

Project HOPE – The People-to-People Health Foundation, Inc.

Financial Report
December 31, 2020

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RSM US LLP

Independent Auditor's Report

Audit Committee
Project HOPE – The People-to-People Health Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Project Hope – The People-to-People Health Foundation, Inc. (the Foundation), which comprise the statement of financial position as of December 31, 2020, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited 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 June 14, 2021, 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 and 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.

RSM US LLP

McLean, Virginia
June 14, 2021

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Financial Position
December 31, 2020
(With Comparative Totals for 2019)
(In Thousands)**

	2020	2019
Assets		
Cash and cash equivalents	\$ 9,835	\$ 5,602
Investments (Notes 4 and 5)	16,112	14,930
Contributions and pledges receivable, net (Note 3)	3,739	4,248
Grants and contracts receivable, net	2,058	1,903
Other receivables	903	748
Inventory (Note 11)	4,769	3,543
Assets held for sale (Note 6)	2,263	2,310
Land, buildings and equipment, net (Note 6)	557	630
Other assets	1,837	1,575
	<u>42,073</u>	<u>35,489</u>
Total assets	\$ 42,073	\$ 35,489
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 5,764	\$ 3,812
Paycheck Protection Program promissory note (Note 7)	2,663	-
Deferred revenues	5,673	4,542
Charitable gift annuities payable	853	959
Accrued pension liability (Note 10)	12,085	11,555
	<u>27,038</u>	<u>20,868</u>
Total liabilities	27,038	20,868
Commitments and contingencies (Note 12)		
Net assets (deficit):		
Without donor restrictions (Note 1)	(8,887)	(7,742)
With donor restrictions (Note 8)	23,922	22,363
	<u>15,035</u>	<u>14,621</u>
Total net assets	15,035	14,621
	<u>\$ 42,073</u>	<u>\$ 35,489</u>
Total liabilities and net assets	\$ 42,073	\$ 35,489

See notes to financial statements.

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Activities
Year Ended December 31, 2020
(With Comparative Totals for 2019)
(In Thousands)**

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenues from operations:				
Individual giving (Note 13)	\$ 12,091	\$ 743	\$ 12,834	\$ 11,613
Foundations and corporate giving	15,398	8,372	23,770	9,943
Corporate gifts in-kind (Note 11)	74	55,173	55,247	35,276
Government grants	27,004	-	27,004	23,377
Subscription revenue	2,451	-	2,451	2,594
Other	1,856	-	1,856	606
Donated services	579	259	838	2,044
Net assets released from restriction (Note 8)	63,519	(63,519)	-	-
Total revenues from operations	122,972	1,028	124,000	85,453
Expenses:				
Program services:				
Health education and assistance	98,126	-	98,126	69,213
Health policy	8,393	-	8,393	7,880
Total program services	106,519	-	106,519	77,093
Supporting services:				
Fundraising	11,351	-	11,351	9,852
Management and general	4,134	-	4,134	4,259
Total supporting services	15,485	-	15,485	14,111
Total expenses	122,004	-	122,004	91,204
Change in net assets from operations	968	1,028	1,996	(5,751)
Non-operating items:				
Net investment gain (loss) (Note 4)	305	531	836	1,878
Foreign currency gain (loss)	(5)	-	(5)	13
Pension-related changes other than net periodic pension cost (Note 10)	(2,413)	-	(2,413)	(1,054)
Change in net assets	(1,145)	1,559	414	(4,914)
Net assets (deficit):				
Beginning	(7,742)	22,363	14,621	19,535
Ending	\$ (8,887)	\$ 23,922	\$ 15,035	\$ 14,621

See notes to financial statements.

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2020
(With Comparative Totals for 2019)
(In Thousands)**

	2020							2019 Total
	Health Education and Assistance	Health Policy	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total	
Compensation and benefits:								
Salaries and wages	\$ 12,669	\$ 5,163	\$ 17,832	\$ 1,804	\$ 3,053	\$ 4,857	\$ 22,689	\$ 19,679
Employee benefits	2,908	654	3,562	262	420	682	4,244	3,650
Payroll taxes	414	359	773	129	199	328	1,101	1,144
Total compensation and benefits	15,991	6,176	22,167	2,195	3,672	5,867	28,034	24,473
Gifts in-kind	53,947	-	53,947	-	-	-	53,947	36,461
Supplies and equipment	9,999	72	10,071	7	24	31	10,102	1,886
Awards and grants	6,330	47	6,377	-	-	-	6,377	5,142
Professional services	1,783	632	2,415	2,216	454	2,670	5,085	5,037
Travel and conferences	3,327	154	3,481	16	15	31	3,512	5,099
Publication and printing	160	276	436	2,990	5	2,995	3,431	2,799
Postage	1,077	37	1,114	1,717	9	1,726	2,840	1,860
Occupancy and insurance	1,272	489	1,761	(1)	492	491	2,252	2,323
Donated services	1,216	30	1,246	278	332	610	1,856	2,044
Training	1,796	1	1,797	1	1	2	1,799	1,328
Information technology and services	178	189	367	627	426	1,053	1,420	1,335
Other business expense	694	31	725	120	120	240	965	803
Temporary staff	101	4	105	13	134	147	252	329
Depreciation	8	1	9	62	61	123	132	285
Subtotal	97,879	8,139	106,018	10,241	5,745	15,986	122,004	91,204
Direct allocation – IT and facility	247	254	501	1,110	(1,611)	(501)	-	-
Total expenses	\$ 98,126	\$ 8,393	\$ 106,519	\$ 11,351	\$ 4,134	\$ 15,485	\$ 122,004	\$ 91,204

See notes to financial statements.

Project HOPE – The People-to-People Health Foundation, Inc.

Statement of Cash Flows
Year Ended December 31, 2020
(With Comparative Totals for 2019)
(In Thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 414	\$ (4,914)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	132	285
Change in market value of investments	(836)	(1,878)
Change in allowance for doubtful contributions receivable and discount	-	(72)
Contributions restricted for long-term investment	(1)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	509	1,212
Grants and contracts receivable, net	(155)	1,356
Other receivables	(155)	411
Donated inventory, net	(1,226)	1,243
Other assets	(262)	(915)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,952	(139)
Deferred revenues	1,131	997
Accrued pension liability	530	86
Net cash provided by (used in) operating activities	2,033	(2,328)
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(12)	(12)
Proceeds from sales of investments	5,408	4,855
Purchases of investments	(5,754)	(2,669)
Net cash (used in) provided by investing activities	(358)	2,174
Cash flows from financing activities:		
Contributions restricted for:		
Investment subject to annuity agreements	27	29
Investment in perpetuity	1	-
Other financing activities:		
Payments of annuity obligations	(378)	(180)
Interest and dividends restricted for reinvestment	245	96
Proceeds from paycheck protection program	2,663	-
Net cash provided by (used in) financing activities	2,558	(55)
Net increase (decrease) in cash and cash equivalents	4,233	(209)
Cash and cash equivalents:		
Beginning	5,602	5,811
Ending	\$ 9,835	\$ 5,602

See notes to financial statements.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

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

The Foundation 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 45% of the Foundation's operating revenues, are derived from a number of corporate sponsors each year. Federal funding, which is derived primarily from the U.S. Agency for International Development, approximated \$26.1 million for the year ended December 31, 2020.

A summary of the Foundation's significant accounting policies follows:

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (the Codification). As required by the Non-Profit Entities topic of the Codification, Financial Statements of Not-for-Profit Organizations, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Foundation generally considers all revenues, expenses and other changes, except realized and unrealized gains and losses on investments, unusual gains (losses) on the disposal of land, buildings and equipment and pension changes, other than net periodic pension costs, to be part of changes in net assets from operations. Realized and unrealized gains and losses on investments include any gain or loss on foreign currency translation.

Net assets without donor restrictions: Represents resources whose use is not restricted by donor stipulations and are available for the support of general operating activities.

Net assets with donor restrictions: Represents resources unavailable for use in the current period because of the existence of time and/or donor imposed restrictions that remain unsatisfied at year-end or resources whose use is limited by donor imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. 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: The Foundation's Board has designated certain net assets to provide for the financial effects of any unforeseen events that might threaten the continued viability of the Foundation, or for other uses as approved by the Board. These board-designated funds amounted to approximately \$2.6 million at December 31, 2020. As of December 31, 2020, the Foundation's net assets without donor restrictions are broken out as follows (dollars in thousands):

Net assets (deficit) without donor restrictions:

General	\$	557
Board designated		2,641
Pension		(12,085)
Total net assets (deficit) without donor restrictions	\$	<u>(8,887)</u>

The Foundation's net assets without donor restrictions are less than the board-designated net assets due to the employee pension plan being underfunded. See Note 10 for more details on the pension plan.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Cash equivalents: Cash equivalents consist of highly-liquid investments purchased with an original maturity of three months or less. 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.

The Foundation maintains cash in bank deposit accounts which, 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.

Inventory: Inventory consists of pharmaceuticals, medical supplies and publications, and is recorded at cost or fair value on the date of donation, and at the lower of cost or net realizable value at year-end. Pharmaceutical inventory that must be discarded upon reaching its regulatory expiration date is recognized as a reduction in 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, 2020.

Investments: Investments are reported at management's estimate of fair value in the statement of financial position. Fair value is determined by using quoted market prices on marketable securities. Other investments, including managed hedge funds and futures funds, are estimated based on various valuation techniques developed by the investment fund managers. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and their values realized upon disposition may vary significantly from their currently reported values.

The Foundation's investments, in general, are exposed to various risks, such as interest rate 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, and any net appreciation or loss arising thereafter is reported annually in the statement of activities. Gains and losses on investments, including changes in market value, are reported in the statement of activities as increases or decreases in net assets without donor restrictions or net assets with donor restrictions.

Land, buildings and equipment: The Foundation's land, buildings and equipment are recorded at cost or, if donated, at fair value at the date of gift. Depreciation of buildings and other property is computed using the straight-line method over the estimated service lives of the assets, ranging from 3 to 45 years. The Foundation capitalizes all property and equipment with a cost of \$5,000 or more.

Property acquired exclusively for certain current health programs for which title does not rest with the Foundation is expensed to program services upon purchase. Property designated as historical landmarks and collections is recorded at approximately \$1.9 million as of December 31, 2020, and is not depreciated.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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, 2020.

Endowment funds: Gifts with donor restrictions, whereby 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: Unconditional contributions are recognized as revenue upon receipt or when unconditional promises to give are received. Contribution revenue is recorded as increases in net assets without donor restrictions, unless their use is limited by time or donor-imposed restrictions. Promises that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected beyond one year are recorded at their net present value. Promises 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 contributions receivable is provided based upon management's judgment of potential defaults.

Government grants and contracts: The Foundation receives grants and enters into contracts with the U.S. government, foreign governments and multi-lateral organizations, which 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. These revenues are subject to right of return if funds are not spent and also have other performance and/or control barriers that must be met to be entitled to the funds. For this reason, the Foundation's grant revenues are considered to be conditional and revenue is recognized as funds are utilized for programmatic activities specified in the grant agreement. Accordingly, amounts received, but not recognized as revenue, are classified in the statements of financial position as deferred revenues.

Donated services: Donated services of medical and non-medical 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 U.S. generally accepted accounting principles (GAAP), services of volunteers who have donated their time to the Foundation for fundraising 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.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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 the Codification. 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 the Codification).

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 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.

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 the charitable gift annuities in accordance with limitations imposed by relevant state laws.

Subscription revenue: Subscription renewals for Global or Consortia Licenses are on a calendar basis, due every January. All other subscriptions are on a rolling renewal basis. Some subscribers have multi-year subscriptions. Subscription revenue is recognized as the issue is pulled from the fulfillment database.

Revenues from subscriptions to Health Affairs magazine are deferred and recognized over the period of the subscription, generally one year.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Expense allocation: The financial statements report certain categories of expenses that are attributable to more than one program or function. As a result, these expenses require allocation on a reasonable basis that is consistently applied within the organization. Salaries and benefits are allocated to programs on a basis of time and effort. The categories of occupancy and insurance, information services, and telephone and internet are allocated to programs based on the percentage of time and effort identified to each program.

Income taxes: The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on activities unrelated to its exempt purpose. Income tax expenses for the year ended December 31, 2020, was insignificant. In addition, the Foundation qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2017.

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 are remeasured at the statement of financial position date at the exchange rate in effect at year-end. Gains and losses from foreign currency translation are included in change in the 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.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recent accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Foundation for the calendar year beginning on January 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the pending adoption of the new standard on the financial statements.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance will be effective for the Foundation's calendar year beginning on January 1, 2022. The Foundation is in the process of evaluating the impact of this new guidance on the financial statements.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Subsequent events: The Foundation evaluated subsequent events through June 14, 2021, which is the date the financial statements were available to be issued.

Note 2. Availability of Assets

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner, 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 \$2,600,000 million at December 31, 2020. 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. The operating reserve is included in the investments on the statement of financial position. The Foundation also maintains available cash and short-term investments to meet 90 days of normal operating expenses.

The following reflects the Foundation's financial assets, reduced by amounts not available for general use within one year of the statement of financial position date:

Total assets, at December 31, 2020	\$ 42,073
Less non-liquid assets:	
Land, buildings, equipment and inventory	(5,326)
Assets held for sale	(2,263)
Other assets	(1,837)
Financial assets, at December 31, 2020	<u>32,647</u>
Less those unavailable for general expenditures with one year, due to:	
Contractual or donor imposed restrictions:	
Restricted by donor with time or purpose restrictions	(5,393)
Endowment funds	(10,883)
Annuity investment with donor restrictions	(1,909)
Restricted investment – other	(968)
Grants and contributions receivable due greater than one year	(373)
Board designations:	
Amounts set aside for liquidity reserve	<u>(2,641)</u>
	<u>(22,167)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 10,480</u>

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 3. Contributions Receivable

As of December 31, 2020, contributors to the Foundation have made unconditional promises to give as follows (dollars in thousands):

Due within:	
Less than one year	\$ 3,367
One to five years	373
Gross contributions receivable	<u>3,740</u>
Allowance for uncollectible pledges	(1)
Net contributions receivable	<u>\$ 3,739</u>

Note 4. Investments

Investments consist of the following at December 31, 2020 (dollars in thousands):

Fixed income	\$ 4,375
Equities	11,361
Cash and cash equivalents	376
	<u>\$ 16,112</u>

Investments held for charitable gift annuities are included above and totaled \$1,738,487 at December 31, 2020.

Net investment gain of \$836,000 is reported in non-operating items for the year ended December 31, 2020.

Note 5. Fair Value Measurements

The Foundation follows the Codification topic, Fair Value Measurement, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The fair value of assets measured on a recurring basis at December 31, 2020, is as follows (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Multi-strategy equity funds	\$ 11,361	\$ -	\$ -	\$ 11,361
Multi-strategy bond funds	3,633	-	-	3,633
Alternative mutual funds	742	-	-	742
Money market funds	376	-	-	376
Total investments	<u>\$ 16,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,112</u>

Money market funds, multi-strategy bond funds, multi-strategy equity funds and alternative mutual funds are classified as Level 1 instruments as they are actively traded on public exchanges.

Note 6. Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows as of December 31, 2020 (dollars in thousands):

Assets held for sale:	
Land and improvements	\$ 672
Building and improvements	2,221
Historical landmarks and collections	1,918
Total cost	<u>4,811</u>
Less accumulated depreciation	<u>(2,548)</u>
Total assets held for sale	2,263
Furniture, equipment and vehicles	4,947
Total cost	<u>7,210</u>
Less accumulated depreciation	<u>(6,653)</u>
Total land, buildings and equipment, net	<u>\$ 557</u>

Depreciation expense was \$132,480 for the year ended December 31, 2020.

Note 7. Paycheck Protection Program Promissory Note

In April 2020, the Foundation applied for and received \$2,662,500 from the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Funds from the note may only be used for payroll costs, interest on other debt obligations, leases and utilities. The Foundation used the entire loan amount for qualifying expenses. The Foundation applied for loan forgiveness on March 12, 2021, and subsequently received loan forgiveness in June 2021. As of December 31, 2020, the Foundation has elected to record the loan under the ASC Topic 470. Under ASC 470, the Foundation will recognize income for any amount forgiven in the fiscal year ending December 31, 2021.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions

Changes in net assets with donor restrictions by purpose for the year ended December 31, 2020, were as follows (dollars in thousands):

	Balance December 31, 2019	Additions/ Investment Income (Loss)	Released	Balance December 31, 2020
Subject to expenditure for a specified purpose:				
Health education and assistance	\$ 1,673	\$ 4,114	\$ (2,452)	\$ 3,335
Health policy	6,792	5,023	(6,880)	4,935
Materials for international and U.S. health programs	3,543	55,173	(53,947)	4,769
	<u>12,008</u>	<u>64,310</u>	<u>(63,279)</u>	<u>13,039</u>
Subject to expenditure in accordance with UPMIFA:				
Endowment – related principal	9,117	1	-	9,118
Endowment – related income	1,238	767	(240)	1,765
	<u>10,355</u>	<u>768</u>	<u>(240)</u>	<u>10,883</u>
Total net assets with donor restrictions	<u>\$ 22,363</u>	<u>\$ 65,078</u>	<u>\$ (63,519)</u>	<u>\$ 23,922</u>

Note 9. Endowment

The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions: (a) the original value of net assets with donor restrictions cash contributions and (b) the discounted value of future net assets with donor restrictions cash contributions, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions are classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

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

The Foundation has adopted investment and spending policies for net assets with donor restrictions that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. The Foundation's investment policy has the objectives of long-term growth of capital and long-term purchasing power with tolerance of the Board. The net assets with donor restrictions earnings are used in accordance with either the donor's stated purpose or to support the Foundation's operations in general as detailed further in this footnote. The Foundation's endowment consists entirely of donor-restricted funds.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 9. Endowment (Continued)

For the year ended December 31, 2020, the Foundation had the following endowment related activities (dollars in thousands):

Net assets with donor restrictions, December 31, 2019	\$ 10,355
Contributions	1
Net investment gains	767
Amounts appropriated/released for expenditure	(240)
Net assets with donor restrictions, December 31, 2020	<u>\$ 10,883</u>

The endowment assets are primarily comprised of the Foundation's investments, as detailed in Note 5.

Note 10. Pension Plan

The Foundation 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).

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 five 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 which 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 statement of financial position at December 31, 2020, based on measurement date of December 31, 2020 (dollars in thousands):

Projected benefit obligation	<u>\$ 41,225</u>
Plan assets at fair value	\$ 29,140
Less projected benefit obligation for services rendered to date	<u>(41,225)</u>
Deficiency of Plan assets under projected benefit obligation (funded status)	(12,085)
Accrued pension liability	<u>\$ (12,085)</u>
Pension benefits paid	<u>\$ 1,709</u>

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 10. Pension Plan (Continued)

The composition of pension plan assets and their relative share of total fair value were as follows at December 31, 2020 (dollars in thousands):

Description	Level 1	Level 2	Level 3	Total	% Total
Mutual funds:					
Large U.S. equity	\$ 1,654	\$ -	\$ -	\$ 1,654	5.68%
International equity	4,039	-	-	4,039	13.86%
Funds of funds:					
Large U.S. equity	-	5,652	-	5,652	19.40%
Small/Mid U.S. equity	-	1,815	-	1,815	6.23%
International equity	-	3,860	-	3,860	13.25%
Short-term fixed income	-	1,343	-	1,343	4.61%
Fixed income	-	6,056	-	6,056	20.78%
Other	-	865	-	865	2.96%
	5,693	19,591	-	25,284	86.77%
Immediate participation:					
Guarantee contract*	-	-	3,856	3,856	13.23%
	\$ 5,693	\$ 19,591	\$ 3,856	\$ 29,140	100.00%

* This contract is reported at contract value by the insurance company and, therefore, not subject to the Codification topic, 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.

The Plan asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Mutual funds are Level 1 assets valued based on quoted prices in active markets for identical assets or liabilities accessible at the measurement date. Fund of funds are Level 2 assets valued based on inputs other than quoted prices that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets in active markets.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2020 (dollars in thousands):

Balance, December 31, 2019	\$ 4,025
Earnings on investments	217
Benefit payments to participants	(355)
Employer contributions	-
Fees	(31)
Balance, December 31, 2020	<u>\$ 3,856</u>

The Foundation follows the Codification topic, Compensation – Retirement Benefits. Under this topic, the Foundation records previously unrecognized gains and prior service cost through changes in net assets without donor restrictions. These changes are recorded as pension related changes other than net periodic pension cost of approximately \$2,311,000 during the year ended December 31, 2020, in the accompanying statement of activities. The topic also requires the measurement of Plan assets and benefit obligations as of the statement of financial position date.

Contributions due and paid to the Plan during the year ended December 31, 2020, were \$1,882,722. In fiscal year 2021, the expected contributions due to the Plan are \$1,158,674.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 10. Pension Plan (Continued)

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:	
2021	\$ 1,840
2022	1,940
2023	1,990
2024	2,060
2025	2,110
2026-2029	11,000
	<u>\$ 20,940</u>

Net pension expense for the year ended December 31, 2020, included the following components (dollars in thousands):

Interest cost	\$ 1,169
Expected return on Plan assets	(1,441)
Net amortization and deferral	374
Net periodic pension expense	<u>102</u>
Other pension related changes	2,311
Total pension costs recognized in the statement of activities	<u>\$ 2,413</u>

The net amortization and deferral expense for 2020 is expected to be approximately \$374,000 (out of \$13,982,000 not yet recognized net periodic pension expense).

The following assumptions were used in determining the actuarial present value of the projected benefit obligations:

Weighted-average discount rate	2.35%
Increase in future compensation levels	N/A

The following assumptions were used in determining the actuarial present value of the net periodic benefit cost:

Weighted-average discount rate	3.15%
Increase in future compensation levels	N/A
Rate of return on assets	6.25%

Note 11. Inventory

During the year ended December 31, 2020, the Foundation received donated inventory of health related publications, pharmaceuticals, medical equipment and supplies with an estimated fair value of \$53,900,000. During the same year, donated supplies, publications, pharmaceuticals and equipment totaling approximating \$52,600,000, were used in the Foundation's operations and recorded as program expenses and revenues.

Approximately 96% of the Foundation's gifts-in-kind revenues were provided by five companies during the year ended December 31, 2020.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements

Note 12. Commitments and Contingencies

Leases: The Foundation currently leases and subleases office space and equipment under non-cancelable operating leases. The Foundation's obligations for future minimum lease payments under such leases at December 31, 2020, are as follows (dollars in thousands):

	<u>Lease Commitments</u>
Years ending December 31:	
2021	\$ 717
2022	76
2023	20
	<u>\$ 813</u>

Rental expense for the year ended December 31, 2020, approximated \$1,189,000.

Federal awards: The Foundation receives reimbursements for expenditures under federal grants that are subject to annual audits and periodic reviews by grantor agencies. The ultimate determination of amounts reimbursed under these programs is based upon allowable costs reported to and audited by the grantor agencies or their designees. Amounts due to grantor agencies from such compliance audits cannot be determined at this time and are not expected to have a material effect on the financial position of the Foundation.

Employment agreements: The Foundation has two employment agreements with its Chief Executive Officer and its President. In the event of termination, the Foundation may be required to pay severance totaling a maximum of six months of the annual salary, performance bonus and other benefits, as defined in the agreements.

Line of credit: At year-end, the Foundation had access to an unsecured \$500,000 committed line of credit with 2% interest. The line of credit expired on May 31, 2021, and was not renewed. At December 31, 2020, the line of credit had an outstanding balance of \$500,000 that was subsequently paid off in January 2021.

COVID-19: In 2020, the global pandemic created substantial volatility in the financial markets and the economy, including the geographic areas in which the Foundation operates. While the Foundation has mitigated the financial impact on its business, it is unknown how long these conditions will last. Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments which are uncertain and cannot be predicted and, as such, cannot be determined.

Note 13. Related Party Transactions

Support of approximately \$695,020 was recognized from members of the Foundation's Board during the year ended December 31, 2020.

Note 14. Conditional Grants

As of December 31, 2020, the Foundation has \$80,863,090 of revenue to be earned on various conditional grants from various sources of funding including the U.S. government, other governments and public institutions, corporations and foundations. The amount is not recognized in the accompanying financial statements as such revenue is recognized over the multi-year period of each respective grant agreement, conditional upon management of the Foundation complying with grant requirements.