

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

**Audit of Financial Statements and  
Supplemental Schedule of Expenditures  
of Federal Awards  
Year Ended December 31, 2010**

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

Financial Statements  
Audit of Financial Statements and  
Supplemental Schedule of Expenditures  
of Federal Awards  
Year Ended December 31, 2010

# The Global Alliance for TB Drug Development, Inc.

## Contents

---

Independent Auditors' Report	3-4
Financial Statements:	
Statement of Financial Position as of December 31, 2010	5
Statement of Activities for the Year Ended December 31, 2010	6
Statement of Functional Expenses for the Year Ended December 31, 2010	7
Statement of Cash Flows for the Year Ended December 31, 2010	8
Notes to Financial Statements	9-16
Schedule of Expenditures of Federal Awards	17
Note to Schedule of Expenditures of Federal Awards	18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	19-20
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	21-22
Schedule of Findings and Questioned Costs	23



## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of The Global Alliance for TB Drug Development, Inc. ("TB Alliance") as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of TB Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended December 31, 2009 is presented for comparative purposes only and was extracted from the financial statements of TB Alliance for that year on which we expressed an unqualified opinion, dated May 18, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TB Alliance as of December 31, 2010, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 9, 2011 on our consideration of TB Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements of TB Alliance taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BDO USA, LLP

Certified Public Accountants

New York, New York

June 9, 2011

# The Global Alliance for TB Drug Development, Inc.

## Statement of Financial Position (with comparative totals for 2009)

<i>December 31,</i>	2010	2009
<b>Assets</b>		
Cash and cash equivalents (Notes 2 and 3)	\$51,318,691	\$45,021,624
Assets limited to use (Note 2)	916,043	913,224
Investments at fair value (Note 3)	-	3,000,000
Accounts receivable	2,833,938	813,499
Pledges receivable	-	1,439,551
Other assets	294,533	337,449
Fixed assets, net (Notes 2 and 5)	2,296,844	2,703,153
	<b>\$57,660,049</b>	<b>\$54,228,500</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$10,678,121	\$ 8,625,235
Accrued payroll and payroll related liabilities	1,015,892	923,784
Deferred revenue (Note 6)	14,600,176	13,097,138
Deferred rent	935,078	1,018,689
<b>Total Liabilities</b>	<b>27,229,267</b>	<b>23,664,846</b>
<b>Commitments (Note 7)</b>		
<b>Net Assets:</b>		
Unrestricted net assets (Note 2)	30,430,782	30,563,654
	<b>\$57,660,049</b>	<b>\$54,228,500</b>

*See accompanying notes to financial statements.*

# The Global Alliance for TB Drug Development, Inc.

## Statement of Activities (with comparative totals for 2009)

<i>Year ended December 31,</i>	2010	2009
<b>Public Support and Other Revenue:</b>		
Contributions	\$42,386,671	\$35,910,717
Grants	3,983,457	7,997,231
Interest and dividend income	107,983	187,444
Net realized and unrealized losses on investments	-	(21,300)
Miscellaneous income	114,321	31,337
<b>Total Public Support and Other Revenue</b>	<b>46,592,432</b>	<b>44,105,429</b>
<b>Expenses:</b>		
Program services:		
Research and development	38,973,162	37,155,439
Business development	494,009	388,356
Public affairs and policy	2,660,120	2,732,487
<b>Total Program Services</b>	<b>42,127,291</b>	<b>40,276,282</b>
Supporting services:		
Management and general	3,549,222	3,332,360
Fundraising	670,806	297,576
<b>Total Supporting Services</b>	<b>4,220,028</b>	<b>3,629,936</b>
<b>Total Expenses</b>	<b>46,347,319</b>	<b>43,906,218</b>
<b>Change in Net Assets Before Foreign Translation</b>		
Loss	245,113	199,211
Foreign Translation Loss (Note 2)	(377,985)	(9,264)
<b>Change in Net Assets</b>	<b>(132,872)</b>	<b>189,947</b>
<b>Net Assets, Beginning of Year</b>	<b>30,563,654</b>	<b>30,373,707</b>
<b>Net Assets, End of Year</b>	<b>\$30,430,782</b>	<b>\$30,563,654</b>

*See accompanying notes to financial statements.*

The Global Alliance for TB Drug Development, Inc.

Statement of Functional Expenses  
(with comparative totals for 2009)

Year ended December 31,

	Program Services			Total	Supporting Services			Total	
	Research and Development	Business Development	Public Affairs and Policy		Management and General	Fundraising	Total	2010	2009
<b>Salaries and Related Expenses:</b>									
Salaries	\$ 4,277,232	\$172,206	\$ 761,720	\$ 5,211,158	\$1,549,235	\$285,095	\$1,834,330	\$ 7,045,488	\$ 5,747,154
Employee benefits and payroll related taxes	873,918	40,156	177,867	1,091,941	293,603	68,846	362,449	1,454,390	1,126,012
Pension	246,845	10,331	46,207	303,383	75,132	18,015	93,147	396,530	318,466
<b>Total Salaries and Related Expenses</b>	<b>5,397,995</b>	<b>222,693</b>	<b>985,794</b>	<b>6,606,482</b>	<b>1,917,970</b>	<b>371,956</b>	<b>2,289,926</b>	<b>8,896,408</b>	<b>7,191,632</b>
<b>Other Expenses:</b>									
Research and development portfolio investments	31,611,677	-	-	31,611,677	-	-	-	31,611,677	30,175,987
Consulting	118,403	184,742	160,435	463,580	154,569	185,781	340,350	803,930	1,145,498
Policy studies	-	-	66,000	66,000	-	-	-	66,000	66,000
Recruiting and temporary help	125,965	-	4,331	130,296	84,026	57,031	141,057	271,353	712,954
Meetings, business travel, conferences and services	410,719	24,189	528,572	963,480	176,891	54,386	231,277	1,194,757	1,040,097
Professional fees	188,907	61,600	-	250,507	127,260	-	127,260	377,767	617,085
Public and media outreach	-	-	290,498	290,498	-	-	-	290,498	383,823
Publications and website development	-	-	277,800	277,800	3,539	-	3,539	281,339	196,498
Rent and utilities	561,259	-	254,670	815,929	328,394	-	328,394	1,144,323	1,126,494
Insurance	275,075	-	-	275,075	60,717	-	60,717	335,792	135,595
Telecommunications	132,729	568	51,443	184,740	81,677	141	81,818	266,558	259,567
Equipment rental and expense	30,237	-	17,809	48,046	54,226	-	54,226	102,272	149,237
Office expense	45,902	92	15,356	61,350	116,389	1,086	117,475	178,825	173,829
Dues and subscriptions	74,294	125	7,412	81,831	13,308	425	13,733	95,564	107,951
Depreciation and amortization	-	-	-	-	430,256	-	430,256	430,256	423,971
<b>Total Expenses</b>	<b>\$38,973,162</b>	<b>\$494,009</b>	<b>\$2,660,120</b>	<b>\$42,127,291</b>	<b>\$3,549,222</b>	<b>\$670,806</b>	<b>\$4,220,028</b>	<b>\$46,347,319</b>	<b>\$43,906,218</b>

See accompanying notes to financial statements.



# The Global Alliance for TB Drug Development, Inc.

## Statement of Cash Flows (with comparative totals for 2009)

<i>Year ended December 31,</i>	2010	2009
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (132,872)	\$ 189,947
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	430,256	423,971
Realized loss on sales of investments at fair value, net	-	81,750
Unrealized gains on investments at fair value	-	(60,450)
(Increase) decrease in assets:		
Assets limited to use	(2,819)	(13,266)
Accounts receivable	(2,020,439)	1,340,538
Pledges receivable	1,439,551	1,366,970
Other assets	42,916	(142,750)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	2,052,886	6,246,183
Accrued payroll and related liabilities	92,108	(191,322)
Deferred revenue	1,503,038	(11,458,414)
Deferred rent	(83,611)	(83,611)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>3,321,014</b>	<b>(2,300,454)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	-	(20,019,670)
Proceeds from sale of investments	3,000,000	51,002,820
Purchase of fixed assets	(23,947)	(110,785)
<b>Net Cash Provided By Investing Activities</b>	<b>2,976,053</b>	<b>30,872,365</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>6,297,067</b>	<b>28,571,911</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>45,021,624</b>	<b>16,449,713</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$51,318,691</b>	<b>\$ 45,021,624</b>

*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 focused on accelerating the discovery, development, and delivery of new TB 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

#### *(a) Basis of Presentation*

The financial statements of TB Alliance have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

#### *(b) Financial Statement Presentation*

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Income from investment gains and losses, including unrealized gains and losses, dividends, interest and other investments should be reported as increases (or decreases) in unrestricted net assets unless the use of the income received is limited by donor-imposed restrictions.

These classes are defined as follows:

- (i) Permanently Restricted* - Net assets resulting from contributions and other inflows of assets whose use by TB Alliance is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of TB Alliance.
- (ii) Temporarily Restricted* - Net assets resulting from contributions and other inflows of assets whose use by TB Alliance is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of TB Alliance pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.
- (iii) Unrestricted* - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

---

### *(c) Accounting Changes*

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Codification ("ASC") effective for certain financial statements issued for interim and annual periods ending after December 15, 2009. The ASC identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates ("ASU").

### *(d) Cash and Cash Equivalents*

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

### *(e) Assets Limited to Use*

Assets limited to use consist of cash and cash equivalents held by banks providing collateral for certain leases held by TB Alliance.

### *(f) Fair Value Measurements*

ASC 820, "Fair Value Measurements" (formerly Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements") establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as TB Alliance would use in pricing TB Alliance's asset or liability based on independently derived and objectively determinable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of TB Alliance are traded. TB Alliance estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers administering each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include equity securities and publicly-traded mutual funds that are actively traded on a major exchange or over-the-counter market.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly, such as municipal bonds. The fair value of municipal bonds is estimated using recently executed transactions, bid/asked prices and pricing models that factor in, where applicable, interest rates, bond spreads and volatility.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

---

### *(g) Investments at Fair Value*

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Net realized gains and losses and net change in unrealized gains and losses for the period are shown in the statement of activities.

### *(h) Depreciation and Amortization*

The cost of property and equipment is depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or asset. The estimated useful lives of the assets are as follows:

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

---

TB Alliance follows the policy of capitalizing all fixed asset acquisitions in excess of \$1,000. Maintenance and repairs are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

### *(i) 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 2010.

Under ASC 740, "Income Taxes" (relevant portions of which were previously addressed in FASB Interpretation No. 48, "Accounting for Uncertainty in 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, 2010, there was no interest or penalties recorded or included in the statements of activities.

### *(j) Contributions and Grants*

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, 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 temporarily restricted net assets. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted gifts and grants, received and utilized in the current year, are reflected in the statement of activities in the unrestricted class of net assets.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

---

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

### *(k) Promises to Give*

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received, and are classified as either unrestricted, temporarily restricted, or permanently restricted support. Promises to give are recorded at net realizable value if expected to be collected in one year. Unconditional promises to give that are expected to be collected in the future years are recorded at the present value of these estimated future cash flows.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at the estimated fair value.

### *(l) Contributed Goods and Services*

Contributed goods and services are recognized as revenue and expenses if such goods and services meet the criteria for recognition as stated in ASC 958, "Not-for-Profit Entities" (formerly SFAS No. 116, "Accounting for Contributions Received or Contributions Made").

### *(m) Program Services*

*(i) Research and Development* - TB Alliance creates and manages a portfolio of new anti-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.

*(ii) 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.

*(iii) Public Affairs and Policy* - TB Alliance manages critical alliances with public and private organizations to raise awareness about tuberculosis ("TB") 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.

### *(n) Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

---

### *(o) Concentration of Credit Risk*

Financial instruments which potentially subject TB Alliance to concentration of credit risk consist primarily of cash and cash equivalents. At various times during the year, TB Alliance had cash deposits at financial institutions which exceeded the FDIC insurance limit.

### *(p) 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.

### *(q) Pledges Receivable*

The net present value of pledges receivable is calculated using a discount rate equal to the risk-free interest rate, which is the U.S. Treasury note interest rate in effect at the time pledges are made and equal in duration to the length of time that the pledge is expected to be paid over.

### *(r) Foreign Currency Translation*

All elements of the financial statements reflecting TB Alliance's operations in Brussels 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 property and equipment which is measured at the historical rate. For revenue and expense items, translation is performed monthly using the average rate for the month. The exchange rate as of December 31, 2010 was \$1.325/EUR.

Foreign currency is translated in accordance with the provisions of ASC 830, "Foreign Currency Matters" (formerly SFAS No. 52, "Foreign Currency Translation"). 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. Translation of the financial statements of these operations resulted in a translation gain as follows:

#### *December 31, 2010*

Cumulative translation gain adjustment, beginning of year	\$ 494,826
Translation adjustment	(377,985)
Cumulative translation gain adjustment, end of year	\$ 116,841

The cumulative translation gain is included in unrestricted net assets.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

---

### 3. Fixed Assets, Net

Fixed assets, net, stated at cost, consists of the following:

*December 31, 2010*

Computer equipment	\$ 533,406
Furniture and equipment	465,547
Leasehold improvements	2,686,123
Total fixed assets	3,685,076
Less: Accumulated depreciation and amortization	(1,388,232)
Fixed assets, net	\$ 2,296,844

---

### 4. Deferred Revenue

In November 2009, TB Alliance received a 150,000 EUR one-year grant for the development of a series of discussion papers on key issues facing product development partnerships ("PDPs") in order to enhance the effectiveness and efficiencies of PDPs. The work will be managed collaboratively by a Steering Committee and carried out using a combination of PDP staff contributing their time together with paid consultants. TB Alliance will perform project administration including the contracting of the consultants on behalf of the Steering Committee. This funding will be used exclusively for PDP-wide access activities and will not be used to support any other activities. Due to the fact that the project has progressed at a slower pace than estimated, in December 2010, TB Alliance received notification of approval of the extension of the grant to December 31, 2011. At December 31, 2010, TB Alliance deferred \$28,577 related to this grant.

In May 2006, TB Alliance received a conditional promise to give award from the Bill & Melinda Gates Foundation in the amount of \$104,403,823 for the period of May 1, 2006 to May 1, 2011. To date, TB Alliance has received the total amount of the award. As of December 31, 2010, TB Alliance recognized income equal to the total grant amount of \$104,403,823 for project milestones achieved, of which \$28,156,570 was recognized during the year ended December 31, 2010.

In November 2010, TB Alliance received a conditional promise to give award from the Bill & Melinda Gates Foundation in the amount of \$164,910,038 for the period of November 18, 2010 to October 31, 2015. To date, TB Alliance has received \$17,511,334 of the award. As of December 31, 2010 TB Alliance deferred \$14,571,599 related to this grant.

### 5. Commitments

TB Alliance has operating lease agreements for office space in New York, New York; Brussels, Belgium and Pretoria, South Africa. The TB Alliance New York office lease expires in December 2017 and the Pretoria lease expires in October 2012.

# The Global Alliance for TB Drug Development, Inc.

## Notes to Financial Statements

---

The following is a schedule of future minimum rental payments under those lease agreements as of December 31, 2010:

<i>Year ending December 31,</i>	
2011	\$1,174,317
2012	1,177,904
2013	1,149,785
2014	1,149,785
2015	1,184,982
Thereafter	2,369,965
	<hr/>
	\$8,206,738

Rent expense for the year ended December 31, 2010, which included month-to-month leases, amounted to \$1,058,941.

TB Alliance has research and development agreements with several research institutions to fund various research and development contracts useful for treatment of TB. The agreements' expiration dates are undeterminable as of December 31, 2010.

The following is a schedule of future minimum research and development payments under the above agreements as of December 31, 2010:

<i>Year ending December 31,</i>	
2011	\$4,998,859
2012	1,150,160
2013	500,000
2014	500,000
2015	500,000
Thereafter (per year)	500,000

### 6. Pension Plan

TB Alliance has a 401(k) plan that covers all employees who are age 21 and older. Employees may designate all or a portion of the 401(k) elective deferral contributions as Roth elective deferral contributions instead of pre-tax elective deferral contributions. For 2010, the combined limit for the amount an employee can defer under both plans is \$16,500. Catchup deferral of up to \$5,500 in 2010 is available for eligible employees 50 years old or older during the plan year. TB Alliance matches 50% of the first 3% of the pay contributed through the employee's salary deferral. Discretionary and qualified non-elective contributions are also made to the plan. Pension expense was \$396,530 for the year ended December 31, 2010. In January 2006, TB Alliance converted into a 401(k) Safe Harbor Plan.



# 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 9, 2011, 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.

The Global Alliance for TB Drug Development, Inc.

Schedule of Expenditures of Federal Awards

*Year ended December 31, 2010*

Federal Grantor/Pass-through Grantor/Program Title	Catalog Federal Domestic Assistance Number	Pass-through Number	Federal Expenditures
<b>U.S. Agency for International Development:</b>			
New TB Drug Development	98.GHS-A-00-08-00012-00	N/A	\$3,920,445
<b>Total U.S. Agency for International Development</b>			<b>3,920,445</b>
<b>Department of Health and Human Services:</b>			
<b>Food and Drug Administration Research:</b>			
Consortium for TB Biomarkers	93.103	N/A	6,382
Qualifying New Pre-clinical Models for the Development of TB Drugs	93.103	N/A	1,073
<b>Total Department of Health and Human Services</b>			<b>7,455</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$3,927,900</b>

*See accompanying note to schedule of expenditures of Federal awards.*

# The Global Alliance for TB Drug Development, Inc.

## Note to Schedule of Expenditures of Federal Awards

---

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of TB Alliance and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Government and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

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

We have audited the financial statements of The Global Alliance for TB Drug Development, Inc. ("TB Alliance") as of and for the year ended December 31, 2010 and have issued our report thereon dated June 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered TB Alliance's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TB Alliance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TB Alliance's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether TB Alliance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Board of Directors, others within the entity, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

Certified Public Accountants

New York, New York

June 9, 2011



## Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

### Compliance

We have audited the compliance of The Global Alliance for TB Drug Development, Inc. ("TB Alliance") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended December 31, 2010. TB Alliance's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of TB Alliance's management. Our responsibility is to express an opinion on TB Alliance's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TB Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on TB Alliance's compliance with those requirements.

In our opinion, TB Alliance complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

### Internal Control Over Compliance

The management of TB Alliance is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered TB Alliance's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TB Alliance's internal control over compliance.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management, the Board of Directors, others within TB Alliance and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

Certified Public Accountants

New York, New York

June 9, 2011

# The Global Alliance for TB Drug Development, Inc.

## Schedule of Findings and Questioned Costs

---

Year ended December 31, 2010

---

### 1. Summary of Auditor's Results

#### *Financial Statements*

(i) An unqualified opinion was issued on the financial statements of The Global Alliance for TB Drug Development, Inc.

(ii) Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

(iii) Noncompliance material to financial statements noted?  Yes  No

#### *Federal Awards*

(iv) Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

(v) An unqualified opinion was issued on compliance for major programs

(vi) Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?  Yes  No

(vii) Major Program:

U.S. Agency for International Development  
98-GHS-A-00-08-00012-00

(viii) Federal awards expenses that exceeded \$300,000 were considered type A programs.

(ix) The Global Alliance for TB Drug Development, Inc. qualifies as a low risk auditee as described in Section 530 of OMB Circular A-133.

2. Financial Statement Findings  Yes  None reported

3. Federal Awards Findings and Questioned Costs  Yes  None reported

4. Prior Year Audit Findings  Yes  None reported

---