

Vital Strategies, Inc.

Financial Statements

December 31, 2019

Independent Auditors' Report

Board of Trustees 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, 2019, 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, 2019, 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.

Report on Summarized Comparative Information

We have previously audited Vital Strategies, Inc.'s December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

June 25, 2020

Vital Strategies, Inc.

Statement of Financial Position
December 31, 2019
(with comparative amounts at December 31, 2018)

	2019	2018
ASSETS		
Cash	\$ 42,916,221	\$ 42,890,522
Cash held for others (Note 11)	266,982	231,982
Grants receivable, net (Note 5)	93,219,163	20,739,083
Other receivables	72,765	351,503
Grant advances (Note 11)	239,652	84,082
Prepaid expenses	464,747	390,640
Due from The Union, net (Note 11)	5,418,879	2,761,728
Short-term investments (Note 6)	50,223,672	19,777,419
Property and equipment, net (Note 7)	1,749,275	1,749,175
	\$ 194,571,356	\$ 88,976,134
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,714,573	\$ 1,518,395
Cash held for others (Note 11)	266,982	231,982
Grants payable	3,799,233	2,728,969
Deferred rent	1,046,694	657,818
Total Liabilities	7,827,482	5,137,164
Net Assets		
Without donor restrictions (Note 8)	3,598,435	1,155,931
With donor restrictions (Note 9)	183,145,439	82,683,039
Total Net Assets	186,743,874	83,838,970
	\$ 194,571,356	\$ 88,976,134

See notes to financial statements

Vital Strategies, Inc.

Statement of Activities Year Ended December 31, 2019 (with summarized totals for the year ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
REVENUE AND SUPPORT				
Grants	\$ -	\$ 207,545,896	\$ 207,545,896	\$ 62,497,501
Federal grants	-	10,928,169	10,928,169	11,676,093
Contributions	3,166,029	-	3,166,029	6,422,518
Interest income	82,295	695,388	777,683	286,026
Investment income	323,910	-	323,910	-
Other income	41,947	-	41,947	28,518
Net assets released from restrictions	<u>115,968,053</u>	<u>(115,968,053)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>119,582,234</u>	<u>103,201,400</u>	<u>222,783,634</u>	<u>80,910,656</u>
OPERATING EXPENSES				
Program Services				
Research assistance	21,004,441	-	21,004,441	18,008,741
Public health	<u>81,207,740</u>	<u>-</u>	<u>81,207,740</u>	<u>91,407,786</u>
Total Program Services	102,212,181	-	102,212,181	109,416,527
Management and general	13,882,304	-	13,882,304	9,599,307
Fundraising	<u>1,134,609</u>	<u>-</u>	<u>1,134,609</u>	<u>415,730</u>
Total Operating Expenses	<u>117,229,094</u>	<u>-</u>	<u>117,229,094</u>	<u>119,431,564</u>
Adjustment to grants received (Note 9)	<u>-</u>	<u>(2,739,000)</u>	<u>(2,739,000)</u>	<u>-</u>
Excess (Deficit) of Revenue and Support over Operating Expenses	2,353,140	100,462,400	102,815,540	(38,520,908)
NONOPERATING ACTIVITIES				
Gains on foreign currency translation	<u>89,364</u>	<u>-</u>	<u>89,364</u>	<u>-</u>
Change in Net Assets	2,442,504	100,462,400	102,904,904	(38,520,908)
NET ASSETS				
Beginning of year	<u>1,155,931</u>	<u>82,683,039</u>	<u>83,838,970</u>	<u>122,359,878</u>
End of year	<u>\$ 3,598,435</u>	<u>\$ 183,145,439</u>	<u>\$ 186,743,874</u>	<u>\$ 83,838,970</u>

See notes to financial statements

Vital Strategies, Inc.

Statement of Functional Expenses Year Ended December 31, 2019 (with summarized totals for the year ended December 31, 2018)

	Program Services			Supporting Services		2019 Total	2018 Total
	Research Assistance	Public Health	Total Program Services	Management and General	Fundraising		
Grant expenses	\$ 16,442,072	\$ 33,183,114	\$ 49,625,186	\$ 1,596,770	\$ -	\$ 51,221,956	\$ 63,116,079
Salaries	1,110,324	13,108,694	14,219,018	5,982,574	795,415	20,997,007	15,737,584
Payroll taxes and benefits	278,827	3,409,823	3,688,650	1,628,728	203,779	5,521,157	4,220,259
Consultants	1,550,222	10,158,653	11,708,875	509,930	-	12,218,805	12,960,763
Training and recruitment	11,834	76,305	88,139	99,625	710	188,474	183,967
Professional fees	233,307	110,139	343,446	165,215	-	508,661	959,829
Program service agreements	21,591	13,532,131	13,553,722	308,488	-	13,862,210	9,655,614
Other professional services	89,136	352,797	441,933	613,187	47,443	1,102,563	1,268,603
Travel	410,043	4,183,457	4,593,500	487,157	3,622	5,084,279	4,835,245
Equipment	424,498	606,453	1,030,951	337,275	-	1,368,226	2,200,341
Maintenance	2,959	24,582	27,541	106,040	77	133,658	47,941
Supplies	2,540	79,137	81,677	99,677	-	181,354	124,852
Depreciation	-	-	-	194,800	-	194,800	101,490
Occupancy costs	165,791	1,374,228	1,540,019	784,426	73,886	2,398,331	1,763,744
Postage and delivery	7,106	28,181	35,287	10,362	-	45,649	28,025
Insurance	165,980	24,163	190,143	88,455	-	278,598	218,786
Utilities	16,226	193,152	209,378	74,105	6,657	290,140	240,753
Conference and meetings	57,065	564,529	621,594	89,720	538	711,852	705,230
Provision for non-reimbursable expenses	-	-	-	576,157	-	576,157	698,800
Other expenses	14,920	198,202	213,122	129,613	2,482	345,217	363,659
Total Expenses	<u>\$ 21,004,441</u>	<u>\$ 81,207,740</u>	<u>\$ 102,212,181</u>	<u>\$ 13,882,304</u>	<u>\$ 1,134,609</u>	<u>\$ 117,229,094</u>	<u>\$ 119,431,564</u>

See notes to financial statements

Vital Strategies, Inc.

Statement of Cash Flows
Year Ended December 31, 2019
(with comparative amounts for the year ended December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 102,904,904	\$ (38,520,908)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gains	(323,910)	-
Depreciation	194,800	101,490
Loss on disposal of property and equipment	-	52,361
Deferred rent	388,876	604,145
Discount on grants receivable	(124,461)	5,361
Change in operating assets and liabilities		
Grants receivable	(72,355,619)	52,002,976
Other receivables	278,738	(332,845)
Grant advances	(155,570)	18,316
Prepaid expenses	(74,107)	80,799
Due from The Union	(2,657,151)	4,752,202
Accounts payable and accrued expenses	1,196,178	788,525
Grants payable	1,070,264	1,980,478
Net Cash from Operating Activities	30,342,942	21,532,900
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(194,900)	(1,822,034)
Purchases of short-term investments	(74,680,325)	(19,777,419)
Sales of short-term investments	44,557,982	-
Net Cash from Investing Activities	(30,317,243)	(21,599,453)
Net Change in Cash	25,699	(66,553)
CASH		
Beginning of year	42,890,522	42,957,075
End of year	\$ 42,916,221	\$ 42,890,522

See notes to financial statements

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

1. Organization and Tax Status

Vital Strategies, Inc. (“Vital Strategies”) 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 maintains an office in New York City. Vital Strategies is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Vital Strategies is a public charity within the meaning of Section 509(a) of the Code.

The mission of Vital Strategies 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 located in Paris, France. Vital Strategies partners with The Union through technical expertise, project management, funding assistance and membership coordination. Vital Strategies also maintain affiliations with three independent entities who use the *Vital Strategies* name and branding located in France, Singapore and Brazil. In 2018, Vital Strategies opened a branch in Jinan, China, to assist in program implementation throughout China.

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 Pronouncements

Revenue from Contracts with Customers

Effective January 1, 2019, Vital Strategies adopted accounting standards update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, as amended. The guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

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

New Accounting Pronouncements (continued)

Revenue from Contracts with Customers (continued)

Analysis of various provisions of this standard resulted in no changes in the way Vital Strategies recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. When revenue is earned over a period that spans the year end, it is recognized in the applicable period in which it is earned. The new guidance requires Vital Strategies to not recognize revenue until it is probable of collection. Based on strong collection experience, Vital Strategies has concluded that all revenue recognized is probable of collection.

Recognition of Contributions

Effective January 1, 2019, Vital Strategies adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various other provisions of this standard resulted in no significant changes in the way Vital Strategies recognizes grants and contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Net Assets 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 statement of activities as net assets released from restrictions.

Short-term Investments

Vital Strategies 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, 2019 and 2018, on the statement of financial position.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

2. Summary of Significant Accounting Policies (continued)

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, 2019 and 2018 was 3.5%

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 believes all grants receivable are collectible.

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 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, 2019 and 2018 assets acquired with grant funds amounted to \$30,343 and \$5,860, respectively.

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, 2019 and 2018.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

2. Summary of Significant Accounting Policies (continued)

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 statement of financial position date. Revenue and expense accounts are translated at the average rate in effect during the year.

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' financial statements as of and for the year ended December 31, 2018, from which summarized information was derived.

Accounting for Uncertainty in Income Taxes

Vital Strategies 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 had no uncertain tax positions that would require financial statement recognition or disclosure. Vital Strategies is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2016.

Cash Held for Others

Vital Strategies is the custodian of the North America Region Charter of The Union funds, which are held in a designated bank account. The funds are not available for use by Vital Strategies, and as such, the cash is disclosed as both a contra-asset and contra-liability in the statement of financial position (see Note 11).

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

2. Summary of Significant Accounting Policies (continued)

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 25, 2020.

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, 2019:

Financial assets at year-end:	
Cash	\$ 42,916,221
Grants receivable, net	93,219,163
Other receivable	72,765
Short-term investments	<u>50,223,672</u>
Total Financial Assets	<u>186,431,821</u>
Less amounts unavailable for general expenditure:	
Donor imposed restrictions by purpose	(183,145,439)
Board designated reserves	<u>(2,000,000)</u>
	<u>(185,145,439)</u>
Add amounts available for general expenditure:	
Budgeted appropriation and satisfaction of donor imposed restrictions	84,609,223
Indirect cost rate related to restricted programs	<u>9,477,952</u>
	<u>94,087,175</u>
Financial Assets at Year-End Available to Meet Cash Needs for General Expenditure Within One Year	<u>\$ 95,373,557</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.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

4. Significant Grant Agreements

In January 2017, Vital Strategies was awarded a two-year grant for the Tobacco Control Program by Bloomberg Philanthropies amounting to \$31.3 million. In 2017, an amendment was made to the original two-year grant agreement and Vital Strategies 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 was awarded an additional amount of \$575,000. In December 2018, an additional \$515,000 was awarded to Vital Strategies on the agreement, taking the total funding for the project to \$42.3 million. In January 2019, Bloomberg Philanthropies renewed the grant for an additional two-year period with additional grant funds totaling \$36.8 million. As of December 31, 2019, total funding for the program since inception amounted to \$79.1 million.

In July 2017, Vital Strategies was awarded a five-year grant for the RESOLVE 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 grant periods ended June 30, 2019 and 2018 totaled \$15 million each year.

In June 2017, Vital Strategies 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. Grants received for the initiative for the grant periods ended June 30, 2019 and 2018 totaled \$10 million each year.

In November 2017, Vital Strategies was awarded a two-year grant for the Cardiovascular Health Initiative by the National Philanthropic Trust amounting to \$36.7 million. In December 2018, the agreement was amended and reduced to total funding of \$15.5 million. In November 2019, the agreement was amended and extended through September 2021, for an additional \$33.3 million, increasing the total agreement to \$48.8 million.

In October 2018, Vital Strategies was awarded a two-year grant for the Cardiovascular Health Initiative by Bloomberg Philanthropies amounting to \$21.2 million.

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

In October 2018, Vital Strategies 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 July 2018, Vital Strategies 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.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

4. Significant Grant Agreements (continued)

In May 2019, Vital Strategies was awarded a two-year grant for the Partnership for Healthy Cities initiative by the National Philanthropic Trust totaling to \$11.3 million.

In July 2019, Vital Strategies was awarded a two-year grant for the Data for Health initiative by the National Philanthropic Trust totaling to \$34.5 million.

In July 2019, Vital Strategies was awarded a two-year grant for the Global Road Safety initiative by the Schwab Charitable Fund totaling to \$18.5 million.

5. Grants Receivable

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

	<u>2019</u>	<u>2018</u>
Grants receivable		
Foundations	\$ 89,254,305	\$ 18,999,857
USAID	<u>4,022,562</u>	<u>1,918,855</u>
	93,276,867	20,918,712
Discount to present value	<u>(57,704)</u>	<u>(179,629)</u>
	<u>\$ 93,219,163</u>	<u>\$ 20,739,083</u>

Collections on the outstanding grants (before discount to present value) at December 31, 2019 are scheduled to be received as follows:

2020	\$ 92,101,867
2021	625,000
2022	<u>550,000</u>
	<u>\$ 93,276,867</u>

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.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

6. Fair Value Measurement (continued)

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

	2019		
	Level 1	Level 2	Total
Investments			
Money market fund	\$ 60,976	\$ -	\$ 60,976
US treasury bills	-	14,899,763	14,899,763
Government and agency bonds	-	399,632	399,632
Commercial paper	-	31,312,899	31,312,899
Fixed income funds	-	3,550,402	3,550,402
	<u>\$ 60,976</u>	<u>\$ 50,162,696</u>	<u>\$ 50,223,672</u>
	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:

	2019	2018
Equipment	\$ 1,194,060	\$ 1,083,976
Leasehold improvement	1,348,379	1,263,563
	<u>2,542,439</u>	<u>2,347,539</u>
Accumulated depreciation	(793,164)	(598,364)
	<u>\$ 1,749,275</u>	<u>\$ 1,749,175</u>

8. Board Designated Reserves

In December 2019, the Vital Strategies Board of Trustees designated a portion of net assets without donor restrictions to ensure sustainability of operations, and to provide contingent liquidity in unforeseen circumstances. These board designated net assets totaled \$2,000,000 as of December 31, 2019.

Vital Strategies, Inc.

Notes to Financial Statements December 31, 2019

9. Net Assets with Donor Restrictions

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

	2019				
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	Adjustments to Grants Received *	End of Year
Tobacco Control Initiative	\$ 5,808,574	\$ 37,507,043	\$ (20,528,168)	\$ -	\$ 22,787,449
Data For Health Initiative	5,059,332	34,587,729	(14,272,195)	-	25,374,866
Global Road Safety Initiative	9,593,670	18,709,336	(8,416,893)	-	19,886,113
STREAM Clinical Trials	2,925,853	15,086,148	(15,718,449)	-	2,293,552
Other Health Programs	1,443,847	992,364	(1,001,228)	-	1,434,983
Obesity Prevention Initiative	1,535,239	850,774	(1,825,357)	-	560,656
RESOLVE	35,401,409	58,542,840	(30,867,268)	-	63,076,981
Partnership for Healthy Cities Initiative	1,939,603	11,320,980	(4,177,322)	-	9,083,261
Mayors Challenge	7,029,145	35,857	(2,972,746)	(2,739,000)	1,353,256
Opioid Overdose Prevention	8,418,737	27,974,874	(4,150,802)	-	32,242,809
STOP Watchdog	3,527,630	2,633,339	(1,109,456)	-	5,051,513
USAID	-	10,928,169	(10,928,169)	-	-
	<u>\$ 82,683,039</u>	<u>\$ 219,169,453</u>	<u>\$ (115,968,053)</u>	<u>\$ (2,739,000)</u>	<u>\$ 183,145,439</u>

	2018				
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	Adjustments to Grants Received *	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>\$ -</u>	<u>\$ 82,683,039</u>

* In 2017, Vital Strategies was awarded \$5,555,000 for the Mayor's Challenge program in Sao Paulo, Brazil by Bloomberg Philanthropies. During 2019, Bloomberg Philanthropies informed Vital Strategies that total funding for the program would be reduced to \$2,816,000. As a result of this amendment, during the year ended December 31, 2019, Vital Strategies recognized an adjustment to grants received of \$2,739,000 in the statement of activities. As of December 31, 2019, no additional funding is due from Bloomberg Philanthropies on this program.

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, 2019 and 2018, unconditional contributions and interest income with donor restrictions totaled \$219,169,453 and \$62,667,968, respectively.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

10. Commitments

Operating Leases

On October 6, 2017, Vital Strategies entered into new lease agreements 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 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 \$2,121,609 and \$841,633 for the years ended December 31, 2019 and 2018, respectively, and is included within occupancy costs in the statement of functional expenses.

Future minimum obligations under the leases at December 31, 2019 are as follows:

2020	\$ 2,134,194
2021	2,134,194
2022	2,134,194
2023	2,150,318
2024	2,286,188
Thereafter	<u>9,522,354</u>
	<u>\$ 20,361,442</u>

11. Related Party Transactions

Vital Strategies partners with The Union and affiliated international offices in Singapore (“VS Singapore”), Brazil (“VS Brazil”) and France (Vital Strategies Endowment Fund (“VS Paris”)) 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 (including The Union’s Singapore branch, a separate entity to VS Singapore) 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. In addition, Vital Strategies 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, 2019 and 2018 is \$266,982 and \$231,982, respectively.

Vital Strategies, Inc.

Notes to Financial Statements
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11. Related Party Transactions (*continued*)

In connection with this cooperative effort, Vital Strategies and The Union provided funding for work related to charitable purposes. During 2019 and 2018, Vital Strategies provided \$13.3 million and \$15.4 million, respectively, to The Union in grant funding. The Union provided Vital Strategies with \$2.9 million and \$2.4 million in grant funding in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, Vital Strategies held receivables due from The Union of \$10.8 million and \$8.4 million, respectively. These amounts are related to grant activities performed by Vital Strategies on behalf of The Union.

As of December 31, 2019 and 2018, Vital Strategies held payables due to The Union of \$6.9 million and \$4.1 million, respectively, which are included in 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.

As of December 31, 2019 and 2018, Vital Strategies provided The Union with refundable advances of \$3.0 million and \$1.8 million, respectively, which are included in due from The Union on the statement of financial position.

As of December 31, 2019 and 2018, Vital Strategies was due funds from The Union of \$0 and \$237,706, respectively, which are included in due from The Union on the statement of financial position. These funds were given by Vital Strategies to The Union in 2017 as part of the cash held in trust by Vital Strategies for Treat TB program.

As of December 31, 2019 and 2018, The Union was due \$488,100 from Vital Strategies. These funds were due to The Union, for payments made by The Union on behalf of Vital Strategies, which are included in due from The Union and other affiliates 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 provided funding to The Union's Singapore Field Office for work related to charitable purposes. During 2019 and 2018, Vital Strategies provided \$1,320,789 and \$1,534,646, respectively, to The Union's Singapore Field Office in grant funding.

As of December 31, 2019 and 2018, Vital Strategies held grants payable to The Union's Singapore Field office of \$308,876 and \$648,421, respectively, and are in due from The Union on the statement of financial position. These are amounts owed to The Union's Singapore Field Office for grant activities performed for Vital Strategies.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

11. Related Party Transactions (continued)

Vital Strategies provides funding to its international affiliates for work related to their common charitable purposes. Below is a summary of amounts funded to the affiliates, and grant advances as shown on the statement of financial position, as of, and for the years ended, December 31:

	2019	
	Grant funding	Grant advances
VS Singapore	\$ 1,607,700	\$ 116,570
VS Brazil	1,062,185	39,000
VS France	412,889	84,082
	<u>\$ 3,082,774</u>	<u>\$ 239,652</u>

	2018	
	Grant funding	Grant advances
VS Singapore	\$ 758,678	\$ -
VS Brazil	49,000	-
VS France	263,196	84,082
	<u>\$ 1,070,874</u>	<u>\$ 84,082</u>

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, 2019 and 2018, seven and four funding sources accounted for approximately 97% and 93% of grants receivable and 96% and 89% of revenue and support, respectively.

Vital Strategies, Inc.

Notes to Financial Statements
December 31, 2019

13. Subsequent Events

Coronavirus Pandemic

On January 30, 2020, the World Health Organization declared the Coronavirus outbreak a pandemic. While the duration of business interruption from this outbreak and related financial impact cannot be reasonably estimated at this time, financial results and foreign currency adjustments may be adversely affected in 2020. The extent to which the Coronavirus impacts operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of, and actions taken to contain, the Coronavirus or its impact, among others.

The pandemic has also resulted in substantial volatility in the global financial markets. Because the value of Vital Strategies' individual investments has, and will, fluctuate in response to changing market conditions, any future changes in market value cannot be determined at this time.

CARES Act

During May 2020, Vital Strategies received a loan under the Paycheck Protection Program authorized by the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in the amount of \$1,205,759. In accordance with the requirements under the CARES Act, the loan may be forgiven based on the associated spending in accordance with regulations under the CARES Act. For amounts under the loan that are not forgiven, these amounts are due 2 years from the date of the loan and interest would accrue on the unforgiven loan balance at 1% per year. The debt forgiveness will be recognized at the time that the financial institution that issued the loan has reviewed and approved the associated spending and determined the forgivable portion. Management believes that most or all of the loan will be forgiven based on the current understanding of the legislative guidance.

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