

**International Union Against Tuberculosis  
and Lung Disease, Inc. (d/b/a Vital Strategies)**

Financial Statements

December 31, 2016

## **Independent Auditors' Report**

### **Board of Directors of International Union Against Tuberculosis and Lung Disease, Inc. (d/b/a Vital Strategies)**

We have audited the accompanying financial statements of International Union Against Tuberculosis and Lung Disease, Inc., (d/b/a Vital Strategies), ("Vital Strategies") which comprise the statement of financial position as of December 31, 2016, 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.

**Board of Directors of  
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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vital Strategies as of December 31, 2016, 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' December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

June 5, 2017

**International Union Against Tuberculosis  
and Lung Disease, Inc. (d/b/a Vital Strategies)**

Statement of Financial Position  
December 31, 2016  
(with comparative amounts at December 31, 2015)

	2016	2015
<b>ASSETS</b>		
Cash	\$ 14,686,974	\$ 33,880,996
Cash held for others	271,006	140,767
Grants receivable, net	17,393,696	27,642,553
Other receivable	23,887	12,585
Prepaid expenses	166,870	4,800
Property and equipment, net	113,002	155,474
	\$ 32,655,435	\$ 61,837,175
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,017,090	\$ 232,468
Cash held for others	271,006	140,767
Grants payable	5,758,017	6,467,088
Deferred rent	125,503	182,597
Due to Union Paris	456,916	258,297
Total Liabilities	7,628,532	7,281,217
Net Assets		
Unrestricted (deficit)	(4,972,885)	(6,961,678)
Temporarily restricted	29,999,788	61,517,636
Total Net Assets	25,026,903	54,555,958
	\$ 32,655,435	\$ 61,837,175

See notes to financial statements

**International Union Against Tuberculosis  
and Lung Disease, Inc. (d/b/a Vital Strategies)**

Statement of Activities  
Year Ended December 31, 2016  
(with summarized totals for the year ended December 31, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
<b>REVENUE AND SUPPORT</b>				
Grants	\$ -	\$ 20,337,885	\$ 20,337,885	\$ 85,401,565
Federal grants	9,645,879	-	9,645,879	8,833,805
Contributions	483,098	-	483,098	1,137,420
IMDP course fee	243,700	-	243,700	178,872
Other income	33,355	-	33,355	65,410
Interest income	8,706	110,730	119,436	98,091
Net assets released from restrictions	51,966,463	(51,966,463)	-	-
Total Revenue and Support	<u>62,381,201</u>	<u>(31,517,848)</u>	<u>30,863,353</u>	<u>95,715,163</u>
<b>EXPENSES</b>				
Program Services				
Research assistance	13,727,117	-	13,727,117	11,968,339
Public Health	41,864,621	-	41,864,621	36,342,092
Education	997,621	-	997,621	843,109
Total Program Services	<u>56,589,359</u>	<u>-</u>	<u>56,589,359</u>	<u>49,153,540</u>
Management and general	2,772,992	-	2,772,992	1,952,553
Fundraising	1,030,057	-	1,030,057	287,934
Total Expenses	<u>60,392,408</u>	<u>-</u>	<u>60,392,408</u>	<u>51,394,027</u>
(Deficiency) Excess of Revenue and Support over Expenses Before Non Operating Activities	1,988,793	(31,517,848)	(29,529,055)	44,321,136
<b>NON OPERATING ACTIVITIES</b>				
Inherent contribution received in acquisition of World Lung Foundation	-	-	-	85,481
Change in Net Assets (Deficit)	1,988,793	(31,517,848)	(29,529,055)	44,406,617
<b>NET ASSETS (DEFICIT)</b>				
Beginning of year	<u>(6,961,678)</u>	<u>61,517,636</u>	<u>54,555,958</u>	<u>10,149,341</u>
End of year	<u>\$ (4,972,885)</u>	<u>\$ 29,999,788</u>	<u>\$ 25,026,903</u>	<u>\$ 54,555,958</u>

See notes to financial statements

**International Union Against Tuberculosis  
and Lung Disease, Inc. (d/b/a Vital Strategies)**

Statement of Functional Expenses  
Year Ended December 31, 2016  
(with summarized totals for the year ended December 31, 2015)

	Research Assistance	Public Health	Education	Total Program Services	Management and General	Fundraising	2016 Total	2015 Total
Grant expenses	\$ 10,508,251	\$ 29,592,271	\$ 126,170	\$ 40,226,692	\$ 326,896	\$ 2,398	\$ 40,555,986	\$ 37,589,273
Salaries	935,172	3,798,964	298,389	5,032,525	1,322,206	555,085	6,909,816	4,536,701
Payroll taxes and benefits	191,216	978,980	68,162	1,238,358	387,028	165,576	1,790,962	1,007,136
Consultants	20,945	2,454,993	215,395	2,691,333	117,720	205,408	3,014,461	1,926,457
Training and recruitment	32,640	12,246	2,610	47,496	30,653	1,250	79,399	56,754
Professional fees	566,661	394,534	10,552	971,747	36,607	-	1,008,354	1,466,436
Other professional services	27,770	241,154	67,226	336,150	181,652	-	517,802	1,053,468
Travel	338,910	2,334,879	139,558	2,813,347	184,933	60,008	3,058,288	1,578,848
Equipment	17,220	579,783	3,430	600,433	11,253	-	611,686	177,864
Maintenance	8,747	45,144	-	53,891	15,568	-	69,459	43,599
Supplies	759,102	105,359	614	865,075	18,899	481	884,455	337,994
Depreciation	-	-	-	-	42,472	-	42,472	29,140
Occupancy costs	121,729	657,863	-	779,592	-	15,956	795,548	635,501
Postage and delivery	37,671	52,809	17,661	108,141	3,715	892	112,748	87,286
Insurance	76,308	33,258	-	109,566	-	-	109,566	124,394
Utilities	23,475	185,447	6,349	215,271	18,000	5,288	238,559	158,928
Conference and meetings	31,870	272,029	13,745	317,644	37,109	6,284	361,037	185,644
Other expenses	29,430	124,908	27,760	182,098	38,281	11,431	231,810	398,604
<b>Total Expenses</b>	<b><u>\$ 13,727,117</u></b>	<b><u>\$ 41,864,621</u></b>	<b><u>\$ 997,621</u></b>	<b><u>\$ 56,589,359</u></b>	<b><u>\$ 2,772,992</u></b>	<b><u>\$ 1,030,057</u></b>	<b><u>\$ 60,392,408</u></b>	<b><u>\$ 51,394,027</u></b>

See notes to financial statements

**International Union Against Tuberculosis  
and Lung Disease, Inc. (d/b/a Vital Strategies)**

Statement of Cash Flows  
Year Ended December 31, 2016  
(with comparative amounts for the year ended December 31, 2015)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (29,529,055)	\$ 44,406,617
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	42,472	29,140
Deferred rent	(57,094)	103,444
Discount on grants receivable	(291,171)	68,258
Inherent contribution received in acquisition of World Lung Foundation	-	(85,481)
Changes in operating assets and liabilities, net of assets contributed and liabilities assumed in 2015		
Grants receivables	10,540,028	(15,287,488)
Other receivable	(11,302)	(157)
Prepaid expenses	(162,070)	124,068
Accounts payable and accrued expenses	784,622	(560,132)
Grants payable	(709,071)	(311,793)
Due to Union Paris	198,619	(221,861)
Net Cash from Operating Activities	(19,194,022)	28,264,615
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	(30,749)
Cash received in acquisition of World Lung Foundation	-	158,396
Net Cash from Investing Activities	-	127,647
Net Change in Cash and Cash Equivalents	(19,194,022)	28,392,262
<b>CASH</b>		
Beginning of year	33,880,996	5,488,734
End of year	\$ 14,686,974	\$ 33,880,996
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Non Cash Investing Activity		
Fair value of assets acquired	\$ -	\$ 316,107
Liabilities assumed	-	(230,626)
Inherent Contribution Received in Acquisition of World Lung Foundation	\$ -	\$ 85,481

See notes to financial statements

**International Union Against Tuberculosis  
and Lung Disease, Inc. (d/b/a Vital Strategies)**

Notes to Financial Statements  
December 31, 2016

**1. Organization**

The International Union Against Tuberculosis and Lung Disease, Inc. (d/b/a Vital Strategies) (“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.

Vital Strategies acts as the North American affiliate of the International Union Against Tuberculosis and Lung Disease (“The Union”), headquartered in Paris, France. The mission of Vital Strategies is to actively support and manage initiatives, projects and activities designed to address lung health challenges among low and middle income populations worldwide. Vital Strategies supports the work of The Union and its affiliates through technical expertise, project management, funding assistance and membership coordination.

**2. Business Combination**

***World Lung Foundation Acquisition***

Effective June 1, 2015, in a transaction in which no cash or stock was exchanged, the World Lung Foundation (“WLF”) was acquired by Vital Strategies. At this effective date, the identity and separate existence of WLF ceased and all of its assets and liabilities were assumed by Vital Strategies with Vital Strategies being the surviving corporation. WLF was a tax-exempt New York Corporation under Section 501(a) of the Code and was exempt from Federal income taxes pursuant to Section 501(c)(3) of the Code. WLF was also exempt from New York State and local taxes. WLF had a similar mission as Vital Strategies and derived similar types of revenues. As a result of this merger, the Board of Vital Strategies has been reconstituted and now includes some former members of the WLF board.

The acquisition was accounted for under guidance for recording acquisitions by not-for-profit entities prescribed by accounting principles generally accepted in the United States of America (“US GAAP”). This guidance requires that the acquisition method is to be used when one not-for-profit entity acquires another not-for-profit entity. The acquisition method requires the acquirer to measure and recognize the identifiable assets acquired, liabilities assumed, and any noncontrolling ownership interests in the acquiree at acquisition-date fair values, with certain exceptions. The acquisition method also requires the not-for-profit acquirer to recognize either goodwill or an inherent contribution received in the acquisition. With the WLF acquisition, the fair value of the assets acquired exceeded the fair value of the liabilities assumed, so an inherent contribution was recorded in the accompanying 2015 statement of activities.



**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**2. Business Combination (continued)**

***World Lung Foundation Acquisition (continued)***

The following table summarizes the final allocation of the fair value of assets acquired and liabilities assumed (using level 3 inputs) at the date of the acquisition:

Cash	\$ 158,396
Grants receivable	50,000
Prepaid expenses and other assets	71,534
Property and equipment	36,177
Total Assets	<u>\$ 316,107</u>
Accounts payable and accrued expenses	<u>\$ 230,626</u>
Total Liabilities	230,626
Total Net Assets, Unrestricted (inherent contribution)	<u>85,481</u>
Total Liabilities and Net Assets	<u>\$ 316,107</u>

Vital Strategies follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the 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.

**3. Summary of Significant Accounting Policies**

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

The accompanying financial statements have been prepared in accordance with 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.

**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**3. Summary of Significant Accounting Policies (continued)**

***Net Asset Classification***

Contributions and net assets are presented in three categories: permanently restricted, temporarily restricted and unrestricted. Permanently restricted contributions and net assets are those that include donor-imposed restrictions requiring that resources be maintained permanently but may direct expenditure of the income. Temporarily restricted contributions and net assets are those which include donor-imposed restrictions that permit Vital Strategies to expend the assets as specified; the restrictions are satisfied either by passage of time or by actions of Vital Strategies. Unrestricted contributions and net assets represent assets which are not restricted by donors. Unrestricted contributions and net assets are funds that are fully available, at the discretion of management and the Board for Vital Strategies to utilize in any of its programs or supporting services.

***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 contributions, as well as other contributions received, are recorded when received and as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions.

Grants receivable with due dates extending beyond one year are discounted using the USA prime rate. The applicable rate at December 31, 2016 and 2015 was 3.75% and 3.26%.

***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 year ended December 31, 2016 assets acquired with grant funds amounted to \$587,874.

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, 2016 and 2015.

**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**3. Summary of Significant Accounting Policies (continued)**

***Functional Allocation of Expenses***

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Vital Strategies.

***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, 2015, from which summarized information was derived.

***Reclassification***

Certain amounts in 2015 have been reclassified to conform to the 2016 presentation.

***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 2013.

***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 5, 2017.

**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**4. Significant Grant Agreements**

In January 2015, Vital Strategies was awarded a two-year grant by the Bloomberg Family Foundation, Inc. (the “Foundation”) amounting to \$52.4 million. The grant funds are allotted to working with partners to reduce global tobacco use through a variety of measures, including the strengthening of the World Health Organization (“WHO”), continuing the established global tobacco control monitoring system, maintain and expand the global clearinghouse for effective anti-tobacco advertising and testing, implement and evaluate country-based mass media campaigns, support an international coalition of organizations to prevent tobacco smuggling and implement other articles of the WHO Framework Convention on Tobacco Control. Implementing this program will require Vital Strategies. to work on the ground in high burden countries with other organizations through the use of sub-grants. In connection with this grant, Vital Strategies committed to provide grants for:

World Health Organization	\$ 10,900,000
Action on Smoking Health	1,250,000

In March 2015, Vital Strategies was awarded a two-year grant by the Foundation amounting to \$23.5 million. The grant funds are allotted for the Data for Health Initiative (“Initiative”) in the following manner: coordinating the selection of 20 countries and cities in the Initiative; lead implementation management for the strengthening of birth, death and cause of death data in the Civil Registration and Vital Statistics (“CRVS”) component of the program; lead design and implementation of a special, rural CRVS project in Malawi that builds on successful work previously supported by Bloomberg Philanthropies; and lead design and implementation of the data use component of the program.

In April 2016, Vital Strategies was awarded a two-year grant by the Foundation amounting to \$2.6 million. Included in this grant is \$160,510 of unutilized funds, which was carried forward from a previous grant and will be included in the total funding of the project.

In July 2016, an amendment was made to the original Maternal Health agreement dated October 2015 which totaled \$4.7 million. Vital Strategies was awarded an additional amount of \$343,000 to continue the project titled “To Prevent Maternal Deaths in Tanzania” previously carried out by WLF. The total funding of the project now amounts to \$5.1 million.

In March 2015, Vital Strategies signed a five year funding and consultancy agreement with Janssen Research & Development, LLC (“Janssen”) to conduct a clinical study titled “STREAM: The evaluation of a standardized treatment regimen of anti-tuberculosis drugs for patients with MDR-TB”. The maximum payment to be received under this agreement is \$56.0 million.

Vital Strategies granted \$8.4 million to The Union, to fund their resource centers and in-country expertise, focusing on capacity building on tobacco control in countries with the highest prevalence of tobacco users.

**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**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>2016</u>	<u>2015</u>
Grants receivable		
Foundations	\$ 11,851,369	\$ 20,470,270
Corporations and others	<u>5,735,935</u>	<u>7,300,948</u>
	17,587,304	27,771,218
Discount to present value (3.75% for 2016 and 3.26% 2015)	<u>(193,608)</u>	<u>(128,665)</u>
	<u>\$ 17,393,696</u>	<u>\$ 27,642,553</u>

Collections on the outstanding grants (before discount to present value) at December 31, 2016 are scheduled to be received as follows:

2017	\$ 14,760,230
2018	1,000,000
2019	1,000,000
2020	<u>827,074</u>
	<u>\$ 17,587,304</u>

**6. Property and Equipment**

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 651,322	\$ 651,321
Leasehold improvement	<u>106,100</u>	<u>106,101</u>
	757,422	757,422
Accumulated depreciation	<u>(644,420)</u>	<u>(601,948)</u>
	<u>\$ 113,002</u>	<u>\$ 155,474</u>

**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**7. Temporarily Restricted Net Assets**

The following summarizes the changes in temporarily restricted net assets for the years ended December 31:

	2016			
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	End of Year
Bloomberg initiative - Tobacco	\$ 26,807,200	\$ 8,943	\$ (25,253,953)	\$ 1,562,190
Bloomberg initiative - Data for Health Initiative	20,137,580	69,312	(11,185,145)	9,021,747
Bloomberg initiative - Road Safety	8,805,233	11,538,679	(5,987,212)	14,356,700
Maternal Health	3,332,918	778,994	(2,916,500)	1,195,412
Janssen - STREAM TB	2,301,400	5,769,082	(5,725,913)	2,344,569
Global Tobacco Control	8,412	-	(8,412)	-
Other	-	156,604	(110,544)	46,060
Combating Obesity	124,893	2,127,001	(778,784)	1,473,110
	<u>\$ 61,517,636</u>	<u>\$ 20,448,615</u>	<u>\$ (51,966,463)</u>	<u>\$ 29,999,788</u>
	2015			
	Beginning of Year	Contributions and Interest Income	Released from Restrictions	End of Year
Bloomberg initiative - Tobacco	\$ -	\$ 48,735,966	\$ (21,928,766)	\$ 26,807,200
Bloomberg initiative - Data for Health Initiative	-	21,383,213	(1,245,633)	20,137,580
Bloomberg initiative - Road Safety	11,478,987	26,143	(2,699,897)	8,805,233
Maternal Health	-	4,401,395	(1,068,477)	3,332,918
Janssen - STREAM TB	-	3,805,622	(1,504,222)	2,301,400
Strategic information and operational research	192,478	-	(192,478)	-
Global Tobacco Control	101,151	-	(92,739)	8,412
Expanding Tuberculosis Control	-	225,807	(225,807)	-
Combating Obesity	745,573	-	(620,680)	124,893
TFK - Externally financed output	147,754	-	(147,754)	-
	<u>\$ 12,665,943</u>	<u>\$ 78,578,146</u>	<u>\$ (29,726,453)</u>	<u>\$ 61,517,636</u>

**8. Commitments**

***Operating Lease***

Vital Strategies is obligated under operating leases for its administrative offices. The leases are for terms ending on August 31, 2018, and are subject to annual escalations. Rent expense is calculated on a straight-line basis over the term of the leases. On June 1, 2015, Vital Strategies acquired the operating lease of WLF's administrative offices. Rent expense for the years ended December 31, 2016 and 2015 was \$779,683 and \$619,309.

**International Union Against Tuberculosis  
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Notes to Financial Statements  
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**8. Commitments (continued)**

***Operating Lease (continued)***

Future minimum obligations under the lease at December 31, 2016 are as follows:

2017	\$	773,866
2018		<u>487,510</u>
		<u>\$ 1,261,376</u>

**9. Affiliated Parties**

Vital Strategies, in its capacity as an affiliate office of The Union, maintains various agreements with The Union 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 restricted and unrestricted funds and donations between the entities and other affiliate 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 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, 2016 and 2015 is \$271,006 and \$140,767.

During 2016, Vital Strategies through The Union, was the sub-recipient of \$9.7 million in US government funds, to support activities associated with The Union-led implementation of the international TREAT TB Initiative, a multi-year research initiative funded by the United States Agency for International Development (USAID), for which Vital Strategies serves as a coordinating and administrative hub.

In addition, during 2016, Vital Strategies received an award of \$566,740, from The Union to fund general operating and supporting activities, as well as marketing activities associated with the International Management Development Program (IMDP), a management and leadership training program administered by The Union.

**10. Other Significant Concentrations**

Financial instruments that potentially subject Vital Strategies to concentrations consist principally of cash and cash equivalents 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. Vital Strategies believes all grants receivable are collectible.

As of and for the year ended December 31, 2016 and 2015, three and two funding sources accounted for approximately 99% and 79% of grants receivable and 98% and 89% of revenue and support.

**International Union Against Tuberculosis  
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Notes to Financial Statements  
December 31, 2016

**11. Management's Discussion of Current Economic Environment and Plan to Improve Results of Operations**

Vital Strategies has an unrestricted deficit of (\$4,972,885) at December 31, 2016. Management recognized the need to address this deficit and has a plan in progress that will eliminate this deficit by 2018. Specifically, Vital Strategies has signed grants for funding of approximately \$67 million for year 2017 and \$62 million for year 2018 for programs on Initiative, Road Safety, TREAT TB and Janssen. For the Road Safety, Data for Health and Tobacco programs, approximately 15% of revenue is designated to cover indirect costs. For the TREAT TB grant from USAID and the Janssen grant, a higher indirect cost rate of approximately 21% is in place.

The revenue from these signed grants combined with the revenue from anticipated commitment grants after 2017 will eliminate the deficit by the end of 2018. These aforementioned grants are in addition to existing and ongoing programs for Tobacco control, TREAT TB and Obesity Prevention.

Vital Strategies management also has recognized that beyond eliminating the current deficit there are other actions it can take to improve its financial position. With a focus towards securing unrestricted funds, a fundraising function has been initiated and is working closely with the Board and Executive management to look for funds in different areas of public health. Vital Strategies is also leveraging its expertise in public health program management and bidding to provide its services more broadly.

Vital Strategies 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 enables Vital Strategies to control for deviations from project budgets and plan better for its 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 the senior executive team members. Vital Strategies also has a budgeting system in place that starts with each project team planning out the entire year and budgets are approved at the Board level.

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