

CONSOLIDATED FINANCIAL STATEMENTS

**INTERNATIONAL AIDS
VACCINE INITIATIVE, INC.**

**FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

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, 2016, 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, 2016, 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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Report on Summarized Comparative Information

We have previously audited IAVI's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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.



June 15, 2017

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 54,448,455 | \$ 16,133,220 |
| Investments (Notes 2 and 11) | 5,451,968 | 31,761,648 |
| Grants receivable (Note 3) | 20,827,996 | 26,810,549 |
| Interest receivable | - | 57,473 |
| Security deposits and other assets | 588,327 | 1,249,524 |
| Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$36,685,290 and \$34,914,828 for 2016 and 2015, respectively (Note 4) | <u>9,138,599</u> | <u>10,539,665</u> |
| TOTAL ASSETS | <u>\$ 90,455,345</u> | <u>\$ 86,552,079</u> |

LIABILITIES AND NET ASSETS

LIABILITIES

| | | |
|---|-------------------|-------------------|
| Loan payable (Note 5) | \$ 382,494 | \$ 444,708 |
| Accounts payable and accrued liabilities | 5,493,128 | 4,185,205 |
| Awards and contracts payable | 5,113,044 | 4,692,804 |
| Refundable advances | 23,123,349 | 10,501,552 |
| Deferred grant revenue | 4,800,000 | 5,600,000 |
| Deferred rent (Note 6) | 2,914,126 | 2,573,656 |
| Deferred compensation payable (Notes 2 and 8) | <u>435,505</u> | <u>382,783</u> |
| Total liabilities | <u>42,261,646</u> | <u>28,380,708</u> |

NET ASSETS

| | | |
|---|-----------------------------|-----------------------------|
| Unrestricted: | | |
| Undesignated | 1,630,310 | 2,847,535 |
| Designated (Note 1) | <u>30,604,236</u> | <u>32,839,140</u> |
| Total unrestricted net assets | 32,234,546 | 35,686,675 |
| Temporarily restricted (Note 7) | <u>15,959,153</u> | <u>22,484,696</u> |
| Total net assets | <u>48,193,699</u> | <u>58,171,371</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 90,455,345</u> | <u>\$ 86,552,079</u> |

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

| | 2016 | | | 2015 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| REVENUE | | | | |
| Grants and contributions (Notes 9 and 10) | \$ 63,248,680 | \$ 1,157,998 | \$ 64,406,678 | \$ 73,428,560 |
| Investment income (Note 2) | 803,261 | - | 803,261 | 342,871 |
| Other income | 142,417 | - | 142,417 | 505,075 |
| Net assets released from donor restrictions (Note 7) | <u>6,904,197</u> | <u>(6,904,197)</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>71,098,555</u> | <u>(5,746,199)</u> | <u>65,352,356</u> | <u>74,276,506</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| Research and Development | 58,193,254 | - | 58,193,254 | 52,276,441 |
| Vaccine Advocacy, Public Affairs and Policy | <u>6,002,591</u> | <u>-</u> | <u>6,002,591</u> | <u>6,335,058</u> |
| Total program services | <u>64,195,845</u> | <u>-</u> | <u>64,195,845</u> | <u>58,611,499</u> |
| Supporting Services: | | | | |
| General and Administrative | 7,773,427 | - | 7,773,427 | 6,987,393 |
| Fundraising | <u>2,503,768</u> | <u>-</u> | <u>2,503,768</u> | <u>2,782,526</u> |
| Total supporting services | <u>10,277,195</u> | <u>-</u> | <u>10,277,195</u> | <u>9,769,919</u> |
| Total expenses | <u>74,473,040</u> | <u>-</u> | <u>74,473,040</u> | <u>68,381,418</u> |
| Change in net assets before other items | (3,374,485) | (5,746,199) | (9,120,684) | 5,895,088 |
| OTHER ITEMS - NON OPERATING | | | | |
| Interest income and gain resulting from expiration of leverage loan, net of expenses | - | - | - | 530,970 |
| Foreign exchange loss | (77,644) | (929,344) | (1,006,988) | (613,394) |
| Provision for currency exchange loss | - | 150,000 | 150,000 | 350,000 |
| Loss on disposal of property and equipment | <u>-</u> | <u>-</u> | <u>-</u> | <u>(706,946)</u> |
| Change in net assets | (3,452,129) | (6,525,543) | (9,977,672) | 5,455,718 |
| Net assets at beginning of year | <u>35,686,675</u> | <u>22,484,696</u> | <u>58,171,371</u> | <u>52,715,653</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 32,234,546</u> | <u>\$ 15,959,153</u> | <u>\$ 48,193,699</u> | <u>\$ 58,171,371</u> |

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

| | 2016 | | | | | | 2015 | |
|--|--------------------------------|---|------------------------------|----------------------------------|---------------------|---------------------------------|----------------------|----------------------|
| | Program Services | | | Supporting Services | | | Total Expenses | Total Expenses |
| | Research and Development | Vaccine Advocacy, Public Affairs and Policy | Total Program Services | General and Administrative | Fundraising | Total Supporting Services | | |
| Awards and contracts | \$ 35,321,904 | \$ 1,786,535 | \$ 37,108,439 | \$ 17,979 | \$ 16,503 | \$ 34,482 | \$ 37,142,921 | \$ 32,487,184 |
| Salaries, wages and benefits | 15,866,359 | 2,796,110 | 18,662,469 | 5,751,427 | 1,689,323 | 7,440,750 | 26,103,219 | 24,511,015 |
| Travel and workshops | 1,417,350 | 650,590 | 2,067,940 | 346,812 | 104,248 | 451,060 | 2,519,000 | 2,437,769 |
| Professional services | 438,627 | 75,900 | 514,527 | 519,472 | 427,572 | 947,044 | 1,461,571 | 1,654,276 |
| Infrastructure fixed operating expenses | 2,517,871 | 314,772 | 2,832,643 | 556,585 | 138,242 | 694,827 | 3,527,470 | 3,634,041 |
| Information technology | 460,212 | 170,715 | 630,927 | 283,455 | 56,434 | 339,889 | 970,816 | 778,198 |
| Consumable/variable operating expenses | 220,008 | 122,056 | 342,064 | 115,493 | 47,783 | 163,276 | 505,340 | 446,500 |
| Insurance | 210,932 | 3,131 | 214,063 | 80,533 | 1,719 | 82,252 | 296,315 | 297,591 |
| Finance charges | 38,576 | 17,185 | 55,761 | 47,560 | 8,340 | 55,900 | 111,661 | 91,189 |
| Depreciation and amortization | 1,701,415 | 65,597 | 1,767,012 | 54,111 | 13,604 | 67,715 | 1,834,727 | 2,043,655 |
| TOTAL | \$ 58,193,254 | \$ 6,002,591 | \$ 64,195,845 | \$ 7,773,427 | \$ 2,503,768 | \$ 10,277,195 | \$ 74,473,040 | \$ 68,381,418 |

See accompanying notes to consolidated financial statements.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (9,977,672) | \$ 5,455,718 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 1,834,727 | 2,043,655 |
| Net realized and unrealized (gains) losses | (305,003) | 313,714 |
| 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 | (62,214) | (74,118) |
| (Gain) loss on disposal of property and equipment | (20,000) | 706,946 |
| Decrease (increase) in: | | |
| Grants receivable | 5,982,553 | (16,746,005) |
| Interest receivable | 57,473 | (322,119) |
| Security deposits and other assets | 661,197 | (388,944) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 1,307,923 | (1,249,172) |
| Awards and contracts payable | 420,240 | 2,409,340 |
| Refundable advances | 12,621,797 | 5,179,832 |
| Deferred grant revenue | (800,000) | (800,000) |
| Deferred rent | 340,470 | (68,703) |
| Deferred compensation payable | <u>52,722</u> | <u>15,394</u> |
| Net cash provided (used) by operating activities | <u>12,114,213</u> | <u>(3,829,038)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (433,661) | (157,249) |
| Proceeds from sale of property and equipment | 20,000 | - |
| Net proceeds from sales of investments | <u>26,614,683</u> | <u>4,295,398</u> |
| Net cash provided by investing activities | <u>26,201,022</u> | <u>4,138,149</u> |
| Net increase in cash and cash equivalents | 38,315,235 | 309,111 |
| Cash and cash equivalents at beginning of year | <u>16,133,220</u> | <u>15,824,109</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 54,448,455</u> | <u>\$ 16,133,220</u> |
| SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS | | |
| Loan Payable Forgiven by Lender | <u>\$ 62,214</u> | <u>\$ 74,118</u> |
| Expiration of Loans Receivable and Related Interest Receivable | <u>\$ -</u> | <u>\$ 16,845,323</u> |
| Expiration of Loan Payable | <u>\$ -</u> | <u>\$ 17,149,899</u> |

See accompanying notes to consolidated financial statements.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.; Stichting International AIDS Vaccine Initiative, the Netherlands (the Stichting); 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. IAVI catalyzes stakeholders around the world to propel the search for an HIV vaccine. Expenditures related to these activities involve IAVI's efforts to design and develop vaccine candidates and conduct trials and related epidemiological research in partnership with more than 50 academic, biotechnology, pharmaceutical and governmental institutions.
2. IAVI works to foster the supportive national, regional, and global political, economic, and societal environments that are critical to the fastest possible development, approval, and dissemination of an AIDS vaccine. As a member of coalitions and on its own, IAVI convenes advocates, policymakers, activists, and representatives of the communities hardest hit by HIV/AIDS to raise awareness and strengthen advocacy capacity around the world. Expenditures related to these activities are classified as vaccine advocacy, public affairs and policy.

Basis for consolidation -

The accompanying consolidated financial statements include the financial activity of the International AIDS Vaccine Initiative, Inc.; the Stichting; 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 Financial Accounting Standards Board (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, 2015, 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.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Cash and cash equivalents (continued) -

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.

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. Interest, dividends, realized and unrealized gains and losses, and investment fees 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.

The Stichting 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 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 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. IAVI India is income tax exempt under Section 12 AA of the Income Tax Act, 1961.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 Stichting, no provision for income taxes has been made in the accompanying consolidated financial statements.

Uncertain tax positions -

For the year ended December 31, 2016, 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, 2016 was \$30,604,236.
- **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, 2016

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, 2016, excluding one grant from the Ministry of Foreign Affairs of the Netherlands and two grants from the European Commission, are expected to be received within the next year unless otherwise stipulated by the donors.

At December 31, 2016, grants from U.S. Government agencies and foreign government agencies represented approximately 21% and 79% of grants receivable, respectively.

Funding from U.S. Government agencies and foreign government agencies accounted for a combined 47% of total grants and contributions revenue for 2016.

As of December 31, 2016, the following funds are included in grants receivable in the accompanying Consolidated Statement of Financial Position:

- \$12,559,713 (EUR 11,944,000) from the Ministry of Foreign Affairs of the Netherlands.
- \$706,850 (DKK 5,000,000) from the Ministry of Foreign Affairs of the Denmark.
- \$1,850,445 (GBP 1,500,000 which includes GBP 500,000 to cover 2016 expenses and received subsequent to year-end) from the Department for International Development of U.K.

For the year ended December 31, 2016, IAVI received the following funds to support IAVI's activities:

- \$4,488,714 (EUR 4,056,000) from the Ministry of Foreign Affairs of the Netherlands.
- \$735,000 (DKK 5,000,000) from the Ministry of Foreign Affairs of the Denmark.
- \$1,272,665 (GBP 1,000,000 which includes GBP 500,000 received subsequent to year-end) from the Department for International Development of U.K.
- \$905,504 (EUR 850,000) from Irish Aid.

The aforementioned funds were fully expended as of December 31, 2016, in accordance with the terms of the grant agreements.

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 professional services valued at approximately \$234,000 during the year ended December 31, 2016. 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.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Cost-reimbursement contract expenses -

IAVI incurs significant expense under cost-reimbursable contracts. IAVI's policy is to recognize contract expenses when the funds are disbursed to the contractors. During 2016, IAVI advanced funds to certain contractors that had not been expended as of December 31, 2016. The balance of these advances amounted to \$11,026 and are included in security deposits and other assets in the accompanying Consolidated Statement of Financial Position as of December 31, 2016.

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.

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.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

New accounting pronouncement -

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Consolidated Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of IAVI's consolidated financial statements, it is not expected to alter IAVI's reported financial position.

2. INVESTMENTS

Investments consisted of the following at December 31, 2016:

| | Fair Value |
|---|----------------------------|
| Investments: | |
| Corporate Fixed Income Securities/Bonds | \$ 5,016,463 |
| Deferred Compensation Investments: | |
| Mutual Funds | 435,505 |
| TOTAL INVESTMENTS | <u>\$ 5,451,968</u> |

Included in investment income are the following for the year ended December 31, 2016:

| | |
|-----------------------------------|--------------------------|
| Interest and dividends | \$ 538,999 |
| Net realized and unrealized gains | 305,003 |
| Investment fees and commissions | (40,741) |
| TOTAL INVESTMENT INCOME | <u>\$ 803,261</u> |

3. GRANTS RECEIVABLE

As of December 31, 2016, IAVI has received unconditional commitments from various donors, including the U.S. Government, foreign governments, private foundations and others totaling \$20,827,996.

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

| | |
|--------------------------------|-----------------------------|
| Less than one year | \$ 11,150,630 |
| One to five years | 9,677,366 |
| TOTAL GRANTS RECEIVABLE | <u>\$ 20,827,996</u> |

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consisted of the following at December 31, 2016:

| | |
|---|----------------------------|
| Property and equipment | \$ 25,884,031 |
| Leasehold improvements | <u>19,939,858</u> |
| Total property, equipment and leasehold improvements | 45,823,889 |
| Less: Accumulated depreciation and amortization | <u>(36,685,290)</u> |
| NET PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS | \$ <u>9,138,599</u> |

Depreciation and amortization expense for the year ended December 31, 2016 totaled \$1,834,727.

5. LOAN PAYABLE

IAVI has the following loan payable at December 31, 2016:

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, 2016 under the loan agreement totaled \$382,494. 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 \$62,000 in each of the years 2017 – 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 2016.

6. 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.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

6. LEASE COMMITMENTS (Continued)

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

| <u>Year Ending December 31,</u> | |
|---------------------------------|-----------------------------|
| 2017 | \$ 2,600,822 |
| 2018 | 2,582,150 |
| 2019 | 2,559,175 |
| 2020 | 2,252,009 |
| 2021 | 2,260,808 |
| Thereafter | <u>8,117,396</u> |
| | <u>\$ 20,372,360</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 totals \$2,914,126, 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 \$543,242, was \$2,137,560 for the year ended December 31, 2016, and is included in Infrastructure fixed operating expenses in the Consolidated Statement of Functional Expenses.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2016:

| | |
|---------------------------------|-----------------------------|
| Research and Development | <u>\$ 15,959,153</u> |
|---------------------------------|-----------------------------|

During 2016, 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:

| | |
|---------------------------------|----------------------------|
| Research and Development | <u>\$ 6,904,197</u> |
|---------------------------------|----------------------------|

8. 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 \$1,480,972 during the year ended December 31, 2016.

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, 2016. IAVI does not contribute to the plan.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. CONCENTRATION OF REVENUE

Approximately 44% of IAVI's revenue for the year ended December 31, 2016 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, 2016, the total amount of conditional promises to give from this private foundation amounted to \$69,794,443. 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 2016 under awards from this private foundation totaled \$32,623,597.

10. CONTINGENCIES

U.S. Government Funding -

IAVI receives grants from various agencies of the U.S. Government. Beginning with 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*.

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 2016. 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, 2016, 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, 2016 amounted to \$81,207,140, which includes \$69,794,443 from a private foundation (Note 9).

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

10. CONTINGENCIES (Continued)

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 \$422,194, which is included in cash and cash equivalents in the accompanying Consolidated Statement of Financial Position as of December 31, 2016.

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, 2018. 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. Each loan, if made, shall bear interest at the variable Libor rate plus 1.20%. There were no borrowings outstanding as of December 31, 2016.

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.

11. 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.

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, 2016.

- *Corporate Fixed Income Securities/Bonds* - Valued at the closing price reported on the active market in which the individual securities are traded.

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

11. FAIR VALUE MEASUREMENT (Continued)

- *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, 2016:

| Asset Class: | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|--------------------------|----------------------------|--------------------|----------------------------|
| Investments - | | | | |
| Corporate Fixed Income | | | | |
| Securities/Bonds | \$ - | \$ 5,016,463 | \$ - | \$ 5,016,463 |
| Deferred Compensation Investments - | | | | |
| Mutual Funds | <u>435,505</u> | <u>-</u> | <u>-</u> | <u>435,505</u> |
| TOTAL | <u>\$ 435,505</u> | <u>\$ 5,016,463</u> | <u>\$ -</u> | <u>\$ 5,451,968</u> |

12. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, IAVI has evaluated events and transactions for potential recognition or disclosure through June 15, 2017, the date the consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

ASSETS

| | <u>IAVI *</u> | <u>The Stichting</u> | <u>IAVI India</u> | <u>Consolidated</u> |
|--|-----------------------------|--------------------------|--------------------------|-----------------------------|
| Cash and cash equivalents | \$ 54,335,419 | \$ 61,418 | \$ 51,618 | \$ 54,448,455 |
| Investments | 5,451,968 | - | - | 5,451,968 |
| Grants receivable | 19,740,832 | 743,098 | 344,066 | 20,827,996 |
| Security deposits and other assets | 547,257 | 40,487 | 583 | 588,327 |
| Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$36,685,290 | <u>9,076,757</u> | <u>61,842</u> | <u>-</u> | <u>9,138,599</u> |
| TOTAL ASSETS | <u>\$ 89,152,233</u> | <u>\$ 906,845</u> | <u>\$ 396,267</u> | <u>\$ 90,455,345</u> |

LIABILITIES AND NET ASSETS

LIABILITIES

| | | | | |
|--|-------------------|----------------|--------------|-------------------|
| Loan payable | \$ 382,494 | \$ - | \$ - | \$ 382,494 |
| Accounts payable and accrued liabilities | 5,320,961 | 169,767 | 2,400 | 5,493,128 |
| Awards and contracts payable | 5,113,044 | - | - | 5,113,044 |
| Refundable advances | 23,123,349 | - | - | 23,123,349 |
| Deferred grant revenue | 4,800,000 | - | - | 4,800,000 |
| Deferred rent | 2,914,126 | - | - | 2,914,126 |
| Deferred compensation payable | <u>435,505</u> | <u>-</u> | <u>-</u> | <u>435,505</u> |
| Total liabilities | <u>42,089,479</u> | <u>169,767</u> | <u>2,400</u> | <u>42,261,646</u> |

NET ASSETS

| | | | | |
|---|-----------------------------|--------------------------|--------------------------|-----------------------------|
| Unrestricted: | | | | |
| Undesignated | 1,798,327 | (166,876) | (1,141) | 1,630,310 |
| Designated | <u>30,604,236</u> | <u>-</u> | <u>-</u> | <u>30,604,236</u> |
| Total unrestricted net assets | 32,402,563 | (166,876) | (1,141) | 32,234,546 |
| Temporarily restricted | <u>14,660,191</u> | <u>903,954</u> | <u>395,008</u> | <u>15,959,153</u> |
| Total net assets | <u>47,062,754</u> | <u>737,078</u> | <u>393,867</u> | <u>48,193,699</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 89,152,233</u> | <u>\$ 906,845</u> | <u>\$ 396,267</u> | <u>\$ 90,455,345</u> |

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

INTERNATIONAL AIDS VACCINE INITIATIVE, INC.

**CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | IAVI * | | | The Stichting | | | IAVI India | | | Consolidated |
|--|----------------------|------------------------|----------------------|---------------------|------------------------|-------------------|-------------------|------------------------|-------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total | |
| REVENUE | | | | | | | | | | |
| Grants and contributions | \$ 63,248,680 | \$ 905,128 | \$ 64,153,808 | \$ - | \$ - | \$ - | \$ - | \$ 252,870 | \$ 252,870 | \$ 64,406,678 |
| Investment income | 803,143 | - | 803,143 | 118 | - | 118 | - | - | - | 803,261 |
| Other income | 136,898 | - | 136,898 | 5,519 | - | 5,519 | - | - | - | 142,417 |
| Net assets releases from donor restrictions | <u>6,795,916</u> | <u>(6,795,916)</u> | <u>-</u> | <u>24,169</u> | <u>(24,169)</u> | <u>-</u> | <u>84,112</u> | <u>(84,112)</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>70,984,637</u> | <u>(5,890,788)</u> | <u>65,093,849</u> | <u>29,806</u> | <u>(24,169)</u> | <u>5,637</u> | <u>84,112</u> | <u>168,758</u> | <u>252,870</u> | <u>65,352,356</u> |
| EXPENSES | | | | | | | | | | |
| Program Services: | | | | | | | | | | |
| Research and Development | 57,864,380 | - | 57,864,380 | 242,057 | - | 242,057 | 86,817 | - | 86,817 | 58,193,254 |
| Vaccine Advocacy, Policy and Public Education | <u>5,451,209</u> | <u>-</u> | <u>5,451,209</u> | <u>551,382</u> | <u>-</u> | <u>551,382</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,002,591</u> |
| Total program services | <u>63,315,589</u> | <u>-</u> | <u>63,315,589</u> | <u>793,439</u> | <u>-</u> | <u>793,439</u> | <u>86,817</u> | <u>-</u> | <u>86,817</u> | <u>64,195,845</u> |
| Supporting Services: | | | | | | | | | | |
| General and Administrative | 7,653,971 | - | 7,653,971 | 119,456 | - | 119,456 | - | - | - | 7,773,427 |
| Fundraising | <u>2,217,934</u> | <u>-</u> | <u>2,217,934</u> | <u>285,834</u> | <u>-</u> | <u>285,834</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,503,768</u> |
| Total supporting services | <u>9,871,905</u> | <u>-</u> | <u>9,871,905</u> | <u>405,290</u> | <u>-</u> | <u>405,290</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,277,195</u> |
| Total expenses | <u>73,187,494</u> | <u>-</u> | <u>73,187,494</u> | <u>1,198,729</u> | <u>-</u> | <u>1,198,729</u> | <u>86,817</u> | <u>-</u> | <u>86,817</u> | <u>74,473,040</u> |
| Change in net assets before other items | (2,202,857) | (5,890,788) | (8,093,645) | (1,168,923) | (24,169) | (1,193,092) | (2,705) | 168,758 | 166,053 | (9,120,684) |
| OTHER ITEMS - NON-OPERATING | | | | | | | | | | |
| Foreign exchange loss | (69,818) | (874,428) | (944,246) | (9,150) | (43,722) | (52,872) | 1,324 | (11,194) | (9,870) | (1,006,988) |
| Provision for currency exchange loss | - | 150,000 | 150,000 | - | - | - | - | - | - | 150,000 |
| Contribution from International AIDS Vaccine Initiative, Inc. to The Stichting | <u>(953,704)</u> | <u>-</u> | <u>(953,704)</u> | <u>953,704</u> | <u>-</u> | <u>953,704</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net assets | (3,226,379) | (6,615,216) | (9,841,595) | (224,369) | (67,891) | (292,260) | (1,381) | 157,564 | 156,183 | (9,977,672) |
| Net assets at beginning of year | <u>35,628,942</u> | <u>21,275,407</u> | <u>56,904,349</u> | <u>57,493</u> | <u>971,845</u> | <u>1,029,338</u> | <u>240</u> | <u>237,444</u> | <u>237,684</u> | <u>58,171,371</u> |
| NET ASSETS AT END OF YEAR | \$ 32,402,563 | \$ 14,660,191 | \$ 47,062,754 | \$ (166,876) | \$ 903,954 | \$ 737,078 | \$ (1,141) | \$ 395,008 | \$ 393,867 | \$ 48,193,699 |

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