REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

PROJECT CONCERN INTERNATIONAL

September 30, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Project Concern International

Report on the Financial Statements

We have audited the accompanying financial statements of Project Concern International, which comprise the statements of financial position as of September 30, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the 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. 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 Project Concern International as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
January 22, 2019

ASSETS

	September 30, 2018	September 30, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 9,562,554	$ 4,271,137
Investments	2,086,910	1,450,635
Grants and accounts receivable	4,376,274	5,173,801
Unconditional promises to give	2,210,350	185,770
Inventory	2,530,786	4,789,502
Other current assets	1,712,455	1,199,872
Total current assets	22,479,329	17,070,717
UNCONDITIONAL PROMISES TO GIVE	2,250,000	-
PROPERTY AND EQUIPMENT		
Land and leasehold improvements	216,604	204,705
Furniture, equipment, and software	613,302	725,904
	829,906	930,609
Less accumulated depreciation	779,223	869,757
Net property and equipment	50,683	60,852
ENDOWMENT ASSETS	679,709	657,682
Total assets	$ 25,459,721	$ 17,789,251

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Deferred revenue	$ 7,992,867	$ 8,303,080
Accounts payable and accrued expenses	4,214,162	4,269,567
Total current liabilities	12,207,029	12,572,647
COMMITMENTS AND CONTINGENCIES (NOTES 6 and 9)		
NET ASSETS		
Unrestricted	2,724,637	2,577,353
Temporarily restricted	9,848,346	1,981,569
Permanently restricted	679,709	657,682
Total net assets	13,252,692	5,216,604
Total liabilities and net assets	$ 25,459,721	$ 17,789,251

Project Concern International
Statements of Activities

	Years Ended September 30,							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Government grants	$ 46,011,854	$ -	$ -	$ 46,011,854	$ 46,354,706	$ -	$ -	$ 46,354,706
Contributions	1,133,388	10,560,431	21,773	11,715,592	1,026,310	2,196,801	65,765	3,288,876
Contributions, in-kind	9,304,362	-	-	9,304,362	5,422,281	-	-	5,422,281
Non-government grants	5,791,688	-	-	5,791,688	4,752,258	-	-	4,752,258
Agricultural commodities	4,196,736	-	-	4,196,736	4,187,244	-	-	4,187,244
Investment income	79,649	-	254	79,903	84,666	-	8,796	93,462
Other	76,801	-	-	76,801	143,634	-	-	143,634
Net assets released from restrictions:								
Satisfaction of purpose restrictions	2,693,654	(2,693,654)	-	-	3,547,146	(3,547,146)	-	-
Total support and revenue	69,288,132	7,866,777	22,027	77,176,936	65,518,245	(1,350,345)	74,561	64,242,461
EXPENSES AND LOSSES								
Program services	58,901,195	-	-	58,901,195	54,945,818	-	-	54,945,818
Supporting services:								
Management and general	9,364,488	-	-	9,364,488 [(1)]	9,504,928	-	-	9,504,928
Fundraising	875,165	-	-	875,165 [(1)]	765,691	-	-	765,691
Total expenses	69,140,848	-	-	69,140,848	65,216,437	-	-	65,216,437
CHANGE IN NET ASSETS	147,284	7,866,777	22,027	8,036,088	301,808	(1,350,345)	74,561	(973,976)
NET ASSETS								
Beginning of year	2,577,353	1,981,569	657,682	5,216,604	2,275,545	3,331,914	583,121	6,190,580
End of year	$ 2,724,637	$ 9,848,346	$ 679,709	$ 13,252,692	$ 2,577,353	$ 1,981,569	$ 657,682	$ 5,216,604

[(1)] See (1) at Statement of Functional Expenses for the years ended September 30, 2018 and 2017, on page 5 and 6, respectively.

See accompanying notes.

Year Ended September 30, 2018

	Program Services			Supporting Services			
	International	Domestic	Total	Management and General	Fundraising	Total	Grand Total
Personnel costs	$ 16,740,112	$ 1,712,278	$ 18,452,390	$ 6,653,670	$ 394,843	$ 7,048,513	$ 25,500,903
Donated commodities and services	13,495,088	6,011	13,501,099	-	-	-	13,501,099
Sub grants/consultants	11,084,998	246,035	11,331,033	767,785	169,080	936,865	12,267,898
Travel/training	5,544,296	110,051	5,654,347	445,966	28,103	474,069	6,128,416
Equipment/supplies	5,687,046	42,310	5,729,356	22,068	44,297	66,365	5,795,721
Other direct costs	2,190,100	101,786	2,291,886	721,244	165,349	886,593	3,178,479
Facilities/communications	1,708,991	232,093	1,941,084	753,755	73,493	827,248	2,768,332
Total functional expenses per statement of activities	56,450,631	2,450,564	58,901,195	9,364,488 (1)	875,165 (1)	10,239,653	69,140,848
Indirect cost allocations	8,414,172	603,899	9,018,071	(9,018,071)	-	(9,018,071)	-
Total expenses with indirect cost allocations	$ 64,864,803	$ 3,054,463	$ 67,919,266	$ 346,417	$ 875,165	$ 1,221,582	$ 69,140,848

(1) Management and general and fundraising costs include all costs not directly charged to programs. Included in management and general costs are approximately $2,316,000 in program support costs for the year ended September 30, 2018.

See accompanying notes.

Project Concern International
Statement of Functional Expenses

	Year Ended September 30, 2017						
	Program Services			Supporting Services			
	International	Domestic	Total	Management and General	Fundraising	Total	Grand Total
Personnel costs	$ 16,313,666	$ 1,595,779	$ 17,909,445	$ 6,626,201	$ 350,558	$ 6,976,759	$ 24,886,204
Sub grants/consultants	10,991,962	125,764	11,117,726	712,708	131,435	844,143	11,961,869
Donated commodities and services	9,573,825	35,700	9,609,525	-	-	-	9,609,525
Equipment/supplies	7,075,621	34,262	7,109,883	47,286	37,647	84,933	7,194,816
Travel/training	5,297,369	96,046	5,393,415	467,324	15,523	482,847	5,876,262
Other direct costs	1,732,422	108,473	1,840,895	944,199	203,089	1,147,288	2,988,183
Facilities/communications	1,750,923	214,006	1,964,929	707,210	27,439	734,649	2,699,578
Total functional expenses per statement of activities	52,735,788	2,210,030	54,945,818	9,504,928 (1)	765,691 (1)	10,270,619	65,216,437
Indirect cost allocations	8,630,736	540,075	9,170,811	(9,170,811)	-	(9,170,811)	-
Total expenses with indirect cost allocations	$ 61,366,524	$ 2,750,105	$ 64,116,629	$ 334,117	$ 765,691	$ 1,099,808	$ 65,216,437

(1) Management and general and fundraising costs include all costs not directly charged to programs. Included in management and general costs are approximately $2,920,000 in program support costs for the year ended September 30, 2017.

See accompanying notes.

	Years Ended September 30, 2018	2017
OPERATING ACTIVITIES		
Change in net assets	$ 8,036,088	$ (973,976)
Reconciliation to net cash from operating activities:		
Depreciation	22,068	42,646
Permanently restricted contributions	(21,773)	(65,765)
Unrealized (gain) on endowment investments	(254)	(8,796)
(Increase) decrease in operating assets:		
Grants and accounts receivable	797,527	(2,001,806)
Unconditional promises to give	(4,274,580)	1,208,478
Other current assets	(512,583)	(161,300)
Increase (decrease) in operating liabilities:		
Deferred revenue, net of change in inventory	1,948,503	(247,344)
Accounts payable and accrued expenses	(55,405)	931,163
Net cash provided by (used in) operating activities	5,939,591	(1,276,700)
INVESTING ACTIVITIES		
Proceeds from sale of investments	495,761	165,100
Purchase of investments	(1,132,036)	(7,458)
Increase in endowment assets	(21,773)	(65,765)
Purchases of property and equipment	(11,899)	-
Net cash (used in) provided by investing activities	(669,947)	91,877
FINANCING ACTIVITIES		
Permanently restricted contributions received in cash	21,773	65,765
Net cash provided by financing activities	21,773	65,765
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,291,417	(1,119,058)
CASH AND CASH EQUIVALENTS		
Beginning of year	4,271,137	5,390,195
End of year	$ 9,562,554	$ 4,271,137

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2018	2017
Interest paid	$ -	$ 4,667
Inventory increases included in deferred revenue	$ 2,258,716	$ 1,174,771

Note 1 – Summary of Organization and Significant Accounting Policies

Nature of operations – Project Concern International ("PCI") is an international, non-governmental, non-profit organization whose mission is to empower people to enhance health, end hunger, overcome hardship, and advance women and girls. Programmatic focus areas include: disease prevention; health and nutrition; water and sanitation; food and livelihood security; humanitarian assistance; and disaster risk management. PCI is currently operating in 18 countries worldwide: Bangladesh*, Bolivia, Botswana, Burkina Faso*, Burundi*, Ethiopia, Guatemala, Haiti*, India, Kenya, Liberia, Malawi, Mali*, Mexico, Nicaragua, Tanzania, United States, and Zambia. The asterisk "*" indicates those countries where PCI works only through local partners.

Income tax status – PCI is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. PCI had no provision for unrelated business income taxes for the years ended September 30, 2018 and 2017. PCI had no unrecognized tax benefits or liabilities as of September 30, 2018 and 2017. PCI files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California.

Financial statement presentation – The financial statements of PCI have been prepared on the accrual basis of accounting. Resources are reported in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action from the Board of Directors (the "Board").

- *Temporarily restricted* – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of PCI pursuant to those stipulations or that expire by a passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

- *Permanently restricted* – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity for the purpose of generating investment income to fund current operations or other donor-specified purposes.

Cash and cash equivalents – Cash and cash equivalents are defined as cash on hand in banks plus all short-term investments with an original maturity, at the date of purchase, of three months or less.

Investment and endowment investments – Investments are comprised of exchange traded funds (ETFs) and certificates of deposit (with an original maturity in excess of three months) at September 30, 2018 and 2017. The fair value of the ETFs is based on quoted prices in an active market. The fair value of certificates of deposit is determined by discounting the related cash flow based on the current yield on similar instruments with comparable durations considering the creditworthiness of the issuer.

Note 1 – Summary of Organization and Significant Accounting Policies (continued)

Investments within endowment assets consist of ETFs and funds held by The San Diego Foundation (TSDF). The fair value of the ETFs is based on quoted prices in an active market. The fair value of investments held by TSDF is based on values provided by TSDF. TSDF determines the fair values based on the unit value of PCI's interest in the pool in which the funds are invested. The unit value is based on the fair value of the underlying assets in the pool as reported to PCI by TSDF. The pool is invested primarily in publicly-traded fixed-income and equity funds. PCI's Controller, under the oversight of the Chief Financial Officer, reviews and evaluates the values provided by TSDF quarterly and agrees with the valuation methods used. PCI cannot withdraw the funds it has invested at TSDF and there are no commitments to invest additional funds.

Investment income or loss (including interest and unrealized and realized gains and losses) is included in unrestricted revenues, unless restricted by donor or law.

Grants and accounts receivable – Grants and accounts receivable consist of amounts billed and unbilled on grants and contracts for services provided through September 30. Any allowance for estimated uncollectible amounts is based on past experience and on an analysis of current receivable balances. Amounts are generally considered past due if not collected within 60 days of billings. Interest is not charged on outstanding balances. Amounts deemed uncollectible are written off against the allowance in the year deemed uncollectible. Management does not consider an allowance for doubtful receivables necessary at September 30, 2018 and 2017.

Unconditional promises to give – Unconditional promises to give consist of pledges receivable. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value. At September 30, 2018, $2,210,000 of unconditional promises to give are due within one year and $2,250,350, net of discount (if significant), is due within two to three years. Conditional promises to give are not recorded as revenue until the conditions are substantially met.

An allowance for estimated uncollectible pledges is based on past experience and on an analysis of current amounts. Pledges deemed uncollectible are written off against the allowance in the year deemed uncollectible. Management determined that no allowance was necessary at September 30, 2018 and 2017.

Inventory – Agricultural commodities received from agencies of the United States federal government and agricultural commodities and other in-kind goods received from other smaller entities for distribution are recorded as inventory and deferred revenue until distributed. Such goods are valued on the first-in, first-out basis at the lower of specified contract value or fair value.

Property and equipment – Property and equipment purchases greater than $5,000 are capitalized at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets; generally, five to ten years for furniture and equipment and three years for computer software, and over the life of the related leases (approximately five to six years) for leasehold improvements. Upon disposal or retirement, the cost of the assets and related accumulated depreciation are removed from the applicable accounts, and any gain or loss is recognized at that time.

Note 1 – Summary of Organization and Significant Accounting Policies (continued)

Furniture and equipment acquired with grant funds are expensed in the year acquired. Although the equipment is considered to be owned by PCI while used in the program or in future authorized programs, the funding sources may have a reversionary interest in the property as well as the right to determine the use of any proceeds from the sale of assets purchased with their respective funds.

Impairment of long-lived assets – PCI evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. For the years ended September 30, 2018 and 2017, no such write-downs have occurred.

Revenue and Expense Recognition

Government grants and agricultural commodities – Government grant revenue consists of grants, cooperative agreements, and contracts from the United States federal government for program activities and commodity monetization and distribution. These revenues have been determined by PCI to be exchange transactions and are not recognized as contributions. Government grant revenue is recognized as unrestricted revenue to the extent of eligible costs incurred, up to the maximum agreement amount. Funds generated upon sale of the commodities inventory are recorded as unrestricted revenue when related expenditures are incurred.

In-kind contributions – The value of services, facilities, and equipment donated by foreign governmental agencies and other donors is recorded as unrestricted in-kind contribution support and program services expense in the year donated. Contributions include volunteer assistance of medical and other technical professionals, donated medicines and program supplies, storage, transportation, and donated office space and equipment usage.

These contributions are valued at fair value of similar services and materials in the country or locality in which the services or materials are distributed or the nearest market of scale. For the years ended September 30, 2018 and 2017, the fair value of these contributions was approximately $9,304,000 and $5,422,000, respectively; donated goods represented approximately 98 percent of these totals.

Non-government grants – Non-government grants from corporations, foundations, and other non-government sources that have been determined by PCI to be exchange transactions based on the terms of the grant agreements are not recognized as contributions. Revenue is recognized as unrestricted revenue to the extent of eligible costs incurred, up to the maximum agreement amount.

Note 1 – Summary of Organization and Significant Accounting Policies (continued)

Contributions – Contributions, including unconditional promises to give, are recognized in the period received. Contributions are recorded as permanently restricted, temporarily restricted, or unrestricted support, depending on the wishes of the donor. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The amount pledged under certain unconditional promises to give is based on an estimate by the donor of the amount of support needed for a specific program. An adjustment to this amount may subsequently occur based on the actual activity of the program. Because these changes are due to operational activity and not to ancillary or collectability issues, these changes are reflected as increases or decreases to contribution support in the year they occur.

Donated assets are capitalized at fair value on the date of donation and are recorded as permanently restricted, temporarily restricted, or unrestricted in-kind contribution support, depending on the wishes of the donor. This is with the exception of donated assets for which the donors retain a reversionary interest in the property or the right to determine the use of any proceeds from the sale of the donated assets. These donated assets are not capitalized but are recorded as in-kind contributions and expenses.

Deferred revenue – Deferred revenue includes grant funds, agricultural commodities, and other in-kind goods received from granting agencies before PCI has incurred the expenses or distributed the commodities or goods. As PCI incurs expenses or distributes commodities or goods, the revenue is recognized.

Foreign currency translation – Due to the nature of its activities, PCI has cash accounts with foreign banks. These cash accounts are spread among several banks and countries, and foreign currency translation gains and losses are recorded. The cash deposited in local currencies in foreign banks, translated to United States dollars at rates of exchange in effect at September 30, 2018 and 2017, totaled approximately $1,261,000 and $2,064,000, respectively. During the years ended September 30, 2018 and 2017, foreign currency translation losses of approximately $105,000 and $49,000, respectively, were realized.

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.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 these estimates.

Note 1 – Summary of Organization and Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. PCI recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. PCI's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued. PCI has evaluated subsequent events through January 22, 2019, which is the date the financial statements were available to be issued.

Recently adopted 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 Statement for Not-for-Profit Entities. This guidance revises the not-for-profit reporting model and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), and requires new disclosures on liquidity. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on PCI's future financial statements.

Note 2 – Concentrations

In addition to the cash held in foreign bank accounts (Note 1), PCI maintains cash in domestic bank accounts which, at times, exceed federally-insured deposit limits. PCI has not experienced any losses in such accounts.

Certain local donors and countries require PCI to hold cash related to the programs they fund in separate bank accounts until disbursed.

During the years ended September 30, 2018 and 2017, PCI received significant grants and contributions, including cash and commodities, from the following sources and recognized in revenue totaling:

	2018	2017
United States Agency for International Development	$ 20,662,478	$ 21,894,331
United States Department of Agriculture	12,092,319	11,467,059
The Neeley Foundation	8,500,000	2,001,437
United States Department of Defense	6,315,933	4,872,985
The Bill and Melinda Gates Foundation	3,983,844	4,331,474
United States Department of Health and Human Services	2,251,439	1,818,797
Save the Children	1,637,944	2,867,336
World Vision	1,559,030	1,669,091

Note 2 – Concentrations (continued)

As of September 30, 2018 and 2017, PCI had significant grant receivables and unconditional promises to give from the following sources:

	2018	2017
The Neeley Foundation	$ 4,000,000	$ -
United States Department of Defense	1,630,138	689,817
United States Agency for International Development	1,408,642	961,280
United States Department of Agriculture	1,081,036	2,775,283
Save the Children	-	478,631

As of September 30, 2018, one donor's unconditional promise to give represents approximately 90 percent of total unconditional promises to give.

Note 3 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities which are easily traded;

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no active market quotes and that are significant to the fair value of the assets or liabilities.

See Note 1 for the valuation methodologies used for assets measured at fair value on a recurring basis. PCI had no liabilities required to be reported at fair value at September 30, 2018 and 2017.

Note 3 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about each major category of PCI's financial assets measured at fair value on a recurring basis as of September 30:

	2018			
	Level 1	Level 2	Level 3	Total
Investments - Exchange Traded Funds	$ 1,927,610	$ -	$ -	$ 1,927,610
Investment - certificates of deposit	-	687,943	-	687,943
Investments held by SDF (Note 8)	-	-	139,293	139,293
Total	$ 1,927,610	$ 687,943	$ 139,293	$ 2,754,846

	2017			
	Level 1	Level 2	Level 3	Total
Investments - Exchange Traded Funds	$ 1,700,753	$ -	$ -	$ 1,700,753
Investment - certificate of deposit	-	205,761	-	205,761
Investments held by SDF (Note 8)	-	-	139,039	139,039
Total	$ 1,700,753	$ 205,761	$ 139,039	$ 2,045,553

Investments totaling $2,086,910 and $1,450,635 are presented as investments on the statements of financial position at September 30, 2018 and 2017, respectively.

See Note 8 for investments included in endowment assets on the statements of financial position at September 30, 2018 and 2017.

Note 3 – Fair Value Measurements (continued)

The following table discloses the summary of changes in the fair value of PCI's Level 3 classified assets for the years ended September 30:

	Investments Held by TSDF
Balance, October 1, 2016	$ 130,243
Interest and dividends	6,566
Distributions	(6,566)
Unrealized gains	8,796
Balance, September 30, 2017	139,039
Interest and dividends	6,581
Distributions	(6,581)
Unrealized gains	254
Balance, September 30, 2018	$ 139,293

The unrealized gains are reported as a component of investment income in the statements of activities. The unrealized gains for the year ended September 30, 2018, relate to the Level 3 assets held at September 30, 2018.

Note 4 – Benefit Plan

PCI has a defined contribution plan (the "Plan") which covers substantially all full-time employees who are legal residents of the United States of America. PCI makes matching contributions to the Plan of up to 3 percent of an employee's salary. PCI also makes a non-elective contribution of 3 percent of an employee's salary. Contributions to the Plan by PCI for the years ended September 30, 2018 and 2017, were approximately $592,000 and $533,000, respectively.

Note 5 – Line of Credit and Term Loan

PCI has a $2,500,000 line of credit with a bank with an interest rate of prime plus 0.25 percent and a floor of 3.5 percent (rate is 5.5 percent at September 30, 2018). The line of credit is secured by all of PCI's assets and expires May 31, 2019. At September 30, 2018 and 2017, balances on the line of credit were $0. Under the terms of the line of credit agreement, PCI is required to maintain compliance with covenants. Financial covenants include having a minimum current-assets-to-current liabilities ratio of 1.2 to 1.

In September 2018, PCI entered into a term loan with a bank that allows for advances up to $1,000,000 with an interest rate of 5.1 percent. The term loan is to be used to assist with cash flow requirements of a technology infrastructure project. The terms allow for interest-only payments on advances taken, if any, through January 2020, at which time any outstanding principal amounts will be paid back over a five-year term. The term loan agreement includes financial covenants with which PCI is required to be in compliance. At September 30, 2018, the balance on the term loan was $0.

Interest expense for the years ended September 30, 2018 and 2017, was $0 and approximately $4,700, respectively.

Note 6 – Commitments

PCI in San Diego leases office space under a non-cancelable lease that expires in June 2019. The lease has monthly rental payments of approximately $19,000.

PCI has a lease for office space in Washington D.C. The lease agreement commenced in December 2015 and has a 10.5 year-term, escalating lease payments with monthly payments starting at approximately $34,000, and provides for rent abatement for the first six months of the agreement.

PCI leases certain office equipment and space for field offices under non-cancelable operating leases which expire through October 2021 and have monthly payments ranging from approximately $100 to $15,000.

Note 6 – Commitments

Minimum lease payments under the lease agreements existing as of September 30, 2018, are as follows:

Years Ending September 30,	
2019	$ 1,199,230
2020	742,781
2021	569,904
2022	477,036
2023	488,342
Thereafter	1,583,962
Total	$ 5,061,255

PCI also has operating leases for office space under monthly agreements.

For the years ended September 30, 2018 and 2017, total worldwide rent expense amounted to approximately $1,659,000 and $1,514,000, respectively.

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions received by PCI that are limited in their use by donor, grant-imposed stipulations, or by time restrictions. At September 30, temporarily restricted net assets are available for various programs in the following areas:

	2018	2017
San Diego and funds not designated by country	$ 9,551,968	$ 1,490,811
Mexico/U.S. Border Programs	138,359	382,436
Guatemala	64,663	18,094
India	35,156	30,728
Kenya	35,000	35,000
Zambia	12,499	12,499
Malawi	8,622	10,049
Nepal	1,666	1,666
Botswana	413	-
Bolivia	-	142
Haiti	-	128
Liberia	-	16
Total	$ 9,848,346	$ 1,981,569

Note 7 – Temporarily Restricted Net Assets (continued)

During the years ended September 30, net assets were released from donor restrictions by incurring expenditures satisfying the restrictions as follows:

	2018	2017
San Diego and funds not designated by country	$ 2,053,394	$ 2,795,968
Mexico/U.S. Border Programs	391,497	339,693
Guatemala	182,781	65,390
India	62,717	69,791
Malawi	2,979	446
Bolivia	142	-
Haiti	128	607
Liberia	16	-
Ethiopia	-	65,500
Zambia	-	8,065
Botswana	-	201,686
Total	$ 2,693,654	$ 3,547,146

Note 8 – Endowment Assets/Permanently Restricted Net Assets

Endowment assets as of September 30 consist of:

	2018	2017
Investments managed by PCI	$ 528,643	$ 455,879
Investments held by TSDF	139,293	139,039
Money-market savings	11,773	62,764
Total	$ 679,709	$ 657,682

The Board of PCI has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (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, PCI 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 the 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 expenditure by PCI in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 8 – Endowment Assets/Permanently Restricted Net Assets (continued)

Endowment investments held by TSDF are managed in accordance with UPMIFA. PCI classifies as permanently restricted net assets endowment investments held by TSDF consistently with (a) through (c) above and also classifies as permanently restricted net assets investment income and realized and unrealized gains and losses on these investments in excess of amounts appropriated for expenditure.

Endowment assets managed by PCI – In accordance with UPMIFA, PCI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund;
2) The purposes of PCI and the donor-restricted endowment fund;
3) General economic conditions;
4) The possible effect of inflation and deflation;
5) The expected total return from income and the appreciation of investments;
6) Other resources of PCI; and
7) The investment policies of PCI.

PCI has followed a conservative investment strategy with the endowment funds it manages to minimize risk. All PCI-managed endowment funds are invested in exchange traded funds. PCI has a policy of appropriating for expenditure each year all earnings on the endowment assets, not to exceed 5 percent of the assets' value.

Investments held by TSDF – Endowment investments held by TSDF are invested in a "Balanced Pool" portfolio, which is structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes. TSDF's spending policy is to disburse 5 percent annually, based upon endowment principal market value over the last 36 months. If the market value of the endowment principal of any fund at the end of each month is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

As of September 30, 2018 and 2017, the Board has not designated any endowment funds.

Note 9 – Contingencies

Grants – Financial awards from federal and local government entities in the form of grants are subject to audit. Certain audits are ongoing as of September 30, 2018. Such audits could result in claims against PCI for disallowed costs or non-compliance with grantor restrictions. Management has not recorded an accrual as of September 30, 2018, related to such possible claims and believes that any liability which may result from these audits would not be material.

PCI has entered into grant agreements with federal entities that require PCI to provide additional funding through cash or other in-kind services and supplies. If PCI does not meet the terms of the agreements, funding from the grantor could be required to be returned. Management is not aware of any unmet match requirements at September 30, 2018 and 2017.

Note 9 – Contingencies (continued)

Legal matters – PCI is party to certain legal actions arising in the ordinary course of business. Management is not aware of any legal matters that may have a material adverse impact on PCI's current financial position.

Customs fees – In 2002, 2003, 2007, 2008, and 2009, PCI imported commodities for its program in a South American country. These commodities were for both monetization (resale to generate program resources) and distribution to program participants. No commodities were imported in 2004 to 2006.

There is currently a bilateral agreement signed between the United States federal government and the local government that exempts commodity transactions from customs fees. Additional agreements exist between PCI and ministries of the local government exempting PCI from any customs fees. Additionally, a framework agreement exists between PCI and the government of this country, which may exempt such commodities from tax.

PCI received notifications from the Customs Office in this country that the commodities it imports for monetization are subject to customs fees. The various notices received are summarized below:

Date of Initial Notice	Year of Commodity Receipt	Commodity Value	Tax Assessed	Penalty and Interest	Total Assessment	
January 2009	2002	$ 352,473	$ 93,023	$ 193,931	$ 286,954	*(a)*
January 2009, resolved	2003	2,004,311	529,819	1,060,952	1,590,771	*(a)*
December 2010	2007	1,729,358	924,803	674,052	1,598,855	*(b)*
December 2011, resolved	2007	438,571	558,402	453,780	1,012,182	*(c)*
July 2017	2008	763,807	542,172	268,668	810,840	*(d)*
December 2017	2008, 2009	348,739	183,202	107,064	290,266	*(e)*
		$ 5,637,259	$ 2,831,421	$ 2,758,447	$ 5,589,868	

(a) During 2011, a favorable court ruling was received on $1,591,000 of the assessment dated January 2009. The government of this country appealed this court ruling, and during 2012 the court ruled in favor of the government. This decision was appealed by PCI to the Supreme Court of the country in question. In October 2014, PCI received the final decision of the Supreme Court that ruled in PCI's favor. Therefore, the amount of $1,591,000 for commodity received in 2003 is no longer a contested amount. No ruling has been received on the remaining $287,000 from the January 2009 assessment.

(b) The assessments received in 2010 are in court awaiting trial.

Note 9 – Contingencies (continued)

(c) *In August of 2012, the third group of notices in the amount of $1,012,182, were submitted to an administrative process within the Tax Appeal Authority in this country rather than the legal system due to a change in law that requires the taxpayer to deposit the amount of taxes disputed when pursuing action through the legal system. At the final level, the Tax Appeal Authority informed the Customs Office that it had not followed the proper procedures and the entire process must restart. The time to appeal this decision has expired. However, the government agency filed an appeal with the Supreme Court of the country in question challenging the authority of the administrative function to require the exception to the framework agreement. PCI's case was then reviewed by the Supreme Court and resolved in PCI's favor on March 30, 2016; therefore, the $1,012,182 is no longer a contested amount. Although PCI has received favorable court rulings on this group of notices, new assessments were received by PCI in November 2018. No legal actions have been taken.*

(d) *The assessments were received by PCI in July 2017. No legal actions have been taken.*

(e) *The assessments were received by PCI in December 2017. No legal actions have been taken.*

Several other major United States-based organizations working in the same country on similar programs during that timeframe received similar notifications. Funding for all of these programs has been provided by the United States Agency for International Development (USAID) and the United States Department of Agriculture ("Donors"). PCI and legal counsel believe that a 2009 law change, with which PCI is in compliance, appears to have been incorrectly applied retroactively in this situation. PCI and legal counsel also believe that other agreements between PCI and the local government provide further support that there is no liability as asserted.

PCI is currently pursuing resolution of this issue through both administrative and legal actions and will leverage the October 2014 and March 2016 Supreme Court decisions during this process. The Donors have also intervened with the local government. A liability resulting from this matter is not considered probable; accordingly, no amounts have been accrued as of September 30, 2018 and 2017.

Note 10 – Related-party Transactions

In 2018 and 2017, PCI retained legal services from a law firm with which a member of PCI's Board of Directors is associated. PCI paid approximately $4,000 and $17,000 in fees to the law firm during the years ended September 30, 2018 and 2017, respectively.