

Population Action International

Audited Financial Statements

*Years ended December 31, 2015 and 2014
with Report of Independent Auditors*

Population Action International

Audited Financial Statements

Years ended December 31, 2015 and 2014

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Report of Independent Auditors

Board of Directors
Population Action International

We have audited the accompanying financial statements of Population Action International ("PAI") which comprise the statements of financial position as of December 31, 2015 and 2014, the related statements of activities, functional expenses and cash flows for years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 over financial reporting. 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 PAI as of December 31, 2015 and 2014 and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Johnson Lambert LLP' in a cursive script.

Falls Church, Virginia
May 9, 2016

Population Action International

Statements of Financial Position

	December 31,	
	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 3,014,733	\$ 4,680,520
Restricted cash	986,804	1,000,232
Investments	2,848,906	2,491,382
Service contract receivables	88,347	106,078
Accounts receivables	125,728	86,152
Pledges receivable, net of discount	1,137,013	1,496,163
Prepaid expenses and deposits	406,533	64,800
Property and equipment, net	293,109	288,169
Total assets	<u>\$ 8,901,173</u>	<u>\$ 10,213,496</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 544,559	\$ 206,924
Capital lease obligations	33,825	43,239
Deferred rent	430,217	467,909
Total liabilities	<u>1,008,601</u>	<u>718,072</u>
Net assets		
Unrestricted		
Undesignated	1,760,407	2,112,824
Board designated	<u>2,245,975</u>	<u>1,799,500</u>
	4,006,382	3,912,324
Temporarily restricted net assets	3,729,522	5,426,432
Permanently restricted net assets	<u>156,668</u>	<u>156,668</u>
	<u>7,892,572</u>	<u>9,495,424</u>
Total liabilities and net assets	<u>\$ 8,901,173</u>	<u>\$ 10,213,496</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Activities

Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Grants and contributions	\$ 3,038,823	\$ 2,064,942	\$ -	\$ 5,103,765
Service contracts	756,404	-	-	756,404
Investment income, net	28,038	-	-	28,038
Rental income	84,541	-	-	84,541
Other	6,000	-	-	6,000
Net assets released from restrictions	<u>3,761,852</u>	<u>(3,761,852)</u>	-	-
Total support and revenue	<u>7,675,658</u>	<u>(1,696,910)</u>	-	<u>5,978,748</u>
Expenses				
Program services	6,000,853	-	-	6,000,853
Fundraising	406,198	-	-	406,198
Management and general	<u>1,003,818</u>	-	-	<u>1,003,818</u>
Total expenses	<u>7,410,869</u>	-	-	<u>7,410,869</u>
Change in net assets before change in fair value of investments	264,789	(1,696,910)	-	(1,432,121)
Change in fair value of investments	<u>(170,731)</u>	-	-	<u>(170,731)</u>
Change in net assets	94,058	(1,696,910)	-	(1,602,852)
Net assets, beginning of year	<u>3,912,324</u>	<u>5,426,432</u>	<u>156,668</u>	<u>9,495,424</u>
Net assets, end of year	<u>\$ 4,006,382</u>	<u>\$ 3,729,522</u>	<u>\$ 156,668</u>	<u>\$ 7,892,572</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Activities

Year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Grants and contributions	\$ 3,833,328	\$ 6,006,493	\$ -	\$ 9,839,821
Service contracts	948,375	-	-	948,375
Investment income, net	50,067	-	-	50,067
Rental income	97,605	-	-	97,605
Other	1,689	-	-	1,689
Net assets released from restrictions	<u>1,748,207</u>	<u>(1,748,207)</u>	-	-
Total support and revenue	<u>6,679,271</u>	<u>4,258,286</u>	-	<u>10,937,557</u>
Expenses				
Program services	4,609,128	-	-	4,609,128
Fundraising	586,841	-	-	586,841
Management and general	<u>787,530</u>	-	-	<u>787,530</u>
Total expenses	<u>5,983,499</u>	-	-	<u>5,983,499</u>
Change in net assets before change in fair value of investments	695,772	4,258,286	-	4,954,058
Change in fair value of investments	<u>(16,264)</u>	-	-	<u>(16,264)</u>
Change in net assets	679,508	4,258,286	-	4,937,794
Net assets, beginning of year	<u>3,232,816</u>	<u>1,168,146</u>	<u>156,668</u>	<u>4,557,630</u>
Net assets, end of year	<u>\$ 3,912,324</u>	<u>\$ 5,426,432</u>	<u>\$ 156,668</u>	<u>\$ 9,495,424</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Functional Expenses

Year ended December 31, 2015

	Program Services	Fundraising	Management and General	Total Expenses
Salaries and benefits	\$ 2,507,375	\$ 178,931	\$ 445,390	\$ 3,131,696
Professional fees	816,299	88,482	162,235	1,067,016
International partnership grants	1,520,073	-	-	1,520,073
Office supplies	58,704	9,280	27,198	95,182
Telephone	30,667	5,303	15,821	51,791
Postage and delivery	1,399	1,812	2,712	5,923
Occupancy	416,578	81,828	245,483	743,889
Equipment rental and maintenance	41,671	8,176	24,529	74,376
Printing and publications	18,363	4,315	8,603	31,281
Advertising	126,623	2	8	126,633
Travel and meetings	334,950	9,953	19,096	363,999
Dues and subscriptions	48,882	2,957	6,927	58,766
Corporate insurance	18,227	3,580	10,741	32,548
Depreciation and amortization	41,411	8,134	24,403	73,948
Miscellaneous	19,631	3,445	10,672	33,748
	\$ 6,000,853	\$ 406,198	\$ 1,003,818	\$ 7,410,869

See accompanying notes to the financial statements.

Population Action International

Statement of Functional Expenses

Year ended December 31, 2014

	Program Services	Fundraising	Management and General	Total Expenses
Salaries and benefits	\$ 2,347,615	\$ 298,009	\$ 376,475	\$ 3,022,099
Professional fees	532,466	76,275	125,261	734,002
International partnership grants	638,605	-	-	638,605
Office supplies	48,142	7,266	9,927	65,335
Telephone	27,603	9,607	13,432	50,642
Postage and delivery	2,925	3,556	362	6,843
Occupancy	372,815	143,390	200,747	716,952
Equipment rental and maintenance	11,987	4,610	6,454	23,051
Printing and publications	28,310	5,523	8,678	42,511
Advertising	129,167	628	148	129,943
Travel and meetings	354,096	9,963	7,850	371,909
Dues and subscriptions	63,208	8,393	10,907	82,508
Corporate insurance	15,059	5,792	8,109	28,960
Depreciation and amortization	22,352	8,597	12,035	42,984
Miscellaneous	14,778	5,232	7,145	27,155
	\$ 4,609,128	\$ 586,841	\$ 787,530	\$ 5,983,499

See accompanying notes to the financial statements.

Population Action International

Statements of Cash Flows

	Years ended December 31,	
	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (1,602,852)	\$ 4,937,794
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	73,361	42,984
Change in fair value of investments	170,731	16,264
Loss on disposal	587	-
Changes in assets and liabilities:		
Service contract receivables	17,731	104,928
Accounts receivables	(39,576)	(85,636)
Prepaid expenses and deposits	(341,733)	(10,813)
Pledges receivable, net of discount	359,150	(1,390,315)
Accounts payable and accrued expenses	337,635	103,896
Deferred rent	(37,692)	(20,262)
Net cash (used in) provided by operating activities	(1,062,658)	3,698,840
Cash flows from investing activities		
Proceeds from sale of investments	2,322,356	3,541,156
Purchases of investments	(2,850,611)	(3,587,795)
Purchases of property and equipment	(78,888)	(92,599)
Net cash used in investing activities	(607,143)	(139,238)
Cash flows from financing activities		
Principal payments on capital lease obligations	(9,414)	36,090
Net cash (used in) provided by financing activities	(9,414)	36,090
Net (decrease) increase in cash and cash equivalents	(1,679,215)	3,595,692
Cash and cash equivalents, beginning of year	5,680,752	2,085,060
Cash and cash equivalents, end of year	\$ 4,001,537	\$ 5,680,752
Cash and cash equivalents		
Cash	\$ 3,014,733	\$ 4,680,520
Restricted cash	986,804	1,000,232
	\$ 4,001,537	\$ 5,680,752

See accompanying notes to the financial statements.

Population Action International

Notes to Financial Statements

Years ended December 31, 2015 and 2014

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

Population Action International (PAI) champions policies that make it possible for women to exercise their reproductive rights, and fights to remove the policy barriers between women and the care they need. We work with policymakers in Washington and our network of partners in developing countries to advance women's reproductive rights.

Sexual and reproductive health and rights

PAI works with our network of partners—more than 35 local organizations in 17 countries, policymakers on Capitol Hill, and champions at the United Nations and beyond—to ensure that women everywhere are able to exercise their full range of reproductive rights.

Sustainability

As an originator of integrated community-based approaches to conservation and reproductive health, PAI has been a leading advocate of the population-health-environment (PHE) approach for more than 15 years. PHE programs emphasize bringing conservation and reproductive health services to communities who both need and want them, particularly those who live outside the reach of any healthcare system, and on the edge of some of the world's most endangered natural ecosystems. Because it integrates international family planning and reproductive health (FP/RH) with other development disciplines, PHE provides a unique opportunity to engage new stakeholders—both policymakers and practitioners—in advocacy for international FP/RH.

A summary of PAI's significant accounting policies follows:

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC or the guidance). Accordingly, revenue is recognized when earned and expenses when the obligations are incurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, PAI considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. All cash and investments, regardless of maturity, held by an investment advisor, are considered investments. At times PAI's cash accounts are in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits. Management monitors these balances and believes they do not represent significant credit risk to PAI.

Population Action International

Notes to Financial Statements (Continued)

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

Cash and Cash Equivalents (continued)

The restricted cash of \$986,804 and \$1,000,232 as of December 31, 2015 and 2014, respectively, relates to funding received from the Bill and Melinda Gates Foundation. Unused funds are deposited in a separate money market account, as required by the funder.

Investments and Fair Value Measurements

PAI invests in professionally managed portfolios that contain equity securities, mutual funds, U.S. Government agency bonds, corporate bonds, exchange-traded funds (ETF's) and money market funds, which are recorded at fair value. The changes in fair value during the year (whether realized or unrealized) are recognized in the statements of activities.

PAI's classifications for financial assets and financial liabilities are based on the framework established in the fair value measurement and disclosure accounting guidance. The framework is based on input in the valuation and requires that observable inputs be used in the valuation when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect PAI's significant assumptions. The three levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that PAI has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, for substantially the entire period, for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are not observable for the asset or liability and are significant to the fair value measurement.

PAI recognizes transfers between levels at the end of the period in which events occur impacting the availability of inputs to the fair value methodology.

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Notes to Financial Statements (Continued)

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

Classification of Net Assets

PAI's net assets have been grouped into the following three classes:

Unrestricted net assets - result from contributions and other inflows of assets whose use by PAI is not limited by donor-imposed restrictions.

Temporarily restricted net assets - result from contributions and other inflows of assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or can be fulfilled and removed by actions of PAI related to those restrictions.

Permanently restricted net assets - result from contributions and other inflows of assets whose use by PAI is limited by donor-imposed restrictions, that must be maintained in perpetuity by PAI.

Pledges Receivable

Unconditional pledges are recognized as revenue or gains in the period received. Conditional pledges are only recognized when the conditions on which they depend are substantially met. Unconditional pledges that are expected to be collected within one year are reported net of any estimated uncollectable amounts. Pledges expected to be received beyond one year are reported net of any estimated uncollectable amounts and are discounted to present value using the United States Treasury Obligation risk-adjusted rate according to their corresponding terms. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. There was no provision for doubtful promises, based on management's evaluation of the collection of promises, as of December 31, 2015 and 2014.

Property and Equipment

PAI capitalizes all property and equipment with a cost of \$3,000 and \$2,000 or more for 2015 and 2014, respectively. Property and equipment are stated at cost, and depreciated on a straight-line basis mid-year over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the assets. The estimated useful lives of property, equipment, software, and leasehold improvements, for the purpose of computing depreciation and amortization, are:

Computer equipment and software - 3 to 5 years

Leasehold improvements - the shorter of the life of the leasehold improvement or the life of the lease

Furniture and equipment - 7 years

Equipment - capital lease - life of the lease

Population Action International

Notes to Financial Statements (Continued)

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

Grants and Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated Services

Donated materials or services that meet the recording criteria, are recorded as revenue with a corresponding offset to expense. The value of donated services are calculated based on the fair market value of the service. For the year ended December 31, 2015, PAI recorded \$0 of donated legal services and \$123,815 in advertising services as contributions in the statement of activities. For the year ended December 31, 2014, PAI recorded \$64,682 of donated legal services and \$118,731 in advertising services as contributions in the statement of activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on employee time incurred. Supporting services include fundraising and management and general expenses.

Income Taxes

PAI is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). PAI has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of IRC Section 509(a). However, certain activity not considered exempt is subject to unrelated business income taxes. Management has concluded that PAI has maintained their exempt status and there are no significant uncertain tax positions as of December 31, 2015.

Use of Estimates

The preparation of financial statements 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, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts previously reported in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

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Notes to Financial Statements (Continued)

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

Subsequent Events

PAI evaluated subsequent events through May 9, 2016, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes.

Note 2 - Investments and Fair Value Measurement

Investment income for the years ended December 31, 2015 and 2014, consists of the following:

	2015	2014
Interest and dividends	\$ 52,911	\$ 77,654
Realized (loss) gain on investments	(98,870)	48,443
Unrealized loss on investments	(71,861)	(64,707)
Investment management fees	(24,873)	(27,587)
	\$ (142,693)	\$ 33,803

The following table is a summary of PAI's investments measured at fair value within the GAAP fair value hierarchy as of December 31:

	2015	2014	<u>Fair Value Level</u>
Equities and mutual funds			
Financial	\$ -	\$ 240,965	Level 1
Other	-	328,137	Level 1
Energy	-	125,662	Level 1
Information technology	-	85,841	Level 1
Consumer discretionary	-	100,279	Level 1
Industrials	-	86,708	Level 1
Consumer staples	-	69,974	Level 1
Health care	-	96,529	Level 1
Materials	-	46,126	Level 1
Utilities	-	71,698	Level 1
Telecommunications	-	28,306	Level 1
Fixed income mutual funds			
Multi-strategy	-	611,609	Level 1
ETF's			
Fixed income	349,307	-	Level 1
U.S. government agency bonds	567	275,398	Level 2
Corporate bonds	-	160,268	Level 2
Total investments at fair market value	349,874	2,327,500	
Cash and money market funds	2,499,032	163,882	
Total investments	\$ 2,848,906	\$ 2,491,382	

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Notes to Financial Statements (Continued)

Note 2 - Investments and Fair Value Measurement (Continued)

Equities and mutual funds and ETF's included in Level 1 assets are actively traded and fair market values for identical assets are readily attainable. U.S. Government agency bonds and corporate bonds included in Level 2 assets are not actively traded, and fair market values for similar assets are readily attainable. PAI did not have any transfers between investment levels for the years ended December 31, 2015 or 2014.

Cash and money market funds held do not meet the definition of securities under accounting standards and thus are not subject to the GAAP fair value disclosure requirements. At December 31, 2015, PAI was in the process of transferring its investment portfolio to a new custodian. The portfolio was temporarily in cash and cash equivalents at year-end and reinvested in January 2016.

Note 3 - Property and Equipment

Property and equipment is comprised of the following at December 31:

	2015	2014
Computer equipment and software	\$ 458,628	\$ 397,623
Leasehold improvements	679,456	661,572
Furniture and equipment	249,157	249,157
Equipment - Capital Lease	51,998	87,247
	1,439,239	1,395,599
Less: Accumulated depreciation	1,146,130	1,107,430
Net property and equipment	\$ 293,109	\$ 288,169

PAI leases certain equipment under terms of capital leases. The economic substance of the leases is that PAI is financing the acquisition of the assets through the lease, and, accordingly, the related assets and liabilities have been recorded in the statement of financial position. The amortization of capital lease was \$9,550 and \$8,789 as of December 31, 2015 and 2014, respectively, which is recorded in depreciation and amortization expense on the statements of functional expenses.

The following is a schedule of future minimum lease and loan payments required under the capital lease agreement together with their present value as of December 31, 2015:

Year ended December 31, 2016	\$ 12,746
Year ended December 31, 2017	12,746
Year ended December 31, 2018	12,746
Year ended December 31, 2019	37
	38,275
Less amount representing interest	4,450
Present value of minimum lease payments	\$ 33,825

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Notes to Financial Statements (Continued)

Note 4 - Board Designated Net Assets

Board designated net assets include funds designated by the Board of Directors. PAI Board of Directors redefined the purpose of the designation in 2015. The general purpose of the fund is to ensure the long-term financial stability of PAI and position it to respond to varying economic conditions or unforeseen changes that may dramatically affect PAI's financial operations. The funding level of the designation is one-fourth of the upcoming year's operating budget and is reset annually at the end of the calendar year. Board designated net assets totaled \$2,245,975 and \$1,799,500 as of December 31, 2015 and 2014, respectively.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets include funds that are available for future years. Temporarily restricted net assets were released from restrictions during the years ended December 31, 2015 and 2014, because either the purpose or the time restriction was satisfied.

Temporarily restricted net assets as of December 31, 2015 and 2014, were available for the following programs:

	Balance December 31, 2014	Additions	Released	Balance December 31, 2015
Purpose restricted:				
Sustainability	\$ 49,934	\$ -	\$ 49,934	\$ -
Sexual and reproductive health and rights	4,876,498	1,976,542	3,261,918	3,591,122
Organizational effectiveness	-	50,000	50,000	-
Time restricted	500,000	38,400	400,000	138,400
	<u>\$ 5,426,432</u>	<u>\$ 2,064,942</u>	<u>\$ 3,761,852</u>	<u>\$ 3,729,522</u>
	Balance December 31, 2013	Additions	Released	Balance December 31, 2014
Purpose restricted:				
Sustainability	\$ 368,300	\$ 108,054	\$ 426,420	\$ 49,934
Sexual and reproductive health and rights	784,929	5,348,439	1,256,870	4,876,498
Organizational effectiveness	14,917	-	14,917	-
Time restricted	-	550,000	50,000	500,000
	<u>\$ 1,168,146</u>	<u>\$ 6,006,493</u>	<u>\$ 1,748,207</u>	<u>\$ 5,426,432</u>

Population Action International

Notes to Financial Statements (Continued)

Note 6 - Permanently Restricted Net Assets

Interpretation of Relevant Law: The Board of Directors of PAI has interpreted the District of Columbia enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, PAI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditures by PAI in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, PAI considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

There were no contributions nor any releases to the Permanently Restricted Fund during the years ended December 31, 2015 and 2014. Income earned on the Permanently Restricted Fund is unrestricted.

Spending Policy

Currently, PAI does not have a spending policy. Spending is in accordance with any donor-imposed restrictions.

Note 7 - Operating Leases

PAI is obligated under a non-cancelable lease for its headquarters office expiring in 2026. Under the terms of the agreement, PAI is committed to annual rental payments adjusted for defined escalations based on building operating expenses. Rent expense, rent abatements, and other concessions are recognized on a straight-line basis over the term of the lease with the difference between the straight-line rent and actual rent payments being recorded as deferred revenue. PAI subleases a portion of its space under non-cancelable agreements that expired at various dates through March 2016. Sublease rental income for the years ended December 31, 2015 and 2014 was \$84,541 and \$97,605, respectively.

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Notes to Financial Statements (Continued)

Note 7 - Operating Leases (Continued)

As of December 31, 2015, the following schedule summarized the required minimum lease payments to be made for the years ended December 31:

2016	\$	709,948
2017		667,055
2018		683,731
2019		700,825
2020		783,649
Thereafter		<u>5,130,890</u>
	\$	<u>8,676,098</u>

Total rent expense on the office lease was \$743,889 and \$716,952 for the years ended December 31, 2015 and 2014, respectively.

Note 8 - Retirement Plans

PAI sponsors a 403(b) retirement plan (the Plan). All regular full and part time employees who have completed 30 days of service, and are at least 18 years old, are eligible to participate in the Plan. In 2015, PAI contributed \$99,231 based on 4% of eligible salaries. In 2014, PAI contributed \$68,384 based on 3% of eligible salaries. All employees are fully vested in employer contributions after one year of employment.

Note 9 - Related Party Transactions

In 2015 and 2014, PAI received support of approximately \$50,000 and \$200,000, respectively, from members of the Board of Directors and corporations that employ members of PAI's Board of Directors. The statements of financial position include \$0 and \$100,000 in outstanding pledges as of December 31, 2015 and 2014, respectively, from pledges made by members of the Board of Directors.

Note 10 - Pledges Receivable

Pledges receivable include the following at December 31:

	<u>2015</u>	<u>2014</u>
Pledges receivable		
Due in less than one year	\$ 510,000	\$ 1,397,409
Due in one to five years	633,717	100,000
Less: Discount on long-term portion	<u>(6,704)</u>	<u>(1,246)</u>
Pledges receivable, net of discount	<u>\$ 1,137,013</u>	<u>\$ 1,496,163</u>