

Vital Strategies, Inc.

Financial Statements

December 31, 2018 and 2017



Independent Auditors' Report

Board of Directors of Vital Strategies, Inc.

We have audited the accompanying financial statements of Vital Strategies, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vital Strategies, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended December 31, 2018, Vital Strategies, Inc. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Vital Strategies, Inc. December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

June 27, 2019

Vital Strategies, Inc.

Statement of Financial Position
December 31, 2018
(with comparative amounts at December 31, 2017)

	2018	2017
ASSETS		
Cash	\$ 42,890,522	\$ 42,957,075
Cash held for others (Note 10)	231,982	260,796
Grants receivable, net (Note 5)	20,739,083	72,747,420
Other receivable	351,503	18,658
Grant advances (Note 10)	84,082	102,398
Prepaid expenses	390,640	471,439
Due from The Union, net (Note 10)	2,761,728	7,513,930
Short-term investments (Note 6)	19,777,419	-
Property and equipment, net (Note 7)	1,749,175	80,992
	\$ 88,976,134	\$ 124,152,708
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,518,395	\$ 729,870
Cash held for others (Note 10)	231,982	260,796
Grants payable	2,728,969	748,491
Deferred rent	657,818	53,673
Total Liabilities	5,137,164	1,792,830
Net Assets		
Without donor restrictions	1,155,931	(2,981,350)
With donor restrictions (Note 8)	82,683,039	125,341,228
Total Net Assets	83,838,970	122,359,878
	\$ 88,976,134	\$ 124,152,708

See notes to financial statements

Vital Strategies, Inc.

Statement of Activities
 Year Ended December 31, 2018
 (with summarized totals for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND SUPPORT				
Grants	\$ -	\$ 62,497,501	\$ 62,497,501	\$ 163,382,060
Federal grants	11,676,093	-	11,676,093	10,807,546
Contributions	6,422,518	-	6,422,518	791,906
Other income	28,518	-	28,518	9,791
Interest income	115,559	170,467	286,026	209,043
Net assets released from restrictions	<u>105,326,157</u>	<u>(105,326,157)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>123,568,845</u>	<u>(42,658,189)</u>	<u>80,910,656</u>	<u>175,200,346</u>
EXPENSES				
Program Services				
Research assistance	18,008,741	-	18,008,741	16,340,629
Public health	<u>91,407,786</u>	<u>-</u>	<u>91,407,786</u>	<u>52,868,319</u>
Total Program Services	109,416,527	-	109,416,527	69,208,948
Management and general	9,599,307	-	9,599,307	7,743,300
Fundraising	<u>415,730</u>	<u>-</u>	<u>415,730</u>	<u>915,123</u>
Total Expenses	<u>119,431,564</u>	<u>-</u>	<u>119,431,564</u>	<u>77,867,371</u>
Change in Net Assets	4,137,281	(42,658,189)	(38,520,908)	97,332,975
NET ASSETS				
Beginning of year	<u>(2,981,350)</u>	<u>125,341,228</u>	<u>122,359,878</u>	<u>25,026,903</u>
End of year	<u>\$ 1,155,931</u>	<u>\$ 82,683,039</u>	<u>\$ 83,838,970</u>	<u>\$ 122,359,878</u>

See notes to financial statements

Vital Strategies, Inc.

Statement of Functional Expenses
Year Ended December 31, 2018
(with summarized totals for the year ended December 31, 2017)

	Program Services			Supporting Services		2018 Total	2017 Total
	Research Assistance	Public Health	Total Program Services	Management and General	Fundraising		
Grant expenses	\$ 10,974,544	\$ 51,000,428	\$ 61,974,972	\$ 1,107,731	\$ 33,376	\$ 63,116,079	\$ 45,429,463
Salaries	1,638,574	10,773,186	12,411,760	3,141,114	184,710	15,737,584	10,292,595
Payroll taxes and benefits	402,313	2,712,841	3,115,154	995,681	109,424	4,220,259	2,662,620
Consultants	2,751,819	9,961,160	12,712,979	228,534	19,250	12,960,763	6,439,102
Training and recruitment	6,400	70,476	76,876	99,971	7,120	183,967	140,649
Professional fees	702,085	88,336	790,421	167,392	2,016	959,829	1,170,457
Program service agreements	3,716	9,612,213	9,615,929	19,685	20,000	9,655,614	3,976,287
Other professional services	111,902	528,994	640,896	621,563	6,144	1,268,603	670,713
Travel	363,501	4,227,748	4,591,249	241,382	2,614	4,835,245	3,604,712
Equipment	732,560	416,282	1,148,842	1,051,499	-	2,200,341	440,342
Maintenance	4,502	18,049	22,551	24,627	763	47,941	101,564
Supplies	4,635	57,610	62,245	62,385	222	124,852	139,591
Depreciation	-	-	-	101,490	-	101,490	38,061
Occupancy costs	147,910	842,793	990,703	752,909	20,132	1,763,744	924,604
Postage and delivery	3,914	11,896	15,810	12,123	92	28,025	110,950
Insurance	74,444	55,947	130,391	88,395	-	218,786	174,201
Utilities	20,338	177,358	197,696	41,204	1,853	240,753	220,175
Conference and meetings	50,900	608,581	659,481	43,396	2,353	705,230	678,754
Other expenses	14,684	243,888	258,572	798,226	5,661	1,062,459	652,531
Total Expenses	\$ 18,008,741	\$ 91,407,786	\$ 109,416,527	\$ 9,599,307	\$ 415,730	\$ 119,431,564	\$ 77,867,371

See notes to financial statements

Vital Strategies, Inc.

Statement of Cash Flows
Year Ended December 31, 2018
(with comparative amounts for the year ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (38,520,908)	\$ 97,332,975
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	101,490	38,061
Loss on disposal of property and equipment	52,361	-
Deferred rent	604,145	(71,830)
Discount on grants receivable	5,361	(19,340)
Change in operating assets and liabilities		
Grants receivables	52,002,976	(61,070,319)
Other receivable	(332,845)	5,229
Grant advances	18,316	(102,398)
Prepaid expenses	80,799	(304,569)
Due from The Union	4,752,202	(4,051,723)
Accounts payable and accrued expenses	788,525	(55,705)
Grants payable	<u>1,980,478</u>	<u>(3,424,229)</u>
Net Cash from Operating Activities	<u>21,532,900</u>	<u>28,276,152</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,822,034)	(6,051)
Purchase of short-term investments	<u>(19,777,419)</u>	<u>-</u>
Net Cash from Investing Activities	<u>(21,599,453)</u>	<u>(6,051)</u>
Net Change in Cash	(66,553)	28,270,101
 CASH		
Beginning of year	<u>42,957,075</u>	<u>14,686,974</u>
 End of year	<u>\$ 42,890,522</u>	<u>\$ 42,957,075</u>

See notes to financial statements

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

1. Organization and Tax Status

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. During 2018, International Union Against Tuberculosis and Lung Disease, Inc. (d/b/a Vital Strategies) changed its name to Vital Strategies, Inc. 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. The International Union Against Tuberculosis and Lung Disease ("The Union") is a business partner of Vital Strategies, Inc. located in Paris, France. Vital Strategies, Inc. partners with The Union through technical expertise, project management, funding assistance and membership coordination.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying 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.

New Accounting Pronouncement

On January 1, 2018, Vital Strategies, Inc. adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities (ASU 2016-14). This guidance requires Vital Strategies, Inc. to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires Vital Strategies, Inc. to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for temporarily restricted net assets were reclassified as net assets with donor restrictions and unrestricted net assets were reclassified as net assets without donor restrictions.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Net Assets Presentation

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (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, Inc. or passage of time.

Vital Strategies, Inc. 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 statement of activities as net assets released from restrictions.

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 as of December 31, 2018, on the 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 and/or nature 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. The applicable rate used at December 31, 2018 and 2017 was 3.5% and 3.75%

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. Vital Strategies, Inc. believes all grants receivable are collectible.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are carried at cost, or if donated, fair value at the date of the donation. Vital Strategies, Inc. 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 agreement 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, 2018 and 2017 assets acquired with grant funds amounted to \$5,860 and \$22,610.

Property and equipment are reviewed for impaired 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, 2018 and 2017.

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 (FTE).

Summarized Comparative Information

The 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, Inc. financial statements as of and for the year ended December 31, 2017, from which summarized information was derived.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

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

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 2015.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is June 27, 2019.

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 statement of financial position date, are comprised of the following at December 31, 2018:

Financial assets at year-end:	
Cash	\$ 42,890,522
Grants receivable, net	20,739,083
Other receivable	351,503
Short-term investments	19,777,419
Total financial assets	<u>83,758,527</u>
Less amounts unavailable for general expenditure:	
Donor imposed restrictions by purpose	<u>(82,683,039)</u>
Add amounts available for general expenditure:	
Budgeted appropriation and satisfaction of donor imposed restrictions	70,672,880
Indirect cost rate related to restricted programs	3,428,100
	<u>74,100,980</u>
Financial assets at year-end available to meet cash needs for general expenditure within one year	<u>\$ 75,176,468</u>

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

3. Liquidity and Availability of Financial Assets (*continued*)

As part of Vital Strategies, Inc. 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, Inc. receives cash flow from grants and contributions made from donors through its fundraising efforts.

4. Significant Grant Agreements

In January 2017, Vital Strategies, Inc. was awarded a two-year grant for the Tobacco Control Program by the Bloomberg Family Foundation amounting to \$31.3 million. In 2017, an amendment was made to the original two-year grant agreement and Vital Strategies, Inc. was awarded an additional amount of \$9.9 million, of which \$1.0 million was included as unused funds from a previous agreement. In 2017, an additional amendment was made to the original agreement dated January 2017, and Vital Strategies, Inc. was awarded an additional amount of \$575,000. In December 2018, an additional \$515,000 was awarded to Vital Strategies, Inc. on the agreement, taking the total funding for the project to \$42.3 million.

In April 2017, Vital Strategies, Inc. was awarded a two-year grant for the Data for Health Program by the Bloomberg Family Foundation amounting to \$26.4 million. In 2017, an amendment was made to the original agreement, and Vital Strategies, Inc. was awarded an additional amount of \$3.8 million, of which \$1.1 million was included as unused funds from a previous agreement. The total funding for the project now amounts to \$30.2 million.

In November 2017, Vital Strategies, Inc. was awarded a two-year grant for the Cardiovascular Health Initiative by the National Philanthropic Trust amounting to \$36.7 million.

In July 2017, Vital Strategies, Inc. was awarded a five-year grant for the Global Cardiovascular Health and Public Health Infrastructure Initiative by the Silicon Valley Community Foundation – Chan Zuckerberg Initiative DAF amounting to \$75 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. Grants received for the initiative for the years ended June 30, 2018 and 2017 totaled \$15 million each year.

In June 2017, Vital Strategies, Inc. was awarded a five-year grant for the Global Cardiovascular Health and Public Health Infrastructure 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. Grants received for the initiative for the years ended June 30, 2018 and 2017 totaled \$10 million each year.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

4. Significant Grant Agreements (continued)

In March 2017, Vital Strategies, Inc. was awarded a two-year grant for the Partnership for Healthy Cities Program by the Bloomberg Family Foundation amounting to \$8.2 million.

In June 2017, Vital Strategies, Inc. was awarded a two-year grant for Maternal Health by the Bloomberg Family Foundation amounting to \$4.45 million.

In 2017, Vital Strategies, Inc. was awarded a three-year grant for Mayors Challenge Program by the Bloomberg Family Foundation amounting to \$9.9 million.

In December 2018, Vital Strategies, Inc. was awarded a two-year grant for the Road Safety Initiative by the Bloomberg Family Foundation amounting to \$8.3 million.

In October 2018, Vital Strategies, Inc. was awarded a three-year grant for the STOP Tobacco campaign by the Bloomberg Family Foundation amounting to \$3.7 million.

In July 2018, Vital Strategies, Inc. was awarded a two-year grant for the Opioid Overdose Prevention initiative amounting to \$9.1 million.

5. Grants Receivable

Vital Strategies, Inc. has the following grants receivable for which management determined that no allowance for doubtful accounts is required at December 31:

	<u>2018</u>	<u>2017</u>
Grants receivable		
Foundations	\$ 18,999,857	\$ 69,432,284
USAID	<u>1,918,855</u>	<u>3,489,404</u>
	20,918,712	72,921,688
Discount to present value	<u>(179,629)</u>	<u>(174,268)</u>
	<u>\$ 20,739,083</u>	<u>\$ 72,747,420</u>

Collections on the outstanding grants (before discount to present value) at December 31, 2018 are scheduled to be received as follows:

2019	\$ 17,183,061
2020	2,635,651
2021	550,000
2022	550,000
	<u>\$ 20,918,712</u>

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

6. Fair Value Measurement

Vital Strategies, Inc. 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, Inc.'s investments measured at fair value and are categorized using the fair value as of December 31, 2018

	Level 1	Level 2	Total
Investments			
Money market fund	\$ 430,890	\$ -	\$ 430,890
US treasury bills	-	14,777,419	14,777,419
Government and agency bonds	-	398,681	398,681
Commercial paper	-	2,791,003	2,791,003
Fixed income funds	-	1,379,426	1,379,426
	<u>\$ 430,890</u>	<u>\$ 19,346,529</u>	<u>\$ 19,777,419</u>

7. Property and Equipment

Property and equipment consisted of the following at December 31:

	2018	2017
Equipment	\$ 1,083,976	\$ 657,373
Leasehold improvement	<u>1,263,563</u>	<u>106,100</u>
	2,347,539	763,473
Accumulated depreciation	<u>(598,364)</u>	<u>(682,481)</u>
	<u>\$ 1,749,175</u>	<u>\$ 80,992</u>

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

8. Net Assets with Donor Restrictions

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

	2018			
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	End of Year
Tobacco Control Initiative	\$ 26,342,909	\$ 1,902,336	\$ (22,436,671)	\$ 5,808,574
Data For Health Initiative	23,698,442	66,704	(18,705,814)	5,059,332
Global Road Safety Initiative	7,700,832	8,324,377	(6,431,539)	9,593,670
STREAM Clinical Trials	1,935,719	10,150,790	(9,160,656)	2,925,853
Other Health Programs	2,598,567	2,641,182	(3,795,902)	1,443,847
Obesity Prevention Initiative	572,412	2,296,000	(1,333,173)	1,535,239
RESOLVE	46,921,563	24,073,579	(35,593,733)	35,401,409
Partnership for Healthy Cities Initiative	6,689,194	-	(4,749,591)	1,939,603
Mayors Challenge	8,881,590	450,000	(2,302,445)	7,029,145
Opioid Overdose Prevention	-	9,115,000	(696,263)	8,418,737
STOP Watchdog	-	3,648,000	(120,370)	3,527,630
	<u>\$ 125,341,228</u>	<u>\$ 62,667,968</u>	<u>\$ (105,326,157)</u>	<u>\$ 82,683,039</u>

	2017			
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	End of Year
Tobacco Control Initiative	\$ 1,562,190	\$ 41,770,099	\$ (16,989,380)	\$ 26,342,909
Data For Health Initiative	9,021,747	29,169,589	(14,492,894)	23,698,442
Global Road Safety Initiative	14,356,700	14,063	(6,669,931)	7,700,832
STREAM Clinical Trials	2,344,569	8,383,272	(8,792,122)	1,935,719
Other Health Programs	1,241,472	4,309,334	(2,952,239)	2,598,567
Obesity Prevention Initiative	1,473,110	-	(900,698)	572,412
RESOLVE	-	61,677,000	(14,755,437)	46,921,563
Partnership for Healthy Cities Initiative	-	8,200,000	(1,510,806)	6,689,194
Mayors Challenge	-	9,955,000	(1,073,410)	8,881,590
	<u>\$ 29,999,788</u>	<u>\$ 163,478,357</u>	<u>\$ (68,136,917)</u>	<u>\$ 125,341,228</u>

Unconditional contributions reported with donor restrictions shown in the above tables are recognized in full in the year the grant agreement is signed and committed. 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 year ended December 31, 2018 and 2017, unconditional contributions and interest income with donor restrictions totaled \$62,667,968 and \$163,478,357.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

9. Commitments

Operating Lease

On October 6, 2017, Vital Strategies, Inc. entered into a new lease agreement for two floors of leasable space. The 4th floor lease term began on October 15, 2018 (“effective date”). The rent commencement date is defined as seven months after the effective date whereby payments of fixed rent commence and are payable monthly at an initial rate of \$1,082,202 per annum. The 5th floor lease term began on the later of June 1, 2018 or the date upon which the Landlord’s work is deemed to be substantially completed (“commencement date”). The rent commencement date is defined as 150 days after the commencement date, whereby payments of fixed rent commence and are payable monthly, at an initial rate of \$1,051,992 per annum.

Rent expense is calculated on a straight-line basis over the term of the leases. Rent expense for the years ended December 31, 2018 and 2017 was \$1,729,959 and \$891,662.

Future minimum obligations under the leases at December 31, 2018 are as follows:

2019	\$ 1,732,732
2020	2,134,194
2021	2,134,194
2022	2,134,194
2023	2,150,318
Thereafter	11,808,542
	<u>\$ 22,094,174</u>

10. Related Party Transactions

Vital Strategies, Inc. partners with The Union and Vital Strategies, Inc. affiliated international offices in Singapore, Tanzania, Brazil and Vital Strategies Endowment Fund (“VS Paris”) located in Paris, France 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 and branch offices of The Union may be exercised through these agreements, for the purposes of implementing the most efficient and effective work arrangements. Vital Strategies, Inc. 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. In addition, Vital Strategies, Inc. is the custodian of NAR (the North America Region Charter of The Union) funds, which are held in a designated bank account. The balance of funds as of December 31, 2018 and 2017 is \$231,982 and \$260,796.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

10. Related Party Transactions *(continued)*

In connection with this cooperative effort, Vital Strategies, Inc. and The Union provided funding for work related to charitable purposes. During 2018 and 2017, Vital Strategies, Inc. provided \$15.4 million and \$10.6 million to The Union in grant funding. The Union provided Vital Strategies, Inc. with \$2.4 million and \$686,678 in grant funding in 2018 and 2017.

As of December 31, 2018 and 2017, Vital Strategies, Inc. held receivables due from The Union of \$8.4 million and \$10.0 million. These amounts are related to grant activities performed by Vital Strategies, Inc. on behalf of The Union.

As of December 31, 2018 and 2017, Vital Strategies, Inc. held payables due to The Union of \$4.1 million which are netted against due from The Union on the statement of financial position. These amounts are related to grant activities performed by The Union on behalf of Vital Strategies, Inc.

As of December 31, 2018 and 2017, Vital Strategies, Inc. provided The Union with refundable advances of \$1.8 million and \$1.5 million which are netted against due from The Union on the statement of financial position.

As of December 31, 2018 and 2017, Vital Strategies, Inc. was due funds from The Union of \$237,706 and \$680,523. These funds were given by Vital Strategies, Inc. to The Union in 2017 as part of the cash held in trust by Vital Strategies for Treat TB program. In September 2017, the sub award agreement between USAID and The Union, moved to Vital Strategies. These were the unspent funds with The Union that were due to Vital Strategies, Inc. at the time of transition of the agreement.

As of December 31, 2018 and 2017, The Union was due \$488,100 from Vital Strategies, Inc. These funds were due to The Union, for payments made by The Union on behalf of Vital Strategies, Inc. which are netted against due from The Union on the statement of financial position. These payments are made to sub-recipients in countries where payments cannot be made from the United States, but can be made from The Union.

In connection with this cooperative effort, Vital Strategies, Inc. provided funding to The Union's Singapore Field Office for work related to charitable purposes. During 2018 and 2017, Vital Strategies, Inc. provided \$1,534,646 and \$975,861 to The Union's Singapore Field Office in grant funding.

As of December 31, 2018 and 2017, Vital Strategies, Inc. held grants payable to The Union's Singapore Field office of \$648,421 and \$230,846. These are amounts owed to The Union's Singapore Field Office for grant activities performed for Vital Strategies, Inc.

As of December 31, 2018 and 2017, Vital Strategies, Inc. provided VS Paris with refundable advances of \$84,082 and \$102,398.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2018

10. Related Party Transactions (*continued*)

In connection with this cooperative effort, Vital Strategies, Inc. provided funding to VS Paris for work related to charitable purposes. During 2018 and 2017, Vital Strategies, Inc. provided \$263,196 and \$67,379 to VS Paris in grant funding.

11. Other Significant Concentrations

Financial instruments that potentially subject Vital Strategies, Inc. to concentrations consist principally of cash and grants receivable. Vital Strategies, Inc. 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.

As of and for the years ended December 31, 2018 and 2017, four and five funding sources accounted for approximately 93% and 99% of grants receivable and 89% and 99% of revenue and support.

12. Management's Discussion of Current Economic Environment

Vital Strategies, Inc. had a deficit in net assets without restrictions of \$2,981,350 at December 31, 2017. During the current fiscal year, Vital Strategies, Inc. has eliminated its deficit through a donation of \$3 million and the release of previously time restricted grants, including Tobacco Control Initiative, Road Safety, TREAT TB and Resolve. At December 31, 2018, Vital Strategies, Inc. has a surplus in net assets without restriction of \$1,155,931.

Management will continue in their efforts to expand and enhance Vital Strategies, Inc. funding sources during the next fiscal year to further improve the net assets without restrictions position. Additionally, Vital Strategies, Inc. is enhancing the internal systems to improve the automation of processes through a new ERP system. Management anticipates the systems will improve efficiency and transparency in its operations.

Vital Strategies, Inc. has also continued to refine and enhance its efforts on project expenditure management, project administration and budgeting. This includes its project coding system that tracks expenditures per project and by donor; that enables Vital Strategies, Inc. to control for deviations from project budgets and plan better for future expenses and results. Grant managers are also assigned to each program to review project expenses on a monthly basis and regular reporting of expenditures to budget are provided to program leads and the senior executive team members. Vital Strategies, Inc. also has a budgeting process in place that is approved by the Finance Committee and the Board.

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