

The GAVI Fund

*Consolidated Financial Statements as of and
for the Years Ended December 31, 2006 and
2005, and Independent Auditors' Report*



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The GAVI Fund
Washington, DC

We have audited the accompanying consolidated statement of financial position of The GAVI Fund (the "Fund") as of December 31, 2006, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund for the year ended December 31, 2005 were audited by other auditors whose report, dated August 21, 2006, expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2006, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


September 26, 2007

THE GAVI FUND
Consolidated Statements of Financial Position
As of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<i>Assets</i>		
Cash	\$ 30,693,855	\$ 696,125
Receivable for securities pledged	-	100,509,037
Receivables, prepaids and other assets	226,450,639	15,047,011
Investment sales receivable	25,596,202	1,639
Investments (Note 5)	924,445,005	886,080,040
Pooled investments (Note 5)	796,440,630	
Restricted cash - procurement account (Note 3)	264,859,224	-
Promises to give (Note 4)	<u>2,825,175,263</u>	<u>511,257,093</u>
Total Assets	\$ <u>5,093,660,818</u>	\$ <u>1,513,590,945</u>
<i>Liabilities and Net Assets</i>		
Liabilities:		
Accounts payable and other liabilities	\$ 9,806,210	\$ 5,471,013
Payable for securities purchased	117,682,958	32,669,343
Payable under securities lending agreement	-	102,519,903
Payable for currency and interest rate swaps, net (Note 10)	71,965,237	-
Accrued bond interest	6,527,778	-
Program grants payable (Note 7)	381,361,794	23,808,782
Commitment to fund future procurement (Note 3)	8,981,464	67,743,100
Procurement account payable (Note 3)	264,859,224	-
Bonds payable (Note 8)	<u>998,063,758</u>	<u>-</u>
Total Liabilities	<u>1,859,248,423</u>	<u>232,212,141</u>
Net Assets:		
Unrestricted	650,135,908	770,121,711
Temporarily restricted (Note 9)	<u>2,584,414,263</u>	<u>511,257,093</u>
Total Net Assets before Foreign Currency Translation Adjustment	3,234,550,171	1,281,378,804
Foreign currency translation adjustment	<u>(137,776)</u>	<u>-</u>
Total Net Assets	<u>3,234,412,395</u>	<u>1,281,378,804</u>
Total Liabilities and Net Assets	\$ <u>5,093,660,818</u>	\$ <u>1,513,590,945</u>

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

THE GAVI FUND
Consolidated Statements of Activities
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<i>Unrestricted:</i>		
Revenue:		
Contributions	\$ 84,555,170	\$ 161,060,752
Federal award	69,300,000	64,480,000
Net investment income (Note 5)	63,158,465	10,268,277
Net losses from derivatives (Note 10)	(70,209,486)	-
Foreign currency transaction adjustment	253,482	248,984
Other revenues	-	112,286
Release of net assets	<u>241,153,943</u>	<u>375,000</u>
Total Revenues	<u>388,211,574</u>	<u>236,545,299</u>
Expenses:		
Program	535,687,297	40,945,604
Management and general	18,291,474	8,604,346
Financing	7,044,495	-
Fundraising	<u>2,024,807</u>	<u>5,615,192</u>
Total Expenses	<u>563,048,073</u>	<u>55,165,142</u>
Change in Unrestricted Net Assets before Release of Commitment to Fund Future Procurement	(174,836,499)	181,380,157
Release of commitment to fund future procurement	<u>54,850,696</u>	<u>49,874,668</u>
Change in Unrestricted Net Assets	<u>(119,985,803)</u>	<u>231,254,825</u>
<i>Temporarily Restricted:</i>		
Contributions	2,225,316,145	510,619,818
Foreign currency transaction adjustment	88,994,968	-
Release of net assets	<u>(241,153,943)</u>	<u>(375,000)</u>
Change in Temporarily Restricted Net Assets	<u>2,073,157,170</u>	<u>510,244,818</u>
Change in Net Assets	\$ <u><u>1,953,171,367</u></u>	\$ <u><u>741,499,643</u></u>

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

THE GAVI FUND
Consolidated Statements of Changes in Net Assets
For the years ended December 31, 2006 and 2005

	2006		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets, Beginning of Year	\$ 770,121,711	\$ 511,257,093	\$ 1,281,378,804
Change in net assets	<u>(119,985,803)</u>	<u>2,073,157,170</u>	<u>1,953,171,367</u>
Net Assets, End of Year, before Foreign Currency Translation Adjustment	650,135,908	2,584,414,263	3,234,550,171
Foreign currency translation adjustment	<u>(137,776)</u>	<u>-</u>	<u>(137,776)</u>
Total Net Assets, End of Year	\$ <u>649,998,132</u>	\$ <u>2,584,414,263</u>	\$ <u>3,234,412,395</u>

	2005		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets, Beginning of Year	\$ 538,866,886	\$ 1,012,275	\$ 539,879,161
Change in net assets	<u>231,254,825</u>	<u>510,244,818</u>	<u>741,499,643</u>
Net Assets, End of Year, before Foreign Currency Translation Adjustment	770,121,711	511,257,093	1,281,378,804
Foreign currency translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Assets, End of Year	\$ <u>770,121,711</u>	\$ <u>511,257,093</u>	\$ <u>1,281,378,804</u>

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

THE GAVI FUND
Consolidated Statements of Cash Flows
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,953,171,367	\$ 741,499,643
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized foreign currency transaction adjustment	(89,476,888)	-
Depreciation	263,575	562,053
Loss on fixed asset disposals and impairments	1,028,002	440,862
Realized and unrealized (gains) losses on investments	(24,988,991)	17,411,265
Amortization of bond issuance costs	22,477	-
Amortization of bond discount	(118,719)	-
Amortization of discount on unconditional promises to give	1,908,183,023	89,350,182
Release of commitment to fund future procurement	(54,850,696)	(49,874,668)
 Changes in assets and liabilities		
Receivables, prepaids and other assets	(212,394,756)	(4,929,944)
Promises to give	(4,132,624,305)	(599,737,943)
Accounts payable and accrued liabilities	4,197,421	(2,091,423)
Payable for currency and interest rate swaps	71,965,237	-
Accrued bond interest	6,527,778	-
Program grants payable	357,553,012	(11,723,766)
Commitment to fund future procurement	(3,910,940)	(37,395,532)
Procurement account payable	264,859,224	-
 Net Cash Provided by Operating Activities	 <u>49,405,821</u>	 <u>143,510,732</u>
 Cash Flows from Investing Activities:		
Restricted cash utilized for long-term purposes	44,232	-
Purchase of fixed assets	(300,449)	(1,158,536)
Purchase of investments	(9,932,913,867)	(12,507,355,469)
Sales of investments	9,180,505,449	12,338,206,061
 Net Cash Used in Investing Activities	 <u>(752,664,635)</u>	 <u>(170,307,944)</u>
 Cash Flows from Financing Activities:		
Cash restricted for long-term purposes	(264,903,456)	-
Cash received under securities lending agreements	-	26,405,363
Proceeds from bond issuance	999,160,000	-
Capitalized bond issuance costs	(1,000,000)	-
 Net Cash Provided by Financing Activities	 <u>733,256,544</u>	 <u>26,405,363</u>
 Net Change in Cash	 <u>29,997,730</u>	 <u>(391,849)</u>
 Cash, Beginning of Year	 <u>696,125</u>	 <u>1,087,974</u>
 Cash, End of Year	 <u>\$ 30,693,855</u>	 <u>\$ 696,125</u>

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

THE GAVI FUND
Consolidated Statement of Functional Expenses
For the year ended December 31, 2006

	<u>Program</u>	<u>Management and General</u>	<u>Program Fundraising</u>	<u>Financing</u>	<u>2006 Total</u>
Direct program expenses	\$ 515,190,248	\$ -	\$ -	\$ -	\$ 515,190,248
Program implementation	19,825,831	-	-	-	19,825,831
Grants	<u>671,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>671,218</u>
Total Program Expenses	535,687,297	-	-	-	535,687,297
Payroll and benefits	-	3,993,317	920,933	-	4,914,250
Training and recruitment	-	712,723	87,454	-	800,177
Professional fees	-	10,969,432	734,684	-	11,704,116
Media production and distribution	-	391,157	2,330	-	393,487
Events and meetings	-	167,004	212	-	167,216
Travel and representation	-	664,532	271,344	-	935,876
Facility and office costs	-	2,684,348	7,850	-	2,692,198
Supplies and minor equipment	-	400,142	-	-	400,142
Other borrowing expenses	-	-	-	516,717	516,717
Interest expense	-	-	-	6,527,778	6,527,778
Other Operating Expenses	<u>-</u>	<u>19,982,655</u>	<u>2,024,807</u>	<u>7,044,495</u>	<u>29,051,957</u>
Total Operating Expenses before Convergence Recoveries	535,687,297	19,982,655	2,024,807	7,044,495	564,739,254
Convergence recoveries	<u>-</u>	<u>(1,691,181)</u>	<u>-</u>	<u>-</u>	<u>(1,691,181)</u>
Total Expenses	<u>\$ 535,687,297</u>	<u>\$ 18,291,474</u>	<u>\$ 2,024,807</u>	<u>\$ 7,044,495</u>	<u>\$ 563,048,073</u>

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

THE GAVI FUND
Consolidated Statement of Functional Expenses
For the year ended December 31, 2005

	<u>Program</u>	<u>Management and General</u>	<u>Program Fundraising</u>	<u>Financing</u>	<u>2005 Total</u>
Direct program expenses	\$ 27,524,470	\$ -	\$ -	\$ -	\$ 27,524,470
Program implementation	12,624,900	-	-	-	12,624,900
Grants	796,234	-	-	-	796,234
Total Program Expenses	40,945,604	-	-	-	40,945,604
Payroll and benefits	-	638,803	2,655,219	-	3,294,022
Training and recruitment	-	269,908	19,137	-	289,045
Professional fees	-	2,881,192	1,736,058	-	4,617,250
Media production and distribution	-	4,396	235,579	-	239,975
Events and meetings	-	58,257	123,738	-	181,995
Travel and representation	-	485,640	699,916	-	1,185,556
Facility and office costs	-	2,103,151	145,545	-	2,248,696
Supplies and minor equipment	-	376,916	-	-	376,916
Other borrowing expenses	-	-	-	-	-
Interest expense	-	-	-	-	-
Other Operating Expenses	-	6,818,263	5,615,192	-	12,433,455
Total Operating Expenses before Convergence Expenses	40,945,604	6,818,263	5,615,192	-	53,379,059
Convergence expenses	-	1,786,083	-	-	1,786,083
Total Expenses	\$ 40,945,604	\$ 8,604,346	\$ 5,615,192	\$ -	\$ 55,165,142

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

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 1 - Nature of Operations and Affiliations

The Global Alliance for Vaccines and Immunisation ("Alliance") is a partnership that combines public and private sector resources to strengthen health systems, bring the benefits of immunisation to those in greatest need and ultimately save millions of lives worldwide. These consolidated financial statements include the following members of the Alliance: The GAVI Fund (the "Fund"), Le Fonds pour les Vaccins de l'Enfance (The Fund for Children's Vaccines, referred to as the "Association"), International Finance Facility for Immunisation ("IFFIm"), GAVI Fund Affiliate ("GFA"), and the GAVI Foundation (the "Foundation") (collectively referred to as "GAVI").

The Fund is a charitable, nonprofit organization incorporated in October 1999. The Fund serves to provide new and underused vaccines and the means to deliver these vaccines to the children of the world. The activities of the Fund are funded primarily through contributions. The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of the U.S.

The Association was registered in Lyon, France in 2001 as an affiliate of the Fund. The purpose of the Association is to contribute to the improvement of the vaccination of children in developing countries using all possible means to promote the research and development of vaccines in all fields and to contribute to the achievement of the Fund. Convergence of the Association is anticipated during 2007.

IFFIm was incorporated as a private company limited by guarantee under the U.K. Companies Act 1985 on June 26, 2006. IFFIm is registered with the U.K. Charity Commission as a charity. The primary purpose is to provide funding for immunisation and vaccine procurement programs of the Alliance by making grants to GFA, a charity registered with the Charity Commission for England and Wales. The sole member of IFFIm is the Fund.

GFA was incorporated as a private company limited by guarantee under the U.K. Companies Act 1985 on May 26, 2006. The sole member of GFA is the Fund. GFA is registered with the U.K. Charity Commission as a charity. Pursuant to an agreement with IFFIm, GFA's funding policy is to assign all grant agreements that govern sovereign donor promises to give, to IFFIm. The assignment is in consideration for IFFIm's undertaking to raise funds for GAVI immunisation and vaccine procurement programs that are presented to IFFIm by GFA. GFA disburses funds received by it from IFFIm, either directly or through an account of the Fund to support GAVI programs.

The Foundation was incorporated on July 19, 2006. The GAVI Foundation works to support GAVI's mission in Switzerland. In 2006, it was fully supported by the Fund.

Note 2 - Significant Accounting Policies

Basis of Accounting - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 2 - Significant Accounting Policies - continued

Basis of Consolidation - The accompanying consolidated financial statements include the accounts of the Fund, the Association, IFFIm, GFA and the Foundation. All inter-entity balances and transactions have been eliminated in consolidation.

Cash - GAVI reports all demand deposits as cash. Money market accounts managed by external advisors, with maturities of three months or less are reported in the consolidated statements of financial position as investments. At times, the balances in these accounts may exceed federally insured limits. GAVI has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk.

Promises to Give - Unconditional promises to give and to be collected within one year are recorded at net realizable value. Unconditional promises to give to be collected in future years are recorded at the present value of their estimated future cash flows, using discount rates approximating the risk-free rate of return on U.S. Government or the donor Government's securities with similar maturities. Conditional promises to give are recorded when the conditions are met. As of December 31, 2006 and 2005, GAVI did not have any conditional promises to give.

GAVI's promises to give includes grants from sovereign governments. Many of these pledges are legally binding payment obligations that are irrevocable by the donors and paid in several installments in accordance with predetermined fixed payment schedules over the next 20 years. The total amount payable by the donors over these 20 years will depend on a high-level financing condition which allows donors to reduce their payment amounts, as discussed below.

The high-level financing condition allows donors to reduce their payments in the event that an eligible (as defined by the transactional documents) country enters into protracted arrears on its obligations to the International Monetary Fund (IMF). Each recipient country has been ascribed a weight of 1%, 3% or 5% in a reference portfolio that will remain static for the life of GAVI. Donors will reduce the amounts they pay by the aggregate percentage weights of countries that are in protracted arrears to the IMF. When countries clear their arrears to the IMF, future amounts payable by donors are increased by the respective weights of those clearing countries. The final determination of each payment amount is made 25 business days (as measured by International Bank for Reconstruction and Development ("IBRD")) prior to the due date of each donor payment.

Investments - As a consolidation of several entities, GAVI manages its investment activities in different ways reflecting the underlying environments and needs present at the Fund, the IFFIm and GFA. The Fund's investments are governed by its investment policy and management is handled by external investment managers. The Fund's investments are recorded at fair market value. Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades on individually-held securities. The Fund participated in a securities lending program through July 2006 as further described in Note 6.

GAVI's investments as held in the IFFIm and GFA are managed on a pooled basis by IBRD, which maintains a single investment portfolio (the "Pool") for all of the trust funds it administers. IBRD commingles GAVI's assets with other trust fund assets administered by the World Bank

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 2 - Significant Accounting Policies - continued

Group. Shares in pooled cash represents GAVI's allocated share of the Pool's fair value at the end of the reporting period. The fair value is based on market quotations, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Realized and unrealized gains/losses and interest/dividend income are reported as net investment income in the consolidated statements of activities.

Fair Value of Financial Instruments – The fair values of financial instruments are estimated using available market information and other valuation methodologies in accordance with U.S. generally accepted accounting principles. The estimates presented are not necessarily indicative of the amounts that GAVI may ultimately realize in a current market exchange. The fair value of financial instruments where the estimated fair value amounts have not been specifically determined are estimated to approximate the book value.

Fixed Assets - Furniture, equipment, and leasehold improvements are stated at cost. Depreciation for furniture and equipment is calculated using the straight-line method over their estimated useful lives of three to five years. Depreciation for leasehold improvements is calculated using the straight-line method over the shorter of the asset's useful life, or the term of the lease. GAVI's threshold for capitalization of furniture, equipment, and leasehold improvements is \$5,000. Net fixed assets of \$975,834 and \$1,966,962 are included in receivables, prepaids and other assets in the consolidated statements of financial position as of December 31, 2006 and 2005, respectively.

Program Grants Payable – Program grants payable are recognized when an unconditional commitment is made and approved by GAVI. Grants payable within one year are recorded at the full expected payment value. Grants payable in future years are recorded at the present value of their estimated future cash flows using discount rates that approximate the risk free rate of return on U.S. Government securities with similar maturities. Grants payable are recorded as exchange transactions when expenses are incurred and/or when services are provided. Transfers to program implementing partners or procurement agents in advance of any service delivery are accounted for as prepayment for procurement, which is included in receivables, prepaids and other assets.

Bonds Payable - Initially, bonds payable are recognized at carrying value, net of bond issuance costs and the related premium or discount. Bond discounts or premiums and bond issuance costs are accounted for under the effective interest rate method under which they are amortized over the life of the bond.

Classification of Net Assets - Net assets are reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that are expected to be met either by actions of GAVI and/or the passage of time.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 2 - Significant Accounting Policies - continued

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by GAVI. As of December 31, 2006 and 2005, GAVI did not have any permanently restricted net assets.

Revenue Recognition - Contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises are made. GAVI reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets for specific purposes and/or use in future periods. When a donor restriction expires, that is, when the time or purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year are reported as unrestricted support.

Donated goods and services are reflected in the accompanying consolidated statements of activities at their estimated fair market values at the date of their receipt. For the years ended December 31, 2006 and 2005, GAVI received \$384,313 and \$0 of donated goods.

Revenue from cost-reimbursable contracts/grants is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs.

Costs Associated with Exit or Disposal Activities - GAVI records expenses associated with the disposal of activities and/or the termination of contracts in accordance with Statement of Financial Accounting Standards (SFAS) 146; *Accounting for Costs Associated with Exit or Disposal Activities*. Termination benefits provided to employees were recorded when management committed to a termination plan with specific details and communicated it to employees. Costs under remaining terms of outstanding contracts and leases are recorded at fair value when they are terminated. Other operating costs, including those to consolidate facilities or to relocate employees, are recorded when the liability is determined.

Allocation of Functional Expenses - The cost of programs and supporting activities are summarized by their functional classification in the consolidated statements of activities and by their natural classification in the accompanying consolidated statements of functional expenses. Accordingly, certain costs have been allocated among program activities and supporting services, as shown on the supplemental consolidated statements of functional expenses.

Derivative Financial Instruments - GAVI uses derivatives in its borrowing activities and asset/liability management purposes. Derivative financial instruments are carried at fair value in the accompanying consolidated statements of financial position. Receivables from currency and interest rate swaps are offset against payables on currency and interest rate swaps in the accompanying consolidated statements of financial position. Changes in the fair values of derivatives are recognized as a change in the accompanying consolidated statements of activities in the period of change and included in net gains/losses from derivatives. The fair values of derivatives are estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on the measurement date.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 2 - Significant Accounting Policies - continued

Foreign Currency Remeasurement – These financial statements are presented in U.S. dollars, which is the reporting currency of GAVI. The assets and liabilities held in foreign currency are remeasured at year-end exchange rates. Foreign currency transactions are translated at exchange rates prevailing during the year. The resulting foreign exchange gains and losses are recognized in the accompanying consolidated statements of activities. For any GAVI affiliates', whose functional currency is the local currency in which the office is located, assets and liabilities are translated at year end exchange rates and revenue and expenses are translated at average exchange rates throughout the year. These adjustments are recognized as foreign currency translation adjustments in the accompanying statements of financial position.

Use of Estimates - The preparation of the consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting and Reporting Developments, New FASB Pronouncements: In September 2006, the FASB issued FAS 157, *Fair Value Measurements*. FAS 157 defines fair value, establishes a fair value hierarchy and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007, which would be the year ending December 31, 2008 for GAVI. Early adoption is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within the fiscal year of adoption. GAVI is currently evaluating the impact of the adoption of FAS 157.

In February 2007, the FASB issued FAS 159, *the Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which allows an entity the irrevocable option to elect fair value measurement for certain financial assets and financial liabilities on a contract-by-contract basis. FAS 159 is effective for fiscal years beginning after November 15, 2007, which would be the year ending December 31, 2008 for GAVI. Early adoption is permitted subject to certain conditions including:

- the choice to adopt early must be made after the issuance of the Statement (February 2007) but within 120 days of the beginning of the fiscal year of adoption (for GAVI, by April 30);
- the entity must also early adopt all of the requirements of FAS 157 as of the early adoption date; and
- the entity has not yet issued financial statements in the current fiscal year.

GAVI meets all these conditions and is therefore evaluating the impact of early adoption of FAS 159.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 3 – Vaccine Procurement

Restricted Cash – Procurement Account

Beginning in 2006, GAVI established a separate account, the Procurement Account, in which the Fund and the GFA transfer money on an as needed basis for the benefit of United Nation's Children's Fund (UNICEF) to procure vaccines and other supplies on their behalf. All monies deposited into the account are irrevocable and may only be withdrawn by UNICEF, with the exception of investment income, which is to be remitted to GAVI. GAVI has granted to UNICEF a security interest in all of GAVI's rights, title and interest in, and proceeds of, the accounts and all financial assets credited thereto, as collateral security for the prompt payment and performance when due of GAVI's obligations. As of December 31, 2006, \$264,859,224 is available to UNICEF in the Procurement Account in the accompanying consolidated statements of financial position with an offsetting liability of the same amount in procurement accounts payable for funds committed to UNICEF.

Commitment to Fund Future Procurement

GAVI has an agreement with UNICEF to pledge as collateral up to \$8,981,464 and \$67,743,100 of its investment assets to UNICEF as of December 31, 2006 and 2005, respectively. The pledge is in connection with UNICEF's contracted commitment to purchase vaccines from a pharmaceutical company during the period 2005 through 2006. Under the agreement, UNICEF issued purchase orders periodically to initiate approved vaccine shipments. This agreement was terminated on December 31, 2006 and the balance of the commitment is expected to be dissolved within the first quarter of 2007. This agreement was replaced by the arrangement discussed above.

During 2006 and 2005, contributions to UNICEF from donors other than GAVI fulfilled a portion of the commitment. Accordingly, a corresponding amount was recorded as a "release of commitment to fund future procurement" in the consolidated statements of activities.

	<u>2006</u>	<u>2005</u>
Commitment balance as of the beginning of the year	\$ 67,743,100	\$ 155,013,300
Commitment fulfilled by GAVI	(3,910,940)	(37,395,532)
Release of commitment (commitment fulfilled by other donors)	<u>(54,850,696)</u>	<u>(49,874,668)</u>
Commitment to Fund Future Procurement	<u>\$ 8,981,464</u>	<u>\$ 67,743,100</u>

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 4 - Promises to Give

GAVI's unconditional promises to give consisted of the following as of December 31:

	<u>2006</u>	<u>2005</u>
Contributions due in less than one year	\$ 195,620,200	\$ 75,642,943
Contributions due in two to five years	920,901,889	225,000,000
Contributions due thereafter	<u>3,706,222,047</u>	<u>300,000,000</u>
Unconditional promises to give before unamortized discount and reduction due to high-level financing condition	4,822,744,136	600,642,943
Less unamortized discount	(1,273,334,953)	(89,385,850)
Less reduction due to high-level financing condition	<u>(724,233,920)</u>	<u>-</u>
Net Promises to Give	\$ <u>2,825,175,263</u>	\$ <u>511,257,093</u>

For the promises to give as of December 31, 2006 and 2005, discount rates ranging from 4.0 percent to 5.05 percent were applied commensurate with the pledge period.

The fair values of GAVI's contributions receivable from sovereign governments were initially reduced by an estimated reduction amount due to the high-level financing condition and then discounted to present value at donor specific risk free interest rates.

Note 5 – Investments

This note and the table below treat GAVI's investment activity as handled for the Fund, GFA, and IFFIm. In the table below, the "Pooled Investments" line items refers to those investments handled by IBRD for GFA and IFFIm. Investments consisted of the following as of December 31:

	<u>2006</u>	<u>2005</u>
Money market funds	\$ 78,339,626	\$ 144,811,964
Registered investment companies	35,044,140	-
Real estate investment trusts	16,912,859	-
Other fixed income securities	2,976,440	4,737,153
Corporate bonds	113,281,565	69,685,376
Asset backed securities	286,638,584	227,364,100
Limited partnerships and limited liability companies	246,785,051	-
U.S. Government and agency obligations	144,466,740	437,470,581
Investments purchased with reinvested cash collateral	-	102,519,903
Pooled investments	<u>796,440,630</u>	<u>-</u>
	1,720,885,635	986,589,077
Less Securities on Loan	-	(100,509,037)
Total Investments	\$ <u>1,720,885,635</u>	\$ <u>886,080,040</u>

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 5 – Investments - continued

GAVI invests a portion of its assets in limited partnerships and limited liability companies (the "Underlying Funds"). Except in circumstances considered by management in a good faith exercise of its discretion to require a different approach, an interest in an Underlying Fund generally is valued based on the value of the Underlying Fund's portfolio adjusted for applicable manager fees, charges, and carried interests as reported by the Underlying Fund. At December 31, 2006, investments in Underlying Funds carried at fair value as determined by management are equal to \$246,785,051.

Valuations made by management in good faith will be final for all purposes, with no assurance that such value will be realized. Due to the inherent uncertainty of valuations of the Underlying Funds, the fair values may differ significantly from the values that would have been used had a ready market for the Underlying Funds existed, and the differences could be material.

GAVI has granted UNICEF a security interest in a portion of these investments (See Note 3). In addition, GAVI granted the counterparties to its open futures contracts a security interest in a portion of the investments to meet the initial margin on these contracts, amounting to \$542,439 and \$1,457,916, as of December 31, 2006 and 2005, respectively.

Through its investment activity at the Fund, GAVI uses futures, options and swaps to manage its investment portfolio's exposure to market price, currency and interest rate risks and to enhance investment returns as an alternative to owning the underlying assets. The futures contracts are marked-to-market daily with the gain or loss adjusted on a cash basis on the following day through the margin account. The margin variation adjustment that is included in investment income for the years ended December 31, 2006 and 2005, respectively, was \$23,156 and (\$542,112). The fair values of the options together with futures and forwards are included in other fixed income securities. GAVI purchases and sells forward foreign currency contracts (currency forwards) whereby GAVI agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to minimize the exposure of certain of its investments to adverse fluctuations in currency markets. Such contracts involve, to varying degrees, the possible inability of counterparties to meet the terms of their contracts. Changes in the value of forward foreign currency contracts are recognized as unrealized gains or losses until such contracts are closed.

The notional par and fair values of futures, options, pending purchases and sales on forwards are as follows:

	2006		2005	
	Notional par value	Fair value	Notional par value	Fair value
Options	\$ (46,056,700)	\$ (64,645)	-	-
Futures	77,496,827	382,503	237,950,000	16,325
Currency forwards purchases	6,550,089	(7,048)	10,591,223	(101,956)
Currency forwards sales	4,152,467	73,511	11,016,063	30,527
Swap contracts	79,589,243	(10,857)	-	-
	\$ 373,464		\$ (55,104)	

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 5 – Investments - continued

Investment income for the years ended December 31, 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Interest	\$ 43,196,451	\$ 34,159,494
Realized losses	(5,696,242)	(5,296,696)
Unrealized gains (losses)	30,685,233	(12,114,569)
Investment fees and borrower rebates	<u>(5,026,977)</u>	<u>(6,479,952)</u>
Total Investment Income	<u>\$ 63,158,465</u>	<u>\$ 10,268,277</u>

Note 6 – Securities Lending

GAVI engaged in a securities lending program through July 2006 whereby it loaned certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis. Concurrently with the delivery of its securities to a borrower, the borrower exchanged cash collateral equal to 102% of the market value of loaned U.S. securities and/or 105% of the market value of non-U.S. securities. This exchange was facilitated by GAVI's lending agent and custodian.

Throughout the duration of the loan, the collateral was marked-to-market on a daily basis and the lending agent received and released collateral to maintain the value of the collateral equal to the requisite margin percentage of the market value of the loaned securities.

On the termination date of the loan, the borrower returned to the lending agent the same, or substantially the same, securities that were borrowed.

The lending agent, in its agreement with GAVI, guaranteed the repayment of the loan in the event the borrower defaulted. GAVI retained all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. GAVI also retained the right to redeem the loaned securities prior to their stipulated redemption date.

As of December 31, 2005, GAVI recorded \$102,519,903 in cash collateral received and an equal amount payable to the borrowers under the agreement. All cash collateral received was invested in money market funds. Money market funds purchased with cash collateral are included in investments and the liability under securities agreements is reflected in liabilities in the consolidated statements of financial position. There is no balance as of December 31, 2006 as the program was terminated in July 2006.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 6 – Securities Lending - continued

The net income earned from securities lending, included in investment income in the consolidated statements of activities, net of rebates and lending agent fees, for the years ended December 31, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Interest income from securities lending	\$ 2,710,143	\$ 4,468,277
Rebates under securities lending agreement	(2,632,160)	(4,210,145)
Lending agent fees	<u>(19,500)</u>	<u>(64,542)</u>
Net Income from Securities Lending	\$ <u>58,483</u>	\$ <u>193,590</u>

Note 7 – Program Grants Payable

GAVI's grants committed, but unpaid consisted of the following as of December 31:

	<u>2006</u>	<u>2005</u>
Grant payable due in less than one year	\$ 381,361,794	\$ 11,040,000
Grant payable due in one to five years	<u>-</u>	<u>13,440,000</u>
Grant payable before unamortized discount	381,361,794	24,480,000
Less unamortized discount	<u>-</u>	<u>(671,218)</u>
Total Grants Payable	\$ <u>381,361,794</u>	\$ <u>23,808,782</u>

A discount rate of 3.46 percent was applied to record the present value of the program grants payable as of December 31, 2005.

Note 8 – Bonds Payable

Through IFFIm, GAVI borrows in the worldwide capital markets by offering its bonds to fund GAVI programs. IFFIm's inaugural bond of \$1 billion was issued in November 2006 and as of December 31, 2006, IFFIm's outstanding borrowings were as follows:

Principal amount	\$ 1,000,000,000
Less: Unamortized discount and issuance costs	<u>(1,936,242)</u>
Bonds Payable	\$ <u>998,063,758</u>
Short-term Interest Payable Related to Borrowings	\$ <u>6,527,778</u>

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2006 and 2005

Note 8 – Bonds Payable - continued

Bonds payable as of December 31, 2006 consisted of the following:

	Effective Interest Rate	Principal
5% Notes, Maturing on November 14, 2011	5.04%	\$1,000,000,000

Note 9 - Temporarily Restricted Net Assets

GAVI's temporarily restricted net assets consisted of the following as of December 31:

	<u>2006</u>	<u>2005</u>
Due to time restriction	\$ 1,964,085,263	\$ 511,114,150
Due to program restriction for specific country	171,289,000	142,943
Due to program restriction for non-country specific recipient country	<u>449,040,000</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,584,414,263</u>	<u>\$ 511,257,093</u>

Note 10 – Derivative Financial Instruments

Starting in 2006, through IFFIm, GAVI is exposed to currency and interest rate risks due to currency mismatches and timing differences between receipt of donor payments, payment of bond obligations and disbursements to GFA. To mitigate these risks, donor payments are swapped into zero-coupon floating U.S. dollar basis and at issuance IFFIm bonds are swapped on a back-to-back basis into U.S. dollar.

For the year ended December 31, 2006, net losses in the fair values of derivatives totaled \$70,209,486, which has been recognized in the consolidated statements of activities as net losses from derivatives, and includes the following:

Pledge swap interest income	\$ 31,225,268
Bond interest expense	(443,118)
Pledge swap unrealized losses	(101,063,519)
Bond swap unrealized losses	(1,608,275)
Currency and interest rate realized gains	<u>1,680,158</u>
Net Losses from Derivatives	<u>\$ (70,209,486)</u>

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 10 – Derivative Financial Instruments - continued

In addition, at December 31, 2006 GAVI had unrealized foreign currency transaction gains of \$83,758,064 related to the pledge receivables which offset the net losses of \$70,209,486 from derivatives.

The notional amounts and fair values of interest rate and currency swaps as of December 31, 2006 are as follows:

	Notional Amount	Fair Value
Currency and interest rate swaps related to contribution receivables	\$3,945,182,842	\$ 69,913,844
Interest rate swaps related to bonds payable	\$1,000,000,000	<u>2,051,393</u>
Payable for Currency and Interest Rate Swaps		\$ <u>71,965,237</u>

Note 11- Retirement Plan

GAVI sponsors a 401(k) defined contribution plan for all eligible employees. Employees become eligible upon being hired and may participate starting on the first day of any month. Employees may contribute voluntary salary deferrals to the plan, subject to IRS limitations.

GAVI's annual matching contribution equals 2 percent of each vested participant's compensation and a 3 percent contribution due to a safe harbor provision. The participants are fully vested after 12 consecutive months of employment in the calendar year. An additional discretionary amount for 2006 and 2005 equaling 10 percent of the participant's compensation was provided. As of December 31, 2006 and 2005, the amount expensed for GAVI's contributions totaled \$256,892 and \$164,269, respectively.

Note 12 - Leases

GAVI has a ten-year lease agreement for office space in the District of Columbia which commenced on November 15, 2003. Generally accepted accounting principles require GAVI to recognize rent expense for this lease on a straight-line basis over the term of the lease. Rental expense totaled \$254,714 and \$291,266 for years ended December 31, 2006 and 2005, respectively.

GAVI plans to move out of its current space by September 2007 and plans to sublease the space for the remainder of the lease term. GAVI anticipates that it will incur approximately \$210,000 in costs associated with leaving the current space. In December 2006, GAVI entered into a new ten-year lease agreement, with a five-year option to renew that is scheduled to commence in June 2007.

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2006 and 2005

Note 12 – Leases - continued

GAVI's future minimum lease payments are as follows:

<i>Year Ending December 31,</i>	
2007	\$ 744,121
2008	1,397,938
2009	1,432,145
2010	1,467,192
2011	1,503,097
Thereafter	<u>8,022,663</u>
Total	<u>\$14,567,156</u>

In October 2006, GAVI entered into a commitment to pay for UNICEF's office space in Geneva, which it leased at GAVI's request. UNICEF's lease is for five years and is scheduled to commence in January 2007. The total amount to be paid out evenly over the five years is \$5,800,000.

Note 13 - Convergence

In 2004, the Board of Directors of GAVI approved convergence, whereby the Association's Lyon-based staff has been relocated to new offices in Geneva, Switzerland. During the years ended December 31, 2006 and 2005, GAVI recognized recoveries and expenses of (\$1,691,181) and \$1,786,083, respectively, in estimated staffing, consulting, and facility costs associated with convergence, which are included in management and general expenses in the accompanying consolidated statements of activities. Remaining accruals as of December 31, 2006, and 2005 totaled \$264,265 and \$1,878,608, respectively. During 2005, the 2004 estimates were increased by \$156,360, net of a currency translation adjustment, and GAVI recognized an additional accrual of \$1,629,723, due to additional information primarily related to employee severance agreements and consulting expenses.

Convergence is expected to be completed in 2007.

Note 14 – Concentration of Credit Risk

The Fund's financial instruments that potentially subject GAVI to concentrations of credit risk consist of deposits in banks and investments in excess of the Federal Deposit Insurance Corporation and other privately insured limits. GAVI invests its excess cash in money market and debt instruments and has established guidelines relative to diversification and maturities aimed at maintaining safety and liquidity. The portions of cash uninsured as of December 31, 2006 and 2005 approximated \$30,000,000 and \$582,000, respectively. GAVI has not experienced any credit losses on these financial instruments in the past.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 14 – Concentration of Credit Risk - continued

IBRD manages GAVI's credit risk related to its derivative contracts by serving as the counterparty for all GAVI's swaps. To manage credit risk related to investments, IBRD invests the pooled assets in liquid instruments such as money market deposits, government and agency obligations. IBRD is limited to investments with minimum credit ratings as follows:

- Money market deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-.

Note 15 – Fair Value of Financial Instruments

The following methods and assumptions were used by GAVI in estimating the fair value of its financial instruments:

Cash - The carrying amount reported approximates fair value.

Promises to Give - The carrying amount reported approximates fair value because the receivable has been reflected net of a reduction due to the high-level financing condition and net of a discount based on a risk-free rate.

Investments - The fair value of investments in marketable equity and debt securities is based on quoted market prices. Nonmarketable securities are carried at estimated current value if it is possible to determine this or based on quoted market prices of comparable instruments, otherwise at cost.

Payable for Currency and Interest Rate Swaps, Net – The carrying amount reported approximates fair value, which is estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date.

Program Grants Payable - The carrying amount reported approximates fair value because the payable has been reflected net of a discount based on a risk-free rate.

Bonds Payable – The carrying amount reported approximates fair value because the payable is based on discounted cash flow methods using appropriate market yield curve.

Other Assets and Liabilities – These amounts are short-term in nature and the carrying value is therefore deemed a reasonable estimate of fair value.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2006 and 2005

Note 15 – Fair Value of Financial Instruments - continued

The estimated fair values of GAVI's financial instruments as of December 31, 2006 and 2005 are as follows:

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 30,693,855	\$ 30,693,855	\$ 696,125	\$ 696,125
Investments	1,720,753,061	1,720,753,061	886,081,679	886,081,679
Promises to Give	2,825,175,263	2,779,216,474	511,257,093	511,257,093
Other assets	335,988,639	335,988,639	115,556,048	115,556,048
	<u>4,912,610,818</u>	<u>4,866,652,029</u>	<u>1,513,590,945</u>	<u>1,513,590,945</u>
Bonds Payable	998,063,758	1,006,957,778	-	-
Payable for currency and interest rate swaps	71,965,237	71,965,237	-	-
Liabilities under security lending agreement	-	-	102,519,903	102,519,903
Program grants payable	381,361,794	381,361,794	23,808,782	23,808,782
Other liabilities	226,807,634	226,807,634	105,883,456	105,883,456
	<u>1,678,198,423</u>	<u>1,687,092,443</u>	<u>232,212,141</u>	<u>232,212,141</u>
Net Assets	<u>3,234,412,395</u>	<u>3,179,559,586</u>	<u>1,281,378,804</u>	<u>1,281,378,804</u>
	<u>\$ 4,912,610,818</u>	<u>\$ 4,866,652,029</u>	<u>\$ 1,513,590,945</u>	<u>\$ 1,513,590,945</u>