

**The Global Alliance
for TB Drug Development, Inc.**

**Financial Statements
Year Ended December 31, 2018**

The Global Alliance for TB Drug Development, Inc.

Financial Statements
Year Ended December 31, 2018

The Global Alliance for TB Drug Development, Inc.

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Independent Auditor's Report

The Board of Directors
The Global Alliance for TB Drug Development, Inc.
New York, New York

We have audited the accompanying financial statements of The Global Alliance for TB Drug Development, Inc. (TB Alliance), 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.

Auditor's 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 from 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 auditor's 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 The Global Alliance for TB Drug Development, 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.

Report on Summarized Comparative Information

We have previously audited TB Alliance's 2017 financial statements and our report, dated July 11, 2018, expressed an unmodified opinion on those audited financial statements. 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.

BDO USA, LLP

June 26, 2019

The Global Alliance for TB Drug Development, Inc.

Statement of Financial Position (with comparative totals for 2017)

December 31,	2018	2017
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 71,556,062	\$ 67,443,030
Contributions and grants receivable (Note 2)	211,416	1,944,673
Security deposits	60,142	60,142
Prepaid expenses and other assets	2,451,450	1,615,717
Total Current Assets	74,279,070	71,063,562
Restricted Cash (Note 2)	864,131	1,788,219
Fixed Assets, Net (Notes 2 and 3)	28,337	133,625
Total Assets	\$ 75,171,538	\$ 72,985,406
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 8,822,090	\$ 7,684,847
Deferred revenue (Note 2)	6,938,408	8,746,220
Total Current Liabilities	15,760,498	16,431,067
Deferred Rent	1,272	-
Total Liabilities	15,761,770	16,431,067
Commitments and Contingencies (Notes 2, 4 and 5)		
Net Assets		
Without donor restrictions (Note 2)	59,409,768	56,554,339
Total Liabilities and Net Assets	\$ 75,171,538	\$ 72,985,406

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Activities (with comparative totals for 2017)

<i>Year ended December 31,</i>	Without Donor Restrictions 2018	Without Donor Restrictions 2017
Public Support and Other Revenue		
Contributions	\$ 59,078,276	\$ 50,894,952
Grants	3,174,206	6,698,717
Interest and dividend income	1,019,722	357,901
Miscellaneous income	11,286	54,928
Total Public Support and Other Revenue	63,283,490	58,006,498
Expenses		
Program services (Note 2):		
Research and development	51,695,154	48,251,887
Business development	295,108	400,250
Public affairs and policy	3,628,288	2,958,280
Total Program Services	55,618,550	51,610,417
Supporting services:		
Management and general	3,705,191	3,453,249
Fundraising	991,904	1,056,938
Total Supporting Services	4,697,095	4,510,187
Total Expenses	60,315,645	56,120,604
Change in Net Assets, before foreign translation (loss) gain	2,967,845	1,885,894
Foreign Translation (Loss) Gain (Note 2)	(112,416)	131,484
Change in Net Assets	2,855,429	2,017,378
Net Assets Without Donor Restrictions, beginning of year	56,554,339	54,536,961
Net Assets Without Donor Restrictions, end of year	\$ 59,409,768	\$ 56,554,339

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Functional Expenses
(with comparative totals for 2017)

Year ended December 31,

	Program Services				Supporting Services			Total	
	Research and Development	Business Development	Public Affairs and Policy	Total	Management and General	Fundraising	Total	2018	2017
Salaries and Related Expenses									
Salaries, benefits and taxes	\$ 9,082,851	\$ 226,255	\$ 1,604,275	\$ 10,913,381	\$ 1,884,207	\$ 695,624	\$ 2,579,831	\$ 13,493,212	\$ 12,341,673
Total Salaries and Related Expenses	9,082,851	226,255	1,604,275	10,913,381	1,884,207	695,624	2,579,831	13,493,212	12,341,673
Other Expenses									
Professional services and agreements	39,847,190	32,659	1,043,751	40,923,600	529,647	54,669	584,316	41,507,916	38,363,133
Meetings, business travel, conferences and services	586,705	13,415	374,740	974,860	227,170	109,352	336,522	1,311,382	1,348,196
Rent and utilities	842,540	13,316	179,993	1,035,849	209,434	76,805	286,239	1,322,088	1,161,300
Office operations	153,406	1,888	22,185	177,479	368,389	9,789	378,178	555,657	497,699
IT and telecommunications	526,461	6,220	108,457	641,138	316,927	38,175	355,102	996,240	1,019,297
Legal and government fees	575,105	150	-	575,255	58,824	-	58,824	634,079	278,587
Audit and finance	-	-	-	-	89,044	-	89,044	89,044	113,231
Grants	-	-	278,027	278,027	2,400	-	2,400	280,427	725,983
Depreciation and amortization	80,896	1,205	16,860	98,961	19,149	7,490	26,639	125,600	271,505
Total Other Expenses	42,612,303	68,853	2,024,013	44,705,169	1,820,984	296,280	2,117,264	46,822,433	43,778,931
Total Expenses	\$ 51,695,154	\$ 295,108	\$ 3,628,288	\$ 55,618,550	\$ 3,705,191	\$ 991,904	\$ 4,697,095	\$ 60,315,645	\$ 56,120,604

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Statement of Cash Flows (with comparative totals for 2017)

<i>Year ended December 31,</i>	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 2,855,429	\$ 2,017,378
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	125,600	271,505
(Increase) decrease in:		
Restricted cash	924,088	(863,330)
Contributions and grants receivable	1,733,257	(1,363,783)
Prepaid expenses and other assets	(835,733)	(1,178,059)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,137,243	232,330
Deferred revenue	(1,807,812)	(12,150,229)
Deferred rent	1,272	(171,061)
Net Cash Provided by (Used in) Operating Activities	4,133,344	(13,205,249)
Cash Flows from Investing Activities		
Purchase of fixed assets	(20,312)	(8,852)
Net Cash Used in Investing Activities	(20,312)	(8,852)
Net Increase (Decrease) in Cash and Cash Equivalents	4,113,032	(13,214,101)
Cash and Cash Equivalents, beginning of year	67,443,030	80,657,131
Cash and Cash Equivalents, end of year	\$ 71,556,062	\$ 67,443,030

See accompanying notes to financial statements.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

1. Organization

The Global Alliance for TB Drug Development, Inc. (TB Alliance) is a nonprofit organization incorporated on July 24, 2000 under the General Corporation Law of Delaware and authorized to conduct business in New York under the Not-for-Profit Corporation Law of New York. It operates as a not-for-profit, with offices in New York, New York; Pretoria, South Africa and Brussels, Belgium.

TB Alliance is a product development partnership committed to accelerating the discovery, development, and delivery of new tuberculosis drugs that will shorten treatment, be effective against susceptible and resistant strains, be compatible with antiretroviral therapies for those HIV-TB patients currently on such therapies and improve treatment of latent infection.

Working with public and private partners worldwide, TB Alliance is leading the development of the most comprehensive portfolio of TB drug candidates in history. It is committed to ensuring that approved new regimens are affordable, adopted and available to those who need them.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to not-for-profit entities.

Net Asset Classification

TB Alliance's net assets and its support, revenue and expenses are based on the existence or absence of donor-imposed restrictions. The amounts are classified in either of the two classes of net assets defined below and displayed in the statement of financial position, and the amounts of change in each of those classes of net assets are displayed in the statement of activities.

These classes are defined as follows:

Without Donor Restrictions - This class consists of net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of TB Alliance. Expenses are reported as decreases in net assets without donor restrictions.

With Donor Restrictions - This class consists of net assets with donor restrictions whose use is limited by donor-imposed, time and/or purpose restrictions. TB Alliance reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use 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 in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

TB Alliance considers short-term investments with original maturities of three months or less to be cash equivalents.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

Restricted Cash

Restricted cash consists of cash and cash equivalents held by banks and maintained as collateral under the terms of its lease agreements for the national and regional offices.

Contributions and Grants Receivable and Provision for Doubtful Accounts

Contributions and grants receivable are recorded at their net realizable value, which approximates fair value. At December 31, 2018, management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed Assets

TB Alliance capitalizes furniture, equipment and leasehold improvements with a cost of \$5,000 or greater. The cost of furniture and equipment is depreciated over the estimated useful life of the asset and is computed using the straight-line method. Leasehold improvements are amortized over the term of the related lease or the life of the asset—whichever is shorter.

Computer equipment	3 - 5 years
Furniture and equipment	3 - 5 years
Leasehold improvements	5 - 10 years

Impairment of Fixed Assets

TB Alliance reviews fixed assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the future cash flows from the use of the asset are less than the carrying amount of that asset. As of December 31, 2018, there have been no such losses.

Income Taxes

TB Alliance is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and therefore has made no provision for income taxes in the accompanying financial statements. In addition, TB Alliance has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2018.

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, “Income Taxes,” an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. TB Alliance does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. TB Alliance has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, TB Alliance has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended December 31, 2018, there was no interest or penalties recorded or included in the statement of activities. TB Alliance is subject to routine audits by a taxing authority.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

Contributions and Grants

Contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions with purpose or time restrictions (defined by management as unrestricted amounts due in more than one year) are reported as increases in net assets with donor restrictions. When a donor restriction expires—that is, when a time restriction ends, or purpose restriction is fulfilled—these net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted contributions, received and utilized in the current year, are reflected in the statement of activities in the class of net assets without donor restrictions.

Grants from government agencies are recorded based on the terms of the grant agreement, which generally provides that revenue is earned when the allowable costs or units of services of specific grant provisions have been incurred or provided.

Deferred Revenue

During 2018, TB Alliance received advances, which primarily consist of cash received on conditional grants that have not been expended at year-end and, thus, have not met the revenue recognition criteria.

As of December 31, 2018, funds from the following sources were included in deferred revenue:

December 31, 2018

National Philanthropic Trust	\$	985,662
Department of Foreign Affairs and Trade (Commonwealth of Australia)		2,782,125
Department for International Development (United Kingdom and Northern Ireland)		1,789,855
KfW (Germany)		1,129,800
Japanese Global Health Innovative Technology Fund		250,966
Total Deferred Revenue	\$	6,938,408

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program and supporting services expenses are allocated based on a calculation of the ratio of employee time spent on each functional program. Salary costs and indirect expenses, such as depreciation, rent, utilities, IT, telecommunications and other general office expenses are also calculated using this time allocation method. The following is a description of TB Alliance's programs:

Research and Development - TB Alliance creates and manages a portfolio of new anti-tuberculosis (TB) drug candidates by identifying, evaluating and acquiring promising molecules from scientific laboratories worldwide and outsourcing their development to appropriate public and private partners. Further, TB Alliance invests in infrastructure research projects that accelerate anti-TB drug development and analyzes existing scientific gaps to address these as part of the overall development strategy.

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Business Development - TB Alliance negotiates, implements and manages agreements with public and private organizations worldwide and does so by adhering to sound business practices while ensuring the public good. Specifically, TB Alliance negotiates terms that support the development and access of new affordable anti-TB drugs equitably to those areas most in need while encouraging the private sector to help develop new medicines for TB indications.

Public Affairs and Policy - TB Alliance manages critical alliances with public and private organizations to raise awareness about tuberculosis and advocate for public and private involvement in research for new anti-TB medicines. It develops landmark studies to support policy developments seeking to accelerate anti-TB drug research and mobilizes networks of researchers and investigators worldwide to focus on the development of these medicines.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject TB Alliance to concentration of credit risk consist primarily of cash and cash equivalents. TB Alliance maintains its cash and cash equivalents with creditworthy, high-quality financial institutions. At various times during the year, TB Alliance had cash deposits at financial institutions which exceeded the FDIC insurance limit. TB Alliance has not experienced any losses in such accounts, and management does not believe TB Alliance is exposed to any significant credit risk on cash and cash equivalents.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information. Accordingly, such information should be read in conjunction with the prior-year financial statements from which the summarized information was derived. With respect to the statement of functional expenses, the prior-year expenses by expense classification are presented in total rather than by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Foreign Currency Translation

All elements of the financial statements reflecting TB Alliance's operations in Brussels and South Africa are translated into U.S. dollars using applicable exchange rates. For assets and liabilities, this is the rate in effect at the statement of financial position date, with the exception of fixed assets which are measured at the historical rate. For revenue and expense items, translation is performed monthly using the average rate for the month.

Foreign currency is translated in accordance with the provisions of ASC 830, "Foreign Currency Matters." Under the provisions of ASC 830, the local currency used in TB Alliance's foreign operations is considered to be the functional currency of these operations.

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Translation of the financial statements of these operations resulted in a translation gain as follows:

December 31, 2018

Cumulative Translation Gain Adjustment , beginning of year	\$	216,940
Translation adjustment		(112,416)
Cumulative Translation Gain Adjustment , end of year	\$	104,524

The cumulative translation gain is included in net assets without donor restrictions.

Reclassifications

Certain prior-year balances have been reclassified to be consistent with the current-year financial statement presentation.

Recently Adopted Accounting Pronouncement

Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, “Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities.” The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions;” (b) modifying the presentation of underwater endowment funds and related disclosures; (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise; (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statements of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs; (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (f) presenting investment return net of external and direct expenses and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for TB Alliance’s financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented, although certain optional practical expedients are available for periods prior to adoption. TB Alliance adopted this pronouncement for the year ended December 31, 2018 and applied it retrospectively.

Accounting Pronouncements Issued but Not Yet Adopted

Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB also issued ASU 2015-14, which deferred the effective date for TB Alliance until annual

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Notes to Financial Statements

periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, "Accounting for Leases," which applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. In addition, lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments are effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the pending adoption of ASU 2016-02.

3. Fixed Assets, Net

A summary of fixed assets follows:

December 31, 2018

Computer equipment	\$	618,618
Furniture and equipment		467,776
Leasehold improvements		2,712,800
Total Fixed Assets		3,799,194
Less: accumulated depreciation and amortization		(3,770,857)
Fixed Assets, Net	\$	28,337

Depreciation expense for the year ended December 31, 2018 was \$125,600.

4. Lease Commitments

TB Alliance has operating lease agreements for office space in New York, New York; Brussels, Belgium and Pretoria, South Africa. On March 31, 2017, TB Alliance extended its New York office lease for an additional two years, commencing on January 1, 2018 and ending on December 31, 2019. Under the terms of the agreement, TB Alliance has the option to terminate the lease by sending written notice to the landlord at least nine months prior to the effective date of termination. The extension commencement date was March 31, 2019. TB Alliance did not provide its landlord with a cancellation notice prior to March 31, 2019; therefore, the lease remains in effect until December 31, 2019.

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On May 30, 2018 a new lease renewal was executed for the Pretoria office that extended the period for three years and five months. The effective date is December 1, 2018 until April 30, 2022.

The Brussels lease space is renewed automatically every three months unless the TB Alliance gives ninety days' notice to cancel.

The following is a schedule of future minimum rental payments under those lease agreements as of December 31, 2018:

Year ending December 31,

2019	\$	1,200,034
2020		21,805
2021		23,291
2022		7,933

Rent expense for the year ended December 31, 2018 amounted to \$1,214,581.

5. Employee Benefit Plan

TB Alliance offers a 401(k) plan to all employees meeting certain qualifications. Under the terms of the plan, employees are allowed to contribute either as a pre-tax deferral or a Roth elective deferral subject to annual limitations imposed by the Internal Revenue Code. TB Alliance matches 50% of the first 3% of pay contributed through the employee's salary deferral. Discretionary and qualified non-elective contributions are also made to the plan. Employee benefit plan expense was \$654,236 for the year ended December 31, 2018.

6. Liquidity and Availability of Resources

TB Alliance's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Year ending December 31, 2018

Total Current Assets	\$	74,279,070
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Prepaid expenses and other assets		(2,451,450)
Total Financial Assets Available to Management for General Expenditure within One Year	\$	71,827,620

Liquidity Management

As part of TB Alliance's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Global Alliance for TB Drug Development, Inc.

Notes to Financial Statements

7. Subsequent Events

TB Alliance's management has performed subsequent event procedures through June 26, 2019, which is the date the financial statements were available to be issued, and there were no subsequent events requiring adjustments to the financial statements or disclosures as stated herein.