
Project HOPE - The People-to-People Health
Foundation, Inc. and Subsidiaries
(a nonprofit corporation)

Consolidated Financial Report
December 31, 2021

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Contents

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-22

Independent Auditor's Report

To the Audit Committee
Project HOPE - The People-to-People Health
Foundation, Inc. and Subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries (the "Foundation"), which comprise the consolidated statement of financial position as of December 31, 2021 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

To the Audit Committee
Project HOPE - The People-to-People Health
Foundation, Inc. and Subsidiaries

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Prior Year Consolidated Financial Statements and Summarized Comparative Information

The consolidated financial statements of the Foundation and its subsidiaries as of and for the year ended December 31, 2020 were audited by other auditors, who expressed an unmodified opinion on those statements in their report dated June 14, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

November 30, 2022

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2021
(with summarized comparative totals for 2020)
(000s omitted)

	2021	2020
Assets		
Cash and cash equivalents	\$ 14,383	\$ 9,835
Investments (Note 3)	23,284	16,112
Receivables - Net of allowances:		
Contributions and pledges receivable (Note 4)	5,411	3,739
Grants and contracts receivable	2,602	2,058
Other accounts receivable	1,325	903
Inventory (Note 5)	1,156	4,769
Prepaid expenses and other assets	1,210	1,837
Assets held for sale (Note 6)	-	2,263
Land, buildings, and equipment - Net (Note 6)	256	557
Total assets	\$ 49,627	\$ 42,073
Liabilities and Net Assets		
Liabilities		
Accounts payable and other accrued expenses	\$ 3,380	\$ 4,388
Deferred revenue	3,913	5,673
Paycheck Protection Program promissory note (Note 8)	-	2,663
Accrued compensation and benefits	3,095	1,376
Charitable gift annuities payable	632	853
Accrued pension liability (Note 10)	8,311	12,085
Total liabilities	19,331	27,038
Net Assets		
Net assets (deficit) without donor restrictions (Note 11)	1,558	(8,887)
Net assets with donor restrictions (Note 11)	28,738	23,922
Total net assets	30,296	15,035
Total liabilities and net assets	\$ 49,627	\$ 42,073

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2021
(with summarized comparative totals for 2020)
(000s omitted)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue from Operations				
Individual giving	\$ 13,978	\$ 1,199	\$ 15,177	\$ 12,834
Foundations and corporate giving	7,732	21,347	29,079	23,770
Gifts in kind (Note 5)	65	47,476	47,541	55,247
Government grants	-	30,783	30,783	27,004
Subscription and other content-related revenue	2,498	-	2,498	2,451
Donated services	937	-	937	1,856
Other	(297)	-	(297)	493
Net assets released from restrictions	97,057	(97,057)	-	-
Total support and revenue from operations	121,970	3,748	125,718	123,655
Expenses				
Program services:				
Health education and assistance	96,803	-	96,803	98,126
Healthy policy	8,753	-	8,753	8,393
Total program services	105,556	-	105,556	106,519
Support services:				
Fundraising	10,911	-	10,911	11,351
Management and general	4,055	-	4,055	4,134
Total support services	14,966	-	14,966	15,485
Total expenses	120,522	-	120,522	122,004
Change In Net Assets from Operations	1,448	3,748	5,196	1,651
Nonoperating Income (Loss)				
Net investment gain	429	1,068	1,497	1,181
Foreign currency loss	(25)	-	(25)	(5)
Gain on debt forgiveness (Note 8)	2,663	-	2,663	-
Pension-related changes other than net periodic pension cost (Note 10)	2,984	-	2,984	(2,413)
Gain on disposal of fixed assets (Note 6)	2,946	-	2,946	-
Total nonoperating income (loss)	8,997	1,068	10,065	(1,237)
Change in Net Assets	10,445	4,816	15,261	414
Net Assets (Deficit) - Beginning of year	(8,887)	23,922	15,035	14,621
Net Assets - End of year	\$ 1,558	\$ 28,738	\$ 30,296	\$ 15,035

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended December 31, 2021
(with summarized comparative totals for 2020)
(000s omitted)

	Program Services			Support Services			Total	
	Health Education and Assistance	Health Policy	Total	Fundraising	Management and General	Total	2021	2020
Salaries and wages	\$ 15,675	\$ 5,582	\$ 21,257	\$ 2,067	\$ 2,865	\$ 4,932	\$ 26,189	\$ 22,689
Employee benefits	2,999	834	3,833	308	424	732	4,565	4,244
Payroll taxes	447	399	846	149	183	332	1,178	1,101
Total compensation and benefits	19,121	6,815	25,936	2,524	3,472	5,996	31,932	28,034
Gift in kind (Note 5)	51,089	-	51,089	-	-	-	51,089	53,947
Supplies and equipment	3,624	91	3,715	4	102	106	3,821	10,102
Awards and grants	9,351	50	9,401	-	1	1	9,402	6,377
Professional services	2,761	692	3,453	2,675	396	3,071	6,524	5,085
Travel and conferences	2,983	56	3,039	14	9	23	3,062	3,512
Publication and printing	209	260	469	2,805	11	2,816	3,285	3,431
Freight and postage	696	34	730	1,588	10	1,598	2,328	2,840
Occupancy and insurance	1,620	43	1,663	-	948	948	2,611	2,252
Donated services	696	5	701	82	154	236	937	1,856
Training	2,664	4	2,668	-	32	32	2,700	1,799
Information technology and services	103	203	306	645	467	1,112	1,418	1,420
Other business expenses	720	27	747	166	148	314	1,061	965
Temporary staff	104	-	104	-	136	136	240	252
Depreciation	21	1	22	50	40	90	112	132
Direct allocation - IT and facility	1,041	472	1,513	358	(1,871)	(1,513)	-	-
Total functional expenses	<u>\$ 96,803</u>	<u>\$ 8,753</u>	<u>\$ 105,556</u>	<u>\$ 10,911</u>	<u>\$ 4,055</u>	<u>\$ 14,966</u>	<u>\$ 120,522</u>	<u>\$ 122,004</u>

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Year Ended December 31, 2021
(with summarized comparative totals for 2020)

(000s omitted)

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 15,261	\$ 414
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	112	132
Change in market value of investments	(1,275)	(836)
Contributions restricted for long-term investment	(1)	(1)
Gain on disposal of fixed assets	(2,946)	-
Gain on debt forgiveness	(2,663)	-
Net period benefit cost - Accrued pension liability	75	102
Other changes in accrued pension liability	(3,058)	2,311
Change in charitable gift annuities payable	(364)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Contributions receivable - Net	(1,672)	509
Grants and contracts receivable - Net	(544)	(155)
Other receivables	(422)	(155)
Donated inventory - Net	3,613	(1,226)
Prepaid expenses and other assets	627	(262)
Accounts payable and accrued expenses	(1,009)	1,952
Deferred revenues	(1,760)	1,131
Accrued pension liability	(790)	(1,883)
Accrued compensation and benefits	1,719	-
Net cash provided by operating activities	4,903	2,033
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	-	(12)
Proceeds from disposition of property and equipment and assets held for sale	5,398	-
Purchases of investments	(14,958)	(5,754)
Proceeds from sales of investments	9,061	5,408
Net cash used in investing activities	(499)	(358)
Cash Flows from Financing Activities		
Investment subject to annuity agreements	-	27
Investment in perpetuity	1	1
Payments on annuity obligations	(121)	(378)
Interest and dividends restricted for reinvestment	264	245
Proceeds from payment protection program	-	2,663
Net cash and cash equivalents provided by financing activities	144	2,558
Net Increase in Cash and Cash Equivalents	4,548	4,233
Cash and Cash Equivalents - Beginning of year	9,835	5,602
Cash and Cash Equivalents - End of year	\$ 14,383	\$ 9,835
Significant Noncash Transactions - Forgiveness of debt	\$ 2,663	\$ -

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 1 - Nature of Activities

Project HOPE - The People-to-People Health Foundation, Inc. (Project HOPE), a United States entity, is a nonprofit organization that provides humanitarian assistance, health services, medical supplies, and health education programs to developing countries. Project HOPE also performs national and international health policy research.

Project HOPE receives support in the form of donations, grants, and contracts from both the private sector and United States government agencies. Donated materials and supplies, which constitute approximately 36 percent of the Foundation's operating revenue, are derived from a number of corporate sponsors each year. Federal funding, which is derived primarily from the United States Agency for International Development (USAID), approximated \$30.5 million for the year ended December 31, 2021 and is recorded in the government grants line on the consolidated statement of activities and changes in net assets.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the entities listed below (collectively, the "Foundation"). These entities are consolidated on the basis of being controlled and directed by Project HOPE. All material intercompany accounts and transactions have been eliminated in consolidation.

Entity Name	Location
Project HOPE - The People-to-People Health Foundation, Inc.	United States
Project HOPE - The People-to-People Health Foundation Nigeria Ltd./Gte	Nigeria
Project HOPE - The People-To-People Health Foundation	Namibia
Project HOPE - The People-To-People Health Foundation (Namibia) Inc.	Namibia
Yayasan Project HOPE	Indonesia
PROJECT HOPE MEXICO A.C.	Mexico
PROYECTO ESPERANZA A.C.	Venezuela

Basis of Presentation

The consolidated financial statements of the Foundation have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Summarized Comparative Information

The financial information presented for comparative purposes for the year ended December 31, 2021 is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's 2020 financial statements, which were audited by other auditors, from which the summarized information was derived.

Cash and Cash Equivalents

The Foundation considers all investments with an original maturity of three months or less when purchased to be cash equivalents. For reporting purposes, cash or securities received with donor-imposed restrictions that limit their use to long-term purposes are not classified as cash equivalents. The Foundation has classified any cash or money market accounts held by external investment managers as investments, as the intent is to hold and reinvest these amounts in the long-term investment portfolio.

Notes to Consolidated Financial Statements

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant financial risk on cash.

Investments

Investments are reported at management's estimate of fair value in the consolidated statement of financial position. Fair value is determined by using quoted market prices on marketable securities.

The Foundation's investments, in general, are exposed to various risks, such as interest risk, credit risk and overall market volatility risks. In addition, due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and those changes could materially affect the amounts reported in the statement of financial position.

Purchased investments are initially recorded at cost, and contributed investments are initially recorded at fair value on the date received; any net appreciation, or loss arising thereafter, is reported annually in the consolidated statement of activities and changes in net assets. Gains and losses on investments, including changes in market value, are reported in the consolidated statement of activities and changes in net assets as increases or decreases in net assets without donor restrictions or net assets with donor restrictions.

Inventory

Inventory consists primarily of donated pharmaceuticals and medical supplies and is recorded at cost or fair value on the date of donation, and subsequent declines in fair value, if any, are recognized at year end. Pharmaceutical inventory that must be discarded upon reaching its regulatory expiration date is recognized as a release of net assets with donor restrictions and as a reduction of inventory. An allowance for obsolete inventory is provided based upon management's judgment of discards. There was no allowance as of December 31, 2021.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or, if donated, at fair value at the date of the gift. Depreciation of buildings and other property is computed using the straight-line method over their estimated useful lives, ranging from 3 to 45 years. The Foundation capitalizes all property and equipment with a cost of \$5,000 or more. The cost of leasehold improvements is depreciated (amortized) over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Property acquired exclusively for certain current health programs for which title does not rest with the Foundation is expensed to program services upon purchase.

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. The Foundation had no impairment of long-lived assets during the year ended December 31, 2021.

Notes to Consolidated Financial Statements

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

Deferred Compensation Plan

The Foundation has adopted for key employees an eligible deferred compensation plan under the provisions of Section 457(b) of the Code. This plan permits the employees to defer a portion of their compensation until future years and also allows for employer contributions. The plan assets had a value of approximately \$1,100,000 at December 31, 2021 and is recorded within the investments and accounts payable and other accrued expenses lines of the consolidated statement of financial position.

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Income earned from contributions is classified as either net assets with donor restrictions or net assets without donor restrictions in accordance with donor stipulations.

Board-designated Net Assets

Board-designated net assets are net assets without donor restrictions designated by the board primarily for capital improvements. These designations are based on board actions, which can be altered or revoked at a future time by the board. These board-designated funds amounted to approximately \$8.3 million at December 31, 2021.

Endowment Funds

Gifts with donor restrictions, where the principal cannot be expended, are classified as net assets with donor restrictions. Income in excess of the original principal gift amount (including net appreciation or depreciation) is recorded as a change in net assets with donor restrictions. Such amounts are released to net assets without donor restrictions to the extent allocated endowment earnings are appropriated for the donor-stipulated purpose.

Contributions - Individual, Foundation, and Corporate Giving

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions are reported as net assets without donor restrictions. Restricted gifts are reported as net assets with donor restrictions. Donor promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contribution and pledges receivable is provided based upon management's judgment of potential defaults.

Conditional promises to give are not recognized as revenue until barriers prescribed by the grant agreements/pledge agreements are overcome. As of December 31, 2021, there were not significant conditional promises to give.

Notes to Consolidated Financial Statements

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

Government Grants

The Foundation receives grants and enters into contracts with the U.S. government, foreign governments, and multilateral organizations that support various foundation programs on a cost reimbursement basis. Support and revenue related to government and other grants is recognized when donor-imposed conditions are met. This revenue is subject to right of return if funds are not spent and also has other performance and/or measurable barriers that must be met for the Foundation to be entitled to the funds. For this reason, the Foundation's grant revenue is considered to be conditional, and revenue is recognized as funds are utilized for programmatic activities specified in the grant agreement. Amounts received but not recognized as revenue are classified in the consolidated statement of financial position as deferred revenue and total approximately \$2.7 million at December 31, 2021. As of December 31, 2021, amounts pledged through conditional contributions not yet recognized as revenue totaled approximately \$20.3 million and will be recognized as revenue in the future when qualifying expenditures have been incurred. Amounts earned but not yet collected are classified in the consolidated statement of financial position as grants and contracts receivable. An allowance for uncollectible contribution and pledges receivable is provided based upon management's judgment of potential defaults. It is the opinion of management that these receivables are collectible in full as of December 31, 2021.

Planned Giving Programs

The Foundation provides charitable annuity trusts under which contributors receive an agreed-upon return on their contributions for specified periods or during the lifetime of one or more beneficiaries. Contributions received in the form of annuity trusts are generally recorded as contributions without donor restrictions in the year received, net of the present value of annuities payable to the named income beneficiary. The Foundation invests in the charitable gift annuities in accordance with limitations imposed by relevant state laws.

Donated Services, Materials, and Properties

Donated services: Donated services of medical and nonmedical personnel and vendors provided to foundation programs are reported as contribution revenue without donor restrictions and program expense in the period received. Such services are valued at medical industry published estimated median hourly rates of compensation for such personnel. Consistent with GAAP, services of volunteers who have donated their time to the Foundation for various efforts but who do not possess specialized skills related to these efforts are not recognized as revenue and expense.

Donated materials: Donated materials for use in the Foundation's operations are recorded as contribution revenue and as inventory on the date received. Donated materials have explicit or implied donor restrictions that such items be used exclusively for the Foundation's humanitarian assistance program and are, therefore, recorded as net assets with donor restrictions. In the period consumed by foundation programs, the value of materials is released from net assets with donor restrictions to net assets without donor restrictions, and inventory is relieved as a program expense.

Gifts-in-kind revenue is recognized in circumstances in which the Foundation has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with GAAP. Accordingly, the recognition of gifts-in-kind revenue is limited to circumstances in which the Foundation takes constructive possession of the gifts in kind and the Foundation is the recipient of the gift rather than an agent or intermediary (as defined by generally accepted accounting principles).

Notes to Consolidated Financial Statements

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

The Foundation receives donated medicines and medical supplies from donors (pharmaceutical companies) for distribution in developing countries or areas where disasters have occurred. Management has concluded that the geographical areas do not represent its principal market and, therefore, considers the United States region as its principal market for determining the fair value of these donated products. The principal market is the market in which the Foundation would sell the asset with the greatest volume and level of activity for the asset.

Pharmaceuticals are recorded at the wholesale acquisition cost (WAC), as published by Thomson Reuters in the Red Book. The Red Book is an industry-recognized drug pricing reference guide for pharmaceuticals in the United States and is used by various similar organizations to value donated pharmaceuticals. The Foundation, like many other organizations that receive donations of pharmaceutical products, is regularly assessing its valuation methodology. Although some organizations have recently changed their valuation sources, the management of the Foundation has not identified a source that it feels is more accurate than its current method. The management follows the industry updates very closely and ensures the value used is in accordance with these. The Foundation receives donated drugs, and, in those cases, the exit market valuation meets the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU), *Fair Value Measurement (Topic 820)*, definition of fair value because it is the price that would be paid to sell an asset in an orderly transaction in the principal market at the measurement date under current market conditions using a directly observable valuation technique. The Foundation may choose to accept and distribute donations from other countries and will value these donations from sources used in the exit countries for those markets. Contributions of medical equipment and supplies are recorded also at estimated fair market value based upon appropriate price guides or other online pricing sources as applicable.

Donated property: The Foundation reports gifts of land, buildings, and equipment without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Subscription Revenue and Other Content-related Sales

Subscriptions are on a rolling renewal basis. Some subscribers have multiyear subscriptions. Subscription revenue is recognized as the issue is pulled from the fulfillment database. Other content-related sales relate primarily to content reuse, open access revenue, sponsorships, and advertising.

Revenue from subscriptions to the Health Affairs journal is deferred and recognized over the period of the subscription, generally one year. Subscription revenue totaled approximately \$1,800,000 for the year ended December 31, 2021. The deferred revenue balance at December 31, 2021 and January 1, 2021 totaled approximately \$950,000 and \$1,100,000, respectively, and for the same dates, the amount due from customers was trivial.

Foreign Currency Translation

The functional currency of the Foundation is the U.S. dollar. The financial statements and transactions of the Foundation's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities of the Foundation are translated into U.S. dollars at the rate of exchange in effect at the close of the period. Gains and losses from foreign currency translation are included in change in net assets. Monthly expenses that are incurred by project field office operations in foreign countries are translated using the adjusted monthly average exchange rate in effect at the end of each month.

Notes to Consolidated Financial Statements

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Salaries and benefits are allocated to programs on a basis of time and effort based on timesheets. The categories of occupancy and insurance, information services, and telephone and internet are allocated to programs based on the level of employee headcount. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Project HOPE is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is made in these consolidated financial statements. Income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business taxable income. There was no significant unrelated business taxable income for the year ended December 31, 2021.

All consolidated entities were formed as not-for-profit entities in their respective jurisdictions and are not subject to income tax under the laws of their respective countries.

Upcoming Accounting Pronouncements

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statements of activities and changes in net assets, functional expenses, and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Foundation is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Foundation's consolidated financial statements as a result of the Foundation's operating leases, as disclosed in Note 7, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Foundation will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Foundation's year ending December 31, 2022 and will be applied using the retrospective method.

Notes to Consolidated Financial Statements

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

Reclassifications

Certain 2020 amounts have been reclassified to conform to the 2021 presentation.

In the December 31, 2020 consolidated statement of financial position, accrued compensation and benefits totaling \$1,376,000 were recorded within the line item accounts payable and accrued expenses. In the December 31, 2021 consolidated statement of financial position, accrued compensation and benefits have been classified on their own line, and the 2020 amounts have been reclassified to match this presentation. This reclassification did not change total liabilities presented within the previously issued financial statements.

In the December 31, 2020 consolidated statement of activities and changes in net assets, donated services totaling \$1,856,000 were classified within the line item other income, and this amount has been reclassified to the line item donated services to conform to the 2021 presentation. This reclassification did not change total change in net assets presented within the previously issued consolidated financial statements. Additionally, in the December 31, 2020 consolidated statement of activities and changes in net assets, interest and dividends totaling \$345,000 were recorded within the line item donated services. In the December 31, 2021 consolidated statement of activities and changes in net assets, interest and dividends have been classified within the line item net investment gain, and the 2020 amounts have been reclassified to match this presentation. This reclassification did not change the total change in net assets presented within the previously issued financial statements.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 30, 2022, which is the date the financial statements were available to be issued.

Subsequent to year end, the Foundation's investment portfolio, including the pension plan assets, has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 3 - Fair Value Measurements (Continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2021 and the valuation techniques used by the Foundation to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2021 (dollars in thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
Assets				
Investments:				
Multistrategy equity funds	\$ 12,154	\$ -	\$ -	\$ 12,154
Multistrategy bond funds	9,234	-	-	9,234
Money market funds	943	-	-	943
Real estate investment trusts	953	-	-	953
Total assets	<u>\$ 23,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,284</u>

The Foundation's deferred compensation plan assets, with a value of approximately \$1,100,000, are measured at fair value and are included in the investments noted above.

Note 4 - Contributions and Pledges Receivable

As of December 31, 2021, contributors to the Foundation have made unconditional promises to give as follows (dollars in thousands):

Gross promises to give before unamortized discount	\$ 5,418
Less net present value discount	<u>(7)</u>
Net contributions receivable	<u>\$ 5,411</u>
Amounts due in:	
Less than one year	\$ 5,073
One to five years	<u>345</u>
Total	<u>\$ 5,418</u>

Support of approximately \$531,000 was recognized from members of the Foundation's board during the year ended December 31, 2021.

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 5 - Inventory

During the year ended December 31, 2021, the Foundation received donated inventory of health-related publications, pharmaceuticals, medical equipment, and supplies with an estimated fair value of \$47,500,000 and recorded as gifts-in-kind revenue. During the same year, donated supplies, publications, pharmaceuticals, and medical equipment totaling approximately \$51,100,000 were used in the Foundation's operations and recorded as program expenses.

Approximately 93 percent of the Foundation's gifts-in-kind revenue were provided by five companies during the year ended December 31, 2021.

Note 6 - Land, Buildings, and Equipment

Land, buildings, and equipment as of December 31, 2021 are summarized as follows (dollars in thousands):

Vehicles	\$ 1,148
Computer software	<u>1,170</u>
Total cost	2,318
Accumulated depreciation	<u>2,062</u>
Net property and equipment	<u><u>\$ 256</u></u>

Depreciation expense for 2021 was approximately \$112,000.

During the year ended December 31, 2021, the Foundation sold assets which were previously reported as held for sale resulting in a gain of approximately \$3,000,000. This amount is reported as part of nonoperating income within the consolidated statement of activities and changes in net assets.

Note 7 - Operating Leases

The Foundation's lease expense, recorded on a straight-line basis, primarily includes amounts obligated for its headquarters office space and office furniture and equipment expenses, along with leasing office space for its various field offices. The Foundation currently is obligated under an operating lease primarily for headquarters office space, various field offices, and office furniture and equipment expiring in April 2025. Total rent expense under all leases was approximately \$1,500,000 for 2021.

Future minimum annual commitments under these operating leases are as follows (dollars in thousands):

Years Ending December 31	Amount
2022	\$ 580
2023	589
2024	562
2025	<u>174</u>
Total	<u><u>\$ 1,905</u></u>

Notes to Consolidated Financial Statements

December 31, 2021

Note 8 - Paycheck Protection Program Promissory Note

During the year ended December 31, 2020, the Foundation received a PPP loan in the amount of \$2,662,500. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met. The Foundation may use the funds on qualifying expenses over a covered period of up to 24 weeks. At the conclusion of the covered period, any balance that is not forgiven by the SBA will be repaid over a period of two years from the date of disbursement, with interest accruing at a rate of 1 percent and monthly payments of principal and interest beginning 10 months after the conclusion of the covered period.

Any request for forgiveness is subject to review and approval by the lender and the SBA, including review of qualifying expenditures and staffing and salary levels. The Foundation received notification from the SBA of forgiveness of the entire loan amount on June 9, 2021. Accordingly, the Foundation has recognized \$2,662,500 received under the PPP loan program as gain on debt forgiveness on the consolidated statement of activities and changes in net assets.

Although management considers it probable that the Foundation was initially eligible for the loan and subsequent forgiveness, the SBA has the ability to review the Foundation's loan file for a period subsequent to the date the loan was forgiven and could request additional documentation to support the Foundation's initial eligibility for the loan and the request for forgiveness. In the event the SBA subsequently determines the Foundation did not meet the initial eligibility requirements for the PPP loan or did not qualify for forgiveness, the SBA may pursue legal remedies at its discretion.

Note 9 - Line of Credit

The Foundation had access to an unsecured \$500,000 committed line of credit with a 2 percent interest rate. The line of credit expired on May 31, 2021 and was not renewed. Later in 2021, the Foundation obtained a new \$2,000,000 line of credit at a rate of the one-month LIBOR plus 1.50 percent (an effective rate of 1.61 percent at December 31, 2021). There was no amount outstanding at December 31, 2021.

Note 10 - Retirement Plans

The Foundation has a defined contribution plan that provides for employee salary deferral contributions up to a maximum of 100 percent of annual compensation subject to maximum tax-deferred limitations established by the Internal Revenue Code. Employees are automatically enrolled to defer 5 percent of their eligible compensation upon meeting eligibility requirements unless they elect otherwise. Additionally, employee deferrals increase each first day of the defined contribution plan year by 1 percent, up to a maximum of 10 percent, unless the employee elects otherwise. The Foundation provides a safe harbor match in the amount of 100 percent of the first 3 percent of compensation deferred by the participant and 50 percent of the next 2 percent of compensation deferred by the participant. Matching contributions for the year ended December 31, 2021 were approximately \$500,000. The Foundation may also make annual discretionary contributions to the defined contribution plan, and for the year ended December 31, 2021, these discretionary contributions totaled approximately \$400,000.

The Foundation also maintains a defined benefit pension plan (the "Plan") extended generally to all full-time employees of the Foundation hired on or before October 31, 2007 who have at least 1,000 hours of service and have reached age 21. Employees hired after October 31, 2007 are not eligible to participate in the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 10 - Retirement Plans (Continued)

The Plan provides for normal retirement benefits upon reaching age 65 and has provisions for early retirement at age 55, as well as specified death benefits. Benefits under the Plan are determined based upon years of credited service and average compensation (the highest 5 consecutive annual rates of compensation during the 10 plan years before the earlier of the date of the participant's retirement or December 31, 2009) and are payable in the form of a joint and survivor annuity. Effective December 31, 2009, no further years of credited service are accrued under the Plan. Plan participants who were not vested in their benefit as of December 31, 2009 will continue to receive service for plan vesting purposes for continued employment. Years of service after December 31, 2009 are counted for eligibility for early retirement. The Plan's funding policy is for the Foundation to contribute an amount that will meet or exceed the annual ERISA minimum funding requirement.

The following table sets forth the Plan's funded status and amounts recognized in the Foundation's consolidated statement of financial position at December 31, 2021 based on a measurement date of December 31, 2021 (dollars in thousands):

Obligations and Funded Status

Projected benefit obligation	\$ 39,347
Fair value of plan	<u>31,036</u>
Funded status	<u>\$ (8,311)</u>

Pension benefits paid during the year ended December 31, 2021 were approximately \$1,745,000.

Components of net periodic benefit cost and other amounts recognized are as follows:

Interest cost	\$ 947
Expected return on plan assets	(1,351)
Amortization of net loss	<u>478</u>
Net periodic benefit cost	74
Other pension-related charges	<u>(3,058)</u>
Total pension costs recognized in the statement of activities	<u>\$ (2,984)</u>

The total amount not yet recognized in net periodic pension expense is approximately \$10,924,000. The estimated net loss for the defined benefit pension plan that will be amortized into net periodic benefit cost over the next fiscal year is approximately \$342,000.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

Discount rate	2.65%
Rate of compensation increase	N/A

Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31 are as follows (dollars in thousands):

Discount rate	2.35%
Expected long-term return on plan assets	5.50%
Rate of compensation increase	N/A

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 10 - Retirement Plans (Continued)

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Foundation, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and ensures timely payment of retirement benefits. Plan assets are invested at the discretion of the trustee with input from the plan sponsor, investment managers, and other outside advisors.

The target allocation of plan assets is 0-30 percent cash and cash equivalents, 40-75 percent equity securities, and 20-60 fixed-income securities.

The fair values of the Foundation's pension plan assets at December 31, 2021 by major asset classes are as follows:

	Fair Value Measurements at December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Contract Value	Total
Mutual funds - Large U.S. equity	\$ 2,707	\$ -	\$ -	\$ -	\$ 2,707
Mutual funds - International equity	4,729	-	-	-	4,729
Mutual funds - Fixed income	6,691	-	-	-	6,691
Large U.S. equity	-	5,338	-	-	5,338
Small/Mid U.S. equity	-	4,183	-	-	4,183
International equity	-	2,519	-	-	2,519
Short-term fixed income	-	457	-	-	457
Other	-	884	-	-	884
Total investments at fair value	14,127	13,381	-	-	27,508
Immediate participation - Guarantee contract*	-	-	-	3,528	3,528
Total	\$ 14,127	\$ 13,381	\$ -	\$ 3,528	\$ 31,036

The table above presents information about the pension plan assets measured at fair value at December 31, 2021 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Plan has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 10 - Retirement Plans (Continued)

Fund of funds are Level 2 assets valued based on inputs other than quoted prices for similar assets in active markets.

The guarantee contract is reported at contract value by the insurance company and, therefore, not subject to ASC 820, *Fair Value Measurement*, and not required to be reported at fair value. It is included here only for information purposes of investments. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses.

	Guarantee Contract
Beginning balance at December 31, 2020	\$ 3,856
Actual return on plan assets - Earnings on investments	42
Benefit payments to participants	(333)
Fees	(37)
Ending balance at December 31, 2021	<u>\$ 3,528</u>

Cash Flow

Contributions

Contributions due and paid to the Plan during the year ended December 31, 2021 were approximately \$792,000. The Foundation expects to contribute approximately \$468,000 to its pension plan in 2022.

Estimated Future Benefit Payments

The estimated benefits to be paid in each of the next five years, and in the aggregate for the five fiscal years thereafter, are summarized in the table below (dollars in thousands):

Years Ending December 31	Pension Benefits
2022	\$ 1,990,000
2023	2,000,000
2024	2,060,000
2025	2,110,000
2026	2,110,000
2027-2031	11,110,000

Note 11 - Net Assets

Net assets without donor restrictions consist of the following as of December 31 (dollars in thousands):

Board designated	\$ 8,436
Pension (Note 10)	(8,311)
General	1,433
Total net assets without donor restrictions	<u>\$ 1,558</u>

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 11 - Net Assets (Continued)

Net assets with donor restrictions as of December 31 are available for the following purposes (dollars in thousands):

Subject to expenditures for a specified purpose:	
Health education and assistance	\$ 11,053
Health policy	4,804
Materials for international and U.S. health programs	<u>1,156</u>
Total subject to expenditures for a specified purpose	17,013
Subject to the Foundation's spending policy and appropriation (Note 12)	<u>11,725</u>
Total	<u>\$ 28,738</u>

Included in the above purpose restricted amount includes approximately \$4,900,000 of time restricted contributions and pledges receivable as of December 31, 2021.

Note 12 - Donor-restricted Endowments

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 12 - Donor-restricted Endowments (Continued)

The endowment net asset composition by type fund as of December 31, 2021 is as follows (dollars in thousands):

	<u>With Donor Restrictions</u>
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 9,119
Accumulated investment gains	<u>2,606</u>
Total donor-restricted endowment funds	<u>\$ 11,725</u>

For the year ended December 31, 2021, the Foundation had the following endowment related activities (dollars in thousands):

	<u>With Donor Restrictions</u>
Endowment net assets - Beginning of year	\$ 10,883
Net appreciation	1,050
Contributions	1
Appropriation of endowment assets for expenditure	<u>(209)</u>
Endowment net assets - End of year	<u>\$ 11,725</u>

Underwater Endowment Funds

As of December 31, 2021, there were no funds with deficiencies.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to achieve a return of 6 percent. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 3 percent of its endowment fund's average market value over the trailing three years as of the end of the most recent calendar year. In establishing this policy, the Foundation considered the long-term expected rate of return on its endowment.

Project HOPE - The People-to-People Health Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2021

Note 13 - Liquidity and Availability of Resources

The following reflects the Foundation's financial assets as of December 31, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date (dollars in thousands).

Total assets, at December 31, 2021	\$	49,627
Less nonliquid assets:		
Property and equipment		(256)
Prepaid expenses and other assets		(1,210)
Inventory		(1,156)
		<hr/>
Financial assets at December 31, 2021		47,005
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions		1,835
Endowment funds		11,725
Annuity investment		1,959
Deferred compensation plan assets		1,101
Contributions receivable due greater than one year		345
Board designations - Amounts set aside primarily for capital improvements		8,436
		<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>21,604</u>

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Therefore, financial assets may not be available for general expenditures within one year. As part of the Foundation's liquidity management, the Foundation has an operating reserve that has a balance of approximately \$3,000,000 at December 31, 2021. This is a governing board-designated reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial obligations. The operating reserve is included in the investments on the consolidated statement of financial position. Furthermore, the Foundation has a line of credit, described in Note 10, that could be used as liquidity needs arise. The Foundation also maintains available cash and short-term investments to meet 90 days of normal operating expenses.

The Foundation also realizes there could be unanticipated liquidity needs.