

The GAVI Fund

Consolidated Financial Statements as of and for the
Years Ended December 31, 2008 and 2007,
and Independent Auditors' Report



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Directors
The GAVI Fund:

We have audited the accompanying consolidated statement of financial position of The GAVI Fund (the "Fund") as of December 31, 2008, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of The GAVI Fund as of December 31, 2007, were audited by other auditors whose report thereon dated December 1, 2008, 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 audit 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The GAVI Fund as of December 31, 2008, and the change in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 14 of the consolidated financial statements, the Fund adopted Statements of Financial Accounting Standards No. 157, *Fair Value Measurements*, and No. 159, *Fair Value Option for Financial Assets and Financial Liabilities*, at January 1, 2008.

KPMG LLP

September 29, 2009

THE GAVI FUND
Consolidated Statements of Financial Position
As of December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 43,741,908	\$ 1,651,500
Receivables, prepaids, and other assets	67,833,354	197,592,687
Receivable for currency and interest rate swaps, net (Note 9)	40,666,593	-
Investment sales receivable	13,078,536	3,533,638
Investments (Note 5)	941,716,002	1,055,553,790
Pooled investments (Note 5)	308,920,944	202,202,608
Restricted cash – procurement account (Note 3)	292,719,222	272,924,114
Promises to give (Note 4)	3,264,340,258	3,613,871,643
Total Assets	\$ 4,973,016,817	\$ 5,347,329,980
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 8,669,359	\$ 11,571,331
Payable for securities purchased	13,317,008	66,095,757
Payable for currency and interest rate swaps, net (Note 9)	-	106,762,836
Accrued bond interest (Note 7)	11,565,968	6,527,778
Program grants payable (Note 6)	1,168,731,291	864,619,134
Procurement account payable (Note 3)	292,719,222	272,924,114
Bonds payable (Note 7)	1,255,486,513	998,398,612
Total Liabilities	2,750,489,361	2,326,899,562
Net Assets:		
Unrestricted	18,323,921	248,435,304
Temporarily restricted (Note 8)	2,204,356,408	2,772,146,618
Total Net Assets Before Foreign Currency Translation Adjustment	2,222,680,329	3,020,581,922
Foreign currency translation adjustment	(152,873)	(151,504)
Total Net Assets	2,222,527,456	3,020,430,418
Total Liabilities and Net Assets	\$ 4,973,016,817	\$ 5,347,329,980

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<i>Unrestricted:</i>		
Revenue:		
Contributions	\$ 225,396,095	\$ 112,032,522
Federal award	71,913,000	69,300,000
Net investment income/(loss) (Note 5)	(38,539,855)	61,561,831
Net gains/(losses) from derivatives (Note 9)	167,060,036	(41,867,652)
Foreign currency transaction adjustment	(3,712,964)	2,106,119
Other revenue	692,616	7,675,451
Release of net assets	522,370,308	592,236,253
Total Revenue	<u>945,179,236</u>	<u>803,044,524</u>
Expenses:		
Program	1,029,853,459	1,134,232,370
Management and general	29,346,334	21,069,184
Financing	73,808,704	50,580,148
Fundraising	4,130,734	2,894,890
Total Expenses	<u>1,137,139,231</u>	<u>1,208,776,592</u>
Change in Unrestricted Net Assets Before Release of Commitment to Fund Future Procurement, and Effect of Adoption of FAS 159	<u>(191,959,995)</u>	<u>(405,732,068)</u>
Release of commitment to fund future procurement (Note 3)	-	8,981,464
Effect of adoption of FAS 159 (Note 13)	(38,151,388)	-
Change in Unrestricted Net Assets	<u>(230,111,383)</u>	<u>(396,750,604)</u>
<i>Temporarily Restricted:</i>		
Contributions	391,391,142	898,571,614
Foreign currency transaction adjustment	(429,751,985)	106,236,994
Release of net assets	(522,370,308)	(592,236,253)
Change in Temporarily Restricted Net Assets Before Effect of Adoption of FAS 159	<u>(560,731,151)</u>	<u>412,572,355</u>
Effect of adoption of FAS 159 (Note 13)	(7,059,059)	-
Change in Temporarily Restricted Net Assets	<u>(567,790,210)</u>	<u>412,572,355</u>
Change in Net Assets	<u><u>\$ (797,901,593)</u></u>	<u><u>\$ 15,821,751</u></u>

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

THE GAVI FUND
Consolidated Statements of Changes in Net Assets
For the years ended December 31, 2008 and 2007

2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets, Beginning of Year	\$ 248,435,304	\$ 2,772,146,618	\$ 3,020,581,922
Change in net assets	<u>(230,111,383)</u>	<u>(567,790,210)</u>	<u>(797,901,593)</u>
Net Assets, End of Year, Before Foreign Currency Translation Adjustment	18,323,921	2,204,356,408	2,222,680,329
Foreign currency translation adjustment	<u>(152,873)</u>	<u>-</u>	<u>(152,873)</u>
Total Net Assets, End of Year	\$ <u>18,171,048</u>	\$ <u>2,204,356,408</u>	\$ <u>2,222,527,456</u>
2007			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets, Beginning of Year	\$ 645,185,908	\$ 2,359,574,263	\$ 3,004,760,171
Change in net assets	<u>(396,750,604)</u>	<u>412,572,355</u>	<u>15,821,751</u>
Net Assets, End of Year, Before Foreign Currency Translation Adjustment	248,435,304	2,772,146,618	3,020,581,922
Foreign currency translation adjustment	<u>(151,504)</u>	<u>-</u>	<u>(151,504)</u>
Total Net Assets, End of Year	\$ <u>248,283,800</u>	\$ <u>2,772,146,618</u>	\$ <u>3,020,430,418</u>

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

THE GAVI FUND

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (797,901,593)	\$ 15,821,751
Adjustments to reconcile change in net assets		
to net cash (used in) provided by operating activities:		
Realized and unrealized foreign currency transaction adjustment	(313,709,197)	(17,097,674)
Increase of borrowings measured at fair value	46,286,623	-
Unrealized gains on program grants payable measured at fair value	(396,760)	-
Unrealized gains on promises to give measured at fair value	(339,936,753)	-
Depreciation	1,450,223	572,006
Loss on fixed asset disposals and impairments	-	230,511
Realized and unrealized gains on investments	70,715,138	(28,891,642)
Amortization of bond issuance costs	-	181,920
Amortization of bond discount	-	152,934
Release of commitment to fund future procurement	-	(8,981,464)
Changes in assets and liabilities		
Receivables, prepaids, and other assets	130,619,097	30,989,996
Receivable for currency and interest rate swaps	(40,666,593)	-
Promises to give	1,003,177,335	(771,598,706)
Accounts payable and accrued liabilities	(2,903,341)	1,751,394
Payable for currency and interest rate swaps	(106,762,836)	34,797,599
Accrued bond interest	5,038,190	-
Program grants payable	304,508,917	255,650,676
Procurement account payable	19,795,108	8,064,890
Net Cash (Used in) Provided by Operating Activities	<u>(20,686,442)</u>	<u>(478,355,809)</u>
Cash Flows from Investing Activities:		
Restricted cash utilized for long-term purposes	(19,795,108)	(8,064,890)
Purchase of fixed assets	(2,309,987)	(5,117,898)
Purchase of investments	(10,112,514,703)	(5,862,821,122)
Sales of investments	9,986,595,370	6,325,317,364
Net Cash Provided by (Used in) Investing Activities	<u>(148,024,428)</u>	<u>449,313,454</u>
Cash Flows from Financing Activities:		
Proceeds from bonds issuance	210,801,278	-
Net Cash (Used in) Provided by Financing Activities	<u>210,801,278</u>	<u>-</u>
Net Change in Cash	42,090,408	(29,042,355)
Cash, Beginning of Year	1,651,500	30,693,855
Cash, End of Year	<u>\$ 43,741,908</u>	<u>\$ 1,651,500</u>
Supplemental Disclosures:		
Cash payments for interest	<u>\$ 60,305,049</u>	<u>\$ 50,000,000</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, 2008

	<u>Program</u>	<u>Management and General</u>	<u>Financing</u>	<u>Program Fundraising</u>	<u>2008 Total</u>
Direct program expenses	\$ 905,549,848	\$ -	\$ -	\$ -	\$ 905,549,848
Program implementation	<u>124,303,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,303,611</u>
Total Program Expenses	1,029,853,459	-	-	-	1,029,853,459
Payroll and benefits	-	7,244,138	-	2,479,948	9,724,086
Training and recruitment	-	555,360	-	39,739	595,099
Professional fees	-	14,346,558	-	801,001	15,147,559
Media production and distribution	-	63,044	-	308,417	371,461
Events and meetings	-	225,778	-	59,953	285,731
Travel and representation	-	1,196,972	-	424,047	1,621,019
Facility and office costs	-	5,312,954	-	15,538	5,328,492
Supplies and minor equipment	-	401,530	-	2,091	403,621
Other borrowing expenses	-	-	8,465,465	-	8,465,465
Interest expense	-	-	65,343,239	-	65,343,239
Other Operating Expenses	<u>-</u>	<u>29,346,334</u>	<u>73,808,704</u>	<u>4,130,734</u>	<u>107,285,772</u>
Total Expenses	\$ <u>1,029,853,459</u>	\$ <u>29,346,334</u>	\$ <u>73,808,704</u>	\$ <u>4,130,734</u>	\$ <u>1,137,139,231</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, 2007

	<u>Program</u>	<u>Management and General</u>	<u>Financing</u>	<u>Program Fundraising</u>	<u>2007 Total</u>
Direct program expenses	\$ 1,085,782,452	\$ -	\$ -	\$ -	\$ 1,078,149,903
Program implementation	<u>56,082,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,082,467</u>
Total Program Expenses	1,141,864,919	-	-	-	1,134,232,370
Payroll and benefits	-	4,096,890	-	1,990,846	6,087,736
Training and recruitment	-	207,878	-	73,841	281,719
Professional fees	-	11,093,337	-	279,421	11,372,758
Media production and distribution	-	303,336	-	171,956	475,292
Events and meetings	-	307,121	-	80,076	387,197
Travel and representation	-	1,305,217	-	283,144	1,588,361
Facility and office costs	-	3,718,536	-	7,379	3,725,915
Supplies and minor equipment	-	258,879	-	8,227	267,106
Other borrowing expenses	-	-	580,148	-	580,148
Interest expense	-	-	50,000,000	-	50,000,000
Other Operating Expenses	<u>-</u>	<u>21,291,194</u>	<u>50,580,148</u>	<u>2,894,890</u>	<u>74,766,232</u>
Total Operating Expenses before Convergence Recoveries	1,141,864,919	21,291,194	50,580,148	2,894,890	1,208,998,602
Convergence recoveries	<u>-</u>	<u>(222,010)</u>	<u>-</u>	<u>-</u>	<u>(222,010)</u>
Total Expenses	\$ <u>1,141,864,919</u>	\$ <u>21,069,184</u>	\$ <u>50,580,148</u>	\$ <u>2,894,890</u>	\$ <u>1,208,776,592</u>

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, 2008 and 2007

Note 1 - Nature of Operations and Affiliations

The Global Alliance for Vaccines and Immunisation (the “Alliance”) is a partnership that combines public and private sector resources to strengthen health systems, bring the benefits of immunization to those in greatest need, and ultimately save millions of lives worldwide. These consolidated financial statements include the following members of the Alliance: 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, 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 United States.

The Association was registered in Lyon, France in 2001 as an affiliate of the Fund. The purpose of the Association was 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 and liquidation of the Association was completed on June 30, 2008. The remaining assets, liabilities, and net assets of the Association were incorporated into the Fund as of June 30, 2008.

IFFIm was incorporated as a private company limited by guarantee under the UK Companies Act 1985 on June 26, 2006. IFFIm is registered with the UK Charity Commission as a charity. The primary purpose is to provide funding for immunization 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 UK Companies Act 1985 on May 26, 2006. The sole member of GFA is the Fund. GFA is registered with the UK 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 immunization 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 early 2008, the Boards of the Alliance and the Fund decided to merge and centralize GAVI’s governance activities in Switzerland and to reorganize the Alliance into the Foundation under Swiss law. The Foundation changed its name to the GAVI Alliance on January 1, 2009. The GAVI Alliance applied for recognition as an “international institution” under the Swiss Host State Act, which entered into force on January 1, 2009. When recognized, the GAVI Alliance will benefit from broad privileges and immunities within Switzerland. Upon completion, the sole member of IFFIm and the GFA changed from the GAVI Fund to the GAVI Alliance, a charitable entity organized under the laws of Switzerland.

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 1 - Nature of Operations and Affiliations – continued

Also, this reorganization will require an amendment to the IFFIm governing documents (the *Finance Framework Agreement* and the *Procedures Memorandum*) because the process for approving programs within GAVI and requesting funding from IFFIm will change modestly, with the process being streamlined into the GAVI Alliance. The GAVI Alliance has applied for 501(c)(3) status in the U.S. as a foreign owned charity and will maintain a branch office in Washington, D.C. The Fund will maintain a U.S. presence, focusing on U.S. private fundraising and related outreach. The “international institution” status was approved on June 23, 2009.

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 (“GAAP”).

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 – Beginning 2008, GAVI’s policy is to record unconditional promises to give at fair value. Unconditional promises to give and to be collected in more than one year are discounted using donor-specific risk-adjusted interest rates. Conditional promises to give are recorded when the conditions are met. In 2007, unconditional promises to give and to be collected within one year are recorded at net realizable value. Unconditional promises to give and to be collected in more than one year were 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.

GAVI’s promises to give include grants from the following seven sovereign governments: the Republic of France, the Republic of Italy, the Kingdom of Norway, the Kingdom of Spain, the Kingdom of Sweden, the United Kingdom and the Republic of South Africa. 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 grant payment condition that allows donors to reduce their payment amounts. Such amounts are recorded initially net of discounts for the time value of money and an estimate of the ultimate payment reductions as a result of the arrearages described below.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 2 - Significant Accounting Policies - continued

The grant payment 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 reduction amount is calculated using a probabilistic model which estimates the likelihood and duration that any recipient member country might fall into arrears with the IMF.

The final determination of each payment amount (as measured by International Bank for Reconstruction and Development (IBRD)) is made 25 business days 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, 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 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.

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 Group. Shares in pooled cash, investments and cash held in trust 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 – Effective January 1, 2008, GAVI adopted Financial Accounting Board Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) for financial assets measured on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS 157 established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable whereby the market participant assumptions are developed based on market data obtained from independent sources and, unobservable whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 2 - Significant Accounting Policies - continued

In conjunction with the adoption of SFAS 157, GAVI adopted FASB's SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159) effective January 1, 2008. SFAS 159 provides an option for most financial assets and financial liabilities to be reported at fair value with changes in fair value reported in the Statement of Activities. Under SFAS 159's transition provisions, GAVI has elected to report at fair value all contributions receivable, program grants payable and borrowings previously reported at amortized cost, with changes in fair value reported in the Statement of Activities. The financial impact of GAVI's adoption of SFAS 159 is discussed further in Note 13. The objective of this election was to better align the carrying values of borrowings, and contributions receivable with the derivative contracts which economically hedge these. After the initial adoption, the election is made at the acquisition of a financial asset, or liability and is irrevocable. GAVI's policy from the fiscal year ending December 31, 2008 onwards is to designate all new contributions receivable and borrowings at fair value.

SFAS 157 establishes a three-level fair value hierarchy under which financial assets and liabilities are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement of the asset or liability in its entirety. Thus, a Level 3 fair value measurement of the asset or liability may include inputs that are observable (Level 2) and unobservable (Level 3). Additionally, SFAS 157 requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets and liabilities recorded at fair value are categorized based on the inputs to the valuation techniques as follows:

- Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2: Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 2 - Significant Accounting Policies - continued

Summarized below are the techniques applied in determining the fair values of assets and liabilities.

Cash – The carrying amount reported approximates fair value

Pooled investments – IBRD in its role of Treasury Manager maintains the cash and investments on a pooled accounting basis on behalf of IFFIm and GFA. IFFIm and GFA's share of the Pool is not traded in any market, however, the Pool is a trading portfolio and is reported at fair value. Share in pooled cash and investments represents the IFFIm and GFA's allocated share of the Pool's fair value at the end of the reporting period. The fair value is the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties. If an active market exists, the market or quoted price is applied (Level 1). If an active market does not exist, generally accepted valuation techniques, based on observable market data at the reporting date, are used instead (Level 2).

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include some government securities, mutual funds, futures and exchange-traded equity securities. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads and prepayment speeds (Level 3). Unless quoted prices are available, money market instruments are reported at face value, which approximates fair value.

Contributions receivable - Fair values are estimated using a discounted cash flow method. For \$2,740,114,948 of the contribution receivable, each cash flow is reduced by an estimated reduction amount due to the grant payment condition and the reduced cash flows are discounted to present value using observable donor-specific risk-adjusted interest rates. Each individual promise to give is discounted based on the respective sovereign governments' borrowing rate which considers both market and credit risk for the respective sovereign governments' promise to give. Fair value is estimated by a probabilistic model yielding a reduction of 16.1% and 16.3% as of December 31, 2008 and 2007, respectively. The model uses inputs which are both unobservable and significant to the overall fair value of the contributions receivable. These contributions receivable have therefore been recorded as level 3 within the valuation hierarchy. The remaining contributions receivable, approximately \$524 million, are recorded as level 2 within the valuation hierarchy. Fair value is estimated using a discounted cash flow method using observable donor-specific risk adjusted interest rates.

Due to the nature of the contributions receivables, changes in market and credit risk, and the economic environment may significantly impact the inputs used in the model and, consequently, the fair value of the contributions receivables. Although a secondary market may not exist for these transactions, it is reasonably possible that if GAVI were to sell these receivables in a secondary market a buyer may require a discount to the reported fair value, and the discount could be significant.

Program Grants Payable - Fair values are estimated using a discounted cash flow method. Each cash flow is discounted to present value using observable risk-free interest rates. Grants payable due in one to five years have therefore been recorded as level 2 within the valuation hierarchy.

Bonds Payable – The fair value of IFFIm's borrowings is based on market quotations from active markets. Bonds Payable have therefore been recorded as level 1 within the valuation hierarchy.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 2 - Significant Accounting Policies - continued

Derivatives - The fair values of derivatives are estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date. All model inputs are based on readily observable market parameters such as yield curves, foreign exchange rates, and basis spreads. Derivatives have therefore been recorded as level 2 within the valuation hierarchy.

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. Net fixed assets of \$5,785,691 and \$5,291,215 are included in receivables, prepaids, and other assets in the consolidated statements of financial position as of December 31, 2008 and 2007, respectively.

Program Grants Payable –Program grants payable that are determined to be contributions are recognized when an unconditional commitment is made and approved by GAVI. In 2008, program grants payable are recorded at fair value. Grants payable in future years are recorded at the present value of their estimated future cash flows using donor-specific risk-adjusted interest rates. Grants payable that are determined to be exchange transactions are recorded 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. In 2007, grants payable within one year are recorded at the full expected payment value.

Bonds Payable – In 2008, bonds payable are recognized at fair value. Changes in the fair values of bonds payable are recognized as a change in unrestricted net assets in the period of change and are reported under financing expenses in the Statement of Activities. In 2007, bonds payable were recognized at carrying value, net of bond issuance costs and the related premium or discount. Bond issuance costs and discounts are recognized in the period incurred and are reported under financing expenses in the Statement of Activities.

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 by actions of GAVI and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by GAVI. As of December 31, 2008 and 2007, GAVI did not have any permanently restricted net assets.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 2 - Significant Accounting Policies - continued

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 values at the date of their receipt. For the years ended December 31, 2008 and 2007, GAVI received \$0 and \$93,263, respectively, of donated goods and services.

Revenue from cost-reimbursable contracts/grants is recognized as costs are incurred and/or activities have occurred 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 Financial Accounting Standards Board (FASB) Statement No. 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 is 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 in the consolidated statements of functional expenses.

Derivative Financial Instruments - GAVI uses derivatives in its borrowing activities and for 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, 2008 and 2007

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 consolidated statements of financial position.

Use of Estimates - The preparation of the consolidated financial statements, in conformity with GAAP, 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.

Adoption of New Accounting Pronouncement - In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48), which addresses accounting for, and disclosure of, uncertain tax positions. FIN 48 prescribes a model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions, presuming the tax authorities' full knowledge of the position and all relevant facts. FIN 48 will require an entity to recognize the benefit of tax positions when it is "more likely than not" that the provision will be sustainable based on the merits of the position. There was no impact on the consolidated financial statements as a result of the adoption of FIN 48 in 2008, as management believes that there are no uncertain tax positions within its consolidated financial statements.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform with current year presentation.

Note 3 – Restricted Cash – Procurement Account

Beginning in 2006, GAVI established a separate account, the procurement account, in which the Fund and 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, 2008 and 2007, \$292,719,222 and \$272,924,114, respectively, are 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.

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 4 - Promises to Give

GAVI's unconditional promises to give as of December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Contributions due in less than one year	\$ 283,013,339	\$ 300,181,821
Contributions due in two to five years	1,187,109,841	1,123,829,549
Contributions due thereafter	<u>3,604,702,292</u>	<u>4,757,597,490</u>
Unconditional promises to give before unamortized discount and reduction due to grant payment condition	5,074,825,472	6,181,608,860
Less reduction due to grant payment condition	(728,821,358)	(951,514,020)
Less unamortized discount	<u>(1,081,663,856)</u>	<u>(1,616,223,197)</u>
Net Promises to Give	\$ <u>3,264,340,258</u>	\$ <u>3,613,871,643</u>

For the promises to give as of December 31, 2008, discount rates ranging from 0.2% to 9.0% were applied commensurate with the pledge period.

The fair values of GAVI's promises to give from sovereign governments were initially reduced by an estimated reduction amount due to the grant payment condition and then discounted to present value at donor-specific risk-adjusted interest rates.

Note 5 – Investments

This note and the table below summarize GAVI's investment activity as handled for the Fund, GFA, and IFFIm. In the table below, the pooled investments line item refers to those investments handled by the IBRD for GFA and IFFIm. Investments as of December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 243,403,671	\$ 218,527,923
Registered investment companies	247,401,504	38,275,770
Collective investment trusts	270,072,114	-
Corporate bonds	5,060,769	128,228,958
Asset-backed securities	22,852,318	324,716,391
Limited partnerships and limited liability companies	151,809,634	249,149,022
U.S. Government and agency obligations	-	91,584,702
Other securities	<u>1,115,992</u>	<u>5,071,024</u>
Investments	<u>941,716,002</u>	<u>1,055,553,790</u>
Pooled investments	<u>308,920,944</u>	<u>202,202,608</u>
Total Investments	\$ <u>1,250,636,946</u>	\$ <u>1,257,756,398</u>

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 5 – Investments - continued

GAVI invests a portion of its assets in limited partnerships and limited liability companies (the "Underlying Funds"). 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, 2008 and 2007, investments in Underlying Funds carried at fair value, as determined by management, are equal to \$151,809,634 and \$249,149,022, respectively. 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.

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, 2008 and 2007 was \$0 and \$2,557,975, respectively. The fair values of the options, together with futures and forwards, are included in other 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.

At December 31, 2008, GAVI did not have any futures, options, pending purchases and sales on forwards. The notional par and fair values of futures, options, pending purchases, and sales on forwards at December 31, 2007 are as follows:

	Notional par value	Fair value
Options	\$ (8,716,838)	\$ (122,532)
Futures	171,615,260	117,160
Currency forwards purchase	5,871,934	226,484
Currency forwards sales	1,634,829	(9,640)
Swap contracts	74,305,849	237,667
		\$ 449,139

Investment income for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007
Interest	\$ 34,114,015	\$ 53,035,543
Realized gains (losses)	(6,484,237)	17,728,310
Unrealized gains (losses)	(64,230,901)	(7,176,580)
Investment fees and borrower rebates	(1,938,732)	(2,025,442)
	\$ (38,539,855)	\$ 61,561,831

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 6 – Program Grants Payable

GAVI's grants committed, but unpaid as of December 31, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
Grants payable due in less than one year	\$ 1,159,251,051	\$ 864,619,134
Grants payable due in one to five years	<u>9,877,000</u>	<u>-</u>
	1,169,128,051	864,619,134
Less unamortized discount	<u>(396,760)</u>	<u>-</u>
Total Grants Payable	\$ <u>1,168,731,291</u>	\$ <u>864,619,134</u>

In 2007, GAVI introduced a co-financing program whereby GAVI's payment obligations on country programs were conditional on the country providing a co-payment. GAVI's payment obligations under this set of programs were treated as conditional because of the potential that the co-finance repayment by countries would not be met. As of December 31, 2007, GAVI's conditional liabilities in this regard were \$46,325,500. These liabilities were not recorded in the financial statements because of the conditional nature of the liability. In January 2008, GAVI changed the co-financing policy whereby there is no longer a payment amount on the part of GAVI that is conditional on the country providing a co-payment. Therefore, as of December 31, 2008, all amounts related to the co-financing program have been recorded in the financial statements.

Note 7 – 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. On March 18, 2008, IFFIm made its debut offering in the Japanese retail market issuing a bond with a principal value of ZAR 1.7 billion. IFFIm's outstanding borrowings as of December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Principal amount	\$ 1,214,348,750	\$ 1,000,000,000
Add unrealized loss	41,137,763	-
Less unamortized discount and issuance costs	<u>-</u>	<u>(1,601,388)</u>
Bonds Payable	\$ <u>1,255,486,513</u>	\$ <u>998,398,612</u>
Short-term Interest Payable Related to Borrowings	\$ <u>11,565,968</u>	\$ <u>6,527,778</u>

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 7 – Bonds Payable - continued

Bonds payable as of December 31, 2008 and 2007, consisted of the following:

	Effective Interest Rate	Principal
5% Annual Notes, Maturing on November 14, 2011	5.04%	\$1,000,000,000
9.9% Semi-Annual Notes, Maturing on March 18, 2010	10.80%	\$180,000,000 (ZAR1,700,000,000)

Note 8 - Temporarily Restricted Net Assets

GAVI's temporarily restricted net assets as of December 31, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
Due to time restriction	\$ 2,116,180,066	\$ 2,563,820,444
Due to program restriction for specific recipient country	70,986,546	174,120,674
Due to program restriction for non-country specific recipient country	<u>17,189,796</u>	<u>34,205,500</u>
Total Temporarily Restricted Net Assets	\$ <u>2,204,356,408</u>	\$ <u>2,772,146,618</u>

Note 9 – 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. dollars.

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 9 – Derivative Financial Instruments - continued

For the years ended December 31, 2008 and 2007, net gains/(losses) in the fair values of derivatives totaled \$167,060,036 and \$(41,867,652), respectively, which have been recognized in the consolidated statements of activities as net gains/(losses) from derivatives, and includes the following:

	2008	2007
Losses from swaps related to promises to give		
Realized losses	\$ (15,636,369)	\$ (4,050,813)
Unrealized gains/(losses)	123,036,959	(74,020,144)
Net gains/(losses) from swaps related to promises to give	107,400,590	(78,070,957)
Losses from swaps related to borrowings		
Realized gains/(losses)	26,767,725	(2,576,122)
Unrealized gains	32,891,721	38,779,427
Net gains from swaps related to borrowings	59,659,446	36,203,305
Gains/(Losses) from Derivatives – net	\$ 167,060,036	\$ (41,867,652)

In addition, at December 31, 2008 and 2007, IFFIm had unrealized foreign currency transaction (losses)/gains of \$(432,919,770) and \$91,573,687, respectively, related to the promises to give that offset the net gains/(losses) of \$167,060,036 and \$(41,867,652), respectively, from derivatives.

The notional amounts and fair values of interest rate and currency swaps as of December 31, 2008, are as follows:

	Notional Amount	Fair Value
Currency and interest rate swaps related to promises to give	\$4,357,709,929	\$ (20,897,030)
Interest rate swaps related to bonds payable	\$1,180,217,000	61,563,623
Receivable for Currency and Interest Rate Swaps		\$ 40,666,593

The notional amounts and fair values of interest rate and currency swaps as of December 31, 2007 are as follows:

	Notional Amount	Fair Value
Currency and interest rate swaps related to promises to give	\$5,285,337,817	\$ (143,933,988)
Interest rate swaps related to bonds payable	\$1,000,000,000	37,171,152
Payable for Currency and Interest Rate Swaps		\$ (106,762,836)

THE GAVI FUND
Notes to Consolidated Financial Statements
As of and for the Years Ended December 31, 2008 and 2007

Note 10 – 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 Internal Revenue Service limitations.

GAVI's annual matching contribution equals 2% of each vested participant's compensation and a 3% contribution due to a safe harbor provision. The participants are fully vested after 1,000 hours of employment in a plan year. An additional discretionary amount for 2008 and 2007, equaling 10% of the participant's compensation, was provided. As of December 31, 2008 and 2007, the amount expensed for GAVI's contributions totaled \$554,676 and \$451,927, respectively.

Note 11 – Leases

GAVI has a ten-year lease agreement for office space in the District of Columbia, which commenced on November 15, 2003. In September 2007, GAVI moved out of this space and has sublet the space for the remainder of the lease term. GAVI entered into a new ten-year lease agreement with a five-year option to renew, which commenced on June 1, 2007.

GAVI's future minimum lease payments and sublessor income are as follows:

<i>Years Ending December 31</i>	Expense	Income	Net Expense
2009	\$ 1,436,802	\$ 703,252	\$ 733,550
2010	1,471,964	517,762	954,202
2011	1,507,988	542,820	965,168
2012	1,568,229	569,094	999,135
Thereafter	6,494,005	433,379	6,060,626
Total	\$ 12,478,988	\$ 2,766,307	\$ 9,712,681

Rent expense for these leases is recognized on a straight-line basis over the term of the leases. Rental expense totaled \$2,005,568 and \$1,623,390 for the years ended December 31, 2008 and 2007, respectively.

In addition, GAVI has 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 began in January 2007. The total amount to be paid out evenly over the remaining years is approximately \$4,039,200.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 12 – 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, 2008 and 2007 approximate \$473,000,000 and \$462,000,000, respectively. GAVI has not experienced any credit losses on these financial instruments in the past. In addition, the money market accounts included in these balances are liquid accounts in support of programs. In general, balances are transferred within six months of receipt. On October 3, 2008, the U.S. Government increased the FDIC deposit insurance limit from \$100,000 to \$250,000.

The approximate uninsured cash balances are as follows:

	<u>2008</u>	<u>2007</u>
Checking accounts – cash	\$ 43,000,000	\$ 1,000,000
Deposit accounts - restricted cash	293,000,000	273,000,000
Money market - investment accounts	<u>180,000,000</u>	<u>188,000,000</u>
Total Uninsured Cash Balances	<u>\$ 516,000,000</u>	<u>\$ 462,000,000</u>

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-.

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 13 – Fair Value of Financial Instruments

The following table summarizes GAVI's assets measured at fair value along with their valuation hierarchy as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Pooled investments	\$ 43,586,081	\$ 265,334,863	\$ -	\$ 308,920,944
Money market funds	-	243,403,671	-	243,403,671
Registered investment companies	247,401,504	-	-	247,401,504
Collective investment trusts	-	-	270,072,114	270,072,114
Corporate bonds	-	5,060,769	-	5,060,769
Asset backed securities	-	22,852,318	-	22,852,318
Limited partnerships and limited liability	-	-	151,809,634	151,809,634
Other securities	-	1,115,992	-	1,115,992
Promises to give	-	524,225,310	2,740,114,948	3,264,340,258
Receivable for currency and interest rate swaps, net	-	40,666,593	-	40,666,593
Total	\$ 290,987,585	\$ 1,102,659,516	\$ 3,161,996,696	\$ 4,555,643,797

The following table summarizes GAVI's liabilities measured at fair value along with their valuation hierarchy as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Program grants payable	\$ -	\$ 9,480,240	\$ -	\$ 9,480,240
Bonds payable	1,255,486,513	-	-	1,255,486,513
Total	\$ 1,255,486,513	\$ 9,480,240	\$ -	\$ 1,264,966,753

THE GAVI FUND

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2008 and 2007

Note 13 – Fair Value of Financial Instruments - continued

The table below provides a summary of changes in the fair value of Level 3 financial assets for the year ended December 31, 2008:

	Assets			
	Collective Investment Trusts	Limited Partnerships and Limited Liability Companies	Promises to Give	Total
Fair value January 1, 2008	\$ -	249,148,888	2,975,760,103	\$ 3,224,908,991
Net realized and unrealized losses	1,938,883	(22,807,529)	(397,722,048)	(418,590,694)
Unrealized fair value gains	-	-	312,650,972	312,650,972
Purchases and sales	268,133,231	(74,531,725)	-	193,601,506
Contributions received	-	-	(150,574,079)	(150,574,079)
Fair value December 31, 2008	\$ 270,072,114	151,809,634	2,740,114,948	\$ 3,161,996,696

The following table shows the financial instruments for which GAVI elected the fair value option and the transition adjustment recorded on January 1, 2008:

	Carrying value prior to adoption	Transition adjustment recorded	Adjusted carrying value after adoption
Promises to give	\$ 3,613,871,643	\$ (7,059,059)	\$ 3,606,812,584
Bonds payable	(998,398,612)	(38,151,388)	(1,036,550,000)
Cumulative effect of the adoption of the fair value option		\$ (45,210,447)	

Note 14 – Subsequent Events

On February 19, 2009 IFFIm issued three bonds to the Japanese retail market. The bonds have principal values of ZAR3.2 billion, NZD\$179 million and AUD\$45 million, respectively, raising a total of \$429 million for IFFIm.