

Population Action International

Audited Financial Statements

*Years ended December 31, 2017 and 2016
with Report of Independent Auditors*

Population Action International

Audited Financial Statements

Years ended December 31, 2017 and 2016

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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, 2017 and 2016, 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 PAI as of December 31, 2017 and 2016 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.

Vienna, Virginia
May 16, 2018

Population Action International

Statements of Financial Position

	December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 5,519,094	\$ 5,248,049
Restricted cash	3,327,039	1,307,783
Investments (Note 2)	4,182,369	3,850,691
Service contract receivable	528,534	539,180
Accounts receivable	125,548	26,364
Pledges receivable (Note 12)	5,182,965	2,288,742
Prepaid expenses and deposits	232,786	233,497
Property and equipment, net	910,387	1,056,408
Total assets	<u>\$ 20,008,722</u>	<u>\$ 14,550,714</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 205,839	\$ 279,111
Grants payable	582,044	659,714
Deferred revenue	19,642	128
Capital lease obligations	12,229	23,466
Deferred rent	508,720	421,289
Total liabilities	<u>1,328,474</u>	<u>1,383,708</u>
Net assets		
Unrestricted		
Undesignated	1,654,109	2,124,894
Board designated (Note 5)	3,297,750	2,171,153
	<u>4,951,859</u>	<u>4,296,047</u>
Temporarily restricted net assets	13,571,721	8,714,291
Permanently restricted net assets	156,668	156,668
	<u>18,680,248</u>	<u>13,167,006</u>
Total liabilities and net assets	<u>\$ 20,008,722</u>	<u>\$ 14,550,714</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Activities

Year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</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 (Note 2)	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>	<u>-</u>
Total support and revenue	<u>10,486,962</u>	<u>4,842,528</u>	<u>-</u>	<u>15,329,490</u>
Expenses				
Program services	8,084,318	-	-	8,084,318
Fundraising	813,421	-	-	813,421
Management and general	<u>1,163,709</u>	<u>-</u>	<u>-</u>	<u>1,163,709</u>
Total expenses	<u>10,061,448</u>	<u>-</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>-</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>8,714,291</u>	<u>156,668</u>	<u>13,167,006</u>
Net assets, end of year	<u>\$ 4,951,859</u>	<u>\$ 13,571,721</u>	<u>\$ 156,668</u>	<u>\$ 18,680,248</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Activities

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Grants and contributions	\$ 1,787,220	\$ 10,020,567	\$ -	\$ 11,807,787
Service contracts	1,262,616	-	-	1,262,616
Investment income, net (Note 2)	64,772	3,040	-	67,812
Rental income	49,572	-	-	49,572
Other	9,803	-	-	9,803
Net assets released from restrictions	<u>5,048,271</u>	<u>(5,048,271)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>8,222,254</u>	<u>4,975,336</u>	<u>-</u>	<u>13,197,590</u>
Expenses				
Program services	6,986,652	-	-	6,986,652
Fundraising	491,445	-	-	491,445
Management and general	<u>927,113</u>	<u>-</u>	<u>-</u>	<u>927,113</u>
Total expenses	<u>8,405,210</u>	<u>-</u>	<u>-</u>	<u>8,405,210</u>
Change in net assets from operations	(182,956)	4,975,336	-	4,792,380
Net gain realized from renegotiated facility lease (Note 4)	298,051	-	-	298,051
Change in fair value of investments	<u>174,570</u>	<u>9,433</u>	<u>-</u>	<u>184,003</u>
Change in net assets	289,665	4,984,769	-	5,274,434
Net assets, beginning of year	<u>4,006,382</u>	<u>3,729,522</u>	<u>156,668</u>	<u>7,892,572</u>
Net assets, end of year	<u>\$ 4,296,047</u>	<u>\$ 8,714,291</u>	<u>\$ 156,668</u>	<u>\$ 13,167,006</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services	Fundraising	Management and General	Total Expenses
Salaries and benefits	\$ 2,981,443	\$ 488,271	\$ 558,991	\$ 4,028,705
Professional fees	952,103	99,222	192,222	1,243,547
International partnership grants	2,834,575	-	-	2,834,575
Office supplies	41,441	10,237	20,101	71,779
Telephone	26,932	6,238	12,043	45,213
Postage and delivery	6,308	2,140	929	9,377
Occupancy	439,172	127,914	251,564	818,650
Equipment rental and maintenance	3,841	1,340	2,142	7,323
Printing and publications	34,046	8,690	7,960	50,696
Advertising	140,252	3,280	1,723	145,255
Travel and meetings	450,607	19,957	31,303	501,867
Dues and subscriptions	51,742	9,716	16,147	77,605
Corporate insurance	19,215	5,597	11,007	35,819
Depreciation and amortization	85,732	24,971	49,109	159,812
Miscellaneous	<u>16,909</u>	<u>5,848</u>	<u>8,468</u>	<u>31,225</u>
	<u>\$ 8,084,318</u>	<u>\$ 813,421</u>	<u>\$ 1,163,709</u>	<u>\$ 10,061,448</u>

See accompanying notes to the financial statements.

Population Action International

Statement of Functional Expenses

Year ended December 31, 2016

	Program Services	Fundraising	Management and General	Total Expenses
Salaries and benefits	\$ 3,024,433	\$ 284,104	\$ 430,569	\$ 3,739,106
Professional fees	801,236	61,365	154,006	1,016,607
International partnership grants	1,817,996	-	-	1,817,996
Office supplies	41,306	7,512	18,207	67,025
Telephone	32,003	5,095	12,331	49,429
Postage and delivery	3,564	1,167	494	5,225
Occupancy	492,709	91,044	221,362	805,115
Equipment rental and maintenance	7,746	1,431	3,480	12,657
Printing and publications	32,383	5,846	14,822	53,051
Advertising	136,224	535	491	137,250
Travel and meetings	446,082	9,744	16,576	472,402
Dues and subscriptions	53,534	5,642	11,438	70,614
Corporate insurance	26,326	4,865	11,828	43,019
Depreciation and amortization	48,668	8,971	22,229	79,868
Miscellaneous	<u>22,442</u>	<u>4,124</u>	<u>9,280</u>	<u>35,846</u>
	<u>\$ 6,986,652</u>	<u>\$ 491,445</u>	<u>\$ 927,113</u>	<u>\$ 8,405,210</u>

See accompanying notes to the financial statements.

Population Action International

Statements of Cash Flows

	Years ended December 31,	
	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 5,513,242	\$ 5,274,434
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	159,811	71,713
Change in fair value of investments	(245,200)	(184,003)
Loss on disposal	-	7,840
Changes in assets and liabilities:		
Service contract receivables	10,646	(450,833)
Accounts receivable	(99,184)	99,364
Prepaid expenses and deposits	711	173,036
Pledges receivable, net of discount	(2,894,223)	(1,151,729)
Grants payable	(77,670)	352,198
Accounts payable and accrued expenses	(73,272)	42,067
Deferred rent	87,431	(8,928)
Deferred revenue	19,514	128
Net cash provided by operating activities	<u>2,401,806</u>	<u>4,225,287</u>
Cash flows from investing activities		
Proceeds from sale of investments	-	6,713
Disposal of property and equipment	-	132,479
Purchases of investments and reinvested earnings	(86,478)	(824,494)
Purchases of property and equipment	(13,790)	(975,331)
Net cash used in investing activities	<u>(100,268)</u>	<u>(1,660,633)</u>
Cash flows from financing activities		
Borrowings under line of credit	-	217,072
Repayments of line of credit	-	(217,072)
Principal payments on capital lease obligations	(11,237)	(10,359)
Net cash used in financing activities	<u>(11,237)</u>	<u>(10,359)</u>
Net change in cash and cash equivalents	2,290,301	2,554,295
Cash and cash equivalents, beginning of year	<u>6,555,832</u>	<u>4,001,537</u>
Cash and cash equivalents, end of year	<u>\$ 8,846,133</u>	<u>\$ 6,555,832</u>
Cash and cash equivalents		
Cash	\$ 5,519,094	\$ 5,248,049
Restricted cash	<u>3,327,039</u>	<u>1,307,783</u>
	<u>\$ 8,846,133</u>	<u>\$ 6,555,832</u>
Supplemental disclosure of cash flow information		
Cash payments for interest	<u>\$ 1,508</u>	<u>\$ 4,356</u>

See accompanying notes to the financial statements.

Population Action International

Notes to Financial Statements

Years ended December 31, 2017 and 2016

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 54 local organizations in 25 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. And 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 \$3,327,039 and \$1,307,783 as of December 31, 2017 and 2016, 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) 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)

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, 2017 and 2016 are expected to be paid in the next reporting period.

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, 2017 and 2016.

Property and Equipment

PAI capitalizes all property and equipment with a cost of \$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

Population Action International

Notes to Financial Statements (Continued)

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

Revenue Recognition

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on 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.

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 year ended December 31, 2017, PAI recorded \$115,342 in advertising services as contributions in the statement of activities. For the year ended December 31, 2016, PAI recorded \$7,875 of donated legal services and \$120,298 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. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services (fundraising and management and general) benefited based on employee head count. Expenses that are allocated include: salaries, professional fees, supplies, occupancy, insurance and depreciation and amortization.

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, 2017.

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.

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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 16, 2018, 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.

In February 2018, PAI was notified by Johns Hopkins, that future funding for the Advanced Family Planning (AFP) project would be reduced by approximately \$1.2 million. Management is evaluating the effects of this reduction on programs.

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. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 31, 2017. Early adoption is permitted. Management is currently evaluating the impact the amendments in this ASU will have on the financial statements.

Note 2 - Investments and Fair Value Measurement

Investment income for the years ended December 31, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends	\$ 105,286	\$ 81,947
Change in fair value of investments	245,200	184,003
Investment management fees	(18,807)	(14,135)
	<u>\$ 331,679</u>	<u>\$ 251,815</u>

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

	2017	2016	Fair Value Level
Exchange Traded Funds (ETF's)			
Equity	\$ 3,125,339	\$ 2,926,830	Level 1
Fixed income	<u>1,017,713</u>	<u>898,481</u>	Level 1
Total investments at fair value	4,143,052	3,825,311	
Cash and money market funds	<u>39,317</u>	<u>25,380</u>	N/A
Total investments	<u>\$ 4,182,369</u>	<u>\$ 3,850,691</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, 2017 or 2016.

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.

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Notes to Financial Statements (Continued)

Note 3 - Property and Equipment

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

	2017	2016
Computer equipment and software	\$ 583,099	\$ 543,140
Leasehold improvements	486,876	472,804
Furniture and equipment	409,135	449,375
Equipment - Capital Lease	51,998	51,998
	1,531,108	1,517,317
Less: Accumulated depreciation	620,721	460,909
Net property and equipment	<u>\$ 910,387</u>	<u>\$ 1,056,408</u>

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 \$10,400 as of December 31, 2017 and 2016, 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, 2017:

Year ended December 31, 2018	\$ 12,746
Year ended December 31, 2019	111
	12,857
Less amount representing interest	628
Present value of minimum lease payments	<u>\$ 12,229</u>

Note 4 - Renegotiated Facility Lease

PAI renewed its office lease effective January 1, 2016, which included leasehold improvements that replaced the improvements in place from the prior year. Additionally, PAI held an unamortized deferred rent liability related to the previous lease agreement. During 2016, PAI wrote-off a deferred rent liability of \$430,217 and unamortized leasehold improvement assets of \$132,166, which resulted in a non-operating increase in net assets of \$298,051 as of December 31, 2016.

Note 5 - Board Designated Net Assets

Board designated net assets include funds designated by the Board of Directors. 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 \$3,297,750 and \$2,171,153 as of December 31, 2017 and 2016, respectively.

Population Action International

Notes to Financial Statements (Continued)

Note 6 - 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, 2017 and 2016, because either the purpose or the time restriction was satisfied.

Temporarily restricted net assets as of December 31, 2017 and 2016, were available for the following programs:

	Balance December 31, 2016	Additions	Released	Balance December 31, 2017
Purpose restricted:				
Supporting International SRHR Advocacy	\$ 5,371,257	\$ 8,723,321	\$ (3,558,652)	\$ 10,535,926
Championing U.S. Government Support of SRHR	199,424	200,000	(199,424)	200,000
Incubating New Partnerships	2,371,137	107,352	(311,912)	2,166,577
Time restricted	<u>772,473</u>	<u>1,004,173</u>	<u>(1,107,428)</u>	<u>669,218</u>
	<u>\$ 8,714,291</u>	<u>\$ 10,034,846</u>	<u>\$ (5,177,416)</u>	<u>\$ 13,571,721</u>
	Balance December 31, 2015	Additions	Released	Balance December 31, 2016
Purpose restricted:				
Supporting International SRHR Advocacy	\$ 3,331,122	\$ 6,048,280	\$ (4,008,145)	\$ 5,371,257
Championing U.S. Government Support of SRHR	200,000	215,000	(215,576)	199,424
Incubating New Partnerships	-	2,457,287	(86,150)	2,371,137
Time restricted	<u>198,400</u>	<u>1,312,473</u>	<u>(738,400)</u>	<u>772,473</u>
	<u>\$ 3,729,522</u>	<u>\$ 10,033,040</u>	<u>\$ (5,048,271)</u>	<u>\$ 8,714,291</u>

Note 7 - 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.

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Notes to Financial Statements (Continued)

Note 7 - Permanently Restricted Net Assets (Continued)

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 to nor releases from the Permanently Restricted Fund during the years ended December 31, 2017 and 2016. Income earned on the Permanently Restricted Fund is held in temporarily restricted until a spending plan is approved by the board.

Spending Policy

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

Note 8 - 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 December 2017. Sublease rental income for the years ended December 31, 2017 and 2016 was \$65,250 and \$49,572, respectively.

As of December 31, 2017, the following schedule summarized the required minimum lease payments to be made for the years ended December 31:

2018	\$	683,731
2019		700,825
2020		783,649
2021		803,241
2022		823,322
Thereafter		3,504,327
		<u>\$ 7,299,095</u>

Total rent expense on the office lease was \$818,651 and \$805,115 for the years ended December 31, 2017 and 2016, respectively.

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Notes to Financial Statements (Continued)

Note 9 - 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. PAI contributed \$164,202 and \$147,435 in 2017 and 2016, respectively to the Plan. All employees are fully vested in employer contributions after one year of employment.

Note 10 - Related Party Transactions

In 2017 and 2016, PAI received support of approximately \$20,200 and \$16,000, 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 \$650 in outstanding pledges as of December 31, 2017 and 2016, respectively, from pledges made by members of the Board of Directors.

Note 11 - Line of Credit

PAI maintains a line of credit with Washington First Bank of \$400,000, with an interest rate of 4.5%. The line of credit is intended to meet the short-term financing needs of PAI. There were no amounts outstanding related to the line of credit as of December 31, 2017 and 2016.

Note 12 - 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 2017 ranged between .13 and .147 percent. For fiscal year 2016 the discount rate used was .08 percent.

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

	2017	2016
Pledges receivable		
Due in less than one year	\$ 2,437,717	\$ 738,717
Due in one to five years	2,800,360	1,573,435
Less: Discount on long-term portion	(55,112)	(23,410)
Pledges receivable, net of discount	<u>\$ 5,182,965</u>	<u>\$ 2,288,742</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.