

## Accounts for the Fiscal Year 2018 – 2019

(1<sup>st</sup> September 2018 – 31st August 2019)

Summary: based on the simplified and annotated presentation to the Board of Directors on 27<sup>th</sup> March and signed off by the Executive Committee

*Subject to approval by the Annual General Meeting exceptionally postponed to 26<sup>th</sup> September 2020*

### Table of Contents

1. Summary for the year.....	2
2. Accounts for the financial year.....	2
3. Reserves.....	8
4. Allocation of the surplus.....	9
5. Facilities occupied by the association in Cambodia.....	9
6. Treasury.....	10
7. Report of the Statutory Auditor.....	10

## 1. Summary for the year

PSE maintained a surplus in the financial year, with following key points:

- Moderate growth in the number of children in PSE's programmes (6,908 in 2018-2019 vs 6,556 children in 2017-2018) and number of families supported (3,643 in 2018-2019 vs 3,569 families in 2017-2018) representing an increase of +5% and +2% respectively.
- Operating revenue would have been stable were it not for an increase of €230K as the result of a foreign branch transferring funds late which resulted in them being booked into the next financial year.
- An increase in sponsorships, which was a notable performance compared to other charities, overall they experienced a downturn.
- The significant increase in operating expenses continued, mainly due to increases in staff costs in Cambodia.
- The unfavourable impact of exchange rate movements between financial years was still present though it was reduced compared to prior years. There was an impact of approximately €90K (Average exchange rate 1.142 in 2018-2019 vs 1.157 in 2017-2018)

## 2. Accounts for the financial year

<b><u>SIMPLIFIED INCOME STATEMENT</u></b>			
<i>Amounts in €'000s</i>	<b>2017-2018</b>	<b>2018-2019</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>	<b>8,277</b>	<b>8,507</b>	<b>230</b>
<b>OPERATING EXPENSES</b>	<b>-6,223</b>	<b>-6,982</b>	<b>-759</b>
<b><u>OPERATING INCOME</u></b>	<b><u>2,054</u></b>	<b><u>1,525</u></b>	<b><u>-529</u></b>
<b>FINANCIAL INCOME</b>	<b>-283</b>	<b>-113</b>	<b>170</b>
<b>EXCEPTIONAL INCOME</b>	<b>-372</b>	<b>-167</b>	<b>205</b>
<b>TAXES &amp; CARRIED FORWARD</b>	<b>-550</b>	<b>-395</b>	<b>155</b>
<b><u>NET INCOME</u></b>	<b><u>849</u></b>	<b><u>850</u></b>	<b><u>1</u></b>

## Breakdown of operating revenue

<i>Amounts in €'000s</i>	<b>2017-2018</b>	<b>2018-2019</b>	<b>Variance</b>
<b>Operating revenues</b>	<b>8,277</b>	<b>8,507</b>	<b>230</b>
Sponsorships	4,872	5,112	240
Donations to finance the programmes	1,408	1,089	-320
Unallocated Donations	1,181	1,074	-106
Donations to finance projects	433	709	276
Other donations	66	132	66
Other income	66	36	-30
<b>Total</b>	<b>8,026</b>	<b>8,151</b>	<b>126</b>
Work in progress		100	100
Other operating income	251	255	4

**Operating revenues:** €109K of funds raised during the 2017-2018 financial year by the Luxembourg branch were paid in September 2018, stripping this out would have led to a stable comparison of the two financial years.

**Sponsorship:** growth of over 3% in sponsorships (after correcting for Luxembourg)

**Project financing:** €254K in 2018-2019 was allocated to the project to build new classrooms on the south site.

**Other donations:** €36K in subsidies were obtained from state bodies in Cambodia and there was a participation of €23K of costs by a partner NGO during 2018-2019.

**Work in progress:** manufactured uniforms were placed in stock as they were distributed in September 2019

**Other operating income:** a drop in sales of goods was offset by a €50K reversal of a provision for losses on receivables recorded in expenses.

## Breakdown of Operating expenses

<i>Amounts in €'000s</i>	<b>2017-2018</b>	<b>2018-2019</b>	<b>Variance</b>
<b>Operating expenses</b>	<b>-6,223</b>	<b>-6,982</b>	<b>-759</b>
Wages and payroll expenses	-3,424	-3,971	-548
Depreciation	-447	-236	212
Other expenses	-2,352	-2,775	-423

**Wages and payroll expenses:** €523K increase in Cambodia, of which less than 20% was due to the growth in staff numbers and nearly 80% was due to an increase in salaries and benefits/social protection including the introduction of a seniority bonus on 1<sup>st</sup> January 2019.

**Depreciation:** includes €150K correction to the prior year. Depreciation increased from €297K to €386K excluding the correction.

**Other expenses:** €140K increase in the cost of food (partially due to the addition of a snack and a dessert at lunch but also due to a significant increase in the price of pork and fish). The cost of supplies, buildings maintenance, health and hygiene, fabric, aid to families also increased and there was a €50K loss on a previously depreciated debt obligation.

## Other income statement items

**Financial Income:** PSE had realised a capital gain on the disposal of market securities in 2017-2018 which did not recur in 2018-2019. The main financial expense consists of the depreciation of real estate assets.

**Exceptional Income:** had been recorded in 2017-2018 for the implementation of a provision for a seniority bonus amounting to €354K; in 2018-2019 it includes the allocation to a provision for risks identified during the financial year.

### Deferred commitments:

<i>Amounts in €'000s</i>	<b>2017-2018</b>	<b>2018-2019</b>	<b>Variance</b>
Write-back of restricted funds	443	354	-89
Allocation to restricted funds	-354	-479	-125
Allocation to sponsorship funds	-625	-259	366

**Allocation to restricted funds:** includes €331K allocated to the project for the construction of new classrooms on the south site including €77K of funds allocated to other projects closed during the financial year.

### Social Missions and Overheads & Fundraising expenses

<i>Amounts in €'000s</i>	<b>2017-2018</b>	<b>2018-2019</b>	<b>Variance</b>
<b>Social Programmes</b>	<b>5,209</b>	<b>5,964</b>	<b>755</b>
Depreciation	447	236	-211
Overheads	501	516	14
Fundraising expenses	101	123	23
<b>Total</b>	<b>6,258</b>	<b>6,839</b>	<b>581</b>
<b>Total overheads &amp; fundraising expenses</b>	<b>602</b>	<b>639</b>	<b>37</b>
<b>As % of Social Programmes</b>	<b>9.6%</b>	<b>9.3%</b>	

There was a 6% increase in overheads and fundraising costs, which was lower than the increase in the cost of social missions (over 9%), as a result overheads and fundraising costs were significantly below 10% of total costs in 2018-2019.

## Breakdown of social missions by programme

Amounts in €'000s	2017/2018		2018/2019	
Remedial education	635	12.2%	669	11.2%
Vocational training	1,805	34.7%	2,044	34.3%
External schooling and school support	1,941	37.3%	2,174	36.4%
Accommodation and protection (*)	248	4.8%	358	6.0%
Specialised programmes (*)	225	4.3%	273	4.6%
Community Centres (*)	355	6.8%	447	7.5%
<b>Total social missions</b>	<b>5,209</b>		<b>5,964</b>	

(\*) The "Accommodation and Protection" category has been used for 2018/19 financial year to replace the "Accommodation & Other Programmes" category used in 2017/18. It now includes only Housing & Protection programmes. In the 2017/18 financial year, the "Accommodation & Other Programmes" category included the programmes titled "young children cared for by childcare assistants" and "children in community centres for homework support". In 2018/19, these two programmes are included in the "specialised programmes" category and "Community Centres" category, respectively.

The increase in the cost of vocational training is due to the significant increase in the number of beneficiaries. (1,209 to 1,393 students).

The significant increase in the cost of external schooling is mainly due to the development of the supplementary courses at PSE school programme and to the addition of a meal for beneficiaries in 2018-2019 (about €170K).

The following table provides a comparison between the last two years for the last 3 categories:

Old programmes	2017/18	Details of old programmes	2017/18	New programmes	2017/18	2018/19
Accommodation & Other Programmes	369	Housing & Protection	248	Accommodation and Protection	248	358
		Young children cared for by childcare assistants	47			
		Children in community centres for homework support	74			
Specialised Programmes	177	Specialised Programmes	177	Specialised Programmes	224	273
Community Centres	282	Community Centres	282	Community Centres	356	447

The increase in accommodation costs is due to an increase, from 482 to 558, in the number of beneficiaries and to increases in the size of the team managing the "Source de Vie" home (approximately €40K) and the team managing the boarders.

The Community Centres benefited 502 children in 2018-2019 compared to 402 in 2017-2018 plus 208 children for homework support.

## Summary Balance Sheet

BALANCE SHEET					
ASSETS			LIABILITIES		
(K EUROS)	2017-2018	2018-2019	(K EUROS)	2017-2018	2018-2019
COMPUTER SOFTWARE	182	405	RESERVE FOR DROP IN OPERATING REVENUES	5,925	5,925
BUILDINGS ON LEASEHOLD LAND	14	14	RESERVE FOR INVESTMENTS	900	1,400
VEHICLES, MATERIALS, OTHER EQUIPMENT	3,339	3,628	RESERVE FOR EXCHANGE RATE MOVEMENTS	1,025	1,025
SHAREHOLDINGS & LOANS	13,001	13,224	LONG-TERM SICKNESS SOLIDARITY FUND	200	200
DEPRECIATION & PROVISIONS	-13,470	-13,904	PROVIDENT FUND TO SUPPORT THE DISABLED WHEN THEY BECOME ADULTS	500	800
<i>(Provisions on shareholdings and loans at 80% gross amount)</i>			TOTAL RESERVES	8,550	9,350
<b>NET CAPITAL</b>	<b>3,065</b>	<b>3,367</b>	RETAINED EARNINGS	854	1 182
			SURPLUS FOR YEAR	850	849
<b>STOCKS &amp; DEBTORS</b>	<b>28</b>	<b>141</b>	<b>TOTAL EQUITY</b>	<b>10,254</b>	<b>11,381</b>
			SPONSORSHIP FUNDS	4,886	5,145
<b>OTHER CURRENT ASSETS</b>	<b>404</b>	<b>452</b>	RESTRICTED FUNDS FOR INVESTMENTS	242	407
			RESTRICTED FUNDS FOR PILOT PROJECTS	112	72
			<b>TOTAL RESTRICTED FUNDS</b>	<b>5,240</b>	<b>5,624</b>
			PROVISIONS FOR RISKS	396	694
<b>CASH AND INVESTMENTS</b>	<b>13,246</b>	<b>14,166</b>	<b>OTHER DEBTS</b>	<b>427</b>	<b>447</b>
			CURRENCY CONVERSION ADJUSTMENT	458	0
<b>PREPAID EXPENSES</b>	<b>32</b>	<b>20</b>			
<b>TOTAL ASSETS</b>	<b>16,775</b>	<b>18,146</b>	<b>TOTAL LIABILITIES</b>	<b>16,775</b>	<b>18,146</b>

### Commentary on the financial results for the year 2018-2019

**Net fixed assets :** gross fixed assets €550K / net €302K take into account a correction to depreciation of €150K.

**Stocks and work-in-progress:** increased due to a stock of uniforms worth €100K, as at 31/08/2019, held for the start of the next school year.

**Retained earnings:** increased by €278K due to the transfer of converted differences on liabilities (agreed by the General Assembly) and by €50K for the allocation of prior year income.

**Restricted Funds for Investments:** includes €331K earmarked for the project to build new classrooms on the south site.

**Provisions for risks:** of which €481K for staff costs (seniority bonus for staff on full time contracts prior to 1/1/2019 and hardship allowance for staff on term contracts), €180K for risks identified during the financial year.

**Currency conversion adjustment:** Reallocation carried out following the decision by the AGM held on 30/03/2019 had an impact on retained earnings, PSEC fixed assets and exchange rate gains.

### 3. Reserves

Over the years, the association has gradually built up reserves to cope with future needs and contingencies and expected developments. They amounted to **€9,350K** before allocation of the net surplus for the year. Restricted funds (earmarked donations not used in one financial year, are carried forward for use in the following financial year(s)) are also recorded alongside the reserves. They amount to €5,624K, of which €5,145K are sponsorships.

#### **Reserve for Drop in Operating Revenues (€5,926K)**

With more than 600 employees in Cambodia and over 6,500 children in the programmes, the annual operating budget was greater than €7 million in 2019-2020. The Charity must ensure it can meet its commitments and protect itself against possible cuts and/or changes in the timing of revenue or lower levels of sponsorship than those it has become used to in recent years.

The reserve for a Drop in Operating Revenues amounts to €5,926K at the end of the fiscal year and covers approximately 10 months of operations.

#### **Reserve to protect against adverse exchange rate movements (€1,025K)**

Established in 2015, this reserve of €1,025K is intended to protect the Charity from the consequences of a rapid appreciation of the dollar against the Euro. It should be noted that most of the Charity's funding is in Euros and that more than 90% of its expenditure is made in Cambodia in U.S. dollars. As an indication, a change in the exchange rate from \$1.1 to \$1.0 per euro would lead to additional costs of around €700K per year.

#### **Reserve for Investments (€1,400K)**

This reserve has been increased to €1,400K to allow the Charity to mobilize the short term funds it needs to cover investments not financed by donations, such as the project to build new classrooms on the south site and investments to renovate buildings.

#### **Long-term sickness solidarity fund (€200K)**

This fund is intended to cover part or all medical expenses beyond the existing insurance coverage for patients of our families or our staff suffering from serious illnesses and high-cost medical expenses.



### **Provident Fund to Support the Disabled when they become adults (€800K)**

Contingency fund increased to €800K. This fund will provide care for our disabled children once they become adults.

### **Sponsorship Fund (€5,145K)**

The balance of the sponsorship fund was increased to €5,145K from the allocation of a surplus of €259K (€625K in 2017-2018) of sponsorships and programme funding received over the cost of social missions for the financial year.

### **Restricted Funds (€479K)**

The amount carried forward in this fund relates to funding received from donors for projects approved by the Board of Directors and not yet completed.

## **4. Allocation of the surplus**

The Board of Directors has proposed the allocation of the entire surplus for the year to retained earnings, subject to approval by the Annual General Meeting on 26<sup>th</sup> September 2020.

## **5. Facilities occupied by the association in Cambodia**

The association, early on, sought to own the land and buildings on which it welcomes the children, in order to secure the facilities through which it delivers its activities – providing schooling and vocational training for the children until they graduate. It was important that this ownership could not be threatened.

Since Cambodian law stipulates that only Cambodian nationals (natural or legalised immigrants) may own real estate in the country, PSE created a company under Cambodian law, in 2008, with Cambodians as shareholders, primarily the founders.

The company is called Protection and Service for Children Co (PSEC). It is 49% owned by PSE and 51% by Cambodian shareholders. Ownership of the real estate assets used by the association has been transferred to PSEC, to whom the association pays rent to carry out its activities.

The loans granted to the Cambodian shareholders for the acquisition of the land are secured by pledges, thus ensuring the association retains control over future changes in the ownership of the shares.

The association has decided to adopt a prudent policy of depreciating these assets, which was reduced from the initial rate of 100% to 80% in 2011. This rate was maintained by the Board of Directors for the financial year ending 31/08/2019.

## 6. Treasury

The treasury comprises current financial needs, with incomings from sponsorships and various donations, enabling money to be sent to Phnom Penh on a monthly basis to cover the expenses of the programmes and other charges. Part of these liquid assets are held in a US Dollar account allowing the Charity to protect itself from large fluctuations in the \$/€ exchange rate during the fiscal year. At the end of the 2019 financial year, cash and cash equivalents totalled €6,612K, including €1,841K in the \$ account. This cash is available for immediate use.

Part of the cash position, amounting to €7,552K, is held in listed securities, two thirds of which were invested, during the last financial year, in a euro fund with guaranteed capital. These funds are intended to be used for the medium or long term investment of certain reserves (reduction in resources, investments, health solidarity, disability insurance).

## 7. Report of the Statutory Auditor

The Statutory Auditor's report was drawn up on 27<sup>th</sup> March 2020, the day they received sign off by the Board of Directors, following electronic consultation. The accounts will be submitted for approval to the General Assembly, the AGM has been postponed to 26<sup>th</sup> September 2020 due to the pandemic that hit France in March.