

**Vital Strategies, Inc. and Affiliate**

Consolidated Financial Statements

December 31, 2022

## **Independent Auditors' Report**

### **Board of Trustees of Vital Strategies, Inc. and Affiliate**

#### **Opinion**

We have audited the accompanying consolidated financial statements Vital Strategies, Inc. and Affiliate (“Vital Strategies”), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vital Strategies and Affiliate as of December 31, 2022, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Vital Strategies and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Change in Accounting Policy**

As discussed in Note 2 to the consolidated financial statements, Vital Strategies adopted Financial Accounting Standards Board (“FASB”) Topic 842, Leases, which resulted in the recognition of a right of use asset and related lease liability, effective January 1, 2022. Our opinion is not modified with respect to that matter.

#### **Responsibilities of Management for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Vital Strategies' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Vital Strategies' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Vital Strategies' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited Vital Strategies' December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 16, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position and consolidating schedule of activities on pages 22 and 23 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*PKF O'Connor Davies, LLP*

June 12, 2023

## Vital Strategies, Inc. and Affiliate

### Consolidated Statement of Financial Position December 31, 2022 (with comparative amounts at December 31, 2021)

	2022	2021
<b>ASSETS</b>		
Cash	\$ 27,841,114	\$ 68,987,988
Grants receivable (Note 5)	71,125,915	67,437,745
Other receivables	141,296	195,651
Grant advances (Note 10)	1,988,085	1,799,275
Prepaid expenses	1,131,414	1,000,366
Due from the Union, net (Note 11)	760,000	760,000
Short-term investments (Note 6)	15,380,399	35,533,255
Right of use asset, net (Note 9)	23,023,284	-
Property and equipment, net (Note 7)	1,195,137	1,382,465
	\$ 142,586,644	\$ 177,096,745
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 6,066,747	\$ 9,897,212
Grants payable	3,193,999	8,045,854
Lease liabilities (Note 9)	24,181,821	-
Deferred rent	-	1,021,523
Deferred revenue	2,484	217,840
Total Liabilities	33,445,051	19,182,429
Net Assets		
Without donor restrictions	(824,091)	(523,645)
With donor restrictions (Note 8)	109,965,684	158,437,961
Total Net Assets	109,141,593	157,914,316
	\$ 142,586,644	\$ 177,096,745

See notes to consolidated financial statements

## Vital Strategies, Inc. and Affiliate

### Consolidated Statement of Activities Year Ended December 31, 2022 (with summarized totals for the year ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
<b>REVENUE AND SUPPORT</b>				
Grants	\$ -	\$ 99,226,488	\$ 99,226,488	\$ 98,155,946
Federal grants	113,058	290,801	403,859	3,334,701
Contributions	4,134,120	-	4,134,120	4,459,321
Fees for service	217,840	-	217,840	2,815,571
Interest income	59,181	172,054	231,235	354,367
Investment income	142,316	(282,360)	(140,044)	7,306
Other income	-	-	-	1,645
Net assets released from restrictions	<u>112,220,685</u>	<u>(112,220,685)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>116,887,200</u>	<u>(12,813,702)</u>	<u>104,073,498</u>	<u>109,128,857</u>
<b>OPERATING EXPENSES</b>				
Program services	102,400,102	-	102,400,102	144,315,200
Management and general	13,531,949	-	13,531,949	17,833,186
Fundraising	<u>1,103,105</u>	<u>-</u>	<u>1,103,105</u>	<u>1,363,060</u>
Total Operating Expenses	<u>117,035,156</u>	<u>-</u>	<u>117,035,156</u>	<u>163,511,446</u>
Deficit of Revenue and Support over Operating Expenses	(147,956)	(12,813,702)	(12,961,658)	(54,382,589)
<b>NONOPERATING ACTIVITIES</b>				
Losses on foreign currency translation	(152,490)	-	(152,490)	(184,723)
Grants rescinded	-	-	-	7,208,074
Transfer of grant funds (Note 14)	-	(35,658,575)	(35,658,575)	-
Forgiveness of Due from the Union	-	-	-	(4,800,000)
Forgiveness of paycheck protection program loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,205,759</u>
Change in Net Assets	(300,446)	(48,472,277)	(48,772,723)	(50,953,479)
<b>NET ASSETS</b>				
Beginning of year	<u>(523,645)</u>	<u>158,437,961</u>	<u>157,914,316</u>	<u>208,867,795</u>
End of year	<u>\$ (824,091)</u>	<u>\$ 109,965,684</u>	<u>\$ 109,141,593</u>	<u>\$ 157,914,316</u>

See notes to consolidated financial statements

## Vital Strategies, Inc. and Affiliate

### Consolidated Statement of Functional Expenses Year Ended December 31, 2022 (with summarized totals for the year ended December 31, 2021)

	Supporting Services			2022 Total	2021 Total
	Program Services	Management and General	Fundraising		
Grant expenses	\$ 49,652,114	\$ 1,696,068	\$ -	\$ 51,348,182	\$ 80,045,981
Salaries	20,287,084	6,161,400	818,722	27,267,206	34,785,165
Payroll taxes and benefits	4,756,157	1,638,068	210,938	6,605,163	8,765,665
Consultants	13,783,454	845,638	29,739	14,658,831	21,671,417
Training and recruitment	33,313	78,079	49	111,441	169,194
Professional fees	257,857	194,960	-	452,817	593,344
Program service agreements	6,536,525	43,220	-	6,579,745	9,306,453
Other professional services	602,784	1,110,678	10,153	1,723,615	2,127,525
Travel	2,839,095	226,730	4,158	3,069,983	984,669
Equipment	453,661	363,473	1,632	818,766	982,171
Maintenance	2,634	164,343	21	166,998	175,131
Supplies	61,142	32,829	-	93,971	149,001
Depreciation	25,212	204,693	-	229,905	221,446
Occupancy costs	2,120,859	370,668	22,590	2,514,117	2,464,313
Postage and delivery	15,954	7,839	-	23,793	33,878
Insurance	5,017	223,316	-	228,333	349,853
Utilities	173,775	88,654	4,601	267,030	298,851
Conference and meetings	352,060	81,185	280	433,525	80,562
(Recovery) provision for non-reimbursable expenses	-	(350,000)	-	(350,000)	492,211
Recovery for bad debts	-	-	-	-	(588,360)
Other expenses	441,405	350,108	222	791,735	402,976
	<u>\$ 102,400,102</u>	<u>\$ 13,531,949</u>	<u>\$ 1,103,105</u>	<u>\$ 117,035,156</u>	<u>\$ 163,511,446</u>
Total Expenses	<u>\$ 102,400,102</u>	<u>\$ 13,531,949</u>	<u>\$ 1,103,105</u>	<u>\$ 117,035,156</u>	<u>\$ 163,511,446</u>

See notes to consolidated financial statements

## Vital Strategies, Inc. and Affiliate

### Consolidated Statement of Cash Flows

Year Ended December 31, 2022

(with comparative amounts for the year ended December 31, 2021)

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (48,772,723)	\$ (50,953,479)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gains	(142,316)	(7,306)
Depreciation	229,905	221,446
Recovery for bad debts	-	(588,360)
Deferred rent	-	(12,586)
Forgiveness of due from the Union	-	4,800,000
Forgiveness of paycheck protection program loan	-	(1,205,759)
Discount on grants receivable	-	(103,575)
Amortization of right of use asset	1,898,275	-
Change in operating assets and liabilities		
Grants receivable	(3,688,170)	(21,889,646)
Other receivables	54,355	(19,940)
Grant advances	(188,810)	(746,808)
Prepaid expenses	(131,048)	(160,156)
Due from the Union	-	(5,560,000)
Accounts payable and accrued expenses	(3,830,465)	5,595,241
Grants payable	(4,851,855)	7,004,877
Deferred revenue	(215,356)	(2,815,571)
Payments on lease liability	(1,761,261)	-
Net Cash from Operating Activities	(61,399,469)	(66,441,622)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(42,577)	(53,411)
Purchases of short-term investments	-	(104,521,409)
Sales of short-term investments	20,295,172	119,522,623
Net Cash from Investing Activities	20,252,595	14,947,803
Net Change in Cash	(41,146,874)	(51,493,819)
<b>CASH</b>		
Beginning of year	68,987,988	120,481,807
End of year	\$ 27,841,114	\$ 68,987,988
<b>NON-CASH FINANCING ACTIVITY</b>		
Forgiveness of paycheck protection program loan	\$ -	\$ 1,205,759

See notes to consolidated financial statements



## **Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

### **1. Organization and Tax Status**

The accompanying consolidated financial statements include the accounts of Vital Strategies, Inc. and Vital Strategies India Services PL.

Vital Strategies, Inc. is a fully registered not-for-profit organization incorporated in the State of New Jersey with authority to do business in the State of New York. Vital Strategies, Inc. maintains an office in New York City. Vital Strategies, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Vital Strategies, Inc. is a public charity within the meaning of Section 509(a) of the Code.

The mission of Vital Strategies, Inc. is to sustain partnerships with key international organizations, foundations and governments and implement and manage initiatives that will significantly improve and strengthen national and local health systems and organizations and, by doing so, improve the health conditions of individuals and communities throughout the world.

Vital Strategies India Services PL, with a registered office in New Delhi, was incorporated in 2021 and is a wholly owned subsidiary of Vital Strategies, Inc. Vital Strategies India Services PL was formed to provide all types of management consultancy services in or related public health and other related sectors to private and public sector organizations and governments within and outside India.

Vital Strategies, Inc. also maintains affiliations with three independent entities who use the *Vital Strategies* name and branding located in France, Singapore and Brazil. Also, Vital Strategies Action Fund, Inc. (the “Action Fund”) operates exclusively for the promotion of social welfare within the meaning of Section 501(c)(4) of the Internal Revenue Code of 1986 and is considered an affiliate of Vital Strategies, Inc.

In addition, Vital Strategies, Inc. operates branches in Jinan, China and in Addis Ababa, Ethiopia, to assist in program implementation throughout China and Ethiopia.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Consolidation***

The accompanying consolidated financial statements include the accounts of Vital Strategies, Inc., and Vital Strategies India Services PL (collectively “Vital Strategies”).

#### ***Basis of Presentation and Use of Estimates***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

## **Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Change in Accounting Policy***

##### ***Leases***

Vital Strategies adopted Financial Accounting Standards Board (“FASB”) Topic 842, Leases, using the effective date method with January 1, 2022, as the date of initial adoption.

As a result of the adoption of the new lease accounting guidance, on January 1, 2022, Vital Strategies recognized a lease liability of \$25,943,083, that represents the present value of the remaining operating lease payments of \$28,785,215, discounted using the normalized risk-free interest rate of 1.72% and a right-of-use asset of \$24,921,560. As part of the adoption of Topic 842, the prior year deferred rent balance of \$1,021,523 was captured within the right-of-use asset balance at the adoption date.

Adoption of the standard had a material impact on Vital Strategies’ consolidated statement of financial position but did not have an impact on its consolidated statements of activities and cash flows. The most significant impact was the recognition of the right-of-use asset and lease liability for operating leases.

##### ***Operating Measure***

The operating measure in the consolidated statement of activities is identified as (deficit) of revenue and support over operating expenses. Changes in net assets which are excluded from the operating measure include losses on foreign currency translation.

##### ***Revenue Recognition***

When revenue is earned over a period that spans the year end, it is recognized in the applicable period in which it is earned. Fees for service revenue is reported when services are provided. Deferred revenue are funds received in advance and not yet earned. Based on strong collection experience, Vital Strategies has concluded that all revenue recognized is probable of collection.

##### ***Net Asset Presentation***

Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the “Board”) and/or management for program and general operating expenses.

Net assets with donor restrictions are subject to donor-imposed stipulations that will be met by actions of Vital Strategies, or passage of time.

Vital Strategies reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use or time of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends, or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported on the consolidated statement of activities as net assets released from restrictions.

## **Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Short-term Investments***

Vital Strategies, Inc. invests a portion of its available cash in liquid investments with an average duration of a half year. Investments are reported at fair value on the consolidated statement of financial position.

#### ***Grant Agreements and Contributions***

Grant agreements are examined on an individual basis to determine if they meet the requirements of a contribution rather than an exchange transaction. Those grants, that are considered to be unconditional contributions, as well as other unconditional contributions, are recorded upon receipt of an unconditional pledge or of cash and reported as net assets with or without donor restrictions depending on the existence of any donor restrictions.

Grants receivable with due dates extending beyond one year are discounted using the U.S. Treasury rate, plus an appropriate percentage of additional risk. At December 31, 2022 and 2021, grants receivable are expected to be collected within one year.

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to receivables. At December 31, 2022 and 2021, Vital Strategies had an allowance for doubtful accounts of approximately \$0.

#### ***Property and Equipment***

Property and equipment are carried at cost, or if donated, fair value at the date of the donation. Vital Strategies capitalizes all purchases of property and equipment equal to or greater than \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years. Leasehold improvements are depreciated over the life of the lease.

Under the terms of its agreements with government funding agencies, assets that are acquired with government contract revenues that revert to that agency upon termination of the program are not capitalized and are expensed when acquired. During the years ended December 31, 2022 and 2021 assets acquired with grant funds amounted to \$0 for both years.

## **Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Property and Equipment (continued)***

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount of the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for the years ended December 31, 2022 and 2021.

#### ***Functional Allocation of Expenses***

Expenses are summarized and categorized based upon their functional classification as either program services, management and general or fundraising. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain expenses are attributable to more than one program or supporting function and have been allocated in reasonable ratios determined by management. The more significant expenses that are allocated include salaries, payroll taxes and benefits, and occupancy costs, which are allocated based on time and effort and full time equivalent.

#### ***Foreign Currency Translation***

Vital Strategies has determined that its functional currency is the U.S. dollar. Accordingly, assets and liabilities denominated in other currencies are translated using the current exchange rates in effect at the consolidated statement of financial position date. Revenue and expense accounts are translated at the average rate in effect during the year.

#### ***Summarized Comparative Information***

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with Vital Strategies' financial statements as of and for the year ended December 31, 2021, from which summarized information was derived.

#### ***Accounting for Uncertainty in Income Taxes***

Vital Strategies, Inc. recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that Vital Strategies, Inc. had no uncertain tax positions that would require financial statement recognition or disclosure. Vital Strategies, Inc. is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2019.

Vital Strategies India Services PL is subject to income tax under the Indian Tax Act, 1961. Such amounts were immaterial for the years ended December 31, 2022 and 2021.

## **Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Leases***

As of January 1, 2022, Vital Strategies leases office space and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets ("ROU assets") and operating lease liabilities on the accompanying consolidated statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. When leases do not provide an implicit borrowing rate, Vital Strategies uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease. When it is reasonably certain that Vital Strategies will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis of the lease term.

Vital Strategies' lease agreement does not contain any material residual value guarantees or material restrictive covenants.

#### ***Reclassification***

Certain information contained in the 2021 financial statements has been reclassified to conform with the 2022 presentation with no effect on operations.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is June 12, 2023.

## Vital Strategies, Inc. and Affiliate

Notes to Consolidated Financial Statements  
December 31, 2022

### 3. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date, are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash	\$ 27,841,114	\$ 68,987,988
Grants receivable, net	71,125,915	67,437,745
Other receivables	141,296	195,651
Short-term investments	<u>15,380,399</u>	<u>35,533,255</u>
Total Financial Assets	<u>114,488,724</u>	<u>172,154,639</u>
Less amounts unavailable for general expenditure:		
Donor imposed restrictions by purpose	(109,965,684)	(158,437,961)
Add amounts available for general expenditure:		
Budgeted appropriation and satisfaction of donor imposed restrictions	31,401,950	87,517,681
Indirect cost rate related to restricted programs	<u>5,032,957</u>	<u>6,005,932</u>
	<u>36,434,907</u>	<u>93,523,613</u>
Financial Assets at Year-End Available to Meet Cash Needs for General Expenditure Within One Year	<u>\$ 40,957,947</u>	<u>\$ 107,240,291</u>

As part of Vital Strategies' liquidity strategy, management structures its financial assets, consisting of cash, short-term investments and receivables to be available as its general expenditures, liabilities and obligations come due within one year. Excess cash is invested in liquid securities, which could be drawn upon readily in the event of an unanticipated liquidity need. In addition, Vital Strategies receives cash flow from grants and contributions made from donors through its fundraising efforts.

### 4. Significant Grant Agreements

In 2017, Vital Strategies, Inc. was awarded a grant, with multiple amendments made in following years, for the Tobacco Control Program by Bloomberg Philanthropies. In January 2019, Bloomberg Philanthropies renewed the grant for an additional two-year period with additional grant funds totaling \$36.8 million. In December 2020, Bloomberg Philanthropies renewed the grant for an additional two-year period with additional funds totaling \$39.5 million. As of December 31, 2021, total funding for the program since inception amounted to \$118.7 million. In December 2022, Bloomberg Philanthropies renewed the grant for an additional two-year period with additional funds totaling \$20.1 million. As of December 31, 2022, total funding for the program since inception amounted to \$138.8 million.

## Vital Strategies, Inc. and Affiliate

Notes to Consolidated Financial Statements  
December 31, 2022

### 4. Significant Grant Agreements *(continued)*

In June 2017, Vital Strategies, Inc. was awarded a five-year grant for the RESOLVE initiative by the Bill & Melinda Gates Foundation amounting to \$50 million, payable in equal installments. As the grant has annual conditions attached, the grant was not recognized in full as an unconditional promise to give. During the year ended December 31, 2021, Vital Strategies, Inc. received \$10 million towards this grant initiative. During the year ended December 31, 2022, the full grant and funds already received were transferred to a new entity.

In October 2018, Vital Strategies, Inc. was awarded a three-year grant for the STOP Tobacco campaign by the Bloomberg Philanthropies amounting to \$3.7 million. In December 2019, the agreement was amended, and an additional \$2.5 million was granted, increasing the total agreement to \$6.2 million. In December 2020, the agreement was amended, and an additional \$2 million was granted, increasing the total agreement to \$8.2 million. In December 2021, the agreement was amended, and an additional \$2.4 million was granted, increasing the total agreement to \$10.6 million.

In July 2018, Vital Strategies, Inc. was awarded a two-year grant for the Opioid Overdose Prevention initiative by Bloomberg Philanthropies amounting to \$9.1 million. In October 2019, the agreement was amended and extended through September 2021, and an additional \$27.9 million was granted, increasing the total agreement to \$37 million. In December 2021, the agreement was amended and extended through September 2022, and an additional \$11.9 million was granted, increasing the total agreement to \$48.9 million. In February 2022, the agreement was amended and extended through September 2023, and an additional \$22.4 million was granted, increasing the total agreement to \$71.3 million.

In February 2021, Vital Strategies, Inc. was awarded a two-year grant for the Partnership for Healthy Cities initiative by the National Philanthropic Trust totaling to \$11.2 million.

In February 2021, Vital Strategies, Inc. was awarded a two-year grant for the Data for Health initiative by the National Philanthropic Trust totaling to \$36.4 million. In February 2022, the agreement was amended and extended through March 2023, and an additional \$4.8 million was granted, increasing the total agreement to \$41.2 million.

In February 2020, Vital Strategies, Inc. was awarded a two-year grant for the Obesity Prevention Program initiative by Bloomberg Philanthropies totaling to \$5.6 million.

In December 2021, Vital Strategies, Inc. was awarded a grant for the Cardiovascular Health Initiative by Bloomberg Philanthropies amounting to \$9.3 million.

In June and November 2022, Vital Strategies, Inc. was awarded two grants totaling \$17.9 million for the Road Safety initiative by Schwab Charitable.

In March 2022, Vital Strategies, Inc. was awarded a grant totaling \$15 million for the Alcohol Consumption Control initiative by Silicon Valley Community Foundation.

## Vital Strategies, Inc. and Affiliate

Notes to Consolidated Financial Statements  
December 31, 2022

### 5. Grants Receivable

Vital Strategies has the following grants receivable at December 31:

	2022	2021
Grants receivable		
Foundations	\$ 67,640,505	\$ 63,000,317
The International Union Against Tuberculosis and Lung Disease	3,485,410	4,437,428
	\$ 71,125,915	\$ 67,437,745

Collections on the outstanding grants at December 31, 2022 are fully collectible and are scheduled to be received as follows:

2023	\$ 66,975,915
2024	4,150,000
	\$ 71,125,915

### 6. Fair Value Measurement

Vital Strategies follows US GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The following table summarizes Vital Strategies' investments measured at fair value and are categorized using the fair value as of December 31:

	2022		
	Level 1	Level 2	Total
Investments			
Money market fund	\$ 14,167	\$ -	\$ 14,167
Treasury bills	2,505,659	-	2,505,659
Commercial paper	-	3,690,799	3,690,799
Corporate and foreign bonds	-	6,561,371	6,561,371
Mutual funds	1,533,247	-	1,533,247
	\$ 4,053,073	\$ 10,252,170	\$ 14,305,243
Certificate of deposits*			1,075,156
			\$ 15,380,399



## Vital Strategies, Inc. and Affiliate

### Notes to Consolidated Financial Statements December 31, 2022

#### 6. Fair Value Measurement *(continued)*

	2021		
	Level 1	Level 2	Total
Investments			
Money market fund	\$ 12,004	\$ -	\$ 12,004
Commercial paper	-	21,224,860	21,224,860
Corporate bonds	-	1,868,039	1,868,039
Mutual funds	3,502,893	-	3,502,893
	<u>\$ 3,514,897</u>	<u>\$ 23,092,899</u>	<u>\$ 26,607,796</u>
Certificate of deposits*			8,925,459
			<u>\$ 35,533,255</u>

\* The value of the certificates of deposit is recorded at cost plus accrued interest.

#### 7. Property and Equipment

Property and equipment consisted of the following at December 31:

	2022	2021
Equipment	\$ 1,300,582	\$ 1,258,005
Leasehold improvement	1,348,379	1,348,379
	<u>2,648,961</u>	<u>2,606,384</u>
Accumulated depreciation	(1,453,824)	(1,223,919)
	<u>\$ 1,195,137</u>	<u>\$ 1,382,465</u>

#### 8. Net Assets with Donor Restrictions

The following summarizes the changes in net assets with donor restrictions for the years ended December 31:

	2022				
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	Transfer of Grant Funds	End of Year
Tobacco Control Initiative	\$ 31,138,005	\$ 20,422,605	\$ (18,878,803)	\$ -	\$ 32,681,807
Data For Health Initiative	30,877,458	4,879,863	(26,971,798)	-	8,785,523
Global Road Safety Initiative	6,714,707	18,190,419	(9,424,300)	-	15,480,826
STREAM Clinical Trials	1,719,243	8,542,827	(7,834,737)	-	2,427,333
Other Health Programs	829,345	2,818,279	(2,883,142)	-	764,482
RESET Alcohol	52,066	14,989,850	(886,350)	-	14,155,566
Obesity Prevention Initiative	1,292,493	5,129,841	(3,195,506)	-	3,226,828
RESOLVE	55,462,977	1,297,708	(21,102,110)	(35,658,575)	-
Partnership for Healthy Cities Initiative	10,281,693	230	(5,184,599)	-	5,097,324
Mayors Challenge	29,828	235,304	(265,132)	-	-
Opioid Overdose Prevention	18,313,129	22,899,426	(14,688,561)	-	26,523,994
Data Driven Health Policy	1,727,017	631	(905,647)	-	822,001
	<u>\$ 158,437,961</u>	<u>\$ 99,406,983</u>	<u>\$ (112,220,685)</u>	<u>\$ (35,658,575)</u>	<u>\$ 109,965,684</u>

## Vital Strategies, Inc. and Affiliate

### Notes to Consolidated Financial Statements December 31, 2022

#### 8. Net Assets with Donor Restrictions *(continued)*

	2021			
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	End of Year
Tobacco Control Initiative	\$ 44,738,977	\$ 555,142	\$ (17,114,847)	\$ 28,179,272
Data For Health Initiative	12,213,851	36,473,933	(17,810,326)	30,877,458
Global Road Safety Initiative	14,101,292	68,187	(7,454,772)	6,714,707
STREAM Clinical Trials	1,726,274	8,515,510	(8,522,541)	1,719,243
Other Health Programs	1,041,941	1,381,171	(1,541,701)	881,411
Obesity Prevention Initiative	3,843,225	5,796	(2,556,528)	1,292,493
RESOLVE	101,438,589	23,257,932	(69,233,544)	55,462,977
Partnership for Healthy Cities Initiative	3,735,054	12,116,314	(5,569,675)	10,281,693
Mayors Challenge	710,852	7,441	(688,465)	29,828
Opioid Overdose Prevention	20,979,274	12,527,438	(15,193,583)	18,313,129
STOP Watchdog	4,642,450	2,365,494	(4,049,211)	2,958,733
Data Driven Health Policy	1,203,325	1,217,492	(693,800)	1,727,017
USAID	-	3,264,084	(3,264,084)	-
	\$ 210,375,104	\$ 101,755,934	\$ (153,693,077)	\$ 158,437,961

Contributions reported with donor restrictions shown in the above tables are recognized in full in the year the grant agreement is signed and committed provided all conditions have been met. Most of Vital Strategies grant agreements are for 2-year terms which result in unconditional contributions with donor restriction varying year-to-year. For the years ended December 31, 2022 and 2021, unconditional contributions and interest income with donor restrictions totaled \$99,406,983 and \$101,755,934, respectively.

#### 9. Commitments

##### *Operating Leases*

On October 6, 2017, Vital Strategies entered into new lease agreements for two floors of leasable space. The 4<sup>th</sup> floor lease term began on October 15, 2018 (“effective date”) with an expiration date of May 14, 2034. The 5<sup>th</sup> floor lease term began on June 1, 2018 with an expiration date of October 28, 2033.

Rent expense for the above operating leases is calculated on a straight-line basis over the term of the respective leases. Rent expense for the lease agreements is \$2,326,690 and \$2,121,609 for the years ended December 31, 2022 and 2021, respectively, and is included within occupancy costs in the consolidated statement of functional expenses.

**Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

**9. Commitments (continued)**

***Operating Leases (continued)***

The right-of-use asset and corresponding liability associated with future lease payments on the above noted lease as of December 31, 2022 are shown below:

Right-of-use asset	\$ 23,023,284
Lease liability	\$ 24,181,821

Weighted Average:	
Discount rate	1.72%
Remaining lease term in years	11.10

ROU asset is net of \$1,898,275 accumulated amortization at December 31, 2022.

Future minimum rental payments under the lease arrangement are as follows:

Year	Amount
2023	\$ 2,191,356
2024	2,316,543
2025	2,351,759
2026	2,321,404
2027	2,321,404
Thereafter	15,101,212
Total Future Minimum Lease Payments	26,603,678
Less Imputed Interest	(2,421,857)
Total Operating Lease Liability	\$ 24,181,821

Supplemental cash flow information related to operating leases was as follows for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of operating lease liabilities	\$ 2,181,537
ROU assets recognized upon adoption of new lease guidance	\$24,921,560

## Vital Strategies, Inc. and Affiliate

Notes to Consolidated Financial Statements  
December 31, 2022

### 10. Related Party Transactions

Vital Strategies partners with affiliated international offices in Singapore (“VS Singapore”), Brazil (“VS Brazil”) and France (Vital Strategies Endowment Fund (“VS Paris”)) and the Action Fund and maintains various agreements that allow for the exchange of finances in support of general operations, projects, activities, and personnel.

During the course of any year, the transfer of funds and donations between the entities may be exercised through these agreements, for the purposes of implementing the most efficient and effective work arrangements. Vital Strategies accepts to undertake such activities only after careful examinations indicate that basing activities in the New York City office reflects the most prudent, efficient, and effective course to be taken.

Below is a summary of amounts funded to the affiliates, and grant advances as shown on the consolidated statements of activities and financial position, respectively, as of and for the years ended, December 31:

	2022	
	Grant Funding	Grant Advances
VS Singapore	\$ 5,151,206	\$ 1,006,944
VS Brazil	2,200,766	500,982
VS Paris	2,573,304	474,112
The Action Fund	-	6,047
	<u>\$ 9,925,276</u>	<u>\$ 1,988,085</u>

  

	2021	
	Grant Funding	Grant Advances
VS Singapore	\$ 3,948,902	\$ 674,424
VS Brazil	2,174,494	322,209
VS Paris	2,640,823	796,764
The Action Fund	-	5,878
	<u>\$ 8,764,219</u>	<u>\$ 1,799,275</u>

Vital Strategies provides funding to its international affiliates for work related to their common charitable purposes and funding to the Action Fund.

## Vital Strategies, Inc. and Affiliate

Notes to Consolidated Financial Statements  
December 31, 2022

### 11. Due From the Union

The International Union Against Tuberculosis and Lung Disease (the "Union") is a business partner of Vital Strategies located in Paris, France. Vital Strategies partners with the Union through technical expertise, project management, funding assistance and membership coordination.

In 2021, the Union communicated to Vital Strategies that it is facing significant financial issues that could impact the collectability of receivables due from the Union to Vital Strategies. In November 2021, a memorandum of understanding ("MOU") was executed between Vital Strategies and the Union. This MOU resulted in a gross amount due from the Union of \$12.1 million over a ten year period. Included in this gross amount are rescinded grants of approximately \$7.2 million which is reported as nonoperating activity on the 2021 consolidated statement of activities. At December 31, 2021, the grants receivable of \$1.9 million was fully written off and the \$7.1 million provision due from the Union was reduced to \$6.5 million, which resulted in a bad debt recovery of \$0.6 million reported on the 2021 consolidated statement of functional expenses. Furthermore, Vital Strategies forgave \$4.8 million, reducing the net amount due from the Union to approximately \$0.8 million. The additional forgiveness is reported as nonoperating activity on the 2021 consolidated statement of activities.

### 12. Other Significant Concentrations

Financial instruments that potentially subject Vital Strategies to concentrations consist principally of cash, short-term investments and grants receivable. Vital Strategies maintains its cash balances at financial institutions located in New York. At times, cash balances, may be in excess of the balance insured by the Federal Deposit Insurance Corporation. Investments are diversified by type and are highly liquid short-term investments, so that no individual group of investments represents a significant concentration of credit risk.

As of and for the years ended December 31, 2022 and 2021, three and one funding sources accounted for approximately 87% and 90% of grants receivable and three and five funding sources accounted for approximately 79% of revenue and support, respectively.

### 13. Paycheck Protection Program Loan Payable

On May 4, 2020, Vital Strategies received loan proceeds in the amount of \$1,205,759 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act as amended by the Economic Aid Act, over a period between eight to twenty-four weeks from the date the loan proceeds are received (the "Covered Period").

The PPP loan was forgiven in full by the SBA on June 12, 2021 and is reported as forgiveness of PPP loan on the 2021 consolidated statement of activities.

## **Vital Strategies, Inc. and Affiliate**

Notes to Consolidated Financial Statements  
December 31, 2022

### **14. Transfer of Grant Funds**

In December 2021, Vital Strategies entered into an agreement to transition the RESOLVE Project (the "Project") to Resolve to Save Lives, Inc., a newly formed Delaware non-stock not-for-profit corporation. The new entity assumed all the Project's activities as of March 31, 2022, amounting to \$35,658,575. Funding for the Project was received and recorded as net assets with donor restrictions as of December 31, 2021. The transfer is reported as transfer of grant funds in the accompanying 2022 consolidated statement of activities.

### **15. Risks and Uncertainties**

Vital Strategies' operations and financial performance has been, and may continue to be, affected by global and domestic economic uncertainty which has adversely affected economic conditions throughout the world. Vital Strategies may experience a decline in revenue activities as a result of the economic uncertainty.

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**Vital Strategies, Inc. and Affiliate**

Supplementary Information

December 31, 2022

## Vital Strategies, Inc. and Affiliate

### Consolidating Statement of Financial Position December 31, 2022

	Vital Strategies, Inc.	Vital Strategies India Services PL	Total	Eliminations	Consolidated
<b>ASSETS</b>					
Cash	\$ 27,788,522	\$ 52,592	\$ 27,841,114	\$ -	\$ 27,841,114
Grants receivable	71,125,915	-	71,125,915	-	71,125,915
Other receivables	141,296	711,243	852,539	(711,243)	141,296
Grant advances	1,873,185	-	1,873,185	114,900	1,988,085
Prepaid expenses	834,184	297,230	1,131,414	-	1,131,414
Due from the Union, net	760,000	-	760,000	-	760,000
Short-term investments	15,380,399	-	15,380,399	-	15,380,399
Investment in affiliate	244,290	-	244,290	(244,290)	-
Right of use asset, net	23,023,284	-	23,023,284	-	23,023,284
Property and equipment, net	1,160,718	34,419	1,195,137	-	1,195,137
	<u>\$ 142,331,793</u>	<u>\$ 1,095,484</u>	<u>\$ 143,427,277</u>	<u>\$ (840,633)</u>	<u>\$ 142,586,644</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 5,814,380	\$ 327,868	\$ 6,142,248	\$ (75,501)	\$ 6,066,747
Grants payable	3,193,999	-	3,193,999	-	3,193,999
Lease liabilities	24,181,821	-	24,181,821	-	24,181,821
Deferred revenue	-	523,326	523,326	(520,842)	2,484
Total Liabilities	<u>33,190,200</u>	<u>851,194</u>	<u>34,041,394</u>	<u>(596,343)</u>	<u>33,445,051</u>
Net Assets					
Without donor restrictions	(824,091)	244,290	(579,801)	(244,290)	(824,091)
With donor restrictions	109,965,684	-	109,965,684	-	109,965,684
Total Net Assets	<u>109,141,593</u>	<u>244,290</u>	<u>109,385,883</u>	<u>(244,290)</u>	<u>109,141,593</u>
	<u>\$ 142,331,793</u>	<u>\$ 1,095,484</u>	<u>\$ 143,427,277</u>	<u>\$ (840,633)</u>	<u>\$ 142,586,644</u>

See independent auditors' report



## Vital Strategies, Inc. and Affiliate

### Consolidating Statement of Activities Year Ended December 31, 2022

	Without Donor Restrictions			With Donor Restrictions		
	Vital Strategies, Inc.	Vital Strategies India Services PL	Eliminations	Total	Vital Strategies, Inc.	Total
<b>REVENUE AND SUPPORT</b>						
Grants	\$ -	\$ -	\$ -	\$ -	\$ 99,226,488	\$ 99,226,488
Federal grants	-	113,058	-	113,058	290,801	403,859
Contributions	4,134,120	-	-	4,134,120	-	4,134,120
Fees for service	217,840	2,732,641	(2,732,641)	217,840	-	217,840
Interest income	58,957	224	-	59,181	172,054	231,235
Investment income	142,316	-	-	142,316	(282,360)	(140,044)
Net assets released from restrictions	112,220,685	-	-	112,220,685	(112,220,685)	-
Total Revenue and Support	<u>116,773,918</u>	<u>2,845,923</u>	<u>(2,732,641)</u>	<u>116,887,200</u>	<u>(12,813,702)</u>	<u>104,073,498</u>
<b>OPERATING EXPENSES</b>						
Program services	102,658,194	1,984,617	(2,242,709)	102,400,102	-	102,400,102
Management and general	13,457,303	648,878	(574,232)	13,531,949	-	13,531,949
Fundraising	1,103,105	-	-	1,103,105	-	1,103,105
Total Operating Expenses	<u>117,218,602</u>	<u>2,633,495</u>	<u>(2,816,941)</u>	<u>117,035,156</u>	<u>-</u>	<u>117,035,156</u>
Excess (Deficit) of Revenue and Support over Operating Expenses	(444,684)	212,428	84,300	(147,956)	(12,813,702)	(12,961,658)
<b>NONOPERATING ACTIVITIES</b>						
Gains (losses) on foreign currency translation	11,493	(79,683)	(84,300)	(152,490)	-	(152,490)
Gain on investment in affiliate	132,745	-	(132,745)	-	-	-
Transfer of grant funds	-	-	-	-	(35,658,575)	(35,658,575)
Change in Net Assets	(300,446)	132,745	(132,745)	(300,446)	(48,472,277)	(48,772,723)
<b>NET ASSETS</b>						
Beginning of year	(523,645)	110,331	(110,331)	(523,645)	158,437,961	157,914,316
Capital contribution	-	1,214	(1,214)	-	-	-
End of year	<u>\$ (824,091)</u>	<u>\$ 244,290</u>	<u>\$ (244,290)</u>	<u>\$ (824,091)</u>	<u>\$ 109,965,684</u>	<u>\$ 109,141,593</u>

See independent auditors' report