

Population Action International

Audited Financial Statements

*Years ended December 31, 2018 and 2017
with Report of Independent Auditors*

Population Action International

Audited Financial Statements

Years ended December 31, 2018 and 2017

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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, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 Population Action International as of December 31, 2018 and 2017 and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Vienna, Virginia
June 27, 2019

Population Action International

Statements of Financial Position

	December 31,	
	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 6,536,057	\$ 5,519,094
Restricted cash	6,361,336	3,327,039
Investments (Note 3)	3,995,908	4,182,369
Service contract receivable	230,875	528,534
Accounts receivable	33,210	44,727
Pledges receivable, net (Note 11)	5,811,537	5,263,786
Prepaid expenses and deposits	156,773	232,786
Property and equipment, net	751,039	910,387
Total assets	<u>\$ 23,876,735</u>	<u>\$ 20,008,722</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 400,759	\$ 205,839
Grants payable	1,013,882	582,044
Deferred revenue	-	19,642
Capital lease obligations	-	12,229
Deferred rent	579,475	508,720
Total liabilities	<u>1,994,116</u>	<u>1,328,474</u>
Net assets		
Without donor restrictions		
Undesignated	1,749,958	1,654,109
Board designated (Note 6)	<u>2,830,200</u>	<u>3,297,750</u>
	4,580,158	4,951,859
With donor restrictions		
Perpetual in nature (Note 6)	156,668	156,668
Purpose restrictions	16,212,164	12,902,503
Time-restricted for future periods	<u>933,629</u>	<u>669,218</u>
	<u>17,302,461</u>	<u>13,728,389</u>
Total liabilities and net assets	<u>\$ 23,876,735</u>	<u>\$ 20,008,722</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Activities

Year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 1,978,883	\$ 12,322,377	\$ 14,301,260
Service contracts	666,514	-	666,514
Investment income, net	92,375	5,410	97,785
Rental income	47,310	-	47,310
Other	39,326	-	39,326
Net assets released from restrictions	<u>8,753,715</u>	<u>(8,753,715)</u>	<u>-</u>
Total support and revenue	<u>11,578,123</u>	<u>3,574,072</u>	<u>15,152,195</u>
Expenses			
Program services:			
Supporting International SRHR Advocacy	8,011,699	-	8,011,699
Championing U.S. Government Support of SRHR	203,814	-	203,814
Incubating New Partnerships PHCPI	<u>1,559,428</u>	<u>-</u>	<u>1,559,428</u>
Total program services	9,774,941	-	9,774,941
Supporting services:			
Fundraising	715,305	-	715,305
Management and general	<u>1,175,332</u>	<u>-</u>	<u>1,175,332</u>
Total supporting services	<u>1,890,637</u>	<u>-</u>	<u>1,890,637</u>
Total expenses	<u>11,665,578</u>	<u>-</u>	<u>11,665,578</u>
Change in net assets from operations	(87,455)	3,574,072	3,486,617
Change in fair value of investments	<u>(284,246)</u>	<u>-</u>	<u>(284,246)</u>
Change in net assets	(371,701)	3,574,072	3,202,371
Net assets, beginning of year	<u>4,951,859</u>	<u>13,728,389</u>	<u>18,680,248</u>
Net assets, end of year	<u>\$ 4,580,158</u>	<u>\$ 17,302,461</u>	<u>\$ 21,882,619</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Activities

Year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 2,862,851	\$ 10,015,242	\$ 12,878,093
Service contracts	2,283,514	-	2,283,514
Investment income, net	81,777	4,702	86,479
Rental income	65,250	-	65,250
Other	16,154	-	16,154
Net assets released from restrictions	<u>5,177,416</u>	<u>(5,177,416)</u>	<u>-</u>
Total support and revenue	<u>10,486,962</u>	<u>4,842,528</u>	<u>15,329,490</u>
Expenses			
Program services:			
Supporting International SRHR Advocacy	7,431,469	-	7,431,469
Championing U.S. Government Support of SRHR	254,614	-	254,614
Incubating New Partnerships PHCPI	<u>398,235</u>	<u>-</u>	<u>398,235</u>
Total program services	8,084,318	-	8,084,318
Supporting services:			
Fundraising	813,421	-	813,421
Management and general	<u>1,163,709</u>	<u>-</u>	<u>1,163,709</u>
Total supporting services	<u>1,977,130</u>	<u>-</u>	<u>1,977,130</u>
Total expenses	<u>10,061,448</u>	<u>-</u>	<u>10,061,448</u>
Change in net assets from operations	425,514	4,842,528	5,268,042
Change in fair value of investments	<u>230,298</u>	<u>14,902</u>	<u>245,200</u>
Change in net assets	655,812	4,857,430	5,513,242
Net assets, beginning of year	<u>4,296,047</u>	<u>8,870,959</u>	<u>13,167,006</u>
Net assets, end of year	<u>\$ 4,951,859</u>	<u>\$ 13,728,389</u>	<u>\$ 18,680,248</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services				Supporting Services			Total Expenses
	Supporting International SRHR Advocacy	Championing U.S. Government Support of SRHR	Incubating New Partnerships PHCPI	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries and benefits	\$ 2,920,889	\$ 154,719	\$ 730,517	\$ 3,806,125	\$ 401,746	\$ 509,668	\$ 911,414	\$ 4,717,539
Professional fees	1,085,920	17,231	487,812	1,590,963	118,250	244,198	362,448	1,953,411
International partnership grants	2,312,464	644	4,925	2,318,033	192	425	617	2,318,650
Office supplies	29,266	701	6,457	36,424	7,132	15,790	22,922	59,346
Telephone	29,635	1,006	9,120	39,761	6,804	14,998	21,802	61,563
Postage and delivery	20,095	13	1,398	21,506	1,658	1,127	2,785	24,291
Occupancy	384,606	9,784	74,856	469,246	102,010	226,122	328,132	797,378
Equipment rental and maintenance	2,503	64	487	3,054	664	2,272	2,936	5,990
Printing and publications	69,400	148	1,632	71,180	5,193	21,385	26,578	97,758
Advertising	37,254	948	20,209	58,411	10,516	21,146	31,662	90,073
Travel and meetings	951,903	14,452	189,365	1,155,720	21,129	36,562	57,691	1,213,411
Dues and subscriptions	49,995	1,229	11,122	62,346	9,085	18,498	27,583	89,929
Corporate insurance	16,290	394	3,015	19,699	4,108	9,107	13,215	32,914
Depreciation and amortization	78,862	2,006	15,349	96,217	20,917	46,366	67,283	163,500
Miscellaneous	22,617	475	3,164	26,256	5,901	7,668	13,569	39,825
	<u>\$ 8,011,699</u>	<u>\$ 203,814</u>	<u>\$ 1,559,428</u>	<u>\$ 9,774,941</u>	<u>\$ 715,305</u>	<u>\$ 1,175,332</u>	<u>\$ 1,890,637</u>	<u>\$ 11,665,578</u>

See accompanying notes to the financial statements.

Population Action International
Statement of Functional Expenses
Year ended December 31, 2017

	Program Services				Supporting Services			Total Expenses
	Supporting International SRHR Advocacy	Championing U.S. Government Support of SRHR	Incubating New Partnerships PHCPI	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries and benefits	\$ 2,560,419	\$ 172,528	\$ 248,494	\$ 2,981,441	\$ 488,271	\$ 558,991	\$ 1,047,262	\$ 4,028,703
Professional fees	866,630	18,941	66,532	952,103	99,222	192,222	291,444	1,243,547
International partnership grants	2,832,609	767	1,200	2,834,576	-	-	-	2,834,576
Office supplies	33,692	1,112	6,637	41,441	10,237	20,101	30,338	71,779
Telephone	22,685	1,515	2,732	26,932	6,238	12,043	18,281	45,213
Postage and delivery	6,121	73	114	6,308	2,140	929	3,069	9,377
Occupancy	403,707	13,832	21,634	439,173	127,914	251,564	379,478	818,651
Equipment rental and maintenance	3,531	121	189	3,841	1,340	2,142	3,482	7,323
Printing and publications	27,548	5,452	1,046	34,046	8,690	7,960	16,650	50,696
Advertising	130,505	3,850	5,897	140,252	3,280	1,723	5,003	145,255
Travel and meetings	385,756	29,845	35,006	450,607	19,957	31,303	51,260	501,867
Dues and subscriptions	47,036	1,880	2,826	51,742	9,716	16,147	25,863	77,605
Corporate insurance	17,663	605	947	19,215	5,597	11,007	16,604	35,819
Depreciation and amortization	78,809	2,700	4,223	85,732	24,971	49,108	74,079	159,811
Miscellaneous	14,758	1,393	758	16,909	5,848	8,469	14,317	31,226
	<u>\$ 7,431,469</u>	<u>\$ 254,614</u>	<u>\$ 398,235</u>	<u>\$ 8,084,318</u>	<u>\$ 813,421</u>	<u>\$ 1,163,709</u>	<u>\$ 1,977,130</u>	<u>\$ 10,061,448</u>

See accompanying notes to the financial statements.

Population Action International

Statements of Cash Flows

	Years ended December 31,	
	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 3,202,371	\$ 5,513,242
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	163,500	159,811
Change in fair value of investments	284,246	(245,200)
Changes in assets and liabilities:		
Service contract receivables	297,659	10,646
Accounts receivable	11,517	(99,184)
Prepaid expenses and deposits	76,013	711
Pledges receivable, net of discount	(547,751)	(2,894,223)
Grants payable	431,838	(77,670)
Accounts payable and accrued expenses	194,920	(73,272)
Deferred rent	70,755	87,431
Deferred revenue	(19,642)	19,514
Net cash provided by operating activities	4,165,426	2,401,806
Cash flows from investing activities		
Purchases of investments and reinvested earnings	(97,785)	(86,478)
Purchases of property and equipment	(4,152)	(13,790)
Net cash used in investing activities	(101,937)	(100,268)
Cash flows from financing activities		
Principal payments on capital lease obligations	(12,229)	(11,237)
Net cash used in financing activities	(12,229)	(11,237)
Net change in cash and cash equivalents	4,051,260	2,290,301
Cash and cash equivalents, beginning of year	8,846,133	6,555,832
Cash and cash equivalents, end of year	\$ 12,897,393	\$ 8,846,133
Cash and cash equivalents		
Cash	\$ 6,536,057	\$ 5,519,094
Restricted cash	6,361,336	3,327,039
	\$ 12,897,393	\$ 8,846,133
Supplemental disclosure of cash flow information		
Cash payments for interest	\$ 510	\$ 1,508

See accompanying notes to the financial statements.

Population Action International

Notes to Financial Statements

Years ended December 31, 2018 and 2017

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, D.C. and our network of partners in developing countries to advance women's reproductive rights (SRHR).

Supporting International SRHR Advocacy

A hallmark of PAI is working with local organizations in the Global South to provide them with financial resources and advocacy coaching to advance reproductive rights in their own countries. PAI's partner network—more than 73 local organizations in 24 countries—work to secure policy and funding decisions, and hold their governments accountable for advancing reproductive rights. In addition, PAI collaborates with partners in key countries to advocate for going beyond the mere access to reproductive health care to emphasize the quality of care delivered and the rights of the women and girls receiving that care. In 2015, PAI launched a special project to increase recognition and support for primary health care (PHC) in the global development arena, and in particular to advocate for PHC as a foundation pillar of universal health care.

Championing U.S. Government Support of SRHR

For more than 50 years, PAI has brought an unrelenting voice for reproductive rights to the U.S. Congress and executive branch. We lead the movement to protect U.S. government funding for international family planning and prevent attempts to pass harmful policies.

Incubating New Partnerships

In 2016, PAI was invited to assist with establishing a Secretariat in support of the Primary Health Care Performance Initiative (PHCPI), a partnership bringing together country policymakers, health system managers, practitioners, advocates, other development partners and community to catalyze and accelerate primary health care improvement in low- and middle-income countries through better measurements, knowledge management, advocacy and country engagement in order to achieve quality universal health coverage more quickly, efficiently and equitably.

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 an obligation is incurred.

Population Action International

Notes to Financial Statements (Continued)

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

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.

The restricted cash of \$6,361,336 and \$3,327,039 as of December 31, 2018 and 2017, 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 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), interest and dividends; net of related investment fees, 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.

Population Action International

Notes to Financial Statements (Continued)

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

Grants Payable

Grant funds are expended only for project purposes and activities that are approved by PAI's board of directors. Commitments of grant funds were incurred during the grant period, as defined by the beginning and end dates of the agreements. Grants payable is recorded on an annual basis upon notification to the recipient at the time of approval or renewal. Grants payable recorded as of December 31, 2018 and 2017 are expected to be paid in the next reporting period.

Classification of Net Assets

PAI's net assets have been classified into the following two classes:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net assets with donor restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor (or grantor)-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. Donor (or grantor)-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 pledges, as of December 31, 2018 and 2017.

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Notes to Financial Statements (Continued)

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

Property and Equipment

PAI capitalizes all property and equipment with a cost greater than \$3,000. 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

Revenue Recognition

Contributions and grants received are recorded as with donor restrictions, or without donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), net assets with donor restrictions are reclassified to without donor restricted net assets and reported in the statements of activities as net assets released from restrictions.

Service contracts are accounted for on a cost reimbursement basis. As such, revenues are recorded as expenses are incurred. Amounts received in excess of expenditures are recorded as deferred revenue. Amounts expended and uncollected at year-end are expected to be collected within the next fiscal year and are recorded as service contract receivable.

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 value of the service. For the years ended December 31, 2018 and 2017, PAI recorded advertising services as contributions in the statement of activities of \$81,490 and \$115,342, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function, and therefore, have been allocated on a reasonable basis that is consistently applied among the programs and supporting services (fundraising and management and general) benefited. Salaries, professional fees, supplies, occupancy, insurance and depreciation and amortization are allocated based on estimates of time spent by PAI personnel.

Population Action International

Notes to Financial Statements (Continued)

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

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, 2018.

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.

Subsequent Events

PAI evaluated subsequent events through June 27, 2019, 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.

Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 Not for Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. Management adopted the provisions of this ASU as of and for the year ended December 31, 2018 and applied it retrospectively to periods presented except for liquidity disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (topic 606). The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The amendments in the ASU are effective for annual periods beginning after December 15, 2018 using either of two methods: (1) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined with the ASU; or (2) retrospective with the cumulative effect of initial adoption recognized at the date of initial application. Management has not yet selected a transition method and is currently evaluating the effects that the ASU will have on the financial statements.

Population Action International

Notes to Financial Statements (Continued)

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

Recent Accounting Pronouncement (continued)

In February 2016, the FASB issued amendments to ASU 2016-02, *Leases*. Among other things, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right of use asset, which is an asset that represents the lessee's right to use, or control the use of a specified asset for the lease term. The amendments in the ASU are effective for nonpublic business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact the amendments in this ASU will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Contributions Made* (topic 958). The core principle of ASU 2018-08 is to clarify when the transfer of an asset or the extinguishment of a liability (the transaction) meets the definition of an exchange transaction or a contribution. When the transaction is an exchange transaction, an entity must apply Topic 606, Revenue from Contracts with Customers or other applicable Topics. When the transaction is a contribution, the ASU clarifies when the contribution is conditional and when revenue should be recognized. The amendments in the ASU are effective for annual periods beginning after December 15, 2018 for contributions received. Effective for fiscal years beginning after December 15, 2019 for contributions made. Early adoption is permitted. Management is evaluating the impact the amendments in this ASU will have on the financial statements.

Note 2 - Liquidity and Availability

PAI's financial assets available within one year of the date of the statement of financial position for general expenditures are as follows:

Cash and cash equivalents	\$	6,536,057
Short-term investments		1,291,193
Service contracts and accounts receivable		264,085
Pledges receivable, due in less than one year		<u>2,457,108</u>
	\$	<u>10,548,443</u>

None of the financial assets, listed above, are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the date of the statement of financial position. Pledges receivable are subject to implied time restrictions but are expected to be collected within one year.

The endowment fund consists of one donor-restricted endowment and a board designated endowment. Investment earnings from the donor-restricted endowment are available for operations. The donor-restricted endowment fund is not available for general expenditure.

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Notes to Financial Statements (Continued)

Note 2 - Liquidity and Availability (Continued)

The board designated endowment of \$2,830,200, as of December 31, 2018, is subject to appropriation by a vote of the board of directors. Although PAI does not intend to spend from the board designated endowment (other than the amounts appropriated by the board), these amounts could be made available if necessary.

PAI has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 3 months of normal operating expenses. As of December 31, 2018, cash and short-term investments on hand exceeds PAI's requirement.

Note 3 - Investments and Fair Value Measurement

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

	<u>2018</u>	<u>2017</u>	<u>Fair Value Level</u>
Exchange Traded Funds (ETF's)			
Equity	\$ 1,782,484	\$ 2,114,415	Level 1
Fixed income	<u>2,155,094</u>	<u>2,028,637</u>	Level 1
Total investments at fair value	3,937,578	4,143,052	
Cash and money market funds	<u>58,330</u>	<u>39,317</u>	N/A
Total investments	<u>\$ 3,995,908</u>	<u>\$ 4,182,369</u>	

ETF's included in Level 1 assets are actively traded and fair values for identical assets are readily attainable. PAI did not have any transfers between investment levels for the years ended December 31, 2018 or 2017.

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.

Note 4 - Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Computer equipment and software	\$ 529,511	\$ 583,099
Leasehold improvements	483,826	486,876
Furniture and equipment	469,925	409,135
Equipment - Capital Lease	<u>51,998</u>	<u>51,998</u>
	1,535,260	1,531,108
Less: Accumulated depreciation	<u>784,221</u>	<u>620,721</u>
Net property and equipment	<u>\$ 751,039</u>	<u>\$ 910,387</u>

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Notes to Financial Statements (Continued)

Note 4 - Property and Equipment (Continued)

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 \$5,291 and \$5,034 as of December 31, 2018 and 2017, respectively, which is recorded in depreciation and amortization expense on the statements of functional expenses. These agreements ended in 2018.

Note 5 - Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes or periods. Additionally, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	Balance December 31, 2017	Additions	Released	Balance December 31, 2018
Purpose restricted:				
Supporting International SRHR Advocacy Championing U.S. Government Support of SRHR	\$ 10,535,926	\$ 8,333,083	\$(6,247,752)	\$12,621,257
Incubating New Partnerships	200,000	200,000	(173,778)	226,222
Time restricted for future periods	2,166,577	2,485,437	(1,287,329)	3,364,685
Perpetual in nature	669,218	1,309,267	(1,044,856)	933,629
	<u>156,668</u>	<u>-</u>	<u>-</u>	<u>156,668</u>
	<u>\$ 13,728,389</u>	<u>\$12,327,787</u>	<u>\$(8,753,715)</u>	<u>\$17,302,461</u>
	Balance December 31, 2016	Additions	Released	Balance December 31, 2017
Purpose restricted:				
Supporting International SRHR Advocacy Championing U.S. Government Support of SRHR	\$ 5,371,257	\$ 8,723,321	\$(3,558,652)	\$10,535,926
Incubating New Partnerships	199,424	200,000	(199,424)	200,000
Time restricted for future periods	2,371,137	107,352	(311,912)	2,166,577
Perpetual in nature	772,473	1,004,173	(1,107,428)	669,218
	<u>156,668</u>	<u>-</u>	<u>-</u>	<u>156,668</u>
	<u>\$ 8,870,959</u>	<u>\$10,034,846</u>	<u>\$(5,177,416)</u>	<u>\$13,728,389</u>

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Notes to Financial Statements (Continued)

Note 6 - Endowment

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

Spending Policy

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

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Notes to Financial Statements (Continued)

Note 6 - Endowment (Continued)

Endowment net assets were comprised of the following as of December 31, 2018:

	<u>With Donor Restriction</u>	<u>Without Donor Restriction</u>	<u>Total</u>
Donor-restricted:			
Original gift amount required to be maintained	\$ 156,668	\$ -	\$ 156,668
Board designated for operating reserves	<u>-</u>	<u>2,830,200</u>	<u>2,830,200</u>
Endowment net assets, end of year	<u>\$ 156,668</u>	<u>\$ 2,830,200</u>	<u>\$ 2,986,868</u>

Changes in endowment net assets are as follows for the year ended December 31, 2018:

	<u>With Donor Restriction</u>	<u>Without Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 156,668	\$ 3,297,750	\$ 3,454,418
Board appropriation	<u>-</u>	<u>(467,550)</u>	<u>(467,550)</u>
Endowment net assets, end of the year	<u>\$ 156,668</u>	<u>\$ 2,830,200</u>	<u>\$ 2,986,868</u>

The general purpose of the board designated fund is to ensure the long-term financial stability of PAI and to position it to respond to varying economic conditions or unforeseen changes that may dramatically affect PAI's financial operations.

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 rent. PAI subleases a portion of its space under non-cancelable agreements that expired at various dates through December 2018. Sublease rental income for the years ended December 31, 2018 and 2017 was \$47,310 and \$65,250, respectively.

On May 31, 2018, PAI entered into a 36 month operating lease for telephone equipment that expires May 31, 2021.

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Notes to Financial Statements (Continued)

Note 7 - Operating Leases (Continued)

As of December 31, 2018, the following schedule summarized the required minimum lease payments to be made for the years ended December 31:

2019	\$	729,605
2020		812,430
2021		815,232
2022		823,322
2023		843,905
Thereafter		<u>2,660,423</u>
	\$	<u>6,684,917</u>

Total rent expense on the office lease was \$797,378 and \$818,651 for the years ended December 31, 2018 and 2017, respectively.

Note 8 - Retirement Plan

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. PAI contributed \$192,130 and \$164,202 in 2018 and 2017, respectively to the Plan. All employees are fully vested in employer contributions after one year of employment.

Note 9 - Line of Credit

PAI maintained a line of credit with Washington First Bank of \$400,000, with an interest rate of 4.5%. The line of credit was intended to meet the short-term financing needs of PAI and expired in 2017. There were no amounts outstanding related to the line of credit as of December 31, 2018 and 2017.

Note 10 - Pledges Receivable

Unconditional promises to contribute to PAI are recorded as pledges receivable at fair value based upon discounted estimated future cash flows adjusted for risk. The discount rates for fiscal year 2018 ranged between .147 and .234 percent. For fiscal year 2017 the discount rates ranged between 0.13 and 0.147 percent.

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Notes to Financial Statements (Continued)

Note 10 - Pledges Receivable (Continued)

Pledges receivable are expected to be realized as follows at December 31:

	<u>2018</u>	<u>2017</u>
Pledges receivable		
Due in less than one year	\$ 2,457,108	\$ 2,518,538
Due in one to five years	3,471,812	2,800,360
Less: Discount on long-term portion	<u>(117,383)</u>	<u>(55,112)</u>
Pledges receivable, net of discount	<u>\$ 5,811,537</u>	<u>\$ 5,263,786</u>

PAI's unconditional pledges receivable recorded at fair value are categorized as level 2 in the fair value hierarchy based on market valuation techniques. PAI took into account historical and projected cash flow rates. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.