



## The GAVI Alliance Accounts

Combined Financial Statements  
For the Year Ended December 31, 2005



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# Financial comments

(commentary may include unaudited figures)

**In 2000, the Global Alliance for Vaccines and Immunisation (GAVI) was launched to radically improve access to vaccines in the 75 poorest countries of the world, and to strengthen their immunisation services. GAVI's founding partners aimed to pool their collective skills and resources to improve child survival, using one of the most basic and cost-effective public health tools available—immunisation. To finance its mission, the GAVI partners created The Vaccine Fund, and charged it with raising new resources for immunisation and to provide GAVI recipient countries with multi-year grants.**

Governments from GAVI Fund-eligible countries work with local partners to complete an application for support from the GAVI Fund for periods which may extend up to 5 years. Applications are then submitted to the GAVI Secretariat and reviewed by the Independent Review Committee. The GAVI Board reviews the recommendations of the Independent Review Committee and submits its award recommendations to the Executive Committee of the GAVI Fund for final decision and allocation of funds. The GAVI Fund has the sole discretion to approve award recommendations for funding. The GAVI Fund's initial approval of the GAVI award recommendation does not create a commitment of the GAVI Fund until it has determined whether the GAVI award recommendation will be funded directly from the Trust Account and/or funded from assets of the GAVI Fund 501(c)(3). The GAVI Fund records a liability when both the funding source and amount (from the GAVI Fund) is determined. To date, the GAVI Board has approved US\$1.6 billion in applications; this only includes applications

approved during GAVI phase 1 (2000-2005) – and does not yet include applications associated with GAVI phase 2 – which will span from 2006 to 2015.

The GAVI Board approves applications for funding from eligible countries on a continuous basis. The table below details how the US\$1.6 billion is broken down among the different program areas of GAVI.

Programs in millions of US\$ (unaudited)	Approved as of 12/31/05	Disbursed as of 12/31/05
Immunisation Services Support	343.1	124.5
New and Underused Vaccines	1,019.1	496.9
Injection Safety	115.0	91.2
Yellow Fever Stockpile	12.5	15.8
Accelerated Development and Introduction Plans	60.0	32.1
Africa Measles Campaign	50.0	12.5
Hib Initiative	37.0	2.5
<b>Total Applications endorsed</b>	<b>1,636.7</b>	<b>775.5</b>

Funds for approved GAVI programs are disbursed through the Trust Account at UNICEF – either to the Supply Division at UNICEF to fund the purchase of supplies or directly to countries. Since inception, the Trust Account and the GAVI Fund have distributed US\$775.5 million in funding against approved programs. The table above provides a breakdown of how these funds have been distributed. Phase 1 approvals include a US\$216 million firm commitment to purchase vaccines and related supplies that was entered into in December 2003. Remaining obligations associated with this commitment totaled US\$68 million on December 31, 2005. This procurement-related obligation will be paid through 2006 and appears as an outstanding obligation on the GAVI Fund's financial statements. Funding from public or private donors is received directly into the GAVI Fund, a 501(c) (3) incorporated in Washington State, USA or into a separate Trust Account managed by UNICEF. The Trust Account aggregates funds received from both the GAVI Fund and those received directly. All funds received are then subsequently distributed either directly to eligible countries or to the Supply Division at UNICEF for the procurement of supplies. Together, activity at the GAVI Fund and the Trust Account paint a complete picture of the resources that have been raised and disbursed for GAVI.

The Unaudited Combined Financial Statements found on pages 4 to 16 are for the GAVI Alliance Accounts which comprised of the GAVI Fund, consolidated with its affiliate Le Fonds pour les Vaccins de l'Enfance (the "GAVI Fund"), the GAVI Secretariat mini-trust account from which operating expenses are disbursed for the office in Geneva ("Secretariat") and the GAVI Fund Trust Account at UNICEF ("Trust Account").

As of December 31, 2005, the table below estimates how the GAVI Fund's financial position could evolve should the GAVI Fund fully approve the remaining programs endorsed by the GAVI Board.

In Millions of US\$ as of 12/31/05 (unaudited)	
Estimated value of programs endorsed by GAVI	1,636.7
Funds disbursed since inception	(775.5)
Remaining programs endorsed by GAVI not yet funded	861.2
The GAVI Fund Investment Assets	886.0
<b>Potential Under-funding of GAVI programs</b>	<b>24.8</b>

Since inception, the GAVI Fund has raised US\$2.3 billion in pledged financial support for GAVI from public and private contributors and has received US\$1.6 billion against the pledges. Of the US\$628 million pledges outstanding as of December 31, 2005, US\$600 million was raised from the Bill & Melinda Gates Foundation. In 2005, US\$306 million was received for GAVI programs with US\$154 million of this total coming from the Bill & Melinda Gates Foundation. Of this total, US\$226 million was received into the 501(c)(3) and US\$80 million was received into the Trust Account at UNICEF. In addition to revenues that are generated by contributions, the GAVI Fund maintains an active investment program to enhance the revenues available for GAVI. Since inception, the GAVI Fund portfolio has generated US\$97.5 million in investment income, net of fees. In 2005 the portfolio generated US\$10.3 million in net investment income and a composite return of 1.37%. In 2004 the portfolio generated US\$19.9 million in net investment income and a composite return of 3.05%. The GAVI Fund's portfolio is invested in a diversified short-duration, high credit quality fixed income mandate.

# The GAVI Alliance Accounts

## **OVERVIEW**

The Unaudited Combined Financial Statements of the GAVI Alliance Accounts as of December 31, 2005 and for the year then ended are presented in this section.

The GAVI Fund Audited Consolidated Financial Statements as of December 31, 2005 and 2004 and for the years then ended, may be viewed on our website.

# The GAVI Alliance Accounts

Combined Statements of Financial Position As of December 31, 2005

	Unaudited
<b>Assets</b>	
Cash	US\$ 46,511,576
Accounts receivable	12,138
Interest receivable	6,160,890
Prepaid expenses	7,312,501
Promises to give	538,157,002
Fixed assets, net	1,966,962
Investment sales receivable	1,639
Securities pledged	100,509,037
Investments	886,080,040
<b>Total Assets</b>	<b>US\$ 1,586,711,785</b>
<b>Liabilities and Net Assets</b>	
<b>Liabilities:</b>	
Accounts payable and accruals	US\$ 5,696,013
Grants payable	23,808,782
Investment purchases payable	32,669,343
Payable under securities lending agreements	102,519,903
Commitment to fund future procurement	67,743,100
Program award liability	659,177,959
<b>Total Liabilities</b>	<b>891,615,100</b>
<b>Net Assets:</b>	
Unrestricted	162,861,684
Temporarily restricted	532,235,001
<b>Total Net Assets</b>	<b>695,096,685</b>
<b>Total Liabilities and Net Assets</b>	<b>US\$ 1,586,711,785</b>

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

# The GAVI Alliance Accounts

Combined Statements of Activities For the Year Ended December 31, 2005

	Unaudited
<b>Unrestricted:</b>	
<b>Revenues:</b>	
Contributions	US\$ 218,673,379
Federal award	64,480,000
Investment income	11,394,537
Foreign currency translation adjustment	(2,461,246)
Other	112,285
Release of net assets	24,866,645
<b>Total Revenues</b>	<b>317,065,600</b>
<b>Expenses:</b>	
Program	170,838,294
Management & general	14,955,602
Fundraising	6,351,482
<b>Total Expenses</b>	<b>192,145,378</b>
<b>Change In Unrestricted Net Assets Before Release of Commitment to Fund Future Procurement</b>	<b>124,920,222</b>
Release of commitment to fund future procurement	49,874,668
<b>Change in Unrestricted Net Assets</b>	<b>174,794,890</b>
<b>Temporarily Restricted:</b>	
Contributions	524,181,583
Release of net assets	-24,866,645
<b>Change in Temporarily Restricted Net Assets</b>	<b>499,314,938</b>
<b>Total Change in Net Assets</b>	<b>674,109,828</b>
Net Assets, Beginning of Year	
Unrestricted	(11,933,206)
Temporarily restricted	32,920,063
<b>Total Net Assets, Beginning of Year</b>	<b>20,986,857</b>
Net Assets, End of Year	
Unrestricted	162,861,684
Temporarily restricted	532,235,001
<b>Total Net Assets, End of Year</b>	<b>US\$ 695,096,685</b>

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

# The GAVI Alliance Accounts

Combined Statements of Activities For the Year Ended December 31, 2005

## NOTE 1 – NATURE OF OPERATIONS

The GAVI Alliance Accounts are comprised of the GAVI Fund, consolidated with its affiliate le Fonds pour les Vaccins de l'Enfance (the "GAVI Fund"), the GAVI Secretariat mini-trust account from which operating expenses are disbursed for the office in Geneva ("Secretariat") and the GAVI Fund Trust Account at UNICEF ("Trust Account") collectively the ("Accounts"). The GAVI Alliance ("GAVI") is a public-private partnership of governments, vaccine manufacturers, nongovernmental organizations, foundations, research institutes and multilateral organizations committed to harnessing their respective experience and strengths to increase routine immunisation coverage and to accelerate access to new and life-saving vaccines in the world's poorest countries. GAVI is an unincorporated alliance with a Board comprised of representatives of members, providing a forum for decision making on common objectives and strategies. GAVI established the GAVI Secretariat (the "Secretariat") to coordinate its support for immunisation programmes. Members of GAVI include the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), the World Bank, the Bill & Melinda Gates Foundation, governmental development agencies of the world, technical agencies, and the pharmaceutical industry.

To finance its mission, GAVI created the GAVI Fund (the "Fund"); a charitable nonprofit organization incorporated under the laws of Washington State in the United States of America and charged it with raising new resources for immunisation and to provide GAVI recipient countries with multi-year grants to improve their immunisation services. The disposition of assets held by the Fund are subject to the approval of its Board. In 2001, le Fonds pour les Vaccins de l'Enfance (The Fund for Children's Vaccines, referred to as the "Association") was incorporated in Lyon, France to contribute to the improvement of the vaccination of children in developing countries, to promote the research and development of vaccines in all fields, and to contribute to the achievement of the GAVI Fund. The GAVI Fund is a member ex-officio of the Board of Directors of the Association and elects its other members.

The GAVI Board sets overall policies and strategies, and monitors and oversees areas relating to GAVI-supported programmes. Its functions include programme policy development, programming, and strategic planning.

The GAVI Fund, serving as coordinating financial agent and fiduciary for GAVI, sets policies and strategies, and monitors and oversees areas relating to fund raising and fiduciary control. Its functions include fund raising, resource management, conflict of interest management, and the setting of disbursement policies for funds committed by donors to benefit GAVI programmes, consistent with the GAVI Fund's charitable mission.

During 2004, the Boards of Directors of both the GAVI Fund and GAVI approved "convergence" of the GAVI Fund and the GAVI Secretariat. The convergence process was designed to create a coordinated structure and platforms operating under a common workplan necessary to continue to support GAVI and the GAVI Fund in their objectives over the next ten years. As part of convergence in 2005, the GAVI Fund and the GAVI Secretariat now have the same individual serving as President and CEO and as Executive Secretary respectively.

# The GAVI Alliance Accounts

Notes to Combined Financial Statements For the Year Ended December 31, 2005

## NOTE 1 – CONTINUED

Additionally, the Association's Lyon-based staff has been relocated to new offices in Geneva, Switzerland.

The GAVI Fund has a strategic relationship with UNICEF, which is a member of GAVI. UNICEF, a key player in the vaccine market, is estimated to purchase 40 percent of the global volume of vaccine doses.

Because UNICEF has an established internal mechanism for vaccine supply, procurement and distribution, it fulfills these functions on behalf of the GAVI Fund. In addition, in October 2000, UNICEF established the GAVI Fund Trust Account at UNICEF (the "Trust Account") into which international government donations and contributions from the GAVI Fund would be received. Under the relationship agreement between the GAVI Fund and UNICEF, funds held in the Trust Account are held in trust on behalf of donors other than the GAVI Fund in order to support GAVI initiatives. UNICEF then facilitates the financial and supply transactions on behalf of GAVI and the GAVI Fund. Accordingly, the funds held in the Trust Account are included in the accompanying combined financial statements.

The GAVI Fund Affiliate and the International Facility for Immunisation Company ("IFFIm") are U.K. registered charities established as consolidated affiliates of the Fund in 2006. They were established to undertake the International Finance Facility for Immunisation, an innovative financing transaction that will be concluded in 2006 (see Note 13). Also in 2006, the GAVI Fund will establish a foundation, to be registered in Switzerland, to support GAVI's operations in Switzerland.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The Accounts record revenues and expenses on the accrual basis of accounting in accordance with generally accepted accounting principles in the U.S.

**Basis of Combination** – The accompanying combined financial statements include the accounts of the GAVI Fund, the GAVI Secretariat and the Trust Account for the year ended December 31, 2005. All inter-entity balances and transactions have been eliminated in combination.

**Basis of Presentation** – Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Accounts and changes therein are classified and 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 through the Accounts and/or the passage of time.
- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Accounts. As of December 31, 2005, the Accounts did not have any permanently restricted net assets.

## NOTE 2 - CONTINUED

Contribution revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their uses are restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions with donor-imposed restrictions, where the restriction is met in the same year as the contribution is received, are reported as revenues of the unrestricted net asset class.

Under the terms of the agreement with a U. S. Government agency, federal awards are accounted for as unrestricted contributions in the period for which the award is granted.

**Cash** - The Accounts report all demand deposits as cash.

**Investments** - Investments are valued at fair market value based on published quotations. All gains and losses on investments are reported in the Combined Statement of Activities as unrestricted investment income since the earnings from these investments are not restricted to any specific use other than to fulfill GAVI's general mission. Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. The GAVI Fund participates in a securities lending program as further described in Note 7.

**Fair Value of Financial Instruments** - The fair values of financial instruments are estimated using available market information and other valuation methodologies in accordance with generally accepted accounting principles in the U.S. The estimates presented are not necessarily indicative of the amounts that the Accounts 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.

**Promises to Give** - 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 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 securities with similar maturities. Conditional promises to give are recorded when the conditions are met.

**Fixed Assets** - Furniture, equipment, and leasehold improvements are stated at cost for purchased assets, or estimated value at date of receipt for donated assets. Depreciation for furniture and equipment is provided using the straight-line method over their estimated useful lives of three to five years. Depreciation for leasehold improvements is provided using the straight-line method over the shorter of the asset's useful life, or the term of the lease. The GAVI Fund's threshold for capitalization of furniture, equipment, and leasehold improvements is US\$5,000.

# The GAVI Alliance Accounts

Notes to Combined Financial Statements For the Year Ended December 31, 2005

## NOTE 2 - CONTINUED

**Grants Payable** - Grants payable are recognized when the 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. Conditional grants payable are recorded when the conditions are met by the grantees.

**Program Expenses** - the GAVI Board approves vaccination and immunisation program budgets which may extend up to five years in duration. The GAVI Secretariat then presents award recommendations to the GAVI Fund for consideration and approval. After the GAVI Fund approval, the GAVI Secretariat issues award letters for the approved annual budgets to the respective countries and a program expense is recognized.

**Use of Estimates** - The preparation of the financial statements, in conformity with generally accepted accounting principles in the U.S., generally requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Federal Income Taxes** - the GAVI Fund is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). As of December 31, 2005, the Fund was not a private foundation under Section 509(a) of the Code because of the advanced ruling period granted by the Internal Revenue Service.

**Foreign Currency Remeasurement** - The assets and liabilities of the Account's foreign operations are translated at year-end exchange rates. Revenues and expenses are translated at exchange rates prevailing during the year. All amounts in the accompanying combined financial statements are presented in U.S. dollars.

**Vulnerability to Certain Concentrations** - Financial instruments that potentially subject the Accounts 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. The GAVI Fund 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, 2005 approximated US\$46,197,450. The Accounts have not experienced any credit losses on these financial instruments in past years.

For the year ended December 31, 2005, 47 percent of the Accounts contribution revenue is from one private foundation. Management is aware of the related vulnerability. Concentrations of credit risk with respect to "promises to give" (i.e. contributions receivable), consist of six pledges. The Accounts have not experienced any loss related to contributions receivable.

### NOTE 3 – RELATIONSHIPS WITH UNICEF AND GAVI

**The GAVI Fund Trust Account** - The Trust Account, held and administered by UNICEF, receives monies from donor countries and from the GAVI Fund to finance the purchase and distribution of vaccines and related products and to strengthen immunisation service programs. The Trust Account is administered by UNICEF in accordance with its internal financial regulations, rules, and administrative instructions. Disbursements are made in accordance with GAVI and the GAVI Fund approved programs.

**UNICEF Administrative Fee** - The administration fee of the Trust Account covers several principal UNICEF service areas: finance, procurement services, program support, and program funding support. Under the Trust Account agreement, UNICEF provides a biennial budget for review by the GAVI Fund that reflects the total cost of administration. During 2005, the GAVI Fund prepaid UNICEF for administration of the Trust Account for the next calendar year. Prepaid administrative fees as of December 31, 2005 were US\$4,288,557. The administrative fee expense for the year ended December 31, 2005 was US\$2,664,861. The administrative fee expense for 2005 has been offset by a credit from 2004.

**UNICEF and the GAVI Secretariat** - UNICEF hosts the Secretariat in Geneva, Switzerland and pays directly the cost of the payroll, travel, facilities and other related hosting costs. These expenses are reflected in program expenses on the Combined Statement of Activities. The GAVI Fund pays the Secretariat expenses with rolling six month advances to UNICEF. Advance funding for the GAVI Secretariat in the amount of US\$2,909,191 is included in prepaid expenses in the Combined Statement of Financial Position as of December 31, 2005.

**Program Award Liability** - The Accounts' program award liability as of December 31 was as follows:

Estimated program budgets endorsed by GAVI	US\$	1,549,713,610
Funds disbursed by the Trust Account to date		(760,544,638)
Remaining program budgets endorsed by GAVI not yet funded		789,168,972
Less commitment to fund future procurement		(67,743,100)
Less unamortized discount		(62,247,913)
<b>Total Program Award Liability</b>	<b>US\$</b>	<b>659,177,959</b>

Discount rates ranging from 3.25 percent to 3.59 percent were applied to record the present value of the program award liability, commensurate with the expected disbursement period.

# The GAVI Alliance Accounts

Notes to Combined Financial Statements For the Year Ended December 31, 2005

## NOTE 4 – PROMISES TO GIVE

Promises to give to the Accounts consisted of the following as of December 31:

Contributions due in less than one year	US\$	76,149,529
Contributions due in two to five years		252,288,000
Contributions due thereafter		300,000,000
Unconditional promises to give before unamortized discount		628,437,529
Less unamortized discount		(90,280,527)
<b>Net Promises to Give</b>	<b>US\$</b>	<b>538,157,002</b>

For the promises to give as of the year ended December 31, 2005, discount rates ranging from 2.32 percent to 4 percent were applied commensurate with the pledge period.

## NOTE 5 – FIXED ASSETS

Fixed assets consisted of the following as of December 31:

Furniture and fixtures	US\$	607,490
Equipment		1,275,476
Leasehold improvement		2,283,873
Fixed assets		4,166,839
Less accumulated depreciation		(2,199,877)
<b>Total Fixed Assets, net</b>	<b>US\$</b>	<b>1,966,962</b>

Included in leasehold improvement as of December 31, 2005 is US\$993,578 of leasehold improvements-in-process.

## NOTE 6 – INVESTMENTS

Investments consisted of the following as of December 31:

Money market funds	US\$	144,811,964
Other securities		4,737,153
Corporate bonds		69,685,376
Asset backed securities		227,364,100
U.S. Government and agency obligations		437,470,581
Investments purchased with reinvested cash collateral		102,519,903
		986,589,077
Less securities pledged		(100,509,037)
<b>Total Investments</b>	<b>US\$</b>	<b>886,080,040</b>

## NOTE 6 – CONTINUED

The GAVI Fund has granted UNICEF a security interest in a portion of these investments. (See Note 9.) In addition, the GAVI Fund 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 US\$1,457,916 as of December 31, 2005.

The GAVI Fund uses futures and options 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, 2005 was US\$(542,112). The fair values of the options, together with futures and forwards are included in other securities. The GAVI Fund purchases and sells forward foreign currency contracts (currency forwards) whereby the Fund 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 and fair values of futures, options, pending purchases and sales on forwards as of December 31, 2005 and 2004 are as follows:

	Notional par value		Fair value	
Futures	US\$	237,950,000	US\$	16,325
Currency forwards purchases		10,591,223		-101,956
Currency forwards sales		11,016,063		30,527

Investment income for the year ended December 31 was as follows:

Interest	US\$	35,285,754
Realized gains and losses		-5,296,696
Unrealized gains and losses		-12,114,569
Investment fees and rebates		-6,479,952
<b>Total Investment Income</b>	<b>US\$</b>	<b>11,394,537</b>

## NOTE 7 – SECURITIES LENDING

The GAVI Fund engages in a securities lending program whereby it lends 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 exchanges 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 is facilitated by the GAVI Fund's lending agent and custodian. Throughout the duration of the loan, the collateral is marked to market on a daily basis and the lending agent receives and releases 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 must return to the lending agent the same, or substantially the same, securities that were borrowed.

# The GAVI Alliance Accounts

Notes to Combined Financial Statements For the Year Ended December 31, 2005

## NOTE 7 - CONTINUED

The lending agent, in its agreement with the GAVI Fund, guarantees the repayment of the loan in the event the borrower defaults.

The GAVI Fund retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The GAVI Fund also retains the right to redeem the loaned securities prior to their stipulated redemption date.

As of December 31, 2005, the GAVI Fund recorded US\$102,519,903 in cash collateral received and an equal amount payable to the borrowers under the agreement. All cash collateral received is invested in money market funds. Money market funds purchased with reinvested cash collateral are included in investments and the liability under securities agreements is reflected in liabilities in the Combined Statement of Financial Position.

The net income earned from securities lending included in investment income on the Combined Statements of Activities net of rebates and lending agent fees, for the year ended December 31, 2005, was as follows:

Interest income from securities lending	US\$	4,468,277
Rebates under securities lending agreement		(4,210,145)
Lending agent fees		(64,542)
<b>Net Income from Securities Lending</b>	<b>US\$</b>	<b>193,590</b>

## NOTE 8 - GRANT PAYABLE

In November 2004, the GAVI Fund entered into a five-year grant agreement with the UN Foundation to fund a measles immunisation program in Africa. The remaining grant payable under this agreement consisted of the following as of December 31:

Grant payable due in less than one year	US\$	11,040,000
Grant payable due in one to five years		13,440,000
Grant payable before unamortized discount		24,480,000
Less unamortized discount		(671,218)
<b>Total Grant Payable</b>	<b>US\$</b>	<b>23,808,782</b>

A discount rate of 3.46 percent was applied to record the present value of the grant payable in future years.

## NOTE 9 – COMMITMENT TO FUND FUTURE PROCUREMENT

The GAVI Fund entered into an agreement with UNICEF to pledge as collateral up to US\$67,743,100 and US\$155,013,300 of its investment assets to UNICEF as of December 31, 2005 and 2004, respectively. The pledge is in connection with UNICEF's contracted commitment to purchase vaccines from a pharmaceutical company during the period 2004 through 2005. Under the agreement, UNICEF issues purchase orders periodically through March 2006 to initiate approved vaccine shipments. As the GAVI Fund disburses funds to the Trust Account, its commitment under this agreement will decrease.

Ten days prior to the issuance of a purchase order, UNICEF will request funds equivalent to the value of the purchase order from the GAVI Fund. The GAVI Fund granted a security interest in a separately held investment account to UNICEF. In the event that the GAVI Fund fails to disburse the funds within ten days of a request for funding, UNICEF may liquidate securities in the investment account for the value of the purchase order. During 2005, contributions to the Trust Account from donors other than the GAVI Fund fulfilled a portion of the commitment. Accordingly, a corresponding amount was recorded as a "release of commitment to fund future procurement" in the Combined Statement of Activities.

The commitment outstanding as of December 31 was as follows:

Commitment balance as of the beginning of the year	US\$	155,013,300
Commitment fulfilled by the GAVI Fund		(37,395,532)
Release of commitment (commitment fulfilled by other donors)		(49,874,668)
<b>Commitment to Fund Future Procurement</b>	<b>US\$</b>	<b>67,743,100</b>

## NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

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

Due to time restriction	US\$	532,092,059
Due to program restriction for specific recipient country		142,942
<b>Total Temporarily Restricted Net Assets</b>	<b>US\$</b>	<b>532,235,001</b>

# The GAVI Alliance Accounts

Notes to Combined Financial Statements For the Year Ended December 31, 2005

## NOTE 11- RETIREMENT PLAN

The GAVI Fund sponsors a 401(k) defined contribution plan for all eligible employees. Employees become eligible upon hiring and may participate starting on the first day of any month. Employees may contribute voluntary salary deferrals to the plan, subject to IRS limitations. The GAVI Fund's annual contribution equals 3 percent of each participant's compensation, as well as 100 percent matching contribution up to 2 percent of the participant's compensation.

In addition, GAVI Fund may contribute to the plan discretionary amounts above the initial 3 percent. The discretionary amount is fully vested after 12 months of employment. The discretionary amount for 2005 equals 10 percent of the participant's compensation. As of December 31, 2005, the amount accrued for the GAVI Fund's contributions totaled US\$164,269.

## NOTE 12 - CONVERGENCE

For the year ended December 31, 2005, the GAVI Fund recognized US\$1,786,083, in estimated staffing, consulting, and facility costs associated with the convergence, which are included in management and general expenses in the accompanying Combined Statement of Activities. The remaining accrual as of December 31, 2005 totaled US\$1,878,608. During 2005, the 2004 estimates were increased by US\$156,360, net of a currency translation adjustment, and the GAVI Fund recognized an additional accrual of US\$1,629,723, due to additional information primarily related to employee severance agreements and consulting expenses.

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## NOTE 13 - SUBSEQUENT EVENTS

In March, 2006 the United Kingdom Department for International Development announced a 30,000,000 GBP two-year grant to the GAVI Fund in March, 2006, as a general support grant for the GAVI 2006/2007 workplan. Grant agreements were signed on March 22, 2006, and the first payment of 5,700,000 GBP (US\$10.3 million) was received on March 31, 2006.

In May 2006, the GAVI Fund entered into a memorandum of understanding with UNICEF for the procurement of vaccines and related supplies for 2007-2009. The GAVI Fund will pay approximately US\$400 million for vaccine procurement and associated fees over this time period.

Fees payable under this memorandum of understanding are as follows:

2006	US\$	4,400,000
2007	US\$	4,700,000
2008	US\$	5,100,000

In May and June 2006, the GAVI Fund Affiliate and the IFFImCo, respectively, were formed as consolidated affiliates of the Fund to undertake the International Finance Facility for Immunisation for the financing of GAVI's immunisation programs.

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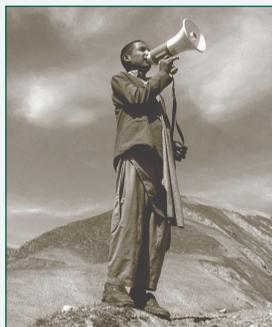
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