Consolidated Financial Statements

Foundation for a Smoke-Free World, Inc. and Subsidiary
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Foundation for a Smoke-Free World, Inc.

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
Foundation for a Smoke-Free World, Inc. and Subsidiary:

Opinion

We have audited the consolidated financial statements of Foundation for a Smoke-Free World, Inc. and Subsidiary (the Company), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free of material misstatement, whether due to fraud or error.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of 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 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 Company'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

Ernst & Young LLP

April 27, 2022

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Foundation for a Smoke-Free World, Inc.

Consolidated Statements of Financial Position

	December 31	
	2021	**2020**
Assets		
Current assets:		
Cash and cash equivalents	**$ 59,095,936**	$ 57,321,779
Interest receivable	**488**	473
Prepaid assets	**839,960**	830,428
Total current assets	**59,936,384**	58,152,680
Property and equipment, net	**1,021,994**	1,819,984
Security deposits	**24,993**	62,444
Total assets	**$ 60,983,371**	$ 60,035,108
Liabilities and net assets without donor restrictions		
Current liabilities:		
Accounts payable	**$ 837,543**	$ 283,016
Accrued expenses	**553,987**	455,539
Total current liabilities	**1,391,530**	738,555
Net assets without donor restrictions	**59,591,841**	59,296,553
Total liabilities and net assets without donor restrictions	**$ 60,983,371**	$ 60,035,108

See accompanying notes.

Foundation for a Smoke-Free World, Inc.

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended December 31	
	2021	**2020**
Revenue and other support		
Contribution revenue	**$ 40,000,000**	$ 45,000,000
Investment income	**5,985**	74,852
Total revenue and other support	**40,005,985**	45,074,852
Expenses		
Grant expenditures	**24,984,658**	25,334,999
Salaries and employee benefits	**6,226,329**	9,794,290
Communications	**1,024,144**	2,855,353
Professional services	**3,653,818**	3,458,654
Travel, conferences and meetings	**430,188**	256,660
Legal fees	**215,808**	444,549
Occupancy and office expenses	**726,543**	1,391,663
Data license fees	**803,116**	997,156
Depreciation	**861,740**	737,351
Administrative and other expenses	**784,353**	839,813
Total expenses	**39,710,697**	46,110,488
Increase (decrease) in net assets without donor restrictions	**295,288**	(1,035,636)
Net assets without donor restrictions at beginning of year	**59,296,553**	60,332,189
Net assets without donor restrictions at end of year	**$ 59,591,841**	$ 59,296,553

See accompanying notes.

Foundation for a Smoke-Free World, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2021	**2020**
Operating activities		
Increase (decrease) in net assets without donor restrictions	**$ 295,288**	$ (1,035,636)
Adjustments to reconcile increase (decrease) in net assets without donor restrictions to net cash provided by (used in) operating activities:		
Depreciation	**861,740**	737,351
Changes in assets and liabilities:		
Interest receivable	**(15)**	36,156
Prepaid expenses	**(9,532)**	(417,728)
Security deposits	**37,451**	94,868
Accounts payable	**554,527**	(39,975)
Grants payable	**–**	(46,730)
Accrued expenses	**98,448**	(855,922)
Net cash provided by (used in) operating activities	**1,837,907**	(1,527,616)
Investing activities		
Purchases of property and equipment	**(63,750)**	(456,090)
Net cash used in investing activities	**(63,750)**	(456,090)
Net increase (decrease) in cash and cash equivalents	**1,774,157**	(1,983,706)
Cash and cash equivalents, beginning of the year	**57,321,779**	59,305,485
Cash and cash equivalents, end of the year	**$ 59,095,936**	57,321,779

See accompanying notes.

Foundation for a Smoke-Free World, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021

1. Description and Purpose of the Foundation

Foundation for a Smoke-Free World, Inc. (the Foundation) is a not-for-profit, non-stock corporation organized under the General Corporation Law of the State of Delaware. The Foundation was organized in September 2017 to fund research, promote innovation and support collaborative initiatives to accelerate progress in reducing harm and deaths from smoking worldwide.

The Foundation's focus includes smoking cessation and harm reduction, as supported by new technologies, therapies, alternative products, behavioral science, and other approaches. In addition, the Foundation looks for solutions to address unique challenges facing developing countries as it aims to eliminate smoking around the globe.

The Foundation's Agricultural Transformation Initiative (ATI), located in Malawi, Africa, is wholly controlled and funded by the Foundation. ATI deploys resources aimed to lessen smallholder farmer dependence on tobacco, better preparing farmers for the future when the demand for leaf tobacco is reduced.

The Internal Revenue Service has ruled that the charitable corporation, Foundation for a Smoke-Free World, Inc. is a tax-exempt organization that is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements and accompanying notes reflect the operations of the Foundation and its subsidiary after elimination of intercompany accounts and transactions. The consolidated financial statements and accompanying notes are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents. As a matter of policy, The Foundation only maintains cash balances with financial institutions having a high-credit quality; however, in the event of a financial institution's insolvency, recovery of the Foundation's assets on deposit may be limited to account insurance by the Federal Deposit Insurance Corporation.

One donor contributed all of the contributions in 2021 and 2020.

Cash and Cash Equivalents

Cash and cash equivalents consist of money market funds with an independent broker-dealer and are held for operating purposes. The Foundation considers all highly liquid instruments with maturities of three months or less at the time of purchase to be cash equivalents. Amounts held could exceed federally insured limits.

Property and Equipment

Property and equipment mainly consists of office and equipment and computer software and is stated at cost and depreciated using the straight-line method over estimated useful lives of the assets. Estimated useful lives are as follows:

Description	Useful Life
Computer software	2-5 years
Office and equipment	5-7 years

2. Significant Accounting Policies (continued)

Contribution Revenue

Contributions, including unconditional promises to give, are recorded at fair market value when received or pledged. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Grant Expenditures

Unconditional grants are recognized as expense when the promise to give is approved by the Board of Directors. Conditional grants are recognized as expense in the period in which the recipient meets the terms of the condition.

Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, because the Foundation is classified as a private foundation, it is subject to a federal excise tax on net investment income, and the Foundation provides for deferred federal excise tax at an estimate of the effective rate expected to be paid. The Foundation was subject to an excise tax of 1.39% on its net taxable investment income for the years ended December 31, 2021 and 2020.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. The ASU is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Foundation does not expect that the adoption of ASU 2016-02 will have a material effect on its consolidated financial statements.

3. Net Assets

The net assets of the Foundation are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objectives of the Foundation.

4. Contributions

In 2018, the Foundation entered into a pledge agreement with PMI Global Services, Inc. (PMI), in which PMI agreed to contribute $80,000,000 annually beginning in 2018 and ending in 2029 to be used exclusively in furtherance of the Foundation's purpose. The pledge agreement was amended in 2020 such that PMI agreed to contribute $45,000,000 in 2020 and expects to contribute on an annual basis as follows: $40,000,000 in 2021, and $35,000,000 during the period beginning 2022 and ending 2029. Amounts to be received after the balance sheet are considered to be conditional promises to give. The annual contributions from PMI will be provided to the Foundation once PMI receives the annual attestation from the Foundation's Board of Directors that agreed upon conditions have been met for the respective annual funding period and a report from the Foundation's independent, external auditor with respect to certain other conditions. At the point in which conditions are met, the contributions become unconditional promises to give and are recorded in the consolidated statements of activities.

5. Grant Expenditures

As of December 31, 2021, the Board of Directors has authorized grants of unconditional and conditional promises to give of $136,616,801. For the years ended December 31, 2021 and 2020, the Board of Directors authorized new grants of unconditional and conditional promises to give of $10,104,635 and $15,189,078, respectively. Payments are expected to be made through the year 2024.

For the years ended December 31, 2021 and 2020, grant expenditures were $24,984,658 and $25,334,999, respectively, as conditions were satisfied.

5. Grant Expenditures (continued)

Changes in grants payable are as follows:

	2020
Grants payable at beginning of year	$ 46,729
Unconditional grants expensed	1,930,000
Payments made	1,976,729
Grants payable at end of year	$ –

There are no unconditional grants payable at December 31, 2021 and 2020.

Subsequent to year end, $1,820,390 of conditional grants have been authorized by the Board of Directors. Payments on conditional grants authorized in both 2021 and 2022 are expected to be paid through 2024. These conditional grants will be recognized as grant expenditures in the consolidated statements of activities in accordance with the grant expenditure policy described in Note 2 and will be funded with existing cash and future contributions received as described in Note 4.

6. Operating Leases

The Foundation leases office spaces under operating lease agreements, which expire in 2023. Rental expense was $103,053 and $700,449 in 2021 and 2020, respectively. Future minimum rental commitments under a non-cancelable operating lease at December 31, 2021, are $66,150.

7. Property and Equipment

Property and equipment consists of the following as of December 31, 2021 and 2020:

	2021	2020
Office and equipment	**$ 434,463**	$ 415,838
Computer software	**2,430,609**	2,385,484
	2,865,072	2,801,322
Less accumulated depreciation	**(1,843,078)**	(981,338)
Property and Equipment, net	**$ 1,021,994**	$ 1,819,984

7. Property and Equipment (continued)

Depreciation expense was $861,740 and $737,351 for the years ended December 31, 2021 and 2020, respectively.

8. Financial Assets and Liquidity Resources

As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses are:

	2021	**2020**
Cash and cash equivalents	**$ 59,095,936**	$ 57,321,779
Interest receivable	**488**	473
	$ 59,096,424	$ 57,322,252

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

9. Functional Classification of Expenses

The Foundation's primary program is to fund research to improve global health by ending smoking worldwide. Indirect expenses incurred in support of this primary program activity include employee salaries and benefits, facilities, office expenses, professional services and travel and meeting expenses. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques, such as square footage and time and effort. Occupancy and office expenses include rent, subscriptions, insurance, and office supplies. Administrative and other expenses include honorarium, accounting fees, and taxes.

9. Functional Classification of Expenses (continued)

Expenses by functional classification for the year ended December 31, 2021 consist of the following:

	Health and Science Research	Agricultural Diversification	Industry Transformation	Communications	Education and Awareness	COVID-19 Grants	Administrative and Other	Total
Grant expenditures	$ 12,827,706	$ 7,150,996	$ 2,283,389	$ –	$ 2,722,567	$ –	$ –	$ 24,984,658
Salaries and employee benefits	2,462,375	1,022,211	255,860	525,258	505,885	–	1,454,740	6,226,329
Communications	51,139	–	144,540	801,665	26,800	–	–	1,024,144
Professional services	1,400,080	181,322	973,705	19,768	951,877	–	127,066	3,653,818
Travel, conferences and meetings	301,509	18,840	358	437	90,104	–	18,940	430,188
Legal fees	2,244	10,497	21,985	–	–	–	181,082	215,808
Occupancy and office expenses	310,237	96,991	10,258	6,916	5,683	–	296,458	726,543
Data license fees	803,116	–	–	–	–	–	–	803,116
Depreciation	785,903	44,891	–	–	–	–	30,946	861,740
Administrative and other expenses	–	38,225	–	–	–	–	746,128	784,353
	$ 18,944,309	$ 8,563,973	$ 3,690,095	$ 1,354,044	$ 4,302,916	$ –	$ 2,855,360	$ 39,710,697

Expenses by functional classification for the year ended December 31, 2020 consist of the following:

	Health and Science Research	Agricultural Diversification	Industry Transformation	Communications	Education and Awareness	COVID-19 Grants	Administrative and Other	Total
Grant expenditures	$ 11,966,470	$ 4,538,499	$ 2,938,712	$ –	$ 3,761,811	$ 2,129,507	$ –	$ 25,334,999
Salaries and employee benefits	2,831,483	2,681,466	268,116	625,894	1,086,572	–	2,300,759	9,794,290
Communications	–	–	173,032	2,682,321	–	–	–	2,855,353
Professional services	820,292	913,712	6,238	31,000	1,360,481	5,000	321,931	3,458,654
Travel, conferences and meetings	80,453	80,088	393	3,225	35,453	–	57,048	256,660
Legal fees	19,077	88,242	48,114	–	–	–	289,116	444,549
Occupancy and office expenses	330,757	139,419	25,349	3,892	24,337	475	867,434	1,391,663
Data license fees	997,131	–	–	–	–	–	25	997,156
Depreciation	647,778	42,046	–	–	–	–	47,527	737,351
Administrative and other expenses	–	34,688	–	–	–	–	805,125	839,813
	$ 17,693,441	$ 8,518,160	$ 3,459,954	$ 3,346,332	$ 6,268,654	$ 2,134,982	$ 4,688,965	$ 46,110,488

10. Subsequent Events

In preparing these consolidated financial statements, the Foundation evaluated subsequent events through the time the consolidated financial statements were available to be issued on April 27, 2022, in compliance with applicable accounting standards. All material subsequent events have been either recognized in the consolidated financial statements or disclosed in the notes to the consolidated financial statements.

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