(706,946)</u>	<u>-</u>	<u>(706,946)</u>	<u>-</u>
Change in net assets	(6,399,104)	11,854,822	5,455,718	(11,762,014)
Net assets at beginning of year	<u>42,085,779</u>	<u>10,629,874</u>	<u>52,715,653</u>	<u>64,477,667</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 35,686,675</u></b>	<b><u>\$ 22,484,696</u></b>	<b><u>\$ 58,171,371</u></b>	<b><u>\$ 52,715,653</u></b>

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	2015					2014		
	Program Services			Supporting Services		Total Expenses	Total Expenses	
	Research and Development	Vaccine Advocacy, Policy and Public Education	Total Program Services	General and Administrative	Fundraising			Total Supporting Services
Awards and contracts	\$ 30,553,595	\$ 1,804,049	\$ 32,357,644	\$ 16,869	\$ 112,671	\$ 129,540	\$ 32,487,184	\$ 26,432,824
Salaries, wages and benefits (Note 9)	14,536,135	3,034,688	17,570,823	4,931,133	2,009,059	6,940,192	24,511,015	23,019,797
Travel and workshops	1,377,694	711,079	2,088,773	228,166	120,830	348,996	2,437,769	2,221,584
Professional services	563,084	233,798	796,882	577,563	279,831	857,394	1,654,276	2,835,929
Infrastructure fixed operating expenses (Note 7)	2,566,122	312,081	2,878,203	609,647	146,191	755,838	3,634,041	4,021,024
Information technology	412,216	146,091	558,307	177,583	42,308	219,891	778,198	714,255
Insurance	202,871	5,609	208,480	85,964	3,147	89,111	297,591	416,395
Consumable/Variable operating expenses	209,342	71,346	280,688	105,606	60,206	165,812	446,500	629,033
Finance charges	34,938	16,317	51,255	31,651	8,283	39,934	91,189	31,768
Depreciation and amortization	<u>1,820,444</u>	<u>-</u>	<u>1,820,444</u>	<u>223,211</u>	<u>-</u>	<u>223,211</u>	<u>2,043,655</u>	<u>2,609,275</u>
<b>TOTAL</b>	<b><u>\$ 52,276,441</u></b>	<b><u>\$ 6,335,058</u></b>	<b><u>\$ 58,611,499</u></b>	<b><u>\$ 6,987,393</u></b>	<b><u>\$ 2,782,526</u></b>	<b><u>\$ 9,769,919</u></b>	<b><u>\$ 68,381,418</u></b>	<b><u>\$ 62,931,884</u></b>

See accompanying notes to consolidated financial statements.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,455,718	\$ (11,762,014)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	2,043,655	2,609,275
Net realized and unrealized losses	313,714	201,937
Net gain resulting from expiration of new market tax credit loans receivable, interest receivable and loans payable	(304,576)	-
Gain on forgiveness of loan payable	(74,118)	(77,932)
Loss on disposal of property and equipment	706,946	-
Increase (decrease) in:		
Grants receivable	(16,746,005)	4,628,162
Interest receivable	(322,119)	(636,260)
Security deposits and other assets	(388,944)	575,408
(Decrease) increase in:		
Accounts payable and accrued liabilities	(1,249,172)	965,604
Awards and contracts payable	2,409,340	(890,103)
Refundable advances	5,179,832	(6,866,969)
Deferred grant revenue	(800,000)	(800,000)
Deferred rent	(68,703)	(68,663)
Deferred compensation payable	<u>15,394</u>	<u>(20,401)</u>
Net cash used by operating activities	<u>(3,829,038)</u>	<u>(12,141,956)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(157,249)	(139,573)
Net proceeds (purchases) of investments	<u>4,295,398</u>	<u>(5,735,381)</u>
Net cash provided (used) by investing activities	<u>4,138,149</u>	<u>(5,874,954)</u>
Net increase (decrease) in cash and cash equivalents	309,111	(18,016,910)
Cash and cash equivalents at beginning of year	<u>15,824,109</u>	<u>33,841,019</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 16,133,220</u></b>	<b><u>\$ 15,824,109</u></b>
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS</b>		
Loan Payable Forgiven by Lender	<b><u>\$ 74,118</u></b>	<b><u>\$ 77,932</u></b>
Expiration of Loans Receivable and Related Interest Receivable	<b><u>\$ 16,845,323</u></b>	<b><u>\$ -</u></b>
Expiration of Loan Payable	<b><u>\$ 17,149,899</u></b>	<b><u>\$ -</u></b>

See accompanying notes to consolidated financial statements.



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

The accompanying consolidated financial statements include the accounts of the International AIDS Vaccine Initiative, Inc.; Stitching International AIDS Vaccine Initiative, The Netherlands (the Stitching); IAVI India, IAVI Holdings LLC, and IAVI Lab LLC (collectively, IAVI). IAVI is a global initiative dedicated to ensuring the development of safe, effective, accessible, preventive HIV vaccines for use globally. IAVI has operations in seven countries around the world, with its global headquarters in New York City.

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 and helps to 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 HIV/AIDS epidemic and where the need for a vaccine is most urgent. Expenditures related to these activities are classified as vaccine advocacy, policy and public education.

Basis for consolidation -

The accompanying consolidated financial statements include the financial activity of the International AIDS Vaccine Initiative, Inc.; Stitching International AIDS Vaccine Initiative; The Netherlands (the Stitching), IAVI India, IAVI Holdings LLC, and IAVI Lab LLC, based upon the fact that all of the aforementioned entities are under the control of one common set of Board of Directors. All significant intercompany transactions between the International AIDS Vaccine Initiative, Inc. and the related entities have been eliminated in consolidation.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities, Consolidation*.

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with IAVI's consolidated financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Cash and cash equivalents -

IAVI considers all cash and other highly liquid investments with initial 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, IAVI maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Cash and cash equivalents (continued) -

IAVI also maintains cash balances at financial institutions in foreign countries. At times during the year, IAVI maintains balances in excess of financial institution insurance limits in these foreign countries. Management believes the risk in these situations to be minimal.

Investments -

Investments are stated at their readily determinable 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 their readily determinable fair value on the date of receipt. Realized and unrealized gains and losses are included in investment income in the accompanying Consolidated Statement of Activities and Change in Net Assets.

Grants receivable -

Grants receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property, equipment and leasehold improvements -

Property and equipment in excess of \$5,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements in excess of \$5,000 are capitalized and amortized over the term of the related lease or the life of the asset; whichever is shorter. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The International AIDS Vaccine Initiative, Inc. has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3) as well as Internal Revenue Code Section 501(a). The International AIDS Vaccine Initiative, Inc. is also exempt from state and local income taxes and is not a private foundation.

Stitching International AIDS Vaccine Initiative, the Netherlands (the Stitching) is a separate foundation based in the Netherlands that has been granted exemption from tax on both income and gifts.

IAVI Holdings, LLC is a limited liability corporation that has elected to be taxed as a corporation. The International AIDS Vaccine Initiative, Inc. is the sole member of IAVI Holdings, LLC.

IAVI Lab, LLC is a limited liability corporation, however, due to the termination of the historic tax credits transaction (see Note 12) and the fact that the International AIDS Vaccine Initiative, Inc. is the sole member of the limited liability corporation, IAVI Lab, LLC is considered to be a disregarded entity for tax reporting purposes and all financial transactions of the IAVI Lab, LLC are reported on the International AIDS Vaccine Initiative, Inc.'s Federal Form 990.

IAVI India is incorporated under Section 25 of the Companies Act, 1956 (Now Section 8 of The Companies Act, 2013) as a not-for-profit company. It is limited by shares. It is income tax exempt under section 12 AA of Income Tax Act, 1961.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Income taxes (continued) -

Based upon the tax-exempt status of the International AIDS Vaccine Initiative, Inc., IAVI India and the Stitching, LLC, no provision for income taxes has been made in the accompanying consolidated financial statements.

Uncertain tax positions -

For the year ended December 31, 2015, management of IAVI has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor imposed restrictions. The Board of Directors has designated a portion of the unrestricted net assets as a reserve for possible contingencies and working capital needs as well as funding for future innovation and programming with respect to IAVI's research and development programs. The total amount of Board designated net assets at December 31, 2015 was \$32,839,140.
- **Temporarily restricted net assets** include revenue and contributions subject to donor imposed stipulations that will be met by the actions of IAVI and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions.

Revenue recognition for grants and contributions -

Unconditional, unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor imposed restrictions or the satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying consolidated financial statements.

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.

IAVI receives funding under grants from U.S. Government agencies and private foundations for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted revenue to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Funds received under exchange transactions in advance of incurring the related expenses are recorded as a refundable advance in the accompanying Consolidated Statement of Financial Position.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Revenue recognition for grants and contributions (continued) -

Grants receivable represent amounts due from unconditional promises to give and from amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. All grants and contributions receivable at December 31, 2015 are expected to be received within the next year unless otherwise stipulated by the donors. At December 31, 2015, grants from U.S. Government agencies, foreign government agencies, and foundations represented approximately 15%, 84%, and 1% of grants receivable, respectively.

Funding from U.S. Government agencies and foreign government agencies accounted for a combined 69% of total grants and contributions revenue for 2015. Included in the total grants and contributions revenue received from foreign government agencies is \$17,449,600 (equivalent of 16,000,000 euros) which was received from the Ministry of Foreign Affairs of the Netherlands to support IAVI's Product Development Partnership Fund. As of December 31, 2015, \$17,449,600 (16,000,000 euros) is included in grants receivable in the accompanying Consolidated Statement of Financial Position. For the year ended December 31, 2015, IAVI expended \$834,521 in accordance with the terms of the grant agreement. IAVI received \$2,028,000 subsequent to year-end.

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 equipment and professional services valued at approximately \$284,000 and \$442,000, respectively, during the year ended December 31, 2015. In-kind contributions are reflected in grants and contributions revenue in the accompanying Consolidated Statement of Activities and Change in Net Assets and are expensed in the year received.

Cost-reimbursement contract expenses -

IAVI incurs significant expense under cost-reimbursable contracts. IAVI's policy is to recognize contract expenses when the expenses are reported by the contractors. During 2015, IAVI advanced funds to certain contractors that had not been expended as of December 31, 2015. The balance of these advances amounted to \$340,645 and are included in security deposits and other assets in the accompanying Consolidated Statement of Financial Position as of December 31, 2015.

Foreign currency translation and transactions -

Realized and unrealized gains and losses resulting from transactions denominated in currencies other than the U.S. Dollar, which is the functional currency of IAVI, are reported as an other item in the accompanying Consolidated Statement of Activities and Change in Net Assets. Additionally, all assets and liabilities denominated in foreign currencies are re-measured to U.S. dollars using the appropriate December 31st exchange rates.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Investment risks and uncertainties -

IAVI invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statement.

Fair value measurement -

IAVI adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. IAVI accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2015:

	<b>Fair Value</b>
Investments:	
Mutual Funds	\$ 31,378,865
Deferred Compensation Investments:	
Mutual Funds	382,783
<b>TOTAL INVESTMENTS</b>	<b>\$ 31,761,648</b>

Included in investment income are the following at December 31, 2015:

Interest and dividends	\$ 694,495
Net realized and unrealized losses	(313,714)
Investment fees and commissions	(38,128)
<b>TOTAL INVESTMENT INCOME</b>	<b>\$ 342,653</b>

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**3. LOAN RECEIVABLE**

As more fully discussed in Note 12, IAVI entered into a financing arrangement with the City of New York, through the Economic Development Corporation (EDC) to fund a portion of the costs of improvements for IAVI's laboratory and office space at the Brooklyn Army Terminal. To facilitate the construction of the laboratory, IAVI Holdings, LLC made a loan of \$12,878,129 to an unrelated entity (Special Purpose Vehicle, SPV #1). At December 31, 2015, the loan receivable had expired and there was no balance due.

**4. GRANTS RECEIVABLE**

As of December 31, 2015, IAVI has received unconditional commitments from various donors, including the U.S. Government, foreign governments, private foundations and others totaling \$26,810,549. As a result of the decline of certain foreign currencies against the U.S. Dollar, management of IAVI has provided a provision against its receivables from foreign donors.

Following is a summary of the anticipated amounts to be collected by IAVI:

Less than one year	\$ 11,081,092
One to five years	<u>15,729,457</u>
<b>TOTAL GRANTS RECEIVABLE</b>	<b><u>\$ 26,810,549</u></b>

**5. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Property, equipment and leasehold improvements consisted of the following at December 31, 2015:

Property and equipment	\$ 25,570,640
Leasehold improvements	<u>19,883,853</u>
Total property, equipment and leasehold improvements	45,454,493
Less: Accumulated depreciation and amortization	<u>(34,914,828)</u>
<b>NET PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS</b>	<b><u>\$ 10,539,665</u></b>

Depreciation and amortization expense for the year ended December 31, 2015 totaled \$2,043,655.

**6. LOANS PAYABLE**

IAVI has the following loan payable at December 31, 2015:

- As more fully discussed in Note 12, IAVI entered into a financing arrangement with the City of New York, through the EDC, to fund a portion of the costs of improvements for IAVI's laboratory and office space at the Brooklyn Army Terminal. To facilitate the construction of the laboratory, IAVI Lab, LLC received two loans from two unrelated entities (SPV #2 and SPV #3) totaling \$17,149,899. At December 31, 2015, the loan payable had expired and there was no balance due.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**6. LOANS PAYABLE (Continued)**

IAVI has the following loan payable at December 31, 2015 (continued):

- 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 as of December 31, 2015 under the loan agreement totaled \$444,708. 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 \$74,000 in each of the years 2016 – 2021.

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 2015.

**7. LEASE COMMITMENTS**

IAVI leases its office space and certain office equipment under non-cancelable 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 lease term.

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 has a 15-year term. The lease also included a 10-month, rent free period, and calls for escalation charges over the lease term.

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

<b><u>Year Ending December 31,</u></b>	
2016	\$ 2,426,213
2017	2,454,835
2018	2,454,728
2019	2,451,176
2020	2,140,536
Thereafter	<u>10,273,121</u>
	<b><u>\$ 22,200,609</u></b>

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 totals \$2,573,656, and is included in deferred rent in the accompanying Consolidated Statement of Financial Position. The balance of the deferred rent liability will be amortized over the remaining term of the lease.

Rent expense, net of sublease income of \$402,862, was \$2,399,207 for the year ended December 31, 2015, and is included in Infrastructure fixed operating expenses in the Consolidated Statement of Functional Expenses.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2015:

<b>Research and Development</b>	<b><u>\$ 22,484,696</u></b>
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During 2015, the following temporarily restricted net assets were released from donor restrictions by the passage of time or as a result of IAVI incurring expenses which satisfied the restricted purposes specified by the donors:

<b>Research and Development</b>	<b><u>\$ 9,378,224</u></b>
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**9. 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 \$1,410,393 during the year ended December 31, 2015.

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 investments and deferred compensation payable in the accompanying Consolidated Statement of Financial Position at December 31, 2015. IAVI does not contribute to the plan.

**10. CONCENTRATION OF REVENUE**

Approximately 41% of IAVI's revenue for the year ended December 31, 2015 was derived from grants awarded by agencies of the U.S. Government. IAVI has no reason to believe that its relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect IAVI's ability to finance ongoing operations.

In addition to funds received from agencies of the U.S. government, IAVI has received significant conditional promises to give from a private foundation. As of December 31, 2015, the total amount of conditional promises to give from this private foundation amounted to \$28,203,174. The receipt of future funding is conditional upon the private foundation approving IAVI's progress with the program as outlined in the award agreement. Failure by IAVI to fulfill the specified conditions could result in the return of unspent funds or a reduction in the amount of future funding. Revenue recognized during 2015 under awards from this private foundation totaled \$22,063,205.

**11. CONTINGENCIES**

U.S. Government Funding -

IAVI receives grants from various agencies of the U.S. Government. For fiscal years through December 31, 2014, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. IAVI's USAID current agreement was not modified to include the new regulations.



**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**11. CONTINGENCIES (Continued)**

U.S. Government Funding (continued) -

The ultimate determination of amounts received under the U.S. Government grants is based upon the allowance of costs reported to and accepted by the U.S. Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2015. Until such audits have been accepted by the U.S. Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Conditional Contributions -

At December 31, 2015, 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, 2015 amounted to \$33,548,870, which includes \$28,203,174 from a private foundation (Note 10).

Letter of Credit -

IAVI has an outstanding standby letter of credit of \$398,976, serving as a security deposit under its lease for new office space in New York. The letter of credit is secured by \$422,323, which is included in cash and cash equivalents in the accompanying Consolidated Statement of Financial Position as of December 31, 2015.

Line-of-Credit -

IAVI has entered into a \$25,000,000 secured line-of-credit arrangement with a local financial institution, which is set to expire on August 31, 2016. Under the terms of the line-of-credit, the bank may provide loans, at the bank's discretion, and is not committed to lend to IAVI. There were no borrowings outstanding as of December 31, 2015.

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 wherefrom will not materially affect the consolidated financial position and operations of IAVI.

**12. FINANCING THROUGH ECONOMIC DEVELOPMENT CORPORATION AND NEW MARKET TAX CREDIT PROGRAM**

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 laboratory and office space at the Brooklyn Army Terminal.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**12. FINANCING THROUGH ECONOMIC DEVELOPMENT CORPORATION AND NEW MARKET TAX CREDIT PROGRAM (Continued)**

Brooklyn Army Terminal (continued) -

Under the arrangement, the City of New York, through the EDC, provided grant funding of \$12,000,000. Additionally, IAVI received funding of approximately \$3,300,000 through a new market tax credits program. To facilitate the new market tax credit program, IAVI formed two subsidiary entities: IAVI Holdings, LLC and IAVI Lab, LLC in February 2008.

Economic Development Corporation -

The grant from the EDC has been recorded as deferred EDC grant revenue within IAVI's consolidated financial statements and is being recognized on a straight line basis over the life of the 15-year lease period. During 2015, \$800,000 in revenue was recognized from the EDC grant.

New Market Tax Credit Program -

IAVI received approximately \$3,300,000 in funds to support the construction of the lab under the new market tax credits program through a series of loans and capital contributions made through IAVI's subsidiaries and unrelated SPV's established for this purpose.

IAVI Holdings, LLC made a loan of \$12,878,129 to SPV #1. As more fully discussed in Note 3, IAVI Holdings LLC had an outstanding loan receivable of \$12,878,129 from SPV #1, earning interest at 4.27% per year. SPV #1 invested the proceeds from the loan into SPV #2 and SPV #3. At December 31, 2015, the loan had expired and there was no balance due.

SPV #2 and SPV #3 utilized those funds to make two loans totaling \$17,149,899 to IAVI Lab, LLC to fund the construction costs of the lab. As more fully discussed in Note 6, as of December 31, 2015, the loan had expired and there was no balance due.

Revenue and expense was being recognized over the life of the seven-year compliance period of the arrangement in the form of interest income on the loan receivable and interest expense on the loans payable. During 2015, IAVI recorded interest income of \$321,319 and interest expense of \$94,925 under the aforementioned arrangement. The seven-year compliance period ended on June 11, 2015, and IAVI recognized a gain \$304,576 related to extinguishments of the loans receivable, interest receivable and loans payable. At December 31, 2015, interest income, expense and the resulting gain related to the extinguishments of the loans, is included in Interest income and gain resulting from expiration of leverage loan, net of expenses in the accompanying Consolidated Statement of Activities and Change in Net Assets.

**13. FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, IAVI has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**13. FAIR VALUE MEASUREMENT (Continued)**

Investments recorded in the Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market IAVI has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

*Mutual Funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, IAVI's investments as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2015</u>
<b>Asset Class:</b>				
Investments:				
Mutual Funds	\$31,378,865	\$ -	\$ -	\$ 31,378,865
Deferred Compensation Investments:				
Mutual Funds	<u>382,783</u>	<u>-</u>	<u>-</u>	<u>382,783</u>
<b>TOTAL</b>	<b><u>\$31,761,648</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,761,648</u></b>

**14. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, IAVI has evaluated events and transactions for potential recognition or disclosure through July 8, 2016, the date the consolidated financial statements were issued.

## **SUPPLEMENTAL INFORMATION**

**INTERNATIONAL AIDS VACCINE INITIATIVE, INC.**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2015**

**ASSETS**

	<u>IAVI*</u>	<u>The Stichting</u>	<u>IAVI India</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 15,758,074	\$ 373,166	\$ 1,980	\$ 16,133,220
Investments	31,761,648	-	-	31,761,648
Grants receivable	25,743,098	831,290	236,161	26,810,549
Interest receivable	57,473	-	-	57,473
Security deposits and other assets	1,234,659	14,865	-	1,249,524
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of 34,914,828 for 2015	10,539,665	-	-	10,539,665
<b>TOTAL ASSETS</b>	<b><u>\$ 85,094,617</u></b>	<b><u>\$ 1,219,321</u></b>	<b><u>\$ 238,141</u></b>	<b><u>\$ 86,552,079</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Loans payable	\$ 444,708	\$ -	\$ -	\$ 444,708
Accounts payable and accrued liabilities	3,994,765	189,983	457	4,185,205
Awards and contracts payable	4,692,804	-	-	4,692,804
Refundable advances	10,501,552	-	-	10,501,552
Deferred grant revenue	5,600,000	-	-	5,600,000
Deferred rent	2,573,656	-	-	2,573,656
Deferred compensation payable	382,783	-	-	382,783
Total liabilities	<u>28,190,268</u>	<u>189,983</u>	<u>457</u>	<u>28,380,708</u>

**NET ASSETS**

Unrestricted:				
Undesignated	2,789,802	57,493	240	2,847,535
Designated	32,839,140	-	-	32,839,140
Total unrestricted net assets	<u>35,628,942</u>	<u>57,493</u>	<u>240</u>	<u>35,686,675</u>
Temporarily restricted	<u>21,275,407</u>	<u>971,845</u>	<u>237,444</u>	<u>22,484,696</u>
Total net assets	<u>56,904,349</u>	<u>1,029,338</u>	<u>237,684</u>	<u>58,171,371</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 85,094,617</u></b>	<b><u>\$ 1,219,321</u></b>	<b><u>\$ 238,141</u></b>	<b><u>\$ 86,552,079</u></b>

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

## INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

**CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	IAVI*			The Stichting			IAVI India			Consolidated
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	
<b>REVENUE</b>										
Grants and contributions	\$ 51,999,215	\$ 20,174,859	\$ 72,174,074	\$ -	\$ 972,374	\$ 972,374	\$ 3,649	\$ 278,463	\$ 282,112	\$ 73,428,560
Investment income	342,653	-	342,653	-	-	-	-	-	-	342,653
Other income	505,075	-	505,075	218	-	218	-	-	-	505,293
Net assets released from donor restrictions	9,336,676	(9,336,676)	-	529	(529)	-	41,019	(41,019)	-	-
Total revenue	62,183,619	10,838,183	73,021,802	747	971,845	972,592	44,668	237,444	282,112	74,276,506
<b>EXPENSES</b>										
Program Services:										
Research and Development	52,082,430	-	52,082,430	149,583	-	149,583	44,428	-	44,428	52,276,441
Vaccine Advocacy, Policy and Public Education	5,873,607	-	5,873,607	461,451	-	461,451	-	-	-	6,335,058
Total program services	57,956,037	-	57,956,037	611,034	-	611,034	44,428	-	44,428	58,611,499
Supporting Services:										
General and Administrative	6,759,166	-	6,759,166	228,227	-	228,227	-	-	-	6,987,393
Fundraising	2,438,823	-	2,438,823	343,703	-	343,703	-	-	-	2,782,526
Total supporting services	9,197,989	-	9,197,989	571,930	-	571,930	-	-	-	9,769,919
Total expenses	67,154,026	-	67,154,026	1,182,964	-	1,182,964	44,428	-	44,428	68,381,418
Change in net assets before other items	(4,970,407)	10,838,183	5,867,776	(1,182,217)	971,845	(210,372)	240	237,444	237,684	5,895,088
<b>OTHER ITEMS - NON OPERATING</b>										
Interest income on leverage loan, net of expenses	530,970	-	530,970	-	-	-	-	-	-	530,970
Foreign exchange loss	(422,074)	(192,650)	(614,724)	1,330	-	1,330	-	-	-	(613,394)
Provision for future fx losses	350,000	-	350,000	-	-	-	-	-	-	350,000
Loss on disposal of property and equipment	(706,946)	-	(706,946)	-	-	-	-	-	-	(706,946)
Contribution from International AIDS Vaccine Initiative, Inc. to The Stichting	(1,224,487)	-	(1,224,487)	1,224,487	-	1,224,487	-	-	-	-
Change in net assets	(6,442,944)	10,645,533	4,202,589	43,600	971,845	1,015,445	240	237,444	237,684	5,455,718
Net assets at beginning of year	42,071,886	10,629,874	52,701,760	13,893	-	13,893	-	-	-	52,715,653
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 35,628,942</b>	<b>\$ 21,275,407</b>	<b>\$ 56,904,349</b>	<b>\$ 57,493</b>	<b>\$ 971,845</b>	<b>\$ 1,029,338</b>	<b>\$ 240</b>	<b>\$ 237,444</b>	<b>\$ 237,684</b>	<b>\$ 58,171,371</b>

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