

FINANCIAL STATEMENTS

Foundation for a Smoke-Free World, Inc.  
Year Ended December 31, 2018  
With Report of Independent Auditors

Ernst & Young LLP



Foundation for a Smoke-Free World, Inc.

Financial Statements

Year Ended December 31, 2018

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## Report of Independent Auditors

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

We have audited the accompanying financial statements of Foundation for a Smoke-Free World, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets 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 conformity with U.S. generally accepted accounting principles; this includes 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.

### **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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Foundation for a Smoke-Free World, Inc. at December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

May 3, 2019

Foundation for a Smoke-Free World, Inc.

Statement of Financial Position

December 31, 2018

**Assets**

Current assets:

Cash and cash equivalents	\$ 51,058,812
Interest receivable	90,389
Prepaid assets	<u>64,337</u>
Total current assets	51,213,538

Property and equipment, net	80,361
Security deposits	<u>152,012</u>
Total assets	<u><u>\$ 51,445,911</u></u>

**Liabilities and net assets without donor restrictions**

Current liabilities:

Accounts payable	\$ 111,612
Grants payable	264,283
Accrued expenses	<u>2,651,082</u>
Total current liabilities	3,026,977

Net assets without donor restrictions	<u>48,418,934</u>
Total liabilities and net assets without donor restrictions	<u><u>\$ 51,445,911</u></u>

*See accompanying notes.*

Foundation for a Smoke-Free World, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

**Revenue and other support**

Contribution revenue	\$ 80,000,000
Investment income	<u>613,991</u>
Total revenue and other support	80,613,991

**Expenses**

Grant expenditures	6,727,344
Salaries and employee benefits	6,603,005
Communications	7,593,097
Professional services	4,553,871
Travel, conferences and meetings	2,851,593
Legal fees	2,578,537
Occupancy and office expenses	1,509,633
Administrative and other expenses	<u>743,685</u>
Total expenses	33,160,765

Increase in net assets without donor restrictions 47,453,226

Net assets without donor restrictions at beginning of year	<u>965,708</u>
Net assets without donor restrictions at end of year	<u><u>\$ 48,418,934</u></u>

*See accompanying notes.*

Foundation for a Smoke-Free World, Inc.

Statement of Cash Flows

Year Ended December 31, 2018

**Operating activities**

Increase in net assets without donor restrictions	\$ 47,453,226
Adjustments to reconcile increase in net assets without donor restrictions to net cash provided by operating activities:	
Depreciation	48,182
Changes in assets and liabilities:	
Interest receivable	(90,389)
Prepaid expenses	(14,337)
Security deposits	(122,762)
Accounts payable	110,024
Grants payable	264,283
Accrued expenses	2,214,290
Net cash provided by operating activities	<u>49,862,517</u>

**Investing activities**

Purchases of property and equipment	<u>(93,579)</u>
Net cash used in investing activities	(93,579)

Net increase in cash and cash equivalents 49,768,938

Cash and cash equivalents, beginning of the year	<u>1,289,874</u>
Cash and cash equivalents, end of the year	<u><u>\$ 51,058,812</u></u>

*See accompanying notes.*

# Foundation for a Smoke-Free World, Inc.

## Notes to Financial Statements

December 31, 2018

### **1. Description and Purpose of the Foundation**

Foundation for a Smoke-Free World, Inc. (the Foundation) is a not-for-profit, non-stock corporation organization 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 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**

#### **Basis of Presentation**

The 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).

#### **Use of Estimates**

The preparation of 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



Foundation for a Smoke-Free World, Inc.

Notes to Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

**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 2018.

**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 hardware and is stated at cost and depreciated using the straight-line method over estimated useful lives of two years.

**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.

Foundation for a Smoke-Free World, Inc.

Notes to Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

**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.

**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, 2019. Early adoption is permitted. The Foundation is currently evaluating the effects that the adoption of ASU 2016-02 will have on its 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.

**Net Assets With Donor Restrictions**

Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the Foundation and/or the passage of time. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying statement of activities and changes in net assets as net assets released from donor restrictions. However, if a

Foundation for a Smoke-Free World, Inc.

Notes to Financial Statements (continued)

**3. Net Assets (continued)**

restriction is fulfilled in the same reporting period in which the contribution is received, the Foundation reports the support as contribution without donor restrictions. As of December 31, 2018, the Foundation has no net assets with donor restrictions.

**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. 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. At the point in which conditions are met, the contributions become unconditional promises to give and are recorded in the statement of activities. Subsequent to year end, the Foundation met the conditions for the 2019 annual contribution and received funding of \$80,000,000 from PMI in January 2019.

**5. Grant Expenditures**

The Board of Directors authorized grants of unconditional and conditional promises to give of \$25,732,547 in 2018.

For the year ended December 31, 2018 grant expenditures were \$6,727,344 as conditions were satisfied.

Changes in grants payable are as follows:

	<u>2018</u>
Grants payable at beginning of year	\$ —
Unconditional grants expensed	950,364
Payments made	<u>686,081</u>
Grants payable at end of year	<u>\$ 264,283</u>

Grants payable at December 31, 2018 are scheduled to be disbursed as follows: 2019 – \$217,554 and 2020 – \$46,729.

Foundation for a Smoke-Free World, Inc.

Notes to Financial Statements (continued)

**5. Grant Expenditures (continued)**

Subsequent to year end, \$107,539,821 of conditional grants have been authorized by the Board of Directors with expected payments to occur over the period 2019 through 2024. These conditional grants will be recognized as grant expenditures in the statement 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 2020. Rental expense was \$654,807 in 2018. Future minimum rental commitments under the non-cancelable primary operating lease at December 31, 2018, are \$779,430 in 2019 and \$268,850 in 2020.

**7. Financial Assets and Liquidity Resources**

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses are:

	<u>2018</u>
Cash and cash equivalents	\$ 51,058,812
Interest receivable	<u>90,389</u>
	<u>\$ 51,149,201</u>

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.

**8. 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, marketing, professional services and travel and entertainment 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.

Foundation for a Smoke-Free World, Inc.

Notes to Financial Statements (continued)

**8. Functional Classification of Expenses (continued)**

Expenses by functional classification for the year ended December 31, 2018 consist of the following:

	<b>Health Science &amp; Technology</b>	<b>Agriculture &amp; Livelihoods</b>	<b>Industry Transformation</b>	<b>Communications</b>	<b>Education &amp; Advocacy</b>	<b>Administrative &amp; Other</b>	<b>Total</b>
Grant expenditures	\$ 2,412,236	\$ 2,997,526	\$ —	\$ —	\$ 1,317,582	\$ —	\$ 6,727,344
Salaries and employee benefits	1,242,806	1,244,450	108,403	873,115	—	3,134,231	6,603,005
Communications	—	—	—	7,593,097	—	—	7,593,097
Professional services	1,960,084	1,396,237	121,134	17,294	—	1,059,122	4,553,871
Travel, conferences and meetings	543,500	822,611	—	141,635	—	1,343,847	2,851,593
Legal fees	60,158	3,340	—	—	—	2,515,039	2,578,537
Occupancy and office expenses	59,063	54,300	—	54,522	—	1,341,748	1,509,633
Administrative and other expenses	—	—	—	—	—	743,685	743,685
	<u>\$ 6,277,847</u>	<u>\$ 6,518,464</u>	<u>\$ 229,537</u>	<u>\$ 8,679,663</u>	<u>\$ 1,317,582</u>	<u>\$ 10,137,672</u>	<u>\$ 33,160,765</u>

**9. Subsequent Events**

In preparing these financial statements, the Foundation evaluated subsequent events through the time the financial statements were available to be issued on May 3, 2019 in compliance with applicable accounting standards. All material subsequent events have been either recognized in the financial statements or disclosed in the notes to the financial statements.

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