PriceSmart®

2021

Annual Report

December 17, 2021

Dear PriceSmart Stockholders,

For the fiscal year ended August 31, 2021, our Company's total revenues were $3.62 billion, an 8.7% increase compared to $3.33 billion in the prior year. Earnings per share for fiscal year 2021 were $3.18 per share compared to $2.55 per share a year earlier. Our fiscal year ending balance sheet included a $202.1 million cash and cash equivalents balance and stockholders' equity attributable to the Company's stockholders of $915.3 million.

At fiscal year-end, there were 47 PriceSmart warehouse clubs in a total of 12 countries plus the United States Virgin Islands, including 1 new location in Usaquen, Colombia we opened during fiscal year 2021. In addition, after the end of the fiscal year, we opened the two newest PriceSmart warehouse clubs in October in Aranda, Guatemala and in November in Bucaramanga, Colombia, bringing our total number of warehouse clubs to 49.

PriceSmart and the rest of the world emerged from the worst of the COVID pandemic in the fall of 2020. At that time there was no way to predict the future behavior of Latin American and Caribbean consumers. As it turned out, consumers in most PriceSmart markets were prepared to buy in PriceSmart locations and online. PriceSmart's sales growth in most markets was fueled by a combination of excellent supply chain management, low prices, improved online technology and expansion of member services, including optical, pharmacy and hearing aids. As a result, PriceSmart achieved excellent sales growth, good earnings results, strong cash flow and, importantly, historically high membership renewals. Membership renewals demonstrate that PriceSmart is truly valued by our nearly 3 million Members associated with 1.67 million membership accounts.

This past year was not without its challenges, including limitations on our ability to convert Trinidad currency to US dollars, the lack of tourism in a number of PriceSmart countries, and the lingering effects of COVID. Despite the challenges PriceSmart faced, the strong financial performance in fiscal 2021 was due, in no small measure, to the great work by the thousands of PriceSmart employees. PriceSmart's performance and success depends on dedicated and enthusiastic employees who order, receive and stock merchandise, prepare baked goods for sale, serve our members in the food courts and provide member service at PriceSmart locations and for online ordering. In turn, PriceSmart endeavors to pay excellent wages and offer excellent benefits, provide a high-quality work environment and make sure that there are many opportunities for employee advancement. In this way, PriceSmart not only supports a good quality of life for its employees but sets an example for other employers in our markets.

Beyond PriceSmart's commitment to Members and employees, PriceSmart is dedicated to the communities in which we do business. Recently, PriceSmart introduced a formal Environmental and Social Responsibility initiative. PriceSmart has always set high standards for the operation of its business, whether related to our employees, our facilities or to the environment. Now, our commitment to social responsibility and environmental stewardship is being taken to an even higher level. PriceSmart is embarking on new initiatives for recycling, youth training and employment in partnership with Price Philanthropies, while redoubling its efforts to source sustainable products and supplies. We believe protecting the environment and the health and social wellbeing of families in our communities is morally right and, ultimately, good for the long-range growth of PriceSmart's business.

On a personal note, I want to share with you how proud I am of the executive leadership at our company beginning with our CEO Sherry Bahrambeygui. Based on my own experience working in the merchandise business since 1965 and learning almost everything I know from my father Sol Price, I am so impressed with how well our team applies the business principles that were pioneered by my father at FedMart and later at the Price Club. In our business, in some ways, nothing really changes. It's always about the customers and the employees and the values that guide our business. Sherry, the management team and our thousands of employees practice and live those values every day. The result is excellent business performance that delivers for our Members, our employees and our stockholders.

In concluding this stockholder letter, on behalf of myself, Sherry Bahrambeygui and the PriceSmart Board of Directors, best wishes to you and your families for a wonderful holiday season and a fulfilling and healthy new year.

Sincerely,

Robert E. Price

Robert E. Price

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PRICESMART, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION
August 31, 2021

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PRICESMART, INC.

Selected Financial Data

The selected consolidated financial data presented below is derived from the Company's consolidated financial statements and accompanying notes. This selected financial data should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and accompanying notes thereto included elsewhere in this report.

SELECTED FINANCIAL DATA

	Years Ended August 31,				
	2021	**2020**	**2019**	**2018** [(1)]	**2017**
	(in thousands, except income per common share)				
OPERATING RESULTS DATA:					
Net merchandise sales	$ 3,465,442	$ 3,191,762	$ 3,091,648	$ 3,053,754	$ 2,910,062
Export sales	41,520	34,374	30,981	40,581	34,244
Membership income	56,030	54,501	52,149	50,821	47,743
Other revenue and income	56,879	48,551	49,140	21,546	4,579
Total revenues	3,619,871	3,329,188	3,223,918	3,166,702	2,996,628
Total cost of goods sold	2,975,338	2,774,778	2,695,691	2,656,520	2,519,752
Selling, general and administrative	484,637	429,954	409,255	379,949	338,642
Pre-opening expenses	849	1,545	2,726	913	44
Asset impairment	—	—	—	1,929	—
Loss on disposal of assets	1,027	443	1,079	1,339	1,961
Operating income	158,020	122,468	115,167	126,052	136,229
Total other expense	(10,834)	(6,428)	(4,057)	(3,464)	(3,486)
Income before provision for income taxes and income of unconsolidated affiliates	147,186	116,040	111,110	122,588	132,743
Provision for income taxes	(48,969)	(37,764)	(37,560)	(48,177)	(42,018)
Loss of unconsolidated affiliates	(58)	(95)	(61)	(8)	(1)
Net income	$ 98,159	$ 78,181	$ 73,489	$ 74,403	$ 90,724
Less: net income attributable to noncontrolling interest	(196)	(72)	(298)	(75)	—
Net income attributable to PriceSmart, Inc.	$ 97,963	$ 78,109	$ 73,191	$ 74,328	$ 90,724
NET INCOME ATTRIBUTABLE TO PRICESMART, INC. PER SHARE AVAILABLE FOR DISTRIBUTION:					
Basic	$ 3.18	$ 2.55	$ 2.40	$ 2.44	$ 2.98
Diluted	3.18	$ 2.55	$ 2.40	$ 2.44	$ 2.98
Weighted average common shares - basic	30,403	30,259	30,195	30,115	30,020
Weighted average common shares - diluted	30,403	30,259	30,195	30,115	30,023

(1) U.S. Tax Reform in December 2017 resulted in a reduction in the tax rate from 35% to 21% and may have a beneficial impact on the Company in the future. However, in fiscal year 2018, we incurred charges of $12.5 million due to a one time transitional tax on unremitted foreign earnings and of $222,000 to reduce the value of deferred tax assets due to the reduction in U.S. tax rates.

SELECTED FINANCIAL DATA - (Continued)

	As of August 31,				
	2021	2020	2019	2018	2017
			(in thousands)		
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 202,060	$ 299,481	$ 102,653	$ 93,460	$ 162,434
Short-term investments	50,233	46,509	17,045	32,304	—
Short-term and long-term restricted cash	13,419	4,290	3,583	3,454	3,278
Total Assets(1)	1,705,790	1,656,825	1,296,411	1,216,392	1,177,514
Long-term debt	129,505	132,047	89,586	102,575	106,297
Total PriceSmart stockholders' equity attributable to PriceSmart, Inc. stockholders	915,345	831,719	797,351	758,002	708,767
Dividends paid on common stock attributable to PriceSmart, Inc. stockholders(2)	$ 21,531	$ 21,426	$ 21,341	$ 21,240	$ 21,285

(1) Effective September 1, 2019, we adopted the requirements of Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)" (ASC 842) using the modified retrospective approach, under which financial results reported in prior periods were not restated. As a result, the Total Assets as of August 31, 2021 and August 31, 2020 are not comparable with that as of August 31, 2019, August 31, 2018, and August 31, 2017.

(2) On February 4, 2021, February 6, 2020, January 30, 2019, January 24, 2018, and February 1, 2017 the Company declared cash dividends on its common stock.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. Forward-looking statements concerning PriceSmart, Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flows, omni-channel initiatives, proposed warehouse club openings, COVID-19 related factors and challenges, and the Company's performance relative to competitors and related matters. These forward-looking statements include, but are not limited to, statements containing the words “expect,” “believe,” “will,” “may,” “should,” “project,” “estimate,” “anticipated,” “scheduled,” “intend,” and like expressions, and the negative thereof. Forward-looking statements are only as of the date they are made, and we do not undertake to update these statements, except as required by law. These statements are subject to risks and uncertainties that could cause actual results to differ materially including, but not limited to the risks detailed in this Annual Report on Form 10-K under the heading Part I. “Item 1A. Risk Factors.” These risks are not the only risks that the Company faces. The Company could also be affected by additional factors that apply to all companies operating globally and in the U.S., as well as other risks that are not presently known to the Company or that the Company currently considers to be immaterial.

Overview

PriceSmart, headquartered in San Diego, California, owns and operates U.S.-style membership shopping warehouse clubs in Latin America and the Caribbean, selling high quality merchandise and services at low prices to our Members. We operate 47 warehouse clubs in 12 countries and one U.S. territory (eight each in Costa Rica and Colombia; seven in Panama; five in the Dominican Republic, four in Trinidad and Guatemala; three in Honduras; two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica and the United States Virgin Islands). The Company also plans to open new warehouse clubs in Guatemala City, Guatemala in late October 2021, in Bucaramanga, Colombia in November 2021, and in Portmore, Jamaica in the spring of 2022. Once these three new clubs are open, the Company will operate 50 warehouse clubs. Our corporate headquarters, U.S. buying operations and regional distribution centers are located primarily in the United States. Our operating segments are the United States, Central America, the Caribbean and Colombia. All intercompany balances and transactions have been eliminated in consolidation.

Factors Affecting the Business

The COVID-19 pandemic has resulted in significant challenges across our 13 markets since March 2020. Many markets imposed limitations, varying by market and in frequency, on access to the Company’s clubs and on the Company’s club operations, including in some cases frequent temporary club closures, a reduction in the number of days during the week and hours per day the Company’s clubs were permitted to be open, restrictions on segments of the population permitted to shop or circulate on particular days, and significant limits on the number of people permitted to be in the club at the same time. We also experienced product mix shifts due to changing consumer habits and/or government imposed limitations on many non-food categories, decreases in purchases by many business Members, particularly restaurants and hotels, and sporadic supply chain challenges, which can impact inventory levels.

We are currently focused on these four main priorities:

- *Protect the safety and well-being of our employees and our Members.*
- *Take proactive measures to protect, expand and create optionality for our supply chain options.*
- *Expand technology-related shopping and convenience for the Member.*
- *Apply data analytics to identify opportunities for improvement, growth and targeted marketing*

We remain vigilant in adapting to the ever-evolving consumer demands emerging from the COVID experience and the apparent desire of consumers to satisfy their shopping and service needs in one location. The COVID-19 pandemic remains unpredictable in duration and intensity in our markets, and we continue to see periodic reinstatements of stay-at-home orders and other restrictions. In addition, we expect continued uncertainty in the economies of our markets as a result of the COVID-19 pandemic and expect volatility in employment trends, industry and consumer confidence and demand; volatility and liquidity of foreign currency exchange rates; volatility of commodity prices; and possible fiscal austerity measures taken by governments in our markets, which will likely impact our results for the foreseeable future. For additional information, refer to the risk factors discussed in Part I. “Item 1A. Risk Factors.”

Overall economic trends, foreign currency exchange volatility, and other factors impacting the business

Our sales and profits vary from market to market depending on general economic factors, including GDP growth; consumer preferences; foreign currency exchange rates; political policies and social conditions; local demographic characteristics (such as population growth); the number of years we have operated in a particular market; and the level of retail and wholesale competition in that market. The economies of many of our markets are dependent on foreign trade, tourism, and foreign direct investments. The global and local travel restrictions and general slow-down in global economic activity, as a result of COVID-19, have significantly impacted and may continue to impact the economies in our markets causing significant declines in GDP and employment and devaluations of local currencies against the U.S. dollar. In general, positive conditions in the broader economy promote Member spending in our warehouse clubs, while economic weakness, which generally results in a reduction of customer spending, may negatively impact spending at our clubs.

During the last half of fiscal year 2021 and continuing into fiscal 2022, we saw several factors pressuring supply chains, including container shortages, port delays, and truck and driver shortages. These disruptions and shortages are impacting the timing of deliveries and leading to higher freight costs. Despite all these issues, we continue to work in a variety of different ways to hold down and/or mitigate the price increases passed on to the Members and maintain sufficient inventory. One key mitigating factor has been our expanded network of distribution centers, which has facilitated alternative routings of shipments, increased throughput, and provided flexibility to more effectively mitigate these challenges. In addition, we have made strategic investments in inventory and worked with our local vendors to source alternative products, in order to reduce future out-of-stocks on high demand items that have been impacted by these disruptions or that have been affected by electronic part shortages. We expect these conditions to continue throughout fiscal 2022, and we continue to employ these and various other strategies to maintain as much in-stock inventory and limit cost increases as much as possible. Delays in deliveries and increases in cost of delivered merchandise could impact supply of and demand for, the merchandise we sell, which could impact our sales.

Currency fluctuation can be a significant variable affecting our overall sales and profit performance, as we have experienced in prior fiscal years, because many of our markets are susceptible to foreign currency exchange rate volatility. During fiscal 2021, approximately 78% of our net merchandise sales were in currencies other than the U.S. dollar. Of those sales, 48% were comprised of sales of products we purchased in U.S. dollars.

A devaluation of local currency reduces the value of sales and membership income that is generated in that country when translated to U.S. dollars for our consolidated results. In addition, when local currency experiences devaluation, we may elect to increase the local currency price of imported merchandise to maintain our target margins, which could impact demand for the merchandise affected by the price increase. We may also modify the mix of imported versus local merchandise and/or the source of imported merchandise to mitigate the impact of currency fluctuations. Information about the effect of local currency devaluations is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Net Merchandise Sales and Comparable Sales."

Our capture of total retail and wholesale sales can vary from market to market due to competition and the availability of other shopping options for our Members. Demographic characteristics within each of our markets can affect both the overall level of sales and future sales growth opportunities. Certain island markets, such as Aruba, Barbados and the U.S. Virgin Islands offer us limited upside for sales growth given their overall market size.

Political and other factors in each of our markets may have significant effects on our business. For example, the civil unrest in Colombia paralyzed significant portions of the country's infrastructure as roadblocks and riots disrupted normal economic activity during the third quarter of fiscal 2021. Austerity and tax reform measures for Colombia and other Latin American countries with high national debt levels and income disparity pose a risk for political instability. Similar unrest happened in Nicaragua and Honduras in 2018 and 2019, respectively; Costa Rica also had a general strike against tax reform measures that significantly impeded regular economic activity in 2018. Events of this sort have, and may continue to have, an adverse effect on our business.

Our operations are subject to volatile weather conditions and natural disasters. In November 2020, Hurricanes Eta and Iota brought severe rainfall, winds, and flooding to a significant portion of Central America, especially Honduras, which caused significant damage to parts of that country's infrastructure. Although our warehouse clubs were not significantly affected and we were able to manage our supply chain to keep our warehouse clubs stocked with merchandise, these natural disasters could adversely impact our overall sales, costs and profit performance in the future.

In the past, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity), particularly in Trinidad. This can and has impeded our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products and to otherwise redeploy these funds in our Company and increases our foreign exchange exposure to any devaluation of the local currency relative to the U.S. dollar. We continued to experience significant limitations on our ability to convert Trinidad dollars to U.S. dollars or other tradeable currencies during fiscal 2020, with a further deterioration and the problem becoming more acute in August 2020. This U.S. dollar illiquidity situation persisted throughout fiscal 2021 and we expect the situation to continue. As liquidity conditions have tightened, we have methodically raised prices on imported goods in Trinidad due to increased costs of conversion of Trinidad dollars to U.S. dollars and risks associated with continued illiquidity. We have also sought to shift the purchase of certain goods to local sources where appropriate, and we are actively seeking to exchange Trinidad dollars for tradeable currencies in order to manage our exposure to any potential devaluation. Due to the illiquidity of the Trinidad dollars, in the first quarter of fiscal 2021, we began limiting shipments of goods from the U.S. to Trinidad, and subsequently, we further limited shipments late in the third quarter of fiscal 2021 and for most of the fourth quarter due to the government's general prohibition on sales on most non-food or non-essential items. However, in mid-August 2021, this prohibition was rescinded, and we were allowed to resume sales of these items; therefore, we began increasing our merchandise shipments to Trinidad at the end of fiscal 2021.

We continue to explore and execute several options to increase our ability to generate more reliable sources of U.S. dollars in Trinidad. These options include, but are not limited to, sourcing locally produced goods in Trinidad dollars and/or producing goods locally and exporting these items to our clubs and/or third parties in other countries in exchange for U.S. dollars. While these initiatives are being developed, we are exploring ways to finance additional imports, even if a higher level of imports exceeds the amount of U.S. dollars we are able to source in Trinidad. Alternatives we are considering include new U.S. dollar denominated loans, foreign currency exchange forwards, investing in financial instruments, and purchase and sales of commodities, which could create immediate U.S. dollar liquidity and/or fix the exchange rate of Trinidad dollars to U.S. dollars. During fiscal year 2021, we have executed approximately $17.6 million of U.S. dollar and other tradeable currency denominated loans. Some of these alternatives may not mitigate the resulting increase in exposure to a potential devaluation of the Trinidad dollar and could result in our being required to take a discount on the amount of U.S. dollars we accept in exchange for Trinidad dollars relative to what we would receive upon exchange in accordance with the official exchange rate and/or incur additional financing costs.

As of August 31, 2021, our Trinidad subsidiary had Trinidad dollar denominated cash and cash equivalents and short and long-term investments measured in U.S. dollars of approximately $52.9 million, a decrease of $26.7 million from August 31, 2020 when these same balances were approximately $79.6 million. The Trinidad central bank manages the exchange rate of the Trinidad dollar with the U.S. dollar. While the Trinidad government has publicly stated it has no intention to devalue the Trinidad dollar, it could in the future decide to devalue the currency to improve market liquidity, resulting in a devaluation in the U.S. dollar value of these cash and investments balances. If, for example, a hypothetical 20% devaluation of the Trinidad dollar were to occur, the value of our Trinidad dollar cash and investments position, measured in U.S. dollars, would decrease by approximately $10.6 million, with a corresponding increase in Accumulated other comprehensive loss reflected on our consolidated balance sheet. Separate from the Trinidad dollar denominated cash and investments balances described above, as of August 31, 2021, we had a U.S. dollar denominated monetary asset position of approximately $26.6 million in Trinidad (net of U.S. dollar denominated liabilities), which would produce a gain from a potential devaluation of Trinidad dollars. If, for example, a hypothetical 20% devaluation of the Trinidad dollar occurred, the net effect on Other income (expense), net on our consolidated statement of operations of revaluing these U.S. dollar denominated net monetary assets would be an approximate $5.3 million gain. While we may pay premiums or enter into financial transactions at a discount from the official government rate to convert our Trinidad dollars into U.S. dollars, we use the official exchange rate published by the Central Bank of Trinidad and Tobago to measure the U.S. dollar equivalent of Trinidad dollar-based revenues, expenses, assets and liabilities and the Trinidad dollar equivalent of U.S. dollar-based monetary assets and liabilities for financial reporting purposes, as there are no other reliable references available to translate or remeasure our revenues, expenses, assets and liabilities.

Our Barbados subsidiary also recently began facing a U.S. dollar illiquidity situation in fiscal year 2020. The Barbados dollar has a conventional fixed-peg currency arrangement, in which the Barbados dollar exchange rate is fixed to the U.S. dollar. Thus, we do not expect a devaluation of this currency at this time. However, as of August 31, 2021, our Barbados subsidiary had Barbados dollar denominated cash and cash equivalents measured in U.S. dollars of approximately $12.4 million, which cannot be readily converted to U.S. dollars for general use within the Company.

Mission and Business Strategy

PriceSmart exists to improve the lives and businesses of our Members, our employees and our communities through the responsible delivery of the best quality goods and services at the lowest possible prices. Our mission is to serve as a model company, which operates profitably and provides a good return to our investors, by providing Members in emerging and developing markets with exciting, high quality merchandise sourced from around the world and valuable services at compelling prices in safe U.S. style clubs and through PriceSmart.com. We prioritize the well-being and safety of our Members and employees. We provide good jobs, fair wages and benefits and the opportunity for growth. We strive to treat our suppliers right and empower them when we can. We conduct ourselves in a socially responsible manner as we endeavor to improve the quality of the lives of our Members and their businesses, while respecting the environment and the laws of all the countries in which we operate. The annual membership fee enables us to operate our business with lower margins than traditional retail stores. As we are increasing technological capabilities and expanding our omni-channel shopping experience, we believe we can realize greater efficiencies in the supply chain, enhance our ability to satisfy our Members' shopping expectations, and play a greater role in their lives. We believe we are well-positioned to blend the excitement and appeal of our brick and mortar business with the convenience and additional benefits of online shopping and services.

Growth

We measure our growth primarily by the amount of the period-over-period activity in our net merchandise sales, our comparable club net merchandise sales, total membership, income and total revenues. Our investments are geared toward enhancing Member experience while creating greater efficiencies, which enable us to offer lower prices, more services, and convenience. We believe these efforts will support membership renewals and sustained growth for the Company. However, these investments can impact near-term results, such as when we invest in technology and talent that are expected to yield long-term benefits or when we incur fixed costs in advance of achieving full projected sales, negatively impacting near-term operating profit and net income. When we open a new warehouse club in an existing market, which may reduce reported comparable net merchandise sales due to the transfer of sales from existing warehouse clubs, we do so to enhance the Member experience, grow membership and support long-term sales growth and profitability.

Financial highlights for the fourth quarter of fiscal year 2021 included:

- Total revenues increased 12.2% over the comparable prior year period.
- Net merchandise sales increased 12.7% over the comparable prior year period. We ended the quarter with 47 warehouse clubs compared to 46 warehouse clubs at the end of the fourth quarter of fiscal 2020. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 1.3% versus the same three-month period.
- Comparable net merchandise sales (that is, sales in the 45 warehouse clubs that have been open for greater than 13 ½ calendar months) for the 13 weeks ended August 29, 2021 increased 10.3%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 1.1%.
- Membership income for the fourth quarter of fiscal 2021 increased 11.2% to $14.6 million over the comparable prior year period.
- Total gross margins (net merchandise sales less associated cost of goods sold) increased 18.7% over the prior-year period, and merchandise gross profits as a percent of net merchandise sales were 15.9%, an increase of 80 basis points (0.8%) from the same period in the prior year.
- Operating income for the fourth quarter of fiscal 2021 was $32.5 million, an increase of 12.0%, or $3.5 million, compared to the fourth quarter of fiscal 2020.
- We recorded a $1.4 million net currency loss from currency transactions in the fourth quarter of fiscal 2021 compared to a $1.1 million net currency gain in the same period last year.
- Our effective tax rate increased in the fourth quarter of fiscal 2021 to 35.5% from 28.2% in the fourth quarter of fiscal 2020. The increase in the effective tax rate is primarily related to recognition timing for the loss of benefit of foreign tax credits, which are no longer deemed recoverable.
- Net income attributable to PriceSmart for the fourth quarter of fiscal 2021 was $19.5 million, or $0.63 per diluted share, compared to $20.1 million, or $0.65 per diluted share, in the fourth quarter of fiscal 2020.

Financial highlights for fiscal year 2021 included:

- Total revenues increased 8.7% over the prior year.
- Net merchandise sales increased 8.6% over the prior year. We ended the year with 47 warehouse clubs compared to 46 warehouse clubs at the end of the fiscal 2020. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 2.4%.
- Comparable net merchandise sales (that is, sales in the 45 warehouse clubs that have been open for greater than 13 ½
- calendar months) for the 52 weeks ended August 29, 2021 increased 5.8%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 2.3%.
- Membership income for fiscal 2021 increased 2.8% to $56.0 million.
- Total gross margins (net merchandise sales less associated cost of goods sold) increased 18.2% over the prior year, and merchandise gross profits as a percent of net merchandise sales were 16.0%, an increase of 130 basis points (1.3%) from the prior year.
- Operating income for fiscal 2021 was $158.0 million, an increase of 29.0% or $35.5 million compared to fiscal 2020.
- We recorded a $5.4 million net currency loss from currency transactions in the current year compared to a $1.4 million net loss in the prior year.
- The effective tax rate for fiscal 2021 was 33.3% as compared to the effective tax rate for fiscal 2020 of 32.5%. The increase is primarily driven by the comparably less favorable impact of non-recurring changes to uncertain tax positions.
- Net income attributable to PriceSmart for fiscal year 2021 was $98.0 million, or $3.18 per diluted share, compared to $78.1 million, or $2.55 per diluted share, in the prior year.

Comparison of Fiscal Year 2021 to 2020

The following discussion and analysis compares the results of operations for each of the three fiscal years ended August 31, 2021, 2020 and 2019 and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this report. For a comparison of the fiscal years ended August 31, 2020 and 2019, please see Part II. "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2020 filed with the SEC on October 30, 2020. Unless otherwise noted, all tables present U.S. dollar amounts in thousands. Certain percentages presented are calculated using actual results prior to rounding. Our operations consist of four reportable segments: Central America, the Caribbean, Colombia and the United States. The Company's reportable segments are based on management's organization of these locations into operating segments by general geographic location, which are used by management and the Company's chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. From time to time, we revise the measurement of each segment's operating income, including certain corporate overhead allocations, and other measures as determined by the information regularly reviewed by our chief operating decision maker. When we do so, the previous period amounts and balances are reclassified to conform to the current period's presentation.

Net Merchandise Sales

The following tables indicate the net merchandise club sales in the reportable segments in which we operate and the percentage growth in net merchandise sales by segment during fiscal years 2021 and 2020.

	Years Ended					
	August 31, 2021				August 31, 2020	
	Amount	% of net sales	Increase from prior year	Change	Amount	% of net sales
Central America	$ 2,064,553	59.6 %	$ 209,015	11.3 %	$ 1,855,538	58.1 %
Caribbean	988,468	28.5	10,447	1.1	978,021	30.7
Colombia	412,421	11.9	54,218	15.1	358,203	11.2
Net merchandise sales	$ 3,465,442	100.0 %	$ 273,680	8.6 %	$ 3,191,762	100.0 %

Comparison of 2021 and 2020

Overall, net merchandise sales grew by 8.6% for fiscal year 2021 compared to fiscal year 2020, driven by a 4.8% increase in average ticket and a 3.6% increase in transactions. Transactions represent the total number of visits our Members make to our warehouse clubs plus the number of Click & Go™ curbside pickup and delivery service transactions. Average ticket represents the amount our Members spend on each visit or Click & Go™ order. We had 47 clubs in operation as of August 31, 2021 compared to 46 clubs as of August 31, 2020.

Net merchandise sales in our Central America segment increased 11.3% during fiscal year 2021. This increase had a 660 basis point (6.6%) positive impact on total net merchandise sales growth. All markets within this segment showed increased net merchandise sales for the twelve-month period ended August 31, 2021. Our eighth club in Costa Rica, which opened in June 2020, had a full year of sales in fiscal 2021 compared to three-months of sales in fiscal year 2020, which contributed to the increase year-over-year in our Central American segment.

Net merchandise sales in our Caribbean segment increased 1.1% during fiscal year 2021. This increase had a 30 basis point (0.3%) positive impact on total net merchandise sales growth. Our Dominican Republic market continued its strong performance this year, despite experiencing a significant foreign currency devaluation, with 15.3% growth. This strong performance was offset by our Trinidad market which had a significant decline in net merchandise sales. Trinidad sales were adversely affected during most of fiscal year 2021 because we began limiting merchandise shipments to the market due to the ongoing U.S. dollar illiquidity situation and due to significant COVID-19 restrictions that were put in place in the later part of fiscal 2021. Trinidad saw a significant rise in COVID-19 cases during the second half of the fiscal year, and the government responded by shutting down all non-essential business and activities. PriceSmart was allowed to continue selling food and other essential goods, but the government prohibited sales of most non-foods/non-essential items by PriceSmart and other local retailers. As a result, we reduced shipments of U.S. imports until the restrictions were eased. Partial lockdowns and other restrictions are still in place; however, since mid-August 2021 we have been allowed to start selling the non-foods/non-essential items again. As we currently have no restrictions on the types of merchandise we can sell in Trinidad, we began increasing imports again towards the end of August. However, we generally continue to link our imports based on the amounts of U.S. dollars we expect to source in Trinidad. Net merchandise sales for Trinidad have improved thus far during the first quarter of fiscal year 2022 compared to fourth quarter of fiscal 2021. Refer to "Management's Discussion & Analysis – Factors Affecting Our Business" for more discussion on the Trinidad liquidity situation. Aruba also had soft sales due to this market's ongoing economic slowdown caused by the COVID-19 pandemic due primarily to a reduction in tourism.

Net merchandise sales in our Colombia segment increased 15.1% during fiscal year 2021. This increase had a 170 basis point (1.7%) positive impact on total net merchandise sales growth. The primary driver of the increased revenue for the year was due to the additional club added to the segment when compared to the comparable prior year period. We opened our eighth club in Colombia in December 2020.

The following table indicates the impact that currency exchange rates had on our net merchandise sales in dollars and as a percentage of net merchandise sales for the year ended August 31, 2021.

	Currency Exchange Rate Fluctuations for the Twelve Months Ended August 31, 2021	
	Amount	**% change**
Central America	$ (38,477)	(2.1)%
Caribbean	(27,069)	(2.7)
Colombia	(10,784)	(3.0)
Net merchandise sales	$ (76,330)	(2.4)%

Overall, the effects of currency fluctuations within our markets had an approximately $76.3 million, or 240 basis point (2.4%), negative impact on net merchandise sales for the twelve-months ended August 31, 2021.

Currency fluctuations had a $38.5 million, or 210 basis point (2.1%), negative impact on net merchandise sales in our Central America segment for the twelve months ended August 31, 2021. These currency fluctuations contributed approximately 120 basis points (1.2%) of the total negative impact on total net merchandise sales for the current fiscal year period. The Costa Rica Colón depreciated significantly against the dollar as compared to the same period a year ago, and was a significant factor in the contribution to the unfavorable currency fluctuations in this segment.

Currency fluctuations had a $27.1 million, or 270 basis point (2.7%), negative impact on net merchandise sales in our Caribbean segment for the twelve months ended August 31, 2021. These currency fluctuations contributed approximately 90 basis points (0.9%) of the total negative impact on total net merchandise sales for the current fiscal year period. Jamaica and the Dominican Republic markets both experienced currency devaluation when compared to the same periods last year.

Currency fluctuations had a $10.8 million, or 300 basis point (3.0%), negative impact on net merchandise sales in our Colombia segment for the twelve months ended August 31, 2021. These currency fluctuations contributed approximately 30 basis points (0.3%) of the total negative impact on total net merchandise sales for the current fiscal year period.

Net Merchandise Sales by Category

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold during the fiscal years ended August 31, 2021 and 2020.

	Years Ended August 31,	
	2021	2020
Foods & Sundries	50 %	52 %
Fresh Foods	29	29
Hardlines	12	11
Softlines	5	4
Other Business	4	4
	100 %	100 %

Comparison of 2021 to 2020

During fiscal year 2021, our Members have started purchasing more in our non-food categories of Hardlines and Softlines after their steep decline in the second half of 2020 due to the COVID-19 pandemic. The 200 basis points (2.0%) decline in the Foods & Sundries was distributed fairly equally with 100 basis points (1.0%) to both Hardlines and Softlines. All other categories were consistent with the prior year mix.

Comparable Merchandise Sales

We report comparable net merchandise sales on a “same week” basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close of a match as possible to the calendar month and quarter that is used for financial reporting purposes. This approach equalizes the number of weekend days and weekdays in each period for improved sales comparison, as we experience higher merchandise club sales on the weekends. Each of the warehouse clubs used in the calculations was open for at least 13 ½ calendar months before its results for the current period were compared with its results for the prior period. As a result, sales related to our Liberia club in Costa Rica, which opened in June 2020 and our Usaquen club in Colombia, which opened in December 2020, will not be used in the calculation of comparable sales until they have been open for at least 13 ½ months. Therefore, comparable net merchandise sales includes 45 warehouse clubs for the fifty-two week period ended August 29, 2021.

The following tables indicate the comparable net merchandise sales in the reportable segments in which we operate and the percentage changes in net merchandise sales by segment during the fifty-two week periods ended August 29, 2021 and August 30, 2020 compared, in each case, to the prior year.

	Fifty-Two Weeks Ended	
	August 29, 2021	August 30, 2020
	% Increase in comparable net merchandise sales	% Increase/(decrease) in comparable net merchandise sales
Central America	8.8%	(3.2)%
Caribbean	1.4	3.8
Colombia	2.4	(6.4)
Consolidated comparable net merchandise sales	5.8%	(1.5)%

Comparison of Fifty-Two Week Periods Ended August 29, 2021 and August 30, 2020

Comparable net merchandise sales for those warehouse clubs that were open for at least 13 ½ months for some or all of the fifty-two week period ended August 29, 2021 increased 5.8%.

Comparable net merchandise sales in our Central America segment increased 8.8% for the fifty-two week period ended August 29, 2021. This increase contributed approximately 510 basis points (5.1%) of the increase in total comparable merchandise sales.

For the fifty-two weeks ended August 29, 2021, strong performance in the relatively smaller markets of Guatemala, Nicaragua, Honduras, and El Salvador, along with our second largest market, Panama, contributed approximately 540 basis points (5.4%) of positive impact on the segment's comparable net merchandise sales. This increase was offset by a 30 basis point (0.3%) negative impact on the segment's comparable net merchandise sales from our largest market, Costa Rica. During the year, Costa Rica experienced foreign currency exchange headwinds, with the Costa Rica Colón devaluing versus the comparable prior year period.

Comparable net merchandise sales in our Caribbean segment increased 1.4% for the fifty-two week period ended August 29, 2021. This increase contributed approximately 40 basis points (0.4%) of positive impact in total comparable merchandise sales.

Our Dominican Republic market continued its strong performance in the fifty-two week period, despite having a foreign currency exchange devaluation with 15.5% comparable sales growth, respectively. This strong performance was offset by our Trinidad market, which declined in comparable net merchandise sales by 10.9% for the fifty-two week period. Trinidad sales were adversely affected during most of the fiscal year because we limited merchandise shipments to the market due to the ongoing U.S. dollar illiquidity situation and the COVID-19 restrictions. Refer to "Management's Discussion & Analysis – Factors Affecting Our Business" for more discussion on the Trinidad illiquidity situation.

Comparable net merchandise sales in our Colombia segment increased 2.4% for the fifty-two week period ended August 29, 2021. This increase contributed approximately 30 basis points (0.3%) of the increase in total comparable merchandise sales. The year-to-date increase is primarily due to year-over-year improvements in sales growth due to the comparably improved COVID-19 situation. Comparable net merchandise sales were also negatively impacted by sales transfers from existing clubs to our recent club that opened in December 2020.

The following table illustrates the impact that changes in foreign currency exchange rates had on our comparable merchandise sales in dollars and as a percentage of comparable merchandise sales for the fifty-two week period ended August 29, 2021.

	Fifty-Two Weeks Ended August 29, 2021	
	Amount	**% change**
Central America	$ (36,463)	(2.0)%
Caribbean	(26,834)	(2.7)
Colombia	(10,782)	(3.0)
Consolidated comparable net merchandise sales	$ (74,079)	(2.3)%

Overall, the mix of currency fluctuations within our markets had an approximate $74.1 million, or 230 basis point (2.3%), negative impact on comparable net merchandise for the fifty-two week period ended August 29, 2021.

Currency fluctuations within our Central America segment accounted for approximately 110 basis points (1.1%) of the negative impact on total comparable merchandise sales for the fifty-two week period ended August 29, 2021. This is primarily the result of significant devaluation in the Costa Rica Colón against the U.S. dollar during the current periods compared to the same periods a year ago.

Currency fluctuations within our Caribbean segment accounted for approximately 90 basis points (0.9%) of negative impact on total comparable merchandise for the fifty-two week period ended August 29, 2021. Our Dominican Republic and Jamaica markets experienced currency devaluation when compared to the same period last year.

Currency fluctuations within our Colombia segment accounted for approximately 30 basis points (0.3%) of negative impact on total comparable merchandise sales for the fifty-two week period ended August 29, 2021. This reflects the devaluation of the Colombia peso when compared to the same period a year ago.

Membership Income

Membership income is recognized ratably over the one-year life of the membership.

	Years Ended				
	August 31, 2021				August 31, 2020
	Amount	Increase from prior year	% Change	Membership income % to net merchandise club sales	Amount
Membership income - Central America	$ 33,149	$ 324	1.0 %	1.6 %	$ 32,825
Membership income - Caribbean	15,398	584	3.9	1.6	14,814
Membership income - Colombia	7,483	621	9.0	1.8	6,862
Membership income - Total	$ 56,030	$ 1,529	2.8 %	1.6 %	$ 54,501
Number of accounts - Central America	904,577	75,619	9.1%		828,958
Number of accounts - Caribbean	429,749	3,366	0.8		426,383
Number of accounts - Colombia	336,109	33,130	10.9		302,979
Number of accounts - Total	1,670,435	112,115	7.2%		1,558,320

Comparison of 2021 to 2020

The number of Member accounts at the end of fiscal 2021 was 7.2% higher than the prior year period, and it has surpassed our pre-COVID peak at the end of the second quarter of fiscal 2020 of 1,655,875 accounts. Membership income increased 2.8% compared to the comparable prior-year period.

Membership income increased across all operating segments in the twelve months ended August 31, 2021. The consolidated increase in membership income is due to an increasing membership base since the start of fiscal year 2021. Since August 31, 2020, all segments have increased their membership base. Colombia had the largest increase in membership base in fiscal year 2021 due to the opening of its eighth club in December 2020 with 10.9% growth, followed by Central America with a 9.1% increase and the Caribbean with a 0.8% increase.

We began offering our Platinum membership program in Nicaragua in October 2020 and in El Salvador in March 2021. We now offer this program in all locations where PriceSmart operates. The annual fee for a Platinum Membership in most markets is approximately $75. The Platinum Membership program provides Members with a 2% rebate on most items, up to an annual maximum of $500. We record the 2% rebate as a reduction on net merchandise sales at the time of the sales transaction.

Our trailing twelve-month renewal rate was 89.6% and 80.5% for the periods ended August 31, 2021 and August 31, 2020, respectively. With our twelve-month renewal rate at 89.6%, this has increased 200 basis points (2.0%) since the end of the third quarter and is well above our renewal rate immediately preceding the COVID-19 pandemic, which we believe is a key indicator of membership satisfaction and loyalty and demonstrates that our Members recognize the value we bring. Although we continue to see reductions in in-club traffic resulting from the COVID-19 pandemic, we have seen increased sign-ups and renewals completed online with the launch of a new online catalog and our Click & Go™ services. Approximately 16% and 6% of our membership sign-ups were completed using our online platform for the twelve month period ended August 31, 2021 and August 31, 2020, respectively. Our online platform facilitates capturing data and provides the opportunity for automatic renewal of memberships, as well as improving our digital connection with our Members.

Other Revenue

Other revenue primarily consists of non-merchandise revenue from freight and handling fees generated from our marketplace and casillero operations, interest-generating portfolio from our co-branded credit cards, and rental income from operating leases where the Company is the lessor.

	Years Ended			
	August 31, 2021			August 31, 2020
	Amount	Increase/(Decrease) from prior year	% Change	Amount
Non-merchandise revenue	$ 46,876	$ 8,605	22.5 %	$ 38,271
Miscellaneous income	7,047	(499)	(6.6)	7,546
Rental income	2,956	222	8.1	2,734
Other revenue	$ 56,879	$ 8,328	17.2%	$ 48,551

Comparison of 2021 to 2020

The primary driver of the increase in other revenue for the period is higher package volume in our marketplace and casillero operations, which increased due to the COVID-19 pandemic and the resulting higher ecommerce activity. We sold our marketplace and casillero operations in October 2021. Refer to Part II. "Item 1. Business – General" for further discussion regarding the sale of our legacy casillero and marketplace operations.

Results of Operations

Results of Operations Consolidated
(Amounts in thousands, except percentages and number of warehouse clubs)

	Years Ended	
Results of Operations Consolidated	August 31, 2021	August 31, 2020
Net merchandise sales		
Net merchandise sales	$ 3,465,442	$ 3,191,762
Total gross margin	$ 552,953	$ 467,820
Total gross margin percentage	16.0 %	14.7 %
Revenues		
Total revenues	$ 3,619,871	$ 3,329,188
Percentage change from prior period	8.7 %	3.3 %
Comparable merchandise sales		
Total comparable merchandise sales increase (decrease)	5.8 %	(1.5)%
Total revenue margin		
Total revenue margin	$ 644,533	$ 554,410
Total revenue margin percentage	17.8 %	16.7 %
Selling, general and administrative		
Selling, general and administrative	$ 486,513	$ 431,942
Selling, general and administrative percentage of total revenues	13.4 %	13.0 %

Results of Operations Consolidated	Years Ended August 31, 2021	% of Total Revenue	August 31, 2020	% of Total Revenue
Operating income- by segment				
Central America	$ 151,933	4.2 %	$ 125,351	3.8 %
Caribbean	74,769	2.1	57,217	1.7
Colombia	21,932	0.6	18,071	0.5
United States	12,687	0.4	3,873	0.1
Reconciling items [(1)]	(103,301)	(2.9)	(82,044)	(2.5)
Operating income - Total	$ 158,020	4.4 %	$ 122,468	3.7 %
Warehouse clubs				
Warehouse clubs at period end	47		46	
Warehouse club sales square feet at period end	2,336		2,270	

(1) The reconciling items reflect the amount eliminated on consolidation of intersegment transactions.

The following table summarizes the selling, general and administrative expense for the periods disclosed.

	Years Ended August 31, 2021	% of Total Revenue	August 31, 2020	% of Total Revenue
Selling, general and administrative detail:				
Warehouse club and other operations	$ 359,221	9.9 %	$ 323,178	9.7 %
General and administrative	125,416	3.5	106,776	3.2
Pre-opening expenses	849	0.0	1,545	0.1
Loss on disposal of assets	1,027	0.0	443	0.0
Total Selling, general and administrative	$ 486,513	13.4 %	$ 431,942	13.0 %

Comparison of 2021 to 2020

Total gross margin is derived from our Revenue – Net merchandise sales less our Cost of goods sold – Net merchandise sales and represents our sales and cost of sales generated from the business activities of our warehouse clubs. We express our Total gross margin percentage as a percentage of our Net merchandise sales.

On a consolidated basis, total gross margin for the twelve months ended August 31, 2021 was 16.0%, 130 basis points (1.3%) higher than the comparable prior year period. Approximately 80 basis points (0.8%) of this increase is due to certain pricing actions we took to offset foreign currency exchange costs and COVID-related operating costs. In particular, we substantially increased the liquidity premium we factor into our sales prices in Trinidad on our imported merchandise, as we continue to experience a shortage of available U.S. dollars for exchange in that market. Refer to "Management's Discussion & Analysis – Factors Affecting Our Business" for additional discussion. Of the remaining approximately 50 basis points (0.5%), 40 basis points (0.4%) of this improvement is primarily attributable to returning margin to prior levels on our non-food inventory and of our other business categories such as food services, tire center, and optical, which saw decreased demand and/or sales restrictions due to COVID-19 in the prior-year period. The remaining 10 basis points (0.1%) is the result of more focused merchandising strategies and inventory management that primarily resulted from fewer markdowns and spoilage.

Total revenue margin is derived from Total revenues, which includes our Net merchandise sales, Membership income, Export sales, and Other revenue and income less our Cost of goods sold for net merchandise sales, Export sales, and Non-merchandise revenues. We express our Total revenue margin as percentage of Total revenues.

Total revenue margin increased 110 basis points (1.1%) for the twelve months ended August 31, 2021 compared to the prior-year period, which is primarily the result of the higher total gross margins of 130 basis points (1.3%). This increase was offset by 10 basis points (0.1%) from lower revenue margins from our casillero and marketplace business in the current year compared to the prior year and 10 basis points (0.1%) from lower Revenue and other income compared the prior year.

Selling, general, and administrative expenses consist of warehouse club and other operations, general and administrative expenses, pre-opening expenses, and loss on disposal of assets. In total, selling, general and administrative expenses increased $54.6 million to 13.4% of total revenue for fiscal year 2021 compared to 13.0% of total revenues for fiscal year 2020.

Warehouse club and other operations expenses increased to 9.9% of total revenues for fiscal year 2021 compared to 9.7% for fiscal year 2020, primarily due to the opening of new clubs in Colombia, Costa Rica, and Guatemala that had not reached sales maturity as of August 31, 2021. Honduras experienced currency appreciation during fiscal year 2021 which led to a slight deleveraging of expenses.

General and administrative expenses increased to 3.5% of total revenues for the current year compared to 3.2% for the prior fiscal year. The 30 basis point (0.3%) increase is primarily due to our continued investments to support our technology development, talent acquisition, and employee development. Given our strategic initiatives, we anticipate that we will continue to make investments at comparable levels (as a percentage of revenue) to further our omni-channel and technology initiatives.

Operating income in fiscal year 2021 increased to $158.0 million (4.4% of total revenue) compared to $122.5 million (3.7% of total revenue) for the same period last year. This reflects the increase in total revenue margin dollars primarily from net merchandise sales of 110 basis points (1.1%), partially offset by a 40 basis point (0.4%) decrease due to deleveraging of selling, general and administrative expenses over the comparable prior-year period.

Interest Expense

	Years Ended		
	August 31, 2021		August 31, 2020
	Amount	Change	Amount
Interest expense on loans	$ 5,836	$ (1,563)	$ 7,399
Interest expense related to hedging activity	3,655	1,239	2,416
Less: Capitalized interest	(2,281)	(91)	(2,190)
Net interest expense	$ 7,210	$ (415)	$ 7,625

Net interest expense reflects borrowings by PriceSmart, Inc. and our wholly owned foreign subsidiaries to finance new land acquisition and construction for new warehouse clubs, warehouse club expansions and distribution centers, the capital requirements of warehouse club and other operations and ongoing working capital requirements.

Comparison of 2021 to 2020

Net interest expense decreased for the twelve-month period ended August 31, 2021, primarily due to lower short-term borrowings compared to the comparable prior year period. We drew down on short-term lines of credit in the third quarter of fiscal year 2020 as a part of our efforts to secure adequate cash to cover contingencies arising from COVID-19 related risks. We repaid all of these borrowings by the end of the third quarter in fiscal year 2021. These savings were offset by new loans for our capital projects in Guatemala and U.S. dollar working capital needs in Trinidad. The increase in interest expense related to more hedging activity is primarily the result of a full year of interest recorded on our Colombia swaps entered into in the prior year.

Other Expense, net

Other expense, net consists of currency gains or losses, as well as net benefit costs related to our defined benefit plans and the receipt of a one-time indemnification payment from a business combination escrow account.

	Years Ended		
	August 31, 2021		August 31, 2020
	Amount	Increase from prior year	Amount
Other expense, net	$ (5,603)	$ (4,769)	$ (834)

Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses) are recorded as currency gains or losses. Additionally, gains or losses from transactions denominated in currencies other than the functional currency of the respective entity also generate currency gains or losses.

Comparison of 2021 to 2020

For the twelve-months ended August 31, 2021 the primary driver of Other expense, net included losses of $5.4 million associated with foreign currency transactions and the revaluation of monetary assets and liabilities in several of our markets. The foreign currency gains and losses resulted from the revaluation of net U.S. dollar assets and liabilities in markets where the local functional currency revalued or devalued against the U.S. dollar and from exchange transactions.

The primary impacts during the twelve-month period were higher transaction costs associated with converting Trinidad dollars into available tradeable currencies such as Euros or Canadian dollars, before converting them to U.S. dollars. This was partially offset by an appreciation of the Honduran Lempira, which resulted in a gain from our net U.S. dollar liability position in that market.

Provision for Income Taxes

The tables below summarize the effective tax rate for the periods reported:

	Years Ended		
	August 31, 2021		August 31, 2020
	Amount	Increase from prior year	Amount
Current tax expense	$ 52,822	$ 11,654	$ 41,168
Net deferred tax benefit	(3,853)	(449)	(3,404)
Provision for income taxes	$ 48,969	$ 11,205	$ 37,764
Effective tax rate	33.3 %		32.5 %

Comparison of 2021 to 2020

For fiscal 2021, the effective tax rate was 33.3% compared to 32.5% for fiscal year 2020. The increase in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably favorable impact of 2.5% due to a greater portion of income falling into lower tax jurisdictions;
2. The comparably unfavorable impact of 1.8% resulting from the nonrecurrence of changes from prior periods in income tax liabilities from uncertain tax position for which the applicable statutes of limitations had expired;
3. The comparably unfavorable impact of 0.4% resulting from the effect of changes in foreign currency exchange rates related to the remeasurement of our monetary assets and liabilities; and
4. The comparably unfavorable impact of 0.4% resulting from valuation allowances we were required to take with respect to deferred tax assets from foreign tax credits that are no longer deemed recoverable.

Other Comprehensive Loss

Other comprehensive loss for fiscal years 2021 and 2020 resulted primarily from foreign currency translation adjustments related to the assets and liabilities and the translation of the statements of income related to revenue, costs and expenses of our subsidiaries whose functional currency is not the U.S. dollar. When the functional currency in our international subsidiaries is the local currency and not U.S. dollars, the assets and liabilities of such subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will not affect net income until the sale or liquidation of the underlying investment. The reported other comprehensive income or loss reflects the unrealized increase or decrease in the value in U.S. dollars of the net assets of the subsidiaries as of the date of the balance sheet, which will vary from period to period as exchange rates fluctuate.

	Other Comprehensive Loss Years Ended			
	August 31, 2021			August 31, 2020
	Amount	Change From Prior Year	% Change	Amount
Other comprehensive loss	$ (5,688)	$ 26,793	82.5 %	$ (32,481)

Comparison of 2021 to 2020

Our other comprehensive loss of approximately $5.7 million for fiscal 2021 resulted primarily from the comprehensive loss of approximately $7.8 million from foreign currency translation adjustments related to assets and liabilities and the translation of revenue, costs and expenses on the statements of income of our subsidiaries whose functional currency is not the U.S. dollar. During fiscal 2021, the largest translation adjustments were related to the devaluation of the local currencies against the U.S. dollar for our Colombia, Costa Rica and Jamaica subsidiaries, partially offset by the translation adjustment for the appreciation of the local currency against the U.S. dollar of our Dominican Republic subsidiary. These losses were offset by approximately $2.3 million related to unrealized gains on changes in our derivative obligations.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

Our operations have historically supplied us with a significant source of liquidity. We generate cash from operations primarily through net merchandise sales and membership fees. Cash used in operations generally consist of payments to our merchandise vendors, warehouse club and distribution center operating costs (including payroll, employee benefits and utilities), as well as payments for income taxes. Our cash flows provided by operating activities, supplemented with our long-term debt and short-term borrowings, have generally been sufficient to fund our operations while allowing us to invest in activities that support the long-term growth of our operations and to pay dividends on our common stock. We evaluate our funding requirements on a regular basis to cover any shortfall in our ability to generate sufficient cash from operations to meet our capital requirements. We may consider funding alternatives to provide additional liquidity if necessary. Refer to Part II. “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 11 - Debt” for additional information regarding our drawdown on our short-term facilities and long-term borrowings.

Repatriation of cash and cash equivalents held by foreign subsidiaries may require us to accrue and pay taxes. We have no plans at this time to repatriate cash through the payment of cash dividends by our foreign subsidiaries to our domestic operations and, therefore, have not accrued taxes that would be due from repatriation.

The following table summarizes the cash and cash equivalents, including restricted cash, held by our foreign subsidiaries and domestically (in thousands).

	August 31, 2021	August 31, 2020
Amounts held by foreign subsidiaries	$ 160,808	$ 203,598
Amounts held domestically	54,671	100,173
Total cash and cash equivalents, including restricted cash	$ 215,479	$ 303,771

The following table summarizes the short-term investments held by our foreign subsidiaries and domestically (in thousands).

	August 31, 2021	August 31, 2020
Amounts held by foreign subsidiaries	$ 50,233	$ 46,509
Amounts held domestically	—	—
Total short-term investments	$ 50,233	$ 46,509

As of August 31, 2021 and August 31, 2020, certificates of deposits with a maturity of over a year held by our foreign subsidiaries and domestically were $1.5 million in both periods.

From time to time, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products or otherwise fund our operations. Since fiscal 2017, we have experienced this situation in Trinidad and have been unable to source a sufficient level of tradeable currencies. We are working with our banks in Trinidad and government officials to source tradeable currencies. We expect the illiquid market conditions in Trinidad to continue and are considering various measures to address the adverse effect of this situation on the Company's liquidity. In addition, our Barbados subsidiary recently began facing a similar U.S. dollar liquidity situation. Refer to "Management's Discussion & Analysis – Factors Affecting Our Business" for our quantitative analysis and discussion.

The following table summarizes our significant sources and uses of cash and cash equivalents:

	Years Ended		
	August 31, 2021	August 31, 2020	Change
Net cash provided by operating activities	$ 127,166	$ 259,268	$ (132,102)
Net cash used in investing activities	(116,721)	(131,212)	14,491
Net cash provided by (used in) financing activities	(95,137)	75,563	(170,700)
Effect of exchange rates	(3,600)	(6,084)	2,484
Net increase (decrease) in cash and cash equivalents	$ (88,292)	$ 197,535	$ (285,827)

Net cash provided by operating activities totaled $127.2 million and $259.3 million for the twelve months ended August 31, 2021 and 2020, respectively. The decrease in net cash provided by operating activities was primarily due to the increase in our inventory position and the higher net settlement of accounts payable versus the comparable prior year period, which was partially offset by a significant increase in net income for the year ended August 31, 2021 over the prior-year period.

Inventory was $389.7 million as of August 31, 2021, compared with $309.5 million at August 31, 2020. The increase over the balances as of August 31, 2020 reflects our efforts to bring our inventory levels in-line with our sales trends. In addition, the lower balance as of August 31, 2020 reflected the rapid sell-through of merchandise as Members stockpiled items in anticipation of the impacts of the COVID-19 pandemic in the third and fourth fiscal quarter of 2020 and the reduction of certain non-food categories to align with initial consumer preferences at the start of the COVID-19 pandemic. We have made strategic investments in inventory to avoid future out-of-stocks on high volume items that have been impacted from container, commodity, and electronic part shortages. Lastly, we have one additional club in the current year. Accounts payable was $388.8 million as of August 31, 2021, compared with $373.2 million at August 31, 2020. The increase from the balances as of August 31, 2020 is largely the result of a return to our normal inventory levels compared to the prior year, operating one additional club in the current year, and the expiration of temporary extensions of vendor terms negotiated as part of our response to the COVID-19 pandemic in fiscal 2020. However, although not quite to the same extent, we have been able to permanently extend some of our vendor payment terms.

Net cash used in investing activities totaled $116.7 million and $131.2 million, respectively, for the years ended August 31, 2021 and August 31, 2020. The decrease is primarily the result of an increase in the net proceeds of short-term and long-term certificate of deposit purchases and settlements, partially offset by an increase in construction expenditures compared to the same period a year-ago. The increase in net proceeds from certificates of deposit is primarily a result of improved sources versus uses of U.S. dollars in Trinidad during our prior fiscal year, reducing our need to invest Trinidad dollars. Refer to "Management's Discussion and Analysis – Factors Affecting Our Business" for additional discussion of the current U.S. dollar illiquidity we are experiencing in that market.

Net cash used in financing activities totaled $95.1 million and net cash provided by financing activities was $75.6 million for the years ended August 31, 2021 and August 31, 2020, respectively. We use cash flows provided by financing activities primarily to fund our working capital needs, our warehouse club and distribution center acquisitions and expansions, and investments in technology to support our omni-channel initiatives. The $170.7 million shift from cash provided by to cash used in financing activities is primarily the result of a net decrease of proceeds from long-term borrowings and a net decrease in short-term borrowings compared to the same twelve-month period a year-ago. In the prior year period, we executed long-term loans primarily to finance land purchases and construction of several of our warehouse clubs and increased our short-term borrowings as part of our cash management strategy in the early stages of the COVID-19 pandemic. In the current year, our long-term borrowings were made to increase our ability to borrow U.S. dollars in exchange for payments in Trinidad dollars and to provide additional sources of tradeable currencies to support our working capital needs of that subsidiary. Refer to "Management's Discussion and Analysis – Factors Affecting Our Business" for additional discussion of the current U.S. dollar illiquidity we are experiencing in that market.

The following table summarizes the dividends declared and paid during fiscal years 2021, 2020 and 2019 (amounts are per share).

		First Payment			Second Payment		
Declared	**Amount**	**Record Date**	**Date Paid**	**Amount**	**Record Date**	**Date Paid**	**Amount**
2/4/2021	$ 0.70	2/15/2021	2/26/2021	$ 0.35	8/15/2021	8/31/2021	$ 0.35
2/6/2020	$ 0.70	2/15/2020	2/28/2020	$ 0.35	8/15/2020	8/31/2020	$ 0.35
1/30/2019	$ 0.70	2/15/2019	2/28/2019	$ 0.35	8/15/2019	8/30/2019	$ 0.35

Short-Term Borrowings and Long-Term Debt

Our financing strategy is to ensure liquidity and access to capital markets while minimizing our borrowing costs. The proceeds of these borrowings were or will be used for general corporate purposes, which may include, among other things, funding for working capital, capital expenditures, acquisitions, and repayment of existing debt. Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 11 - Debt." for further discussion.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have had, or are reasonably likely to have, a material current or future effect on its financial condition or consolidated financial statements.

Repurchase of Equity Securities and Reissuance of Treasury Shares

At the vesting dates for restricted stock awards to our employees, we repurchase a portion of the shares that have vested at the prior day's closing price per share, with the funds used to pay the employees' statutory tax withholding requirements related to the vesting of restricted stock awards. We do not have a stock repurchase program.

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in the reduction of stockholders' equity in our consolidated balance sheets. We may reissue these treasury shares.

The following table summarizes the shares repurchased during fiscal years 2021, 2020 and 2019:

	Years Ended		
	August 31, 2021	**August 31, 2020**	**August 31, 2019**
Shares repurchased	62,282	56,503	75,462
Cost of repurchase of shares (in thousands)	$ 5,542	$ 3,651	$ 4,604

We reissued 96,400 treasury shares as part of our stock-based compensation programs during fiscal 2021, 234,400 treasury shares during fiscal 2020 and 63,000 treasury shares during fiscal 2019.

Dividends

Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 6 - Stockholders' Equity" for further discussion.

Derivatives

Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 13 - Derivative Instruments and Hedging Activities" for further discussion.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP in the United States. The preparation of our consolidated financial statements requires that management make estimates and judgments that affect the reported amounts of assets and liabilities, the 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. Some of our accounting policies require management to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

We evaluate our accounting policies and significant estimates on an ongoing basis, including those related to business acquisitions, contingencies and litigation, income taxes, value added taxes, and long-lived assets. We base our estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances. Using different estimates could have a material impact on our financial condition and results of operations.

We believe that the accounting policies described below involve a significant degree of judgment and complexity. Accordingly, we believe these are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. For further information, refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 2 - Summary of Significant Accounting Policies."

Income Taxes

We account for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

As of August 31, 2021, we evaluated our deferred tax assets and liabilities and determined that a valuation allowance was necessary for certain deferred tax asset balances, primarily because of the existence of significant negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, indicating that certain net operating loss carry-forward periods are not sufficient to realize the related deferred tax assets. We also specifically considered whether foreign tax credit balances could be utilized in the foreseeable future in light of current and future U.S. tax liabilities. We have historically applied foreign tax credits, generated from taxes withheld on certain payments PriceSmart receives from our foreign subsidiaries, to reduce U.S. income tax liabilities. However, as an incidental result of U.S. tax reform, following the reduction of the U.S. corporate income tax rate from 35% to 21%, we expect foreign tax credits generated to exceed U.S. income tax liability for the foreseeable future. Therefore, for the twelve-month period ended August 31, 2021 and August 31, 2020, we have recorded valuation allowances of $11.4 million and $8.5 million against our foreign tax credits, respectively.

We are required to file federal and state income tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by us. We, in consultation with our tax advisors, base our tax returns on interpretations that we believe to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various taxing authorities in the jurisdictions in which we file our tax returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations we used to calculate our tax liability and therefore require us to pay additional taxes.

We accrue an amount for our estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has 50% or less likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. There were no material changes in our uncertain income tax positions for the period ended on August 31, 2021.

Tax Receivables

We pay Value Added Tax ("VAT") or similar taxes, income taxes, and other taxes within the normal course of our business in most of the countries in which we operate related to the procurement of merchandise and/or services we acquire and/or on sales and taxable income. VAT is a form of indirect tax applied to the value added at each stage of production (primary, manufacturing, wholesale and retail). This tax is similar to, but operates somewhat differently than, sales tax paid in the United States. We generally collect VAT from our Members upon sale of goods and services and pay VAT to our vendors upon purchase of goods and services. Periodically, we submit VAT reports to governmental agencies and reconcile the VAT paid and VAT received. The net overpaid VAT may be refunded or applied to subsequent returns, and the net underpaid VAT must be remitted to the government.

With respect to income taxes paid, if the estimated income taxes paid or withheld exceed the actual income tax due this creates an income tax receivable. In most countries where we operate, the governments have implemented additional collection procedures, such as requiring credit card processors to remit a portion of sales processed via credit and debit cards directly to the government as advance payments of VAT and/or income tax. This collection mechanism generally leaves us with net VAT and/or income tax receivables, forcing us to process significant refund claims on a recurring basis. These refund or offset processes can take anywhere from several months to several years to complete.

In most countries where we operate, there are defined and structured processes to recover VAT receivables via refunds or offsets. However, in one country without a clearly defined refund process, the Company is actively engaged with the local government to recover VAT receivables totaling $9.7 million and $7.0 million as of August 31, 2021 and August 31, 2020, respectively. In addition, in two other countries where the Company operates, there have been changes in the method of computing minimum tax payments, under which the governments have sought to require the Company to pay taxes based on a percentage of sales rather than taxable income. As a result, we have made and may continue to make income tax payments substantially in excess of those we would expect to pay based on taxable income. The Company had income tax receivables of $11.0 million and $10.4 million and deferred tax assets of $3.3 million and $2.8 million as of August 31, 2021 and August 31, 2020, respectively, in these countries. While the rules related to refunds of income tax receivables in these countries are either unclear or complex, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests. Similarly, we have not placed any recoverability allowances on tax receivables that arise from payments we are required to make originating from tax assessments that we are appealing, as we believe it is more likely than not that we will ultimately prevail in the related appeals.

Our policy for classification and presentation of VAT receivables, income tax receivables and other tax receivables is as follows:

- Short-term VAT and Income tax receivables, recorded as Other current assets: This classification is used for any countries where our subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. We also classify as short-term any approved refunds or credit notes to the extent that we expect to receive the refund or use the credit notes within one year.
- Long-term VAT and Income tax receivables, recorded as Other non-current assets: This classification is used for amounts not approved for refund or credit in countries where our subsidiary has not demonstrated the ability to obtain refunds within one year and/or for amounts which are subject to outstanding disputes. An allowance is provided against VAT and income tax receivable balances in dispute when we do not expect to eventually prevail in our recovery of such balances. We do not currently have any allowances provided against VAT and income tax receivables.

Long-lived Assets

We periodically evaluate our long-lived assets for indicators of impairment. Indicators that an asset may be impaired are:

- the asset's inability to continue to generate income from operations and positive cash flow in future periods;
- loss of legal ownership or title to the asset;
- significant changes in its strategic business objectives and utilization of the asset(s); and
- the impact of significant negative industry or economic trends.

Management's judgments are based on market and operational conditions at the time of the evaluation and can include management's best estimate of future business activity, which in turn drives estimates of future cash flows from these assets. These periodic evaluations could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value. Future business conditions and/or activity could differ materially from the projections made by management causing the need for additional impairment charges. We did not record any impairment charges during fiscal 2021 related to the loss of legal ownership or title to assets; significant changes in the Company's strategic business objectives or utilization of assets; or the impact of significant negative industry or economic trends. Loss on disposal of assets recorded during the years reported resulted from improvements to operations and normal preventive maintenance.

Goodwill

Goodwill is not amortized, but is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. Generally, this evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If we determine, after performing an assessment based on the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, or that a fair value of the reporting unit substantially in excess of the carrying amount cannot be assured, then a quantitative impairment test would be performed. The quantitative test for impairment requires management to make judgments relating to future cash flows, growth rates and economic and market conditions. These evaluations are based on determining the fair value of a reporting unit or asset using a valuation method such as discounted cash flow or a relative, market-based approach. Historically, our reporting units have generated sufficient returns to recover the cost of our goodwill. Because of the nature of the factors used in these tests, if different conditions occur in future periods, future operating results could be materially impacted. For approximately $45.1 million of certain acquired goodwill, the fair value was greater than the carrying value; any deterioration in the fair value may result in an impairment charge.

Seasonality and Quarterly Fluctuations

Historically, our merchandising businesses have experienced holiday retail seasonality in their markets. In addition to seasonal fluctuations, our operating results fluctuate quarter-to-quarter as a result of economic and political events in markets that we serve, the timing of holidays, weather, the timing of shipments, product mix, and currency effects on the cost of U.S.-sourced products which may make these products more or less expensive in local currencies and therefore more or less affordable. Because of such fluctuations, the results of operations of any quarter are not indicative of the results that may be achieved for a full fiscal year or any future quarter. In addition, there can be no assurance that our future results will be consistent with past results or the projections of securities analysts.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity price risk. These market risks arise in the normal course of business. We do not engage in speculative trading activities. To manage the risk arising from these exposures, we utilize interest rate swaps, cross-currency interest rate swaps, non-deliverable foreign currency forward contracts and loans denominated in foreign currencies. For a discussion of our accounting policies for derivative instruments and further disclosures, refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 13 - Derivative Instruments and Hedging Activities."

Each market risk sensitivity analysis presented below is based on hypothetical scenarios used to calibrate potential risk and do not represent our view of future market changes. The effect of a change in a particular assumption is calculated without adjusting any other assumption. In reality, however, a change in one factor could cause a change in another factor, which may magnify or negate other sensitivities.

Interest Rate Risk

We are exposed to changes in interest rates as a result of our short-term borrowings and long-term debt borrowings. We have mitigated a portion of our interest rate risk by managing the mix of fixed and variable rate debt and by entering into interest rate swaps and cross-currency interest rate swaps to hedge interest rate risk. The notional amount, interest payment and maturity dates of the swap match the terms of the associated debt.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table represents the principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, including cross-currency interest rate swaps, the table represents the contractual cash flows and weighted-average interest rates by the contractual maturity date, unless otherwise noted. The notional amounts are used to calculate contractual cash flows to be exchanged under the contracts. The weighted-average variable rates are based upon prevailing market interest rates and the outstanding balances as of August 31, 2021.

Annual maturities of long-term debt and derivatives are as follow (in thousands):

	Twelve Months Ended August 31, (Amounts in thousands)							
	2022	2023	2024	2025	2026	Thereafter	Total	
Long-Term Debt:								
Long-term debt with fixed interest rate	$ 3,029	$ 3,493	$ 3,793	$ 3,792	$ 9,293	$ 8,601	$ 32,001	(1)
Weighted-average interest rate	6.30%	5.80%	6.00%	6.00%	6.00%	7.00%	6.10%	
Long-term debt with variable interest rate	$ 16,366	$ 23,934	$ 7,471	$ 21,938	$ 1,551	$ 26,244	$ 97,504	
Weighted-average interest rate	5.90%	5.90%	5.40%	5.50%	3.70%	3.70%	5.40%	
Total long-term debt	$ 19,395	$ 27,427	$ 11,264	$ 25,730	$ 10,844	$ 34,845	$ 129,505	(1)
Derivatives:								
Interest Rate Swaps:								
Variable to fixed interest	$ 2,775	$ 9,900	$ 1,275	$ 1,275	$ 1,275	$ 26,244	$ 42,744	(2)
Weighted-average pay rate	4.91%	5.69%	3.65%	3.65%	3.65%	3.65%	4.20%	
Weighted-average receive rate	2.52%	2.96%	1.78%	1.78%	1.78%	1.78%	2.10%	
Cross-Currency Interest Rate Swaps:								
Variable to fixed interest	$ 4,679	$ 10,754	$ 3,329	$ 19,769	$ —	—	$ 38,531	(2)
Weighted-average pay rate	8.44%	9.18%	7.92%	7.92%	—%	—%	8.33%	
Weighted-average receive rate	2.73%	2.95%	2.57%	2.57%	—%	—%	2.70%	

(1) The Company has disclosed the future annual maturities of long-term debt, for which it has entered into cross-currency interest rate swaps by using the derivative obligation as of August 31, 2021 to estimate the future commitments. Therefore, the total annual commitments reflects these obligations, including the effect of the cross-currency interest rate swaps on the total-long term debt as disclosed on the consolidated balance sheet.

(2) The derivative obligations of the interest rate swaps and cross-currency interest rate swaps are included in the Total long-term debt section of this table.

Foreign Currency Risk

We have foreign currency risks related to sales, operating expenses and financing transactions in currencies other than the U.S. dollar. As of August 31, 2021, we had a total of 47 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory, 37 of which operate under currencies other than the U.S. dollar. Approximately 48% of our net merchandise sales are comprised of products we purchased in U.S. dollars and were sold in countries whose currencies were other than the U.S. dollar. Approximately 78% of our net merchandise sales are in markets whose functional currency is other than the U.S. dollar. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net merchandise sales denominated in foreign currencies.

Currency exchange rate changes either increase or decrease the cost of imported products that we purchase in U.S. dollars and price in local currency. Price changes can impact the demand for those products in the market. Currency exchange rates also affect the reported sales of the consolidated company when local currency-denominated sales are translated to U.S. dollars. In addition, we revalue all U.S. dollar denominated assets and liabilities within those markets that do not use the U.S. dollar as the functional currency. These assets and liabilities include, but are not limited to, excess cash permanently reinvested offshore and the value of items shipped from the U.S. to our foreign markets. The gain or loss associated with this revaluation, net of reserves, is recorded in other income (expense).

Foreign currencies in most of the countries where we operate have historically devalued against the U.S. dollar and are expected to continue to devalue. The following tables summarize by country, for those countries with functional currencies other than the U.S. dollar, the weakening of the countries' currency against the U.S. dollar (devaluation) or the strengthening of their currencies (revaluation):

	% Change Revaluation/(Devaluation) Twelve Months Ended August 31,	
Country	**2021**	**2020**
Colombia	(1.24)%	(9.72) %
Costa Rica	(4.63)	(4.27)
Dominican Republic	2.51	(13.96)
Guatemala	—	(0.64)
Honduras	2.51	0.24
Jamaica	(2.12)	(8.46)
Nicaragua	(2.25)	(3.33)
Trinidad	(0.45)%	0.06 %

We seek to manage foreign exchange risk by (1) adjusting prices on goods acquired in U.S. dollars on a periodic basis to maintain our target margins after taking into account changes in exchange rates; (2) obtaining local currency loans from banks within certain markets where it is economical to do so and where management believes the risk of devaluation and the level of U.S. dollar denominated liabilities warrants this action; (3) reducing the time between the acquisition of product in U.S. dollars and the settlement of that purchase in local currency; (4) maintaining a balance between assets held in local currency and in U.S. dollars; and (5) by entering into cross-currency interest rate swaps and forward currency derivatives. We have local-currency-denominated long-term loans in Costa Rica and Guatemala; we have cross-currency interest rate swaps in Colombia and Honduras; and we have interest rate swaps in Panama and in the United States. Turbulence in the currency markets can have a significant impact on the value of the foreign currencies within the countries in which we operate. We report the gains or losses associated with the revaluation of these monetary assets and liabilities on our consolidated statements of income under the heading "Other income (expense), net." Future volatility and uncertainties regarding the currencies in the countries that we operate in could have a material impact on our operations in future periods. However, there is no way to accurately forecast how currencies may trade in the future and, as a result, we cannot accurately project the impact of the change in rates on our future demand for imported products, reported sales, or financial results.

We are exposed to foreign exchange risks related to U.S. dollar-denominated and other foreign-denominated cash, cash equivalents and restricted cash, to U.S. dollar-denominated intercompany debt balances and to other U.S. dollar-denominated debt/asset balances (excluding U.S. dollar-denominated debt obligations for which we hedge a portion of the currency risk inherent in the interest and principal payments), within entities whose functional currency is not the U.S. dollar. As part of the adoption of the new leasing standard, we recorded several monetary liabilities on the consolidated balance sheet that are exposed to foreign exchange movements. These monetary liabilities arise from leases denominated in a currency that is not the functional currency of the Company's local subsidiary. The monetary liability for these leases as of August 31, 2021 was $35.6 million. Due to the mix of foreign currency exchange rate fluctuations during fiscal 2021, the impact to the consolidated statements of income of revaluing this liability was immaterial.

The following table discloses the net effect on other expense, net for U.S. dollar-denominated and other foreign-denominated accounts relative to a hypothetical simultaneous currency revaluation based on balances as of August 31, 2021 (in thousands) including the new lease-related monetary liabilities described above:

Overall weighted negative currency movement	Losses based on change in U.S. dollar denominated and other foreign denominated cash, cash equivalents and restricted cash balances	Losses based on change in U.S. dollar denominated inter-company balances	Gains based on change in U.S. dollar denominated other asset/liability balances	Net Loss[1]
5%	$ (2,070)	$ (107)	$ 1,831	$ (346)
10%	$ (4,140)	$ (215)	$ 3,663	$ (692)
20%	$ (8,280)	$ (429)	$ 7,326	$ (1,383)

(1) Amounts are before consideration of income taxes.

Information about the financial impact of foreign currency exchange rate fluctuations for the twelve months ended August 31, 2021 is disclosed in Part II. "Item 7. Management's Discussion and Analysis – Other Expense, net".

Examples of countries where we have significant U.S. dollar net asset positions subjecting us to exchange rate losses if the local currency strengthens against the U.S. dollar are our Trinidad, Nicaragua, and Jamaica subsidiaries with balances of $26.6 million, $22.4 million and $19.6 million, respectively as of August 31, 2021. Examples of countries where we have significant U.S. dollar net liability positions subjecting us to exchange rate losses if the local currency weakens against the U.S. dollar are our Honduras, Dominican Republic, and Guatemala subsidiaries with balances of $27.8 million, $22.7 million, and $19.8 million respectively as of August 31, 2021.

We are also exposed to foreign exchange risks related to local-currency-denominated cash and cash equivalents, to local-currency-denominated debt obligations, to local-currency-denominated current assets and liabilities and to local-currency-denominated long-term assets and liabilities within entities whose functional currency is not the U.S. dollar. The following table discloses the net effect on other comprehensive loss for these local currency denominated accounts relative to hypothetical simultaneous currency devaluation in all the countries listed in the table above, based on balances as of August 31, 2021:

Overall weighted negative currency movement	Other comprehensive loss on the decline in local currency denominated cash and cash equivalents and restricted cash (in thousands)	Other comprehensive gain on the decline in foreign currency denominated debt obligations (in thousands)	Other comprehensive loss on the decline in all other foreign currency denominated current assets net of current liabilities (in thousands)	Other comprehensive loss on the decline in all other foreign currency denominated long-term assets net of long-term liabilities (in thousands)
5%	$ 2,858	$ (2,712)	$ 4,862	$ 27,380
10%	$ 5,716	$ (5,424)	$ 9,724	$ 54,759
20%	$ 11,432	$ (10,847)	$ 19,448	$ 109,519

In addition, we are exposed to foreign currency exchange rate fluctuations associated with our U.S. dollar-denominated debt obligations that we hedge. We hedge a portion of the currency risk inherent in the interest and principal payments associated with this debt through the use of cross-currency interest rate swaps. The terms of these swap agreements are commensurate with the underlying debt obligations. The aggregate fair value of these swaps was in a net asset position of approximately $1.8 million at August 31, 2021 and approximately $44,000 at August 31, 2020. A hypothetical 10% increase in the currency exchange rates underlying these swaps from the market rates at August 31, 2021 would have resulted in a further increase in the value of the swaps of approximately $2.3 million. Conversely, a hypothetical 10% decrease in the currency exchange rates underlying these swaps from the market rates at August 31, 2021 would have resulted in a net decrease in the value of the swaps of approximately of $2.8 million.

From time to time, we use non-deliverable forward foreign exchange contracts primarily to address exposure to U.S. dollar merchandise inventory expenditures made by our international subsidiaries whose functional currency is other than the U.S. dollar. The net increase or decrease in the fair value of these derivative instruments would be economically offset by the gains or losses on the underlying transactions.

Occasionally, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. Since fiscal 2017, we have experienced this situation in Trinidad and have been unable to source a sufficient level of tradeable currencies. We are working with our banks in Trinidad to source tradeable currencies. We expect the illiquid market conditions in Trinidad to continue. Refer to Part II. "Item 7. Management's Discussion & Analysis – Factors Affecting Our Business" for our quantitative analysis and discussion.

Commodity Price Risk

The increasing price of oil and certain commodities could have a negative effect on our operating costs and sales. Higher oil prices can negatively impact the economic growth of the countries in which we operate, thereby reducing the buying power of our Members. Higher oil prices can also increase our operating costs, particularly utilities and distribution expenses. Inflationary pressures on various commodities also may impact consumer spending. We do not currently seek to hedge commodity price risk.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PriceSmart, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited PriceSmart, Inc.'s internal control over financial reporting as of August 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PriceSmart, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of August 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCOAB), the consolidated balance sheets of PriceSmart, Inc. as of August 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended August 31, 2021 and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated October 21, 2021, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control Over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Diego, California

October 21, 2021

PRICESMART, INC.
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	August 31, 2021	August 31, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 202,060	$ 299,481
Short-term restricted cash	3,647	185
Short-term investments	50,233	46,509
Receivables, net of allowance for doubtful accounts of $94 as of August 31, 2021 and $147 as of August 31, 2020, respectively	12,359	13,153
Merchandise inventories	389,711	309,509
Prepaid expenses and other current assets	39,194	30,165
Total current assets	697,204	699,002
Long-term restricted cash	9,772	4,105
Property and equipment, net	730,204	692,279
Operating lease right-of-use assets, net	123,655	119,533
Goodwill	45,095	45,206
Other intangibles, net	7,762	10,166
Deferred tax assets	24,225	21,672
Other non-current assets (includes $2,464 and $872 as of August 31, 2021 and August 31, 2020, respectively, for the fair value of derivative instruments)	57,329	54,260
Investment in unconsolidated affiliates	10,544	10,602
Total Assets	$ 1,705,790	$ 1,656,825
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term borrowings	$ —	$ 65,143
Accounts payable	388,791	373,172
Accrued salaries and benefits	41,896	32,946
Deferred income	26,898	23,525
Income taxes payable	8,310	7,727
Other accrued expenses and other current liabilities	39,736	37,731
Operating lease liabilities, current portion	8,526	8,594
Long-term debt, current portion	19,395	19,437
Total current liabilities	533,552	568,275
Deferred tax liability	1,568	1,713
Long-term income taxes payable, net of current portion	4,160	5,132
Long-term operating lease liabilities	129,256	124,181
Long-term debt, net of current portion	110,110	112,610
Other long-term liabilities (includes $3,010 and $4,685 for the fair value of derivative instruments and $7,380 and $6,155 for post-employment plans as of August 31, 2021 and August 31, 2020, respectively)	10,930	12,182
Total Liabilities	789,576	824,093

Stockholders' Equity:		
Common stock $0.0001 par value, 45,000,000 shares authorized; 31,467,971 and 31,417,576 shares issued and 30,755,308 and 30,670,712 shares outstanding (net of treasury shares) as of August 31, 2021 and August 31, 2020, respectively	3	3
Additional paid-in capital	465,015	454,455
Accumulated other comprehensive loss	(182,508)	(176,820)
Retained earnings	658,919	582,487
Less: treasury stock at cost, 712,663 shares as of August 31, 2021 and 746,864 shares as of August 31, 2020	(26,084)	(28,406)
Total stockholders' equity attributable to PriceSmart, Inc. stockholders	915,345	831,719
Noncontrolling interest in consolidated subsidiaries	869	1,013
Total stockholders' equity	916,214	832,732
Total Liabilities and Equity	$ 1,705,790	$ 1,656,825

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended August 31, 2021	2020	2019
Revenues:			
Net merchandise sales	$ 3,465,442	$ 3,191,762	$ 3,091,648
Export sales	41,520	34,374	30,981
Membership income	56,030	54,501	52,149
Other revenue and income	56,879	48,551	49,140
Total revenues	3,619,871	3,329,188	3,223,918
Operating expenses:			
Cost of goods sold:			
Net merchandise sales	2,912,489	2,723,942	2,648,665
Export sales	39,513	32,676	29,524
Non-merchandise	23,336	18,160	17,502
Selling, general and administrative:			
Warehouse club and other operations	359,221	323,178	307,823
General and administrative	125,416	106,776	101,432
Pre-opening expenses	849	1,545	2,726
Loss on disposal of assets	1,027	443	1,079
Total operating expenses	3,461,851	3,206,720	3,108,751
Operating income	158,020	122,468	115,167
Other expense:			
Interest income	1,979	2,031	1,489
Interest expense	(7,210)	(7,625)	(3,939)
Other expense, net	(5,603)	(834)	(1,607)
Total other expense	(10,834)	(6,428)	(4,057)
Income before provision for income taxes and loss of unconsolidated affiliates	147,186	116,040	111,110
Provision for income taxes	(48,969)	(37,764)	(37,560)
Loss of unconsolidated affiliates	(58)	(95)	(61)
Net income	98,159	78,181	73,489
Less: net income attributable to noncontrolling interest	(196)	(72)	(298)
Net income attributable to PriceSmart, Inc.	$ 97,963	$ 78,109	$ 73,191
Net income attributable to PriceSmart, Inc. per share available for distribution:			
Basic	$ 3.18	$ 2.55	$ 2.40
Diluted	$ 3.18	$ 2.55	$ 2.40
Shares used in per share computations:			
Basic	30,403	30,259	30,195
Diluted	30,403	30,259	30,195
Dividends per share	$ 0.70	$ 0.70	$ 0.70

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(AMOUNTS IN THOUSANDS)

	Years Ended August 31,		
	2021	2020	2019
Net income	$ 98,159	$ 78,181	$ 73,489
Less: net income attributable to noncontrolling interest	(196)	(72)	(298)
Net income attributable to PriceSmart, Inc.	$ 97,963	$ 78,109	$ 73,191
Other Comprehensive Income, net of tax:			
Foreign currency translation adjustments (1)	(7,837)	(29,413)	(19,717)
Defined benefit pension plan:			
Net loss arising during period	(230)	(79)	(112)
Amortization of prior service cost and actuarial gains included in net periodic pensions cost	127	93	74
Total defined benefit pension plan	(103)	14	(38)
Derivative instruments: (2)			
Unrealized losses on change in derivative obligations	(140)	(490)	(267)
Unrealized gains/(losses) on change in fair value of interest rate swaps	2,392	(5,313)	(3,102)
Amounts reclassified from accumulated other comprehensive income to other expense, net for settlement of derivatives	—	2,721	1
Total derivative instruments	2,252	(3,082)	(3,368)
Other comprehensive loss	(5,688)	(32,481)	(23,123)
Comprehensive income	92,275	45,628	50,068
Less: comprehensive income attributable to noncontrolling interest	117	114	21
Comprehensive income attributable to PriceSmart, Inc. stockholders	$ 92,158	$ 45,514	$ 50,047

(1) Translation adjustments arising in translating the financial statements of a foreign entity have no effect on the income taxes of that foreign entity. They may, however, affect: (a) the amount, measured in the parent entity's reporting currency, of withholding taxes assessed on dividends paid to the parent entity and (b) the amount of taxes assessed on the parent entity by the government of its country. The Company has determined that the reinvestment of earnings of its foreign subsidiaries are indefinite because of the long-term nature of the Company's foreign investment plans. Therefore, deferred taxes are not provided for on translation adjustments related to non-remitted earnings of the Company's foreign subsidiaries.

(2) Refer to “Note 13 - Derivative Instruments and Hedging Activities.”

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(AMOUNTS IN THOUSANDS)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Treasury Stock		Total Stockholders' Equity Attributable to	Noncontrolling	Total
	Shares	Amount	Capital	Loss	Earnings	Shares	Amount	PriceSmart, Inc.	Interest	Equity
Balance at August 31, 2018	31,373	$ 3	$ 444,368	$ (121,216)	$ 473,954	912	$ (39,107)	$ 758,002	$ 636	$ 758,638
Purchase of treasury stock	—	—	—	—	—	75	(4,604)	(4,604)	—	(4,604)
Issuance of treasury stock	(63)	—	(5,024)	—	—	(63)	5,024	—	—	—
Issuance of restricted stock award	178	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(27)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	15,512	—	—	—	—	15,512	—	15,512
Dividend paid to stockholders	—	—	—	—	(21,341)	—	—	(21,341)	(313)	(21,654)
Net income	—	—	—	—	73,191	—	—	73,191	298	73,489
Other comprehensive income (loss)	—	—	—	(23,123)	—	—	—	(23,123)	21	(23,102)
Other	—	—	(286)	—	—	—	—	(286)	286	—
Balance at August 31, 2019	31,461	$ 3	$ 454,570	$ (144,339)	$ 525,804	924	$ (38,687)	$ 797,351	$ 928	$ 798,279
Purchase of treasury stock	—	$ —	$ —	$ —	$ —	57	$ (3,651)	$ (3,651)	$ —	$ (3,651)
Issuance of treasury stock	(234)	—	(13,932)	—	—	(234)	13,932	—	—	—
Issuance of restricted stock award	222	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(31)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	13,817	—	—	—	—	13,817	—	13,817
Dividend paid to stockholders	—	—	—	—	(21,426)	—	—	(21,426)	(101)	(21,527)
Net income	—	—	—	—	78,109	—	—	78,109	72	78,181
Other comprehensive income (loss)	—	—	—	(32,481)	—	—	—	(32,481)	114	(32,367)
Balance at August 31, 2020	31,418	$ 3	$ 454,455	$ (176,820)	$ 582,487	747	$ (28,406)	$ 831,719	$ 1,013	$ 832,732
Purchase of treasury stock	—	$ —	$ —	$ —	$ —	62	$ (5,542)	$ (5,542)	$ —	$ (5,542)
Issuance of treasury stock	(96)	—	(7,864)	—	—	(96)	7,864	—	—	—
Issuance of restricted stock award	154	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(8)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	18,424	—	—	—	—	18,424	—	18,424
Dividend paid to stockholders	—	—	—	—	(21,531)	—	—	(21,531)	(457)	(21,988)
Net income	—	—	—	—	97,963	—	—	97,963	196	98,159
Other comprehensive income (loss)	—	—	—	(5,688)	—	—	—	(5,688)	117	(5,571)
Balance at August 31, 2021	31,468	$ 3	$ 465,015	$ (182,508)	$ 658,919	713	$ (26,084)	$ 915,345	$ 869	$ 916,214

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)

	Years Ended August 31,		
	2021	2020	2019
Operating Activities:			
Net income	$ 98,159	$ 78,181	$ 73,489
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	64,983	61,225	54,958
Allowance for doubtful accounts	(53)	3	47
Loss on sale of property and equipment	1,027	443	1,079
Deferred income taxes	(3,853)	(3,405)	(4,401)
Equity in losses of unconsolidated affiliates	58	95	61
Stock-based compensation	18,424	13,817	15,061
Change in operating assets and liabilities:			
Receivables, prepaid expenses and other current assets, non-current assets, accrued salaries and benefits, deferred membership income and other accruals	13,097	(3,040)	14,961
Merchandise inventories	(80,202)	21,764	(10,248)
Accounts payable	15,526	90,185	25,325
Net cash provided by operating activities	127,166	259,268	170,332
Investing Activities:			
Additions to property and equipment	(113,174)	(100,320)	(140,061)
Purchases of short-term investments	(69,460)	(49,629)	(15,244)
Proceeds from settlements of short-term investments	65,528	20,182	30,527
Purchases of long-term investments	(1,478)	(1,485)	—
Proceeds from settlements of long-term investments	1,478	—	—
Proceeds from disposal of property and equipment	385	40	74
Net cash used in investing activities	(116,721)	(131,212)	(124,704)
Financing Activities:			
Proceeds from long-term bank borrowings	17,565	57,882	—
Repayment of long-term bank borrowings	(19,993)	(15,164)	(12,939)
Proceeds from short-term bank borrowings	—	271,014	18,403
Repayment of short-term bank borrowings	(64,983)	(212,919)	(10,863)
Cash dividend payments	(21,988)	(21,527)	(21,654)
Purchase of treasury stock for tax withholding on stock compensation	(5,542)	(3,651)	(4,604)
Other financing activities	(196)	(72)	(298)
Net cash provided by (used in) financing activities	(95,137)	75,563	(31,955)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(3,600)	(6,084)	(4,351)
Net increase (decrease) in cash, cash equivalents	(88,292)	197,535	9,322
Cash, cash equivalents and restricted cash at beginning of period	303,771	106,236	96,914
Cash, cash equivalents and restricted cash at end of period	$ 215,479	$ 303,771	$ 106,236
Supplemental disclosure of noncash investing activities:			
Capital expenditures accrued, but not yet paid	$ 3,497	$ 10,563	$ 6,637
Cash paid during the period for:			
Interest	$ 7,774	$ 6,877	$ 3,504
Income taxes	$ 58,571	$ 50,814	$ 48,312

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same amounts shown in the statement of cash flows:

	Years Ended August 31,		
	2021	2020	2019
Cash and cash equivalents	$ 202,060	$ 299,481	$ 102,653
Short-term restricted cash	3,647	185	54
Long-term restricted cash	9,772	4,105	3,529
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 215,479	$ 303,771	$ 106,236

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart," the "Company," or "we") business consists primarily of international membership shopping warehouse clubs similar to, but typically smaller in size than, warehouse clubs in the United States. As of August 31, 2021, the Company had 47 warehouse clubs in operation in 12 countries and one U.S. territory (eight in Costa Rica and Colombia; seven in Panama; five in the Dominican Republic, four in Trinidad and Guatemala; three in Honduras; two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica and the United States Virgin Islands), of which the Company owns 100% of the corresponding legal entities (see Note 2 - Summary of Significant Accounting Policies). The Company also plans to open new warehouse clubs in Guatemala City, Guatemala in late October 2021 and in Bucaramanga, Colombia in November 2021 and in Portmore, Jamaica in the spring of 2022. Once these three new clubs are open, the Company will operate 50 warehouse clubs.

PriceSmart continues to invest in technology to increase operational efficiencies that are expected to lead to greater value to the Member, to gain greater insights into the shopping preferences of our Members and to enhance the overall Member experience. Technology developments are driving omni-channel initiatives and capabilities, including online shopping and services. As of August 31, 2021, the Company offered the Click & Go™ curbside pickup and delivery service in all 13 of its markets. These services provide an alternative and convenient way for Members to shop, while reducing physical contact. The Company also has launched digital membership, which helps it gather higher quality data it can use to make better informed decisions in all areas of the business and facilitates a more seamless auto-renewal process, increasing predictability of membership income. We believe digital membership also provides more convenience to the Members with digital cards and online payment.

From March 2018 through September 2021, we operated a cross border package forwarding (casillero) and online marketplace business under the "Aeropost" banner in 38 countries in Latin America and the Caribbean. PriceSmart acquired Aeropost in 2018 to leverage Aeropost's technology and its management's experience in developing software and systems for e-commerce and logistics to advance PriceSmart's development of an omni-channel shopping experience for its Members. In October 2021, PriceSmart sold the legacy casillero and marketplace operations, which were not core to our main objectives. PriceSmart retained key Aeropost personnel and technology in the transaction, with which we believe we can continue to leverage and grow our omni-channel business. This technology and talent have helped us combine our brick and mortar operations with online capabilities, supported by a more sophisticated distribution system that provides us with the potential to expand our geography, reach more Members in more ways and continue to develop approaches to gain efficiencies, reduce costs and provide Members with great value.

Basis of Presentation – The consolidated financial statements have been prepared in accordance with the instructions to Form 10-K for annual financial reporting pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and U.S. generally accepted accounting principles (GAAP) for annual financial information. The consolidated financial statements include the accounts of PriceSmart, Inc., a Delaware corporation, and its subsidiaries. Inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements of the Company included herein include the assets, liabilities and results of operations of the Company's wholly owned subsidiaries, subsidiaries in which it has a controlling interest, and the Company's joint ventures for which the Company has determined that it is the primary beneficiary. The Company's net income excludes income attributable to noncontrolling interests. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. The consolidated financial statements also include the Company's investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. All significant inter-company accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC and reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows for the periods presented.

The Company determines whether any of the joint ventures in which it has made investments is a Variable Interest Entity ("VIE") at the start of each new venture and if a reconsideration event has occurred. At this time, the Company also considers whether it must consolidate a VIE and/or disclose information about its involvement in a VIE. A reporting entity must consolidate a VIE if that reporting entity has a variable interest (or combination of variable interests) and is determined to be the primary beneficiary.

If the Company determines that it is not the primary beneficiary of the VIE, then the Company records its investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. Due to the nature of the joint ventures that the Company participates in and the continued commitments for additional financing, the Company determined these joint ventures are VIEs.

In the case of the Company's ownership interest in real estate development joint ventures, both parties to each joint venture share all rights, obligations and the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. As a result, the Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method. Under the equity method, the Company's investments in unconsolidated affiliates are initially recorded as an investment in the stock of an investee at cost and are adjusted for the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of the initial investment. The Company's ownership interest in real estate development joint ventures the Company has recorded under the equity method as of August 31, 2021 are listed below:

Real Estate Development Joint Ventures	Countries	Ownership	Basis of Presentation
GolfPark Plaza, S.A.	Panama	50.0 %	Equity[1]
Price Plaza Alajuela PPA, S.A.	Costa Rica	50.0 %	Equity[1]

(1) Joint venture interests are recorded as investment in unconsolidated affiliates on the consolidated balance sheets.

The Company has determined that for its ownership interest in store-front joint ventures within its marketplace and casillero business, the Company has the power to direct the activities that most significantly impact the economic performance of these VIEs. Therefore, the Company has determined that it is the primary beneficiary of these VIEs and has consolidated these entities within its consolidated financial statements. The Company's ownership interest in store-front joint ventures for which the Company has consolidated their financial statements as of August 31, 2021 are listed below:

Marketplace and Casillero Store-front Joint Ventures	Countries	Ownership	Basis of Presentation
Guatemala	Guatemala	60.0 %	Consolidated
Tortola	British Virgin Islands	50.0 %	Consolidated
Trinidad	Trinidad	50.0 %	Consolidated

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The novel coronavirus (COVID-19) pandemic continues to significantly impact the economies of the countries where the Company operates due to elevated infection rates and government restrictions. The Company has assessed the impact that COVID-19 has had on our estimates, assumptions and accounting policies and made additional disclosures, if and as necessary.

Cash and Cash Equivalents – The Company considers as cash and cash equivalents all cash on deposit, highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions in the process of settlement.

Restricted Cash – The changes in restricted cash are disclosed within the consolidated statement of cash flows based on the nature of the restriction. The following table summarizes the restricted cash reported by the Company (in thousands):

	August 31, 2021	August 31, 2020
Short-term restricted cash	$ 3,647	$ 185
Long-term restricted cash	9,772	4,105
Total restricted cash[1]	$ 13,419	$ 4,290

(1) Restricted cash consists mainly of cash deposits held within banking institutions in compliance with federal regulatory requirements in Costa Rica and Panama. In addition, the Company is required to maintain a certificate of deposit and/or security deposits of Trinidad dollars, as measured in U.S. dollars, of approximately $8.6 million with a few of its lenders as compensating balances for several U.S. dollar denominated loans payable over several years. The certificates of deposit will be reduced annually commensurate with the loan balances.

Short-Term Investments – The Company considers as short-term investments certificates of deposit and similar time-based deposits with financial institutions with maturities over three months and up to one year.

Long-Term Investments – The Company considers as long-term investments certificates of deposit and similar time-based deposits with financial institutions with maturities over one year.

Goodwill and Other Intangibles, net – Goodwill and other intangibles totaled $52.9 million as of August 31, 2021 and $55.4 million as of August 31, 2020. The Company tests goodwill for impairment at least annually or when events or changes in circumstances indicate that it is more likely than not that the asset is impaired. The Company's intangible assets consist of the Aeropost trade name and developed technology, which are amortized on a straight-line basis over a period of 25 and 5 years, respectively. Amortization expense is included in general and administrative expenses on the accompanying consolidated statements of income.

The changes in the carrying amount of goodwill for the year ended August 31, 2021 are as follows (in thousands):

	Amount
Goodwill at August 31, 2020	$ 45,206
Foreign currency exchange rate changes	(111)
Goodwill at August 31, 2021	$ 45,095

	Amount
Other intangibles at August 31, 2020	$ 10,166
Amortization	(2,404)
Net other intangibles at August 31, 2021	$ 7,762
Total goodwill and other intangibles, net at August 31, 2021	$ 52,857

The table below shows our estimated amortization of intangibles for fiscal years 2022 through 2026 and thereafter (in thousands):

Twelve Months Ended August 31,	Amount
2022	$ 2,404
2023	1,373
2024	205
2025	204
2026	204
Thereafter	3,372
Total	$ 7,762

Tax Receivables – The Company pays Value Added Tax ("VAT") or similar taxes, income taxes, and other taxes within the normal course of business in most of the countries in which it operates related to the procurement of merchandise and/or services the Company acquires and/or on sales and taxable income. VAT is a form of indirect tax applied to the value added at each stage of production (primary, manufacturing, wholesale and retail). This tax is similar to, but operates somewhat differently than, sales tax paid in the United States. The Company generally collects VAT from its Members upon sale of goods and services and pays VAT to its vendors upon purchase of goods and services. Periodically, the Company submits VAT reports to governmental agencies and reconciles the VAT paid and VAT received. The net overpaid VAT may be refunded or applied to subsequent returns, and the net underpaid VAT must be remitted to the government. With respect to income taxes paid, if the estimated income taxes paid or withheld exceed the actual income tax due this creates an income tax receivable. In most countries where the Company operates, the governments have implemented additional collection procedures, such as requiring credit card processors to remit a portion of sales processed via credit and debit cards directly to the government as advance payments of VAT and/or income tax. This collection mechanism generally leaves the Company with net VAT and/or income tax receivables, forcing the Company to process significant refund claims on a recurring basis. These refund or offset processes can take anywhere from several months to several years to complete.

In most countries where the Company operates, there are defined and structured processes to recover VAT receivables via refunds or offsets. However, in one country without a clearly defined refund process, the Company is actively engaged with the local government to recover VAT receivables totaling $9.7 million and $7.0 million as of August 31, 2021 and August 31, 2020, respectively. In two other countries, there have been changes in the method of computing minimum tax payments, under which the governments have sought to require the Company to pay taxes based on a percentage of sales rather than taxable income. As a result, the Company has made and may continue to make income tax payments substantially in excess of those it would expect to pay based on taxable income. The Company had income tax receivables of $11.0 million and $10.4 million and deferred tax assets of $3.3 million and $2.8 million as of August 31, 2021 and August 31, 2020, respectively, in these countries.

While the rules related to refunds of income tax receivables in these countries are either unclear or complex, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests. Similarly, we have not placed any recoverability allowances on tax receivables that arise from payments we are required to make originating from tax assessments that we are appealing, as we believe it is more likely than not that we will ultimately prevail in the related appeals.

The Company’s policy for classification and presentation of VAT receivables, income tax receivables and other tax receivables is as follows:

- Short-term VAT and Income tax receivables, recorded as Prepaid expenses and other current assets: This classification is used for any countries where the Company’s subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. The Company also classifies as short-term any approved refunds or credit notes to the extent that the Company expects to receive the refund or use the credit notes within one year.

- Long-term VAT and Income tax receivables, recorded as Other non-current assets: This classification is used for amounts not approved for refund or credit in countries where the Company’s subsidiary has not demonstrated the ability to obtain refunds within one year and/or for amounts which are subject to outstanding disputes. An allowance is provided against VAT and income tax receivable balances in dispute when the Company does not expect to eventually prevail in its recovery. The Company does not currently have any allowances provided against VAT and income tax receivables.

The following table summarizes the VAT receivables reported by the Company (in thousands):

	August 31, 2021	August 31, 2020
Prepaid expenses and other current assets	$ 3,173	$ 1,749
Other non-current assets	28,437	25,851
Total amount of VAT receivables reported	$ 31,610	$ 27,600

The following table summarizes the income tax receivables reported by the Company (in thousands):

	August 31, 2021	August 31, 2020
Prepaid expenses and other current assets	$ 11,491	$ 10,944
Other non-current assets	18,872	20,116
Total amount of income tax receivables reported	$ 30,363	$ 31,060

Lease Accounting – The Company’s leases are operating leases for warehouse clubs and non-warehouse club facilities such as corporate headquarters, regional offices, and regional distribution centers. The Company determines if an arrangement is a lease and classifies it as either a finance or operating lease at lease inception. Operating leases are included in Operating lease right-of-use assets, net; Operating lease liabilities, current portion; and Long-term operating lease liabilities on the consolidated balance sheets. The Company does not have finance leases.

Operating lease liabilities are recognized at commencement date based on the present value of the future minimum lease payments over the lease term. The Company’s leases generally do not have a readily determinable implicit rate; therefore, the Company uses a collateralized incremental borrowing rate at the commencement date in determining the present value of future payments. The incremental borrowing rate is based on a yield curve derived from publicly traded bond offerings for companies with credit characteristics that approximate the Company's market risk profile.

In addition, we adjust the incremental borrowing rate for jurisdictional risk derived from quoted interest rates from financial institutions to reflect the cost of borrowing in the Company's local markets. The Company's lease terms may include options to purchase, extend or terminate the lease, which are recognized when it is reasonably certain that the Company will exercise that option. The Company does not combine lease and non-lease components.

The Company measures Right-of-use ("ROU") assets based on the corresponding lease liabilities, adjusted for any initial direct costs and prepaid lease payments made to the lessor before or at the commencement date (net of lease incentives). The lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Variable lease payments are not included in the calculation of the ROU asset and the related lease liability and are recognized as this lease expense is incurred. The Company's variable lease payments generally relate to amounts the Company pays for additional contingent rent based on a contractually stipulated percentage of sales.

Merchandise Inventories – Merchandise inventories, which include merchandise for resale, are valued at the lower of cost (average cost) or net realizable value. The Company provides for estimated inventory losses and obsolescence based on a percentage of sales. The provision is adjusted every reporting period to reflect the trend of actual physical inventory and cycle count results. In addition, the Company may be required to take markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

Stock Based Compensation – The Company utilizes three types of equity awards: restricted stock awards ("RSAs"), restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs"). Compensation related to RSAs, RSUs and PSUs is based on the fair market value at the time of grant. The Company recognizes the compensation cost related to RSAs and RSUs over the requisite service period as determined by the grant, amortized ratably or on a straight-line basis over the life of the grant. The Company also recognizes compensation cost for PSUs over the performance period of each tranche, adjusting this cost based on the probability that performance metrics will be achieved. If the Company determines that an award is unlikely to vest, any previously recorded expense is then reversed.

The Company accounts for actual forfeitures as they occur. The Company records the tax savings resulting from tax deductions in excess of expense for stock-based compensation and the tax deficiency resulting from stock-based compensation in excess of the related tax deduction as income tax expense or benefit. In addition, the Company reflects the tax savings (deficiency) resulting from the taxation of stock-based compensation as an operating cash flow in its consolidated statement of cash flows.

RSAs are outstanding shares of common stock and have the same cash dividend and voting rights as other shares of common stock. Shares of common stock subject to RSUs are not issued nor outstanding until vested, and RSUs do not have the same dividend and voting rights as common stock. However, all outstanding RSUs have accompanying dividend equivalents, requiring payment to the employees and directors with unvested RSUs of amounts equal to the dividend they would have received had the shares of common stock underlying the RSUs been actually issued and outstanding. Payments of dividend equivalents to employees are recorded as compensation expense.

PSUs, similar to RSUs, are awarded with dividend equivalents, provided that such amounts become payable only if the performance metric is achieved. At the time the Compensation Committee confirms the performance metric has been achieved, the corresponding dividend equivalents are paid on the PSUs.

Treasury Stock – Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders' equity in the Company's consolidated balance sheets. The Company may reissue these treasury shares as part of its stock-based compensation programs. When treasury shares are reissued, the Company uses the first in/first out ("FIFO") cost method for determining cost of the reissued shares. If the issuance price is higher than the cost, the excess of the issuance price over the cost is credited to additional paid-in capital ("APIC"). If the issuance price is lower than the cost, the difference is first charged against any credit balance in APIC from treasury stock and the balance is charged to retained earnings. During the twelve months ended August 31, 2021, the Company reissued approximately 96,400 treasury shares.

Fair Value Measurements – The Company measures the fair value for all financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable and willing parties able to engage in the transaction. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

The Company has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring and revaluing fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company was not required to revalue any assets or liabilities utilizing Level 1 or Level 3 inputs at the balance sheet dates. The Company's Level 2 assets and liabilities revalued at the balance sheet dates, on a recurring basis, consisted of cash flow hedges (interest rate swaps and cross-currency interest rate swaps) and forward foreign exchange contracts. In addition, the Company utilizes Level 2 inputs in determining the fair value of long-term debt. The Company did not make any significant transfers in and out of Level 1 and Level 2 fair value tiers during the periods reported on herein.

Non-financial assets and liabilities are revalued and recognized at fair value subsequent to initial recognition when there is evidence of impairment. For the periods reported, no impairment of such non-financial assets was recorded.

The disclosure of fair value of certain financial assets and liabilities recorded at cost is as follows:

Cash and cash equivalents: The carrying value approximates fair value due to the short maturity of these instruments.

Short-term restricted cash: The carrying value approximates fair value due to the short maturity of these instruments.

Short-term investments: Short-term investments consists of certificates of deposit and similar time-based deposits with financial institutions with maturity dates over three months and up to twelve months. The carrying value approximates fair value due to the maturity of the underlying certificates of deposit within the normal operating cycle of the Company.

Long-term investments: Long-term investments consists of certificates of deposit and similar time-based deposits with financial institutions with maturity dates over one year. The carrying value approximates fair value due to the maturity of the underlying certificates of deposit within the normal operating cycle of the Company.

Long-term restricted cash: Long-term restricted cash primarily consists of certificates of deposit with maturity dates of over a year, which are held as collateral against our long-term debt. The carrying value approximates fair value due to the maturity of the underlying certificates of deposit within the normal operating cycle of the Company.

Accounts receivable: Receivables consist primarily of credit card receivables and receivables from vendors and are stated net of allowances for credit losses. The determination of the allowance for credit losses is based on the Company's assessment of collectability along with the consideration of current and expected market conditions that could impact collectability.

Short-term VAT and Income tax receivables: The carrying value approximates fair value due to the short maturity of these accounts.

Long-term VAT and income tax receivables: The fair value of long-term receivables would normally be measured using a discounted cash flow analysis based on the current market interest rates for similar types of financial instruments, with an estimate of the time these receivables are expected to be outstanding. The Company is not able to provide an estimate as to the time these receivables owed to the Company by various government agencies are expected to be outstanding; therefore, the Company has not presented a fair value on the long-term VAT and income tax receivables.

Short-term debt: The carrying value approximates fair value due to the short maturity of these instruments.

Long-term debt: The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments. These inputs are not quoted prices in active markets but they are either directly or indirectly observable; therefore, they are classified as Level 2 inputs. The carrying value and fair value of the Company's debt as of August 31, 2021 and August 31, 2020 is as follows (in thousands):

	August 31, 2021		August 31, 2020	
	Carrying Value	Fair Value[1]	Carrying Value	Fair Value
Long-term debt, including current portion	$ 129,505	$ 119,646	$ 132,047	$ 124,085

(1) The Company has disclosed the fair value of long-term debt, including debt for which it has entered into cross-currency interest rate swaps, using the derivative obligation as of August 31, 2021 to estimate the fair value of long-term debt, which includes the effects that the cross-currency interest rate swaps have had on the fair value of long-term debt.

Derivatives Instruments and Hedging Activities – The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to changes in interest and currency exchange rates. In using derivative financial instruments for the purpose of hedging the Company's exposure to interest and currency exchange rate risks, the contractual terms of a hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria (effective hedge) are recorded using hedge accounting. If a derivative financial instrument is an effective hedge, changes in the fair value of the instrument will be reported in accumulated other comprehensive loss until the hedged item completes its contractual term. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of the change.

The Company did not change valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Company's consolidated balance sheets from previous practice during the reporting period. The Company seeks to manage counterparty risk associated with these contracts by limiting transactions to counterparties with which the Company has an established banking relationship. There can be no assurance, however, that this practice effectively mitigates counterparty risk.

Cash Flow Instruments. The Company is a party to receive floating interest rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain U.S. dollar denominated debt within its international subsidiaries. The swaps are designated as cash flow hedges of interest expense risk. These instruments are considered effective hedges and are recorded using hedge accounting. The Company is also a party to receive variable interest rate, pay fixed interest rate cross-currency interest rate swaps to hedge the interest rate and currency exposure associated with the expected payments of principal and interest of U.S. denominated debt within its international subsidiaries whose functional currency is other than the U.S. dollar. The swaps are designated as cash flow hedges of the currency risk and interest-rate risk related to payments on the U.S. denominated debt. These instruments are also considered to be effective hedges and are recorded using hedge accounting. Under cash flow hedging, the entire gain or loss of the derivative, calculated as the net present value of the future cash flows, is reported on the consolidated balance sheets in accumulated other comprehensive loss. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. Refer to "Note 13 - Derivative Instruments and Hedging Activities" for information on the fair value of interest rate swaps and cross-currency interest rate swaps as of August 31, 2021 and August 31, 2020.

Fair Value Instruments. The Company is exposed to foreign currency exchange rate fluctuations in the normal course of business. This includes exposure to foreign currency exchange rate fluctuations on U.S. dollar denominated liabilities within the Company's international subsidiaries whose functional currency is other than the U.S. dollar. The Company manages these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts that are intended to offset changes in cash flows attributable to currency exchange movements. The contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. Currently, these contracts are treated for accounting purposes as fair value instruments and do not qualify for derivative hedge accounting, and as such the Company does not apply derivative hedge accounting to record these transactions. As a result, these contracts are valued at fair value with unrealized gains or losses reported in earnings during the period of the change. The Company seeks to mitigate foreign currency exchange-rate risk with the use of these contracts and does not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features and are limited to less than one year in duration.

Other Instruments. Other derivatives not designated as hedging instruments consist primarily of written call options in which the Company receives a premium that it uses to reduce the costs associated with its hedging activities. For derivative instruments not designated as hedging instruments, the Company recognizes changes in fair value of the derivative instrument, as well as the offsetting change in the fair value of the hedged item, in Other expense, net in the consolidated statements of income in the period of change.

Revenue Recognition – The accounting policies and other disclosures such as the disclosure of disaggregated revenues are described in "Note 3 – Revenue Recognition."

Insurance Reimbursements – Receipts from insurance reimbursements up to the amount of the losses recognized are considered recoveries. These recoveries are accounted for when they are probable of receipt. Insurance recoveries are not recognized prior to the recognition of the related cost. Anticipated proceeds in excess of the amount of loss recognized are considered gains and are subject to gain contingency guidance. Anticipated proceeds in excess of a loss recognized in the financial statements are not recognized until all contingencies related to the insurance claim are resolved.

Cost of Goods Sold – The Company includes the cost of merchandise, food service and bakery raw materials in cost of goods sold, net merchandise sales. The Company also includes in cost of goods sold, net merchandise sales the external and internal distribution and handling costs for supplying merchandise, raw materials and supplies to the warehouse clubs, and, when applicable, costs of shipping to Members. External costs include inbound freight, duties, drayage, fees, insurance, and non-recoverable value-added tax related to inventory shrink, spoilage and damage. Internal costs include payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense and building and equipment depreciation at the Company's distribution facilities and payroll and other direct costs for in-club demonstrations.

For export sales, the Company includes the cost of merchandise and external and internal distribution and handling costs for supplying merchandise in cost of goods sold, exports.

For the marketplace and casillero operations, the Company includes the costs of external and internal shipping, handling and other direct costs incurred to provide delivery, insurance and customs processing services in cost of goods sold, non-merchandise.

Vendor consideration consists primarily of volume rebates, time-limited product promotions, cooperative marketing efforts, digital advertising, slotting fees, demonstration reimbursements and prompt payment discounts. Volume rebates and time-limited promotions are recognized on a systematic and rational allocation of the cash consideration as the Company progresses toward earning the rebate, provided the amounts to be earned are probable and reasonably estimable. Cooperative marketing efforts and digital advertising are related to consideration received by the Company from vendors for non-distinct online advertising services on the Company's website and social media platforms. Slotting fees are related to consideration received by the Company from vendors for preferential "end cap" placement of the vendor's products within the warehouse club. Demonstration reimbursements are related to consideration received by the Company from vendors for the in-club promotion of the vendors' products. The Company records the reduction in cost of goods sold on a transactional basis for these programs. On a quarterly basis, the Company calculates the amount of rebates recorded in cost of goods sold that relates to inventory on hand and this amount is reclassified as a reduction to inventory, if significant. Prompt payment discounts are taken in substantially all cases and therefore are applied directly to reduce the acquisition cost of the related inventory, with the resulting effect recorded to cost of goods sold when the inventory is sold.

Selling, General and Administrative – Selling, general and administrative costs are comprised primarily of expenses associated with operating warehouse clubs and package forwarding operations. These costs include payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, building and equipment depreciation, bank, credit card processing fees, and amortization of intangibles. Also included in selling, general and administrative expenses are the payroll and related costs for the Company's U.S. and regional management and purchasing centers.

Pre-Opening Costs – The Company expenses pre-opening costs (the costs of start-up activities, including organization costs and rent) for new warehouse clubs as incurred.

Contingencies and Litigation – The Company records and reserves for loss contingencies if (a) information available prior to issuance of the consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the consolidated financial statements and (b) the amount of loss can be reasonably estimated. If one or both criteria for accrual are not met, but there is at least a reasonable possibility that a material loss will occur, the Company does not record and reserve for a loss contingency but describes the contingency within a note and provides detail, when possible, of the estimated potential loss or range of loss. If an estimate cannot be made, a statement to that effect is made.

Foreign Currency Translation – The assets and liabilities of the Company's foreign operations are translated to U.S. dollars when the functional currency in the Company's international subsidiaries is the local currency and not U.S. dollars. Assets and liabilities of these foreign subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will affect net income upon the sale or liquidation of the underlying investment.

The following table discloses the net effect of translation into the reporting currency on other comprehensive loss for these local currency denominated accounts for the years ended August 31, 2021, 2020 and 2019:

	Years Ended August 31,		
	2021	2020	2019
Effect on other comprehensive loss due to foreign currency restatement	$ (7,837)	$ (29,413)	$ (19,717)

Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including transactions recorded involving these monetary assets and liabilities, are recorded as Other income (expense) in the consolidated statements of income.

	Years Ended August 31,		
	2021	2020	2019
Currency loss	$ (5,395)	$ (1,370)	$ (1,476)

Income Taxes – The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company is required to file federal and state income tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various federal, state and foreign taxing authorities in the jurisdictions in which the Company files its returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations the Company used to calculate its tax liability and therefore require the Company to pay additional taxes.

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the consolidated financial statements as appropriate.

Recent Accounting Pronouncements – Not Yet Adopted

FASB ASC 740 ASU 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes. ASU No. 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The ASU is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. The Company expects to adopt ASU No. 2019-12 on September 1, 2021, the first day of the first quarter of fiscal year 2022. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Adopted

FASB ASC 848 ASU 2020-04—Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU No. 2020-04 provides optional expedients and exceptions, if certain criteria are met, for a limited period of time to ease the potential burden in accounting for contracts, hedging relationships, and other transactions affected by reference rate reform. This accounting standards update is intended to ease the process of migrating away from LIBOR to new reference rates. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848). The amendments in this ASU refine the scope of ASC 848 and clarifies some of its guidance as it relates to recent rate reform activities.

A substantial number of the Company's debt agreements and hedging relationships bear interest at variable interest rates, primarily based on USD-LIBOR. To preserve the presentation of the Company's debt and derivatives, the Company adopted ASU 2020-04 and ASU 2021-01 effective December 1, 2020, on a prospective basis. The Company has elected to apply the contract modification expedient and the hedge accounting expedients related to critical terms, probability of forecasted transactions, and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. The adoption of, and future elections under ASU 2020-04 and ASU 2021-01, did not and are not expected to have a material impact on the Company's accounting policies or consolidated financial statements. We will continue to monitor the impact the discontinuance of LIBOR will have on the Company's contracts, hedging relationships and other transactions.

FASB ASC 350 ASU 2018-15 – Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). As such, the amendment in this ASU requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in subtopic 350-40 in order to determine which implementation costs to capitalize as an asset and which costs to expense.

Additionally, the amendments in this ASU require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this ASU are effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The Company adopted ASU No. 2018-15 on a prospective basis on September 1, 2020, the first day of the first quarter of of fiscal year 2021. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

FASB ASC 820 ASU 2018-13 – Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). The standard eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. ASU No. 2018-13 adds new disclosure requirements for Level 3 measurements. The amendments in this ASU are effective for annual periods beginning after December 15, 2019. The Company adopted ASU No. 2018-13 on a prospective basis on September 1, 2020, the first day of the first quarter of fiscal year 2021. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

FASB ASC 350 ASU 2017-04 – Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this ASU modify the concept of impairment from the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Under this ASU, entities should now calculate any goodwill impairment by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge to the goodwill for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments in this ASU are effective for annual periods beginning after December 15, 2019. The Company adopted ASU No. 2017-04 on a prospective basis on September 1, 2020, the first day of the first quarter of fiscal year 2021. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

FASB ASC 326 ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which amends the FASB's guidance on the impairment of financial instruments. In April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments to clarify and address certain items related to the amendments in ASU 2016-13. These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the amendments on a prospective basis on September 1, 2020, the first day of the first quarter of fiscal year 2021. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

There were no other new accounting standards that had a material impact on the Company's consolidated financial statements during the twelve month period ended August 31, 2021, and there were no other new accounting standards or pronouncements that were issued but not yet effective as of August 31, 2021 that the Company expects to have a material impact on its consolidated financial statements.

NOTE 3 – REVENUE RECOGNITION

The Company uses the five-step model to recognize revenue according to Accounting Standards Codification (ASC) Topic 606, "Revenue Recognition from Contracts with Customers." The five steps are:

- Identify the contract with the customer;
- Identity the performance obligation(s);
- Determine the transaction price;
- Allocate the transaction price to each performance obligation if multiple obligations exist; and
- Recognize the revenue as the performance obligations are satisfied.

Performance Obligations

The Company identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Company recognizes revenue when (or as) it satisfies a performance obligation by transferring control of the goods or services to the customer.

Net Merchandise Sales. The Company recognizes merchandise sales revenue, net of sales taxes, on transactions where the Company has determined that it is the principal in the sale of merchandise. These transactions may include shipping commitments and/or shipping revenue if the transaction involves delivery to the customer.

Non-merchandise Sales. The Company recognizes non-merchandise revenue, net of sales taxes, on transactions where the Company has determined that it is the agent in the transaction. These transactions primarily consist of contracts the Company enters into with its customers to provide delivery, insurance and customs processing services for products its customers purchase online in the United States either directly from other vendors utilizing the vendor's website or through the Company's marketplace site. Revenue is recognized when the Company's performance obligations have been completed (that is when delivery of the items have been made to the destination point) and is recorded in "non-merchandise revenue" on the consolidated statements of income. Prepayment for orders for which the Company has not fulfilled its performance obligation are recorded as deferred income. Additionally, the Company records revenue at the net amounts retained, i.e., the amount paid by the customer less amounts remitted to the respective merchandise vendors, as the Company is acting as an agent and is not the principal in the sale of those goods being purchased from the vendors by the Company's customers.

Membership Fee Revenue. Membership income represents annual membership fees paid by the Company's warehouse club Members, which are recognized ratably over the 12-month term of the membership. Our membership policy allows for Members to cancel their membership in the first 60 days and receive a full refund. After the 60 day period, membership refunds are prorated over the remaining term of the membership. The Company has significant experience with membership refund patterns and expects membership refunds will not be material. Therefore, no refund reserve was required for the periods presented. Membership fee revenue is included in membership income in the Company's consolidated statements of income. The deferred membership fee is included in deferred income in the Company's consolidated balance sheets.

Platinum Points Reward Programs. The Company currently offers Platinum Memberships in all of its thirteen countries. The annual fee for a Platinum Membership is approximately $75. The Platinum Membership provides Members with a 2% rebate on most items, up to an annual maximum of $500. The rebate is issued annually to Platinum Members on March 1 and expires August 31. Platinum Members can apply this rebate to future purchases at the warehouse club during the redemption period. The Company records this 2% rebate as a reduction of revenue at the time of the sales transaction. Accordingly, the Company has reduced net merchandise sales and has accrued a liability within other accrued expenses and other current liabilities, platinum rewards. The Company has determined that breakage revenue is 5% of the awards issued; therefore, it records 95% of the Platinum Membership liability at the time of sale. Annually, the Company reviews for expired unused rebates outstanding, and the expired unused rebates are recognized as “Other revenue and income” on the consolidated statements of income.

Co-branded Credit Card Points Reward Programs. Most of the Company’s subsidiaries have points reward programs related to co-branded credit cards. These points reward programs provide incremental points that can be used at a future time to acquire merchandise within the Company’s warehouse clubs. This results in two performance obligations, the first performance obligation being the initial sale of the merchandise or services purchased with the co-branded credit card and the second performance obligation being the future use of the points rewards to purchase merchandise or services. As a result, upon the initial sale, the Company allocates the transaction price to each performance obligation with the amount allocated to the future use points rewards recorded as a contract liability within other accrued expenses and other current liabilities on the consolidated balance sheet. The portion of the selling price allocated to the reward points is recognized as Net merchandise sales when the points are used or when the points expire. The Company reviews on an annual basis expired points rewards outstanding, and the expired rewards are recognized as Net merchandise sales on the consolidated statements of income within markets where the co-branded credit card agreement allows for such treatment.

Gift Cards. Members’ purchases of gift cards to be utilized at the Company's warehouse clubs are not recognized as sales until the card is redeemed and the customer purchases merchandise using the gift card. The outstanding gift cards are reflected as other accrued expenses and other current liabilities in the consolidated balance sheets. These gift cards generally have a one-year stated expiration date from the date of issuance and are generally redeemed prior to expiration. However, the absence of a large volume of transactions for gift cards impairs the Company's ability to make a reasonable estimate of the redemption levels for gift cards; therefore, the Company assumes a 100% redemption rate prior to expiration of the gift card. The Company periodically reviews unredeemed outstanding gift cards, and the gift cards that have expired are recognized as “Other revenue and income” on the consolidated statements of income.

Co-branded Credit Card Revenue Sharing Agreements. As part of the co-branded credit card agreements that the Company has entered into with financial institutions within its markets, the Company often enters into revenue sharing agreements. As part of these agreements, in some countries, the Company receives a portion of the interest income generated from the average outstanding balances on the co-branded credit cards from these financial institutions (“interest generating portfolio” or “IGP”). The Company recognizes its portion of interest received as revenue during the period it is earned. The Company has determined that this revenue should be recognized as “Other revenue and income” on the consolidated statements of income.

Determining the Transaction Price

The transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimate into the determination of the transaction price. The Company may offer sales incentives to customers, including discounts. For retail transactions, the Company has significant experience with returns and refund patterns and relied on this experience in its determination that expected returns are not material; therefore, returns are not factored when determining the transaction price.

Discounts given to customers are usually in the form of coupons and instant markdowns and are recognized as redeemed and recorded in contra revenue accounts, as they are part of the transaction price of the merchandise sale. Manufacturer coupons that are available for redemption at all retailers are not recorded as a reduction to the sale price of merchandise. Manufacturer coupons or discounts that are specific to the Company are recorded as a reduction to the cost of sales.

Agent Relationships

The Company evaluates the criteria outlined in ASC 606-10-55, Principal versus Agent Considerations, in determining whether it is appropriate in these arrangements to record the gross amount of merchandise sales and related costs, or the net amount earned as commissions. When the Company is considered the principal in a transaction, revenue is recorded gross; otherwise, revenue is recorded on a net basis. The Company's Non-merchandise Sales revenues are recorded on a net basis.

Significant Judgments

For arrangements that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation on a relative standalone selling price basis.

Incremental costs to obtain contracts are not material to the Company.

Policy Elections

In addition to those previously disclosed, the Company has made the following accounting policy elections and practical expedients:

- Taxes - The Company excludes from the transaction price any taxes collected from customers that are remitted to taxing authorities.
- Shipping and Handling Charges - Charges that are incurred after the customer obtains control of goods are deemed costs required to complete our performance obligation. Therefore, the Company considers the act of shipping after the customer obtains control of goods to not be a separate performance obligation. These shipping and handling costs are classified as “Costs of goods sold” in the consolidated statements of income because they are incurred to fulfill a revenue obligation.
- Time Value of Money - The Company's payment terms are less than one year from the transfer of goods. Therefore, the Company does not adjust promised amounts of consideration for the effects of the time value of money.

Contract Performance Liabilities

Contract performance liabilities as a result of transactions with customers primarily consist of deferred membership income, other deferred income, deferred gift card revenue, Platinum points programs, and liabilities related to co-branded credit card points rewards programs which are included in deferred income and other accrued expenses and other current liabilities in the Company’s consolidated balance sheets. The following table provides these contract balances from transactions with customers as of the dates listed (in thousands):

	Contract Liabilities	
	August 31, 2021	August 31, 2020
Deferred membership income	$ 25,951	$ 23,051
Other contract performance liabilities	$ 7,871	$ 5,190

Disaggregated Revenues

In the following table, net merchandise sales are disaggregated by merchandise category (in thousands):

	Years Ended		
	August 31, 2021	August 31, 2020	August 31, 2019
Foods & Sundries	$ 1,736,509	$ 1,656,682	$ 1,563,162
Fresh Foods	1,003,694	912,325	847,496
Hardlines	409,644	345,051	358,276
Softlines	175,505	147,085	167,149
Other Business	140,090	130,619	155,565
Net Merchandise Sales	$ 3,465,442	$ 3,191,762	$ 3,091,648

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost. The historical cost of acquiring an asset includes the costs incurred to bring it to the condition and location necessary for its intended use. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The useful life of fixtures and equipment ranges from 3 to 15 years and that of certain components of building improvements and buildings from 10 to 40 years. Leasehold improvements are amortized over the shorter of the life of the improvement or the expected term of the lease. In some locations, leasehold improvements are amortized over a period longer than the initial lease term where management believes it is reasonably certain that the renewal option in the underlying lease will be exercised because an economic penalty may be incurred if the option is not exercised. The sale or purchase of property and equipment is recognized upon legal transfer of property.

Property and equipment consist of the following (in thousands):

	August 31, 2021	August 31, 2020
Land	$ 216,703	$ 215,433
Building and improvements	533,802	498,964
Fixtures and equipment	315,391	287,073
Construction in progress	68,835	44,362
Total property and equipment, historical cost	1,134,731	1,045,832
Less: accumulated depreciation	(404,527)	(353,553)
Property and equipment, net	$ 730,204	$ 692,279

Depreciation and amortization expense (in thousands):

	Years Ended August 31,		
	2021	2020	2019
Depreciation expense, Property and equipment	$ 62,579	$ 58,815	$ 52,554
Amortization expense, Intangible assets	2,404	2,410	2,404
Total depreciation and amortization expense	$ 64,983	$ 61,225	$ 54,958

The Company capitalizes interest on expenditures for qualifying assets over a period that covers the duration of the activities required to get the asset ready for its intended use, provided that expenditures for the asset have been made and interest cost is being incurred. Interest capitalization continues as long as those activities and the incurrence of interest cost continue. The amount capitalized in an accounting period is determined by applying the Company's consolidated capitalization rate (average interest rate) to the average amount of accumulated expenditures for the qualifying asset, for each country, during the period. The capitalization rates are based on the interest rates applicable to borrowings outstanding during the period.

Total interest capitalized (in thousands):

	Balance as of	
	August 31, 2021	August 31, 2020
Total interest capitalized	$ 13,175	$ 11,994

Total interest capitalized (in thousands):

	Years Ended August 31,		
	2021	2020	2019
Interest capitalized	$ 2,282	$ 2,190	$ 2,116

A summary of asset disposal activity for fiscal years 2021, 2020 and 2019 is as follows (in thousands):

	Historical Cost	Accumulated Depreciation	Receivables and Proceeds from Disposal	Loss recognized
Fiscal Year 2021	$ 10,946	$ 9,534	$ 385	$ (1,027)
Fiscal Year 2020	$ 5,115	$ 4,640	$ 32	$ (443)
Fiscal Year 2019	$ 10,740	$ 9,587	$ 74	$ (1,079)

The Company also recorded within accounts payable, other accrued expenses, and other long-term liabilities approximately $1.2 million, $2.3 million and $0, respectively, as of August 31, 2021 and $2.2 million, $7.3 million and $1.0 million, respectively, as of August 31, 2020 of liabilities related to the acquisition and/or construction of property and equipment.

NOTE 5 – EARNINGS PER SHARE

The Company presents basic net income per share using the two-class method. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common stockholders and that determines basic net income per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings that would have been available to common stockholders. A participating security is defined as a security that may participate in undistributed earnings with common stock. The Company's capital structure includes securities that participate with common stock on a one-for-one basis for distribution of dividends. These are the restricted stock awards ("RSAs"), restricted stock units ("RSUs" and performance stock units ("PSUs") issued pursuant to the 2013 Equity Incentive Award Plan, provided that the Company does not include PSUs as participating securities until the performance conditions have been met. RSAs are outstanding shares of common stock and have the same cash dividend and voting rights as other shares of common stock. Shares of common stock subject to RSUs are not issued nor outstanding until vested, and RSUs do not have the same dividend and voting rights as common stock. However, all outstanding RSUs have accompanying dividend equivalents, requiring payment to the employees and directors with unvested RSUs of amounts equal to the dividend they would have received had the shares of common stock underlying the RSUs been actually issued and outstanding. PSUs, similar to RSUs, are awarded with dividend equivalents, provided that such amounts become payable only if the performance metric is achieved. At the time the Compensation Committee confirms the performance metric has been achieved, the corresponding dividend equivalents are paid on the PSUs. The Company determines the diluted net income per share by using the more dilutive of the two class-method or the treasury stock method and by including the basic weighted average of outstanding performance stock units in the calculation of diluted net income per share under the two-class method and including all potential common shares assumed issued in the calculation of diluted net income per share under the treasury stock method.

The following table sets forth the computation of net income per share attributable to PriceSmart for the twelve months ended August 31, 2021, 2020 and 2019 (in thousands, except per share amounts):

	Years Ended August 31,		
	2021	2020	2019
Net income attributable to PriceSmart, Inc.	$ 97,963	$ 78,109	$ 73,191
Less: Allocation of income to unvested stockholders	(1,282)	(842)	(721)
Net income attributable to PriceSmart, Inc. per share available for distribution	$ 96,681	$ 77,267	$ 72,470
Basic weighted average shares outstanding	30,403	30,259	30,195
Diluted average shares outstanding	30,403	30,259	30,195
Basic net income per share	$ 3.18	$ 2.55	$ 2.40
Diluted net income per share	$ 3.18	$ 2.55	$ 2.40

NOTE 6 – STOCKHOLDERS' EQUITY

Dividends

The following table summarizes the dividends declared and paid during fiscal years 2021, 2020 and 2019:

		First Payment			Second Payment		
Declared	Amount	Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
2/4/2021	$ 0.70	2/15/2021	2/26/2021	$ 0.35	8/15/2021	8/31/2021	$ 0.35
2/6/2020	$ 0.70	2/15/2020	2/28/2020	$ 0.35	8/15/2020	8/31/2020	$ 0.35
1/30/2019	$ 0.70	2/15/2019	2/28/2019	$ 0.35	8/15/2019	8/30/2019	$ 0.35

The Company anticipates the ongoing payment of semi-annual dividends in subsequent periods, although the actual declaration of future dividends, the amount of such dividends, and the establishment of record and payment dates is subject to final determination by the Board of Directors at its discretion after its review of the Company's financial performance and anticipated capital requirements, taking into account the uncertainty surrounding the ongoing effects of the COVID-19 pandemic on our results of operations and cash flows.

Comprehensive Income and Accumulated Other Comprehensive Loss

The following table discloses the changes in each component of other comprehensive loss, net of tax (in thousands):

	Attributable to PriceSmart	Noncontrolling Interests	Total
Beginning balance, August 31, 2018	$ (121,216)	$ (1)	$ (121,217)
Foreign currency translation adjustments	(19,717)	21	(19,696)
Defined benefit pension plans (1)	(112)	—	(112)
Derivative Instruments (2)	(3,369)	—	(3,369)
Amounts reclassified from accumulated other comprehensive loss	75	—	75
Ending balance, August 31, 2019	$ (144,339)	$ 20	$ (144,319)
Foreign currency translation adjustments	(29,413)	114	(29,299)
Defined benefit pension plans (1)	(79)	—	(79)
Derivative Instruments (2)	(5,803)	—	(5,803)
Amounts reclassified from accumulated other comprehensive loss	2,814	—	2,814
Ending balance, August 31, 2020	$ (176,820)	$ 134	$ (176,686)
Foreign currency translation adjustments	(7,837)	117	(7,720)
Defined benefit pension plans (1)	(230)	—	(230)
Derivative Instruments (2)	2,252	—	2,252
Amounts reclassified from accumulated other comprehensive loss	127	—	127
Ending balance, August 31, 2021	$ (182,508)	$ 251	$ (182,257)

(1) Amounts reclassified from accumulated other comprehensive loss related to the minimum pension liability are included in warehouse club and other operations in the Company's Consolidated Statements of Income.

(2) Refer to "Note 13 - Derivative Instruments and Hedging Activities."

Retained Earnings Not Available for Distribution

The following table summarizes retained earnings designated as legal reserves of various subsidiaries that cannot be distributed as dividends to PriceSmart, Inc. according to applicable statutory regulations (in thousands):

	August 31, 2021	August 31, 2020
Retained earnings not available for distribution	$ 8,022	$ 7,375

NOTE 7 – POST EMPLOYMENT PLANS

Defined Contribution Plans

PriceSmart offers a defined contribution 401(k) retirement plan to its U.S. employees, including warehouse club employees in the U.S. Virgin Islands, which auto-enrolls employees in the plan immediately on the first day of employment. The Company makes nondiscretionary contributions to the 401(k) plan with a 4% “Company Contribution” based on the employee’s salary regardless of the employee’s own contributions to the plan up to the IRS maximum allowed. The Company also makes incremental nondiscretionary contributions to the 401(k) plan to the employees who defer up to 2% of their salary. Employer contributions to the 401(k) plan for the Company's U.S. employees were $2.6 million, $2.2 million and $2.1 million during fiscal years 2021, 2020 and 2019, respectively.

PriceSmart also offers defined contribution retirement plans in many of its subsidiaries. The Company makes nondiscretionary contributions to these plans based on the employee’s salary, regardless of the employee’s own contributions to the plan, up to the maximum allowed. The expenses associated with the plans for the Company’s non-U.S. employees were $3.0 million, $3.1 million and $3.0 million during fiscal years 2021, 2020, and 2019, respectively.

Defined Benefit Plans

The Company's subsidiaries located in three countries have unfunded post-employment benefit plans (defined benefit plans) in which the subsidiary is required to pay a specified benefit upon retirement, voluntary departure or death of the employee. The amount of the benefit is predetermined by a formula based on the employee's earnings history, tenure of service and age. Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, the Company recognizes the cost of providing the benefits over the projected employee service periods. These payments are only due if an employee reaches certain thresholds, such as tenure and/or age. Therefore, these plans are treated as defined benefit plans. For these defined benefit plans, the Company has engaged actuaries to assist with estimating the current costs associated with these future benefits. The liabilities for these unfunded plans are recorded as non-current liabilities.

The following table summarizes the amount of the funding obligation and the line items in which it is recorded on the consolidated balance sheets as of August 31, 2021 and 2020 and consolidated statements of income for the fiscal years ended August 31, 2021, 2020 and 2019 (in thousands):

	Other Long-Term Liability		Accumulated Other Comprehensive Loss		Operating Expenses		
	August 31,				Year Ended August 31,		
	2021	2020	2021	2020	2021	2020	2019
Start of period	$ (1,805)	$ (1,579)	$ 747	$ 772	$ —	$ —	$ —
Service cost	(184)	(95)	—	—	229	177	187
Interest cost	(104)	(101)	—	—	104	101	80
Prior service cost (amortization)	—	—	(55)	(55)	55	55	55
Actuarial gains/(losses)	(205)	(30)	205	30	72	38	19
Totals	$ (2,298)	$ (1,805)	$ 897	$ 747 [(1)]	$ 460	$ 371	$ 341

(1) The Company has recorded a deferred tax asset of $282,000 and $236,000 as of August 31, 2021 and 2020, respectively, relating to the unrealized expense on defined benefit plans. The Company also recorded accumulated other comprehensive loss, net of tax, for $(615,000) and $(512,000) as of August 31, 2021 and 2020, respectively.

The valuation assumptions used to calculate the liability for the defined benefit plans differ based on the country where the plan applies. These assumptions are summarized as follows:

	Year Ended August 31,	
Valuation Assumptions:	**2021**	**2020**
Discount rate	3.5% to 7.5%	3.5% to 10.7%
Future salary escalation	3.0% to 4.0%	3.0% to 4.1%
Percentage of employees assumed to withdraw from Company without a benefit (“turnover”)	8.3% to 15.0%	11.1% to 15.0%
Percentage of employees assumed to withdraw from Company with a benefit (“disability”)	0.5% to 6.6%	0.5% to 4.9%

For the fiscal year ending August 31, 2022, the Company expects to recognize, as components of net periodic benefit cost, the following amounts currently recorded in accumulated other comprehensive loss (in thousands):

Prior service cost	$	55
Actuarial gain/loss		118
	$	173

Other Post-Employment Benefit Plans

Some of the Company’s subsidiaries are parties to funded and unfunded post-employment benefit plans based on services that the employees have rendered. These plans require the Company to pay a specified benefit on retirement, voluntary departure or death of the employee, or monthly payments to an external fund manager. The amount of these payments is predetermined by a formula based on the employee's earnings history and tenure of service. Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, the cost associated with providing the benefits is recognized as the employee provides those services. The employees' rights to receive payment on these plans are not dependent on their reaching certain thresholds like age or tenure. Therefore, these plans are not treated as defined benefit plans. For these post-employment benefit plans, the Company has accrued liabilities that are recorded as accrued salaries and benefits and other long-term liabilities. The following table summarizes the amounts recorded on the balance sheet and amounts expensed on the consolidated statements of income (in thousands):

	Accrued Salaries and Benefits		Other Long-Term Liability		Restricted Cash Held (1)		Operating Expenses		
	Years Ended August 31,								
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2019**
Other Post Employment Plans	$ 544	$ 438	$ 4,352	$ 3,813	$ 3,909	$ 3,688	$ 1,447	$ 1,250	$ 1,259

(1) With some locations, local statutes require the applicable Company subsidiary to deposit cash in its own name with designated fund managers. The funds earn interest, which the Company recognizes as interest income.

NOTE 8 – STOCK BASED COMPENSATION

Stock Based Compensation – The Company utilizes three types of equity awards: restricted stock awards (“RSAs”), restricted stock units (“RSUs”) and performance based restricted stock units (“PSUs”). Refer “Note 2 - Summary of Significant Accounting Policies.”

The Company adopted the 2013 Equity Incentive Award Plan (the "2013 Plan") for the benefit of its eligible employees, consultants and non-employee directors on January 22, 2013. The 2013 Plan provides for awards covering up to 1.1 million shares of common stock plus the number of shares that remained available for issuance as of January 22, 2013 under three equity participation plans previously maintained by the Company. The 2013 plan was amended in fiscal year 2021 to increase the number of shares of Common Stock available for the grant of awards by 500,000 shares. The number of shares reserved for issuance under the 2013 Plan increases during the term of the plan by the number of shares relating to awards outstanding under the 2013 Plan or any of the prior plans that expire, or are forfeited, terminated, canceled or repurchased, or are settled in cash in lieu of shares. However, in no event will more than an aggregate of 2,031,818 shares of the Company’s common stock be issued under the 2013 Plan. The following table summarizes the shares authorized and shares available for future grants:

Shares authorized for issuance as of August 31, 2021 (including shares originally authorized for issuance under prior plans)		Shares available to grant August 31, 2021	Shares available to grant August 31, 2020
2013 Plan	1,562,832	705,924	297,366

The following table summarizes the components of the stock-based compensation expense for the twelve-month periods ended August 31, 2021, 2020 and 2019 (in thousands), which are included in general and administrative expense and warehouse club and other operations in the consolidated statements of income:

	Years Ended August 31, 2021	2020	2019
Restricted stock awards	$ 11,010	$ 8,747	$ 11,477
Restricted stock units	3,939	3,011	2,820
Performance-based restricted stock units	3,475	2,059	764
Stock-based compensation expense	$ 18,424	$ 13,817	$ 15,061

The following tables summarize other information related to stock-based compensation:

	Balance as of August 31, 2021	August 31, 2020	August 31, 2019
Remaining unrecognized compensation cost (in thousands)	$ 16,349	$ 21,720	$ 21,116
Weighted average period of time over which this cost will be recognized (years)	2	2	3

	Years Ended August 31, 2021	August 31, 2020	August 31, 2019
Excess tax deficiency on stock-based compensation (in thousands)	$ (778)	$ (936)	$ (1,829)

The restricted stock awards and units generally vest over a three-year period and the unvested portion of the award is forfeited if the employee or non-employee director leaves the Company before the vesting period is completed. Restricted stock awards, restricted stock units, and performance-based restricted stock units activity for the twelve-months ended August 31, 2021, 2020 and 2019 was as follows:

	Years Ended August 31, 2021	August 31, 2020	August 31, 2019
Grants outstanding at beginning of period	415,869	362,826	385,417
Granted	166,160	266,759	193,489
Forfeited	(12,436)	(43,198)	(16,127)
Vested	(193,971)	(170,518)	(199,953)
Grants outstanding at end of period	375,622	415,869	362,826

The following table summarizes the weighted average per share grant date fair value for restricted stock awards, restricted stock units, and performance based restricted stock units for fiscal years 2021, 2020 and 2019:

	Years Ended		
Weighted Average Grant Date Fair Value	**August 31, 2021**	**August 31, 2020**	**August 31, 2019**
RSAs, RSUs, and PSUs granted	$ 79.02	$ 64.57	$ 65.11
RSAs, RSUs, and PSUs vested	$ 70.03	$ 72.82	$ 79.28
RSAs, RSUs, and PSUs forfeited	$ 70.56	$ 76.81	$ 75.02

The following table summarizes the total fair market value of restricted stock awards, restricted stock units, and performance based restricted stock units vested for the period (in thousands):

	Years Ended		
	August 31, 2021	**August 31, 2020**	**August 31, 2019**
Total fair market value of RSAs, RSUs, and PSUs vested (in thousands)	$ 17,478	$ 10,914	$ 12,302

At the vesting dates for restricted stock awards to employees, the Company repurchases a portion of the shares that have vested at the prior day's closing price per share, with the funds used to pay the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock awards. The Company expects to continue this practice going forward. The Company does not have a stock repurchase program.

Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders' equity in the Company's consolidated balance sheets. The Company may reissue these treasury shares.

The following table summarizes the shares repurchased during fiscal years 2021, 2020 and 2019:

	Years Ended		
	August 31, 2021	**August 31, 2020**	**August 31, 2019**
Shares repurchased	62,282	56,503	75,462
Cost of repurchase of shares (in thousands)	$ 5,542	$ 3,651	$ 4,604

The Company reissues treasury shares as part of its stock-based compensation programs. The following table summarizes the treasury shares reissued during the period:

	Years Ended		
	August 31, 2021	**August 31, 2020**	**August 31, 2019**
Reissued treasury shares	96,400	234,370	63,130

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company and its subsidiaries are subject to legal proceedings, claims and litigation arising in the ordinary course of business related to the Company's operations and property ownership. The Company evaluates such matters on a case by case basis, and vigorously contests any such legal proceedings or claims which the Company believes are without merit. The Company believes that the final disposition of these matters will not have a material adverse effect on its financial position, results of operations or liquidity. It is possible, however, that the Company's results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to such matters.

The Company establishes an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. The Company monitors those matters for developments that would affect the likelihood of a loss and the accrued amount, if any, thereof, and adjusts the amount as appropriate. If the loss contingency at issue is not both probable and reasonably estimable, the Company does not establish an accrual, but will continue to monitor the matter for developments that will make the loss contingency both probable and reasonably estimable. If it is at least a reasonable possibility that a material loss will occur, the Company will provide disclosure regarding the contingency.

Taxes

The Company is required to file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various taxing authorities in the jurisdictions in which the Company files its returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations the Company used to calculate its tax liability and therefore require the Company to pay additional taxes.

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained (refer to "Note 10 - Income Taxes for additional information").

In evaluating the exposure associated with various non-income tax filing positions, the Company accrues for probable and estimable exposures for non-income tax related tax contingencies. As of August 31, 2021 and 2020, the Company has recorded within other accrued expenses a total of $1.8 million and $2.5 million, respectively, for various non-income tax related tax contingencies.

While the Company believes the recorded liabilities are adequate, there are inherent limitations in projecting the outcome of litigation, in estimating probable additional income tax liability taking into account uncertain tax positions and in evaluating the probable additional tax associated with various non-income tax filing positions. As such, the Company is unable to make a reasonable estimate of the sensitivity to change of estimates affecting its recorded liabilities. As additional information becomes available, the Company assesses the potential liability and revises its estimates as appropriate.

Other Commitments

The Company is committed under non-cancelable operating leases for the rental of facilities and land. Refer to "Note 12 – Leases".

The Company is committed to non-cancelable construction service obligations for various warehouse club developments and expansions. As of August 31, 2021 and August 31, 2020, the Company had approximately $16.2 million and $5.1 million, respectively, in contractual obligations for construction services not yet rendered.

From time to time, the Company has entered into general land purchase and land purchase option agreements. The Company's land purchase agreements are typically subject to various conditions, including, but not limited to, the ability to obtain necessary governmental permits or approvals. A deposit under an agreement is typically returned to the Company if all permits or approvals are not obtained. Generally, the Company has the right to cancel any of its agreements to purchase land without cause by forfeiture of some or all of the deposits it has made pursuant to the agreement. As of August 31, 2021, the Company had entered into land purchase agreements that, if completed, would result in the use of approximately $13.3 million in cash.

Refer to "Note 15 - Unconsolidated Affiliates" for a description of additional capital contributions that may be required in connection with joint ventures to develop commercial centers adjacent to PriceSmart warehouse clubs in Panama and Costa Rica.

NOTE 10 – INCOME TAXES

Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates includes the following components (in thousands):

	Years Ended August 31,		
	2021	2020	2019
United States	$ 33,818	$ 24,771	$ 25,167
Foreign	113,368	91,269	85,943
Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates	$ 147,186	$ 116,040	$ 111,110

Significant components of the income tax provision are as follows (in thousands):

	Years Ended August 31,		
	2021	2020	2019
Current:			
U.S. tax expense	$ 16,904	$ 10,046	$ 10,878
Foreign tax expense	35,918	31,122	29,675
Total	$ 52,822	$ 41,168	$ 40,553
Deferred:			
U.S. tax benefit	$ (10,212)	$ (5,945)	$ (5,978)
U.S. valuation allowance change	9,777	5,570	6,171
Foreign tax expense (benefit)	(3,125)	(3,157)	966
Foreign valuation allowance change	(293)	128	(4,152)
Total	$ (3,853)	$ (3,404)	$ (2,993)
Provision for income taxes	$ 48,969	$ 37,764	$ 37,560

The reconciliation of income tax computed at the Federal statutory tax rate to the provision for income taxes is as follows (in percentages):

	Years Ended August 31,		
	2021	2020	2019
Federal tax provision at statutory rates	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	0.1	0.1	0.3
Differences in foreign tax rates	6.9	9.7	10.6
Permanent items and other adjustments	(2.2)	(4.4)	(2.1)
Increase in valuation allowance	7.5	6.1	4.0
Provision for income taxes	33.3 %	32.5 %	33.8 %

Significant components of the Company's deferred tax assets as of August 31, 2021 and 2020 are shown below (in thousands):

	August 31, 2021	August 31, 2020
Deferred tax assets:		
U.S. net operating loss carryforward	$ 2,866	$ 4,416
Foreign tax credits	22,420	12,691
Deferred compensation	2,334	1,357
U.S. timing differences	3,759	3,742
Foreign net operating losses	5,051	4,811
Foreign timing differences:		
Accrued expenses and other timing differences	7,636	6,808
Depreciation and amortization	10,498	9,043
Deferred income	6,422	5,241
Gross deferred tax assets	60,986	48,109
U.S. deferred tax liabilities (depreciation and other timing differences)	(4,083)	(4,679)
Foreign deferred tax liabilities netted against deferred tax assets	(5,753)	(4,311)
U.S. valuation allowance	(22,523)	(12,746)
Foreign valuation allowance	(4,402)	(4,701)
Net deferred tax assets	$ 24,225	$ 21,672

For fiscal 2021, the effective tax rate was 33.3%. The increase in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably favorable impact of 2.5% due to a greater portion of income falling into lower tax jurisdictions;
2. The comparably unfavorable impact of 1.8% resulting from nonrecurrence of changes in income tax liabilities from uncertain tax position for which the applicable statutes of limitations have expired;
3. The comparably unfavorable impact of 0.4% resulting from the effect of the change in foreign currency value and related adjustments;
4. The comparably unfavorable impact of 0.4% resulting from valuation allowances on deferred tax assets from foreign tax credits that are no longer deemed recoverable.

For fiscal 2021, management concluded that a valuation allowance continues to be necessary for certain U.S. and foreign deferred tax assets primarily because of the existence of negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, and the determination that certain net operating loss carryforward periods are not sufficient to realize the related deferred tax assets. The Company factored into its analysis the inherent risk of forecasting revenue and expenses over an extended period of time and also considered the potential risks associated with its business. The Company had net foreign deferred tax assets of $19.5 million and $16.9 million as of August 31, 2021 and 2020, respectively.

The Company had U.S. federal and state tax NOLs at August 31, 2021 of approximately $10.3 million and $15.7 million, respectively. Substantially all of the federal and state NOLs expire during periods ranging from 2021 through 2036 unless previously utilized. In calculating the tax provision and assessing the likelihood that the Company will be able to utilize the deferred tax assets, the Company considered and weighed all of the evidence, both positive and negative, and both objective and subjective. The Company factored in the inherent risk of forecasting revenue and expenses over an extended period of time and considered the potential risks associated with its business. Using the Company's U.S. income from continuing operations and projections of future taxable income in the U.S., the Company was able to determine that there was sufficient positive evidence to support the conclusion that it was more likely than not that the Company would be able to realize substantially all of its federal U.S. NOLs by generating sufficient taxable income during the carry-forward period. Further, based on current projections and using current apportionment factors, the Company maintains a partial valuation allowance on its Florida state NOLs ($15.7 million in gross) originating from its acquisition of its Aeropost, Inc. subsidiary, as the Company expects that $11.1 million of this NOL will expire before being utilized.

The Company has determined that due to a deemed change of ownership (as defined in Section 382 of the Internal Revenue Code) in October 2004, for PriceSmart, Inc., and March 2018 for Aeropost, Inc., there will be annual limitations in the amount of U.S. taxable income that may be offset by NOLs of approximately $6.1 million, through 2022. The Company expects substantially all recoverable NOLs will be recovered by 2023.

The Company does not provide for income taxes which would be payable if undistributed earnings of its foreign subsidiaries were remitted to the U.S. because the Company considers these earnings to be permanently reinvested as management has no plans to repatriate undistributed earnings and profits of foreign affiliates. As of August 31, 2021 and 2020, the undistributed earnings of these foreign subsidiaries are approximately $254.5 million and $177.5 million, respectively.

The Company accrues for the estimated additional amount of taxes for uncertain income tax positions if the likelihood of sustaining the tax position does not meet the more-likely-than-not-standard for recognition of tax benefits. These positions are recorded as unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Years Ended August 31,		
	2021	2020	2019
Balance at beginning of fiscal year	$ 4,573	$ 6,490	$ 7,005
Gross increase - tax positions in prior period	135	464	530
Gross decrease - tax positions in prior period	(306)	—	—
Additions based on tax positions related to the current year	333	186	94
Expiration of the statute of limitations for the assessment of taxes	(824)	(2,567)	(1,139)
Balance at end of fiscal year	$ 3,911	$ 4,573	$ 6,490

As of August 31, 2021, the liability for income taxes associated with unrecognized tax benefits was $3.9 million and can be reduced by $1.5 million of tax benefits recorded as deferred tax assets and liabilities. The total $3.9 million unrecognized tax benefit includes $400,000 of associated timing adjustments. The net amount of $3.5 million would, if recognized, favorably affect the Company's financial statements and favorably affect the Company's effective income tax rate.

The Company recognizes interest and/or penalties related to unrecognized tax benefits in income tax expense. As of August 31, 2021 and 2020, the Company had accrued an additional $1.6 million and $2.0 million, respectively, for the payment of interest and penalties related to the above-mentioned unrecognized tax benefits.

The Company expects changes in the amount of unrecognized tax benefits in the next 12 months as the result of a lapse in various statutes of limitations. The lapse of statutes of limitations in the twelve-month period ending August 31, 2022 could result in a total income tax benefit amounting up to $900,000.

The Company has various appeals pending before tax courts in its subsidiaries' jurisdictions. Any possible settlement could increase or decrease earnings but is not expected to be significant. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

In two other countries where the Company operates, minimum income tax rules require the Company to pay taxes based on a percentage of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those it would expect to pay based on taxable income. The Company had income tax receivables of $11.0 million and $10.4 million and deferred tax assets of $3.3 million and $2.8 million as of August 31, 2021 and August 31, 2020, respectively, in these countries. While the rules related to refunds of income tax receivables in these countries are either unclear or complex, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities in its major jurisdictions except for the fiscal years subject to audit as set forth in the table below:

Tax Jurisdiction	Fiscal Years Subject to Audit
U.S. federal	2005, 2007, 2011* to 2016*, 2017 to the present
California (U.S.) (state return)	2005 and 2017 to the present
Florida (U.S.) (state return)	2011* to 2017*, 2018 to the present
Aruba	2016 to the present
Barbados	2015 to the present
Costa Rica	2011 to 2012, 2015 to the present
Colombia	2016 to the present
Dominican Republic	2011 to 2012 and 2016 to the present
El Salvador	2018 to the present
Guatemala	2012 to 2013, 2017 the present
Honduras	2016 to the present
Jamaica	2015 to the present
Mexico	2016 to the present
Nicaragua	2017 to the present
Panama	2017*, 2018 to the present
Trinidad	2015 to the present
U.S. Virgin Islands	2001 to the present
Spain	2018 to the present
Chile	2018* to the present

*Aeropost only

Generally for U.S. federal and U.S. Virgin Islands tax reporting purposes, the statute of limitations is three years from the date of filing of the income tax return. If and to the extent the tax year resulted in a taxable loss, the statute is extended to three years from the filing date of the income tax return in which the carryforward tax loss was used to offset taxable income in the carryforward year. Given the historical losses in these jurisdictions and the Section 382 change in control limitations on the use of the tax loss carryforwards, there is uncertainty and significant variation as to when a tax year is no longer subject to audit.

NOTE 11 – DEBT

Short-term borrowings consist of unsecured lines of credit. The following table summarizes the balances of total facilities, facilities used and facilities available (in thousands):

		Facilities Used			
	Total Amount of Facilities	Short-term Borrowings	Letters of Credit	Facilities Available	Weighted average interest rate
August 31, 2021	$ 131,000	$ —	$ 97	$ 130,903	— %
August 31, 2020	$ 81,210	$ 65,143	$ 388	$ 15,679	3.7 %

As of August 31, 2021 and August 31, 2020, the Company was in compliance with all covenants or amended covenants for each of its short-term facility agreements. These facilities generally expire annually or bi-annually and are normally renewed.

The following table provides the changes in long-term debt for the twelve months ended August 31, 2021:

(Amounts in thousands)	Current portion of long-term debt	Long-term debt (net of current portion)	Total	
Balances as of August 31, 2019	$ 25,875	$ 63,711	$ 89,586	(1)
Proceeds from long-term debt incurred during the period:				
Colombia subsidiary	—	25,000	25,000	
Guatemala subsidiary	—	20,820	20,820	
Trinidad subsidiary	6,062	6,000	12,062	
Regularly scheduled loan payments	(5,393)	(9,771)	(15,164)	
Refinances of short-term debt	(11,046)	11,046	—	
Reclassifications of long-term debt due in the next 12 months	3,875	(3,875)	—	
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	64	(321)	(257)	
Balances as of August 31, 2020	19,437	112,610	132,047	(2)
Proceeds from long-term debt incurred during the period:				
Trinidad subsidiary	2,736	14,829	17,565	
Regularly scheduled loan payments	(5,168)	(14,825)	(19,993)	
Reclassifications of long-term debt due in the next 12 months	2,368	(2,368)	—	
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	22	(136)	(114)	
Balances as of August 31, 2021	$ 19,395	$ 110,110	$ 129,505	(4)

(1) The carrying amount on non-cash assets assigned as collateral for these loans was $111.3 million. No cash assets were assigned as collateral for these loans.

(2) The carrying amount on non-cash assets assigned as collateral for these loans was $158.6 million. No cash assets were assigned as collateral for these loans.

(3) These foreign currency translation adjustments are recorded within other comprehensive loss.

(4) The carrying amount on non-cash assets assigned as collateral for these loans was $153.5 million. The carrying amount on cash assets assigned as collateral for these loans was $7.0 million.

The following table provides a summary of the long-term loans entered into by the Company:

	August 31, 2021	August 31, 2020
Loans entered into by the Company's subsidiaries for which the subsidiary has entered into a cross-currency interest rate swap with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	$ 38,531	$ 42,585
Loans entered into by the Company's subsidiaries for which the subsidiary has entered into an interest rate swap with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	42,744	45,519
Unswapped loans entered into by the Company's subsidiaries with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	48,230	43,943
Total long-term debt	129,505	132,047
Less: current portion	19,395	19,437
Long-term debt, net of current portion	$ 110,110	$ 112,610

As of August 31, 2021 and August 31, 2020, the Company had approximately $103.4 million and $107.4 million, respectively, of long-term loans in several foreign subsidiaries that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. The Company was in compliance with all covenants or amended covenants for both periods.

Annual maturities of long-term debt are as follows (in thousands):

Twelve Months Ended August 31,	Amount
2022	$ 19,395
2023	27,427
2024	11,264
2025	25,730
2026	10,844
Thereafter	34,845
Total	$ 129,505

NOTE 12 – LEASES

In accordance with ASC 842, the Company determines if an arrangement is a lease at inception or modification of a contract and classifies each lease as either operating or finance lease at commencement. The Company only reassesses lease classification subsequent to commencement upon a change to the expected lease term or the contract being modified. As of August 31, 2021, the Company only has operating leases for its clubs, distribution centers, office space, and land. Operating leases, net of accumulated amortization, are included in operating lease right of use (“ROU”) assets, and current and non-current operating lease liabilities, on the Company’s consolidated balance sheets. Lease expense for operating leases is included in selling, general and administrative expense on the Company’s consolidated statements of income. Leases with an initial term of twelve months or less are not recorded on the Company’s consolidated balance sheet.

The Company is generally obligated for the cost of property taxes, insurance, and maintenance relating to its leases, which are often variable lease payments. Such costs are included in selling, general and administrative expense in the consolidated statements of income.

Certain of the Company's lease agreements provide for lease payments based on future sales volumes at the leased location, or include rental payments adjusted periodically for inflation or based on an index, which are not measurable at the inception of the lease. The Company expenses such variable amounts in the period incurred, which is the period in which it becomes probable that the specified target that triggers the variable lease payments will be achieved. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the reasonably certain lease term. The operating lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option or if an economic penalty may be incurred if the option is not exercised. The initial lease term of the Company’s operating leases range from two to 30 years.

Where the Company's leases do not provide an implicit rate, a collateralized incremental borrowing rate ("IBR") is used to determine the present value of lease payments. The IBR is based on a yield curve derived by publicly traded bond offerings for companies with similar credit characteristics that approximate the Company's market risk profile. In addition, we adjust the IBR for jurisdictional risk derived from quoted interest rates from financial institutions to reflect the cost of borrowing in the Company’s local markets.

The following table is a summary of the Company’s components of total lease costs for fiscal year 2021 and 2020 (in thousands):

	Years Ended August 31,	
	2021	2020
Operating lease cost	$ 17,724	$ 17,305
Short-term lease cost	167	236
Variable lease cost	4,410	3,679
Sublease income	(891)	(1,061)
Total lease costs	$ 21,410	$ 20,159

The weighted average remaining lease term and weighted average discount rate for operating leases as of August 31, 2021 and August 31, 2020 were as follows:

	Years Ended August 31,	
	2021	2020
Weighted average remaining lease term in years	18.3	18.2
Weighted average discount rate percentage	6.7%	6.4%

Supplemental cash flow information related to leases under which the Company is the lessee was as follows (amounts in thousands):

	Years Ended August 31,	
	2021	2020
Operating cash flows paid for operating leases	$ 16,420	$ 15,392

The Company is committed under non-cancelable operating leases for the rental of facilities and land. Future minimum lease commitments for facilities under these leases with an initial term in excess of one year are as follows (in thousands):

Years Ended August 31,	Leased Locations
2022	$ 16,436
2023	15,442
2024	14,864
2025	14,606
2026	13,014
Thereafter	176,386
Total future lease payments	250,748
Less imputed interest	(112,966)
Total operating lease liabilities	$ 137,782

NOTE 13 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to interest rate risk relating to its ongoing business operations. To manage interest rate exposure, the Company enters into hedge transactions (interest rate swaps) using derivative financial instruments. The objective of entering into interest rate swaps is to eliminate the variability of cash flows in the LIBOR interest payments associated with variable-rate loans over the life of the loans. As changes in interest rates impact the future cash flow of interest payments, the hedges provide a synthetic offset to interest rate movements.

In addition, the Company is exposed to foreign currency and interest rate cash flow exposure related to non-functional currency long-term debt of two of its wholly owned subsidiaries. To manage this foreign currency and interest rate cash flow exposure, the Company's subsidiaries entered into cross-currency interest rate swaps that convert their U.S. dollar denominated floating interest payments to functional currency fixed interest payments during the life of the hedging instrument. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedges are intended to offset changes in cash flows attributable to interest rate and foreign exchange movements.

These derivative instruments (cash flow hedging instruments) are designated and qualify as cash flow hedges, with the entire gain or loss on the derivative reported as a component of other comprehensive loss. Amounts are deferred in other comprehensive loss and reclassified into earnings in the same income statement line item that is used to present earnings effect of the hedged item when the hedged item affects earnings.

The Company is exposed to foreign-currency exchange-rate fluctuations in the normal course of business, including foreign-currency exchange-rate fluctuations on U.S. dollar denominated liabilities within its international subsidiaries whose functional currency is other than the U.S. dollar. The Company manages these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts (NDFs) that are intended to offset changes in cash flow attributable to currency exchange movements. These contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar.

Currently, these contracts do not qualify for derivative hedge accounting. The Company seeks to mitigate foreign-currency exchange-rate risk with the use of these contracts and does not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features.

The Company uses other derivatives not designated as hedging instruments that consist primarily of written call options in which the Company receives a premium from the holder. This premium lowers the cost of the Company's hedging activities. The Company recognizes changes in fair value of the derivative instrument, as well as the offsetting change in the fair value of the hedged item, in Other expense, net in the consolidated statements of income in the period of change.

Cash Flow Hedges

As of August 31, 2021, all of the Company's interest rate swap and cross-currency interest rate swap derivative financial instruments are designated and qualify as cash flow hedges. The Company formally documents the hedging relationships for its derivative instruments that qualify for hedge accounting.

The following table summarizes agreements for which the Company has cash flow hedge accounting transactions as of August 31, 2021:

Subsidiary	Date Entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Initial US$ Notional Amount	Bank US$ loan Held with	Floating Leg (swap counter-party)	Fixed Rate for PSMT Subsidiary	Settlement Dates	Effective Period of swap
Colombia	3-Dec-19	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 7,875,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.45%	7.87%	3rd day of each December, March, June, and September, beginning on March 3, 2020	December 3, 2019 - December 3, 2024
Colombia	27-Nov-19	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 25,000,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.45%	7.93%	27th day of each November, February, May and August beginning February 27, 2020	November 27, 2019 - November 27, 2024
Colombia	24-Sep-19	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 12,500,000	PriceSmart, Inc.	Variable rate 3-month Libor plus 2.50%	7.09%	24th day of each December, March, June and September beginning December 24, 2019	September 24, 2019 - September 26, 2022
Panama	25-Jun-18	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	$ 14,625,000	Bank of Nova Scotia	Variable rate 3-month Libor plus 3.0%	5.99%	23rd day of each month beginning on July 23, 2018	June 25, 2018 - March 23, 2023
Honduras	26-Feb-18	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 13,500,000	Citibank, N.A.	Variable rate 3-month Libor plus 3.00%	9.75%	29th day of May, August, November and February beginning May 29, 2018	February 26, 2018 - February 24, 2024
PriceSmart, Inc	7-Nov-16	MUFG Union Bank, N.A. ("Union Bank")	Interest rate swap	$ 35,700,000	Union Bank	Variable rate 1-month Libor plus 1.7%	3.65%	1st day of each month beginning on April 1, 2017	March 1, 2017 - March 1, 2027

For the twelve-month periods ended August 31, 2021, 2020 and 2019 the Company included the gain or loss on the hedged items (that is, variable-rate borrowings) in the same line item—interest expense—as the offsetting gain or loss on the related interest rate swaps as follows (in thousands):

Income Statement Classification	Interest expense on borrowings(1)	Cost of swaps (2)	Total
Interest expense for the year ended August 31, 2021	$ 2,619	$ 3,655	$ 6,274
Interest expense for the year ended August 31, 2020	$ 4,045	$ 2,416	$ 6,461
Interest expense for the year ended August 31, 2019	$ 4,732	$ 511	$ 5,243

(1) This amount is representative of the interest expense recognized on the underlying hedged transactions.
(2) This amount is representative of the interest expense recognized on the interest rate swaps and cross currency swaps designated as cash flow hedging instruments.

The total notional balance of the Company's pay-fixed/receive-variable interest rate swaps and cross-currency interest rate swaps was as follows (in thousands):

	Notional Amount as of	
Floating Rate Payer (Swap Counterparty)	August 31, 2021	August 31, 2020
Union Bank	$ 32,619	$ 33,894
Citibank N.A.	51,032	55,086
Scotiabank	10,125	11,625
Total	$ 93,776	$ 100,605

Derivatives listed on the table below were designated as cash flow hedging instruments. The table summarizes the effect of the fair value of interest rate swap and cross-currency interest rate swap derivative instruments that qualify for derivative hedge accounting and its associated tax effect on accumulated other comprehensive (income)/loss (in thousands):

		August 31, 2021			August 31, 2020		
Derivatives designated as cash flow hedging instruments	Balance Sheet Classification	Fair Value	Net Tax Effect	Net OCI	Fair Value	Net Tax Effect	Net OCI
Cross-currency interest rate swaps	Other non-current assets	$ 2,464	$ (741)	$ 1,723	$ 872	$ (265)	$ 607
Interest rate swaps	Other long-term liabilities	(2,305)	535	(1,770)	(3,857)	898	(2,959)
Cross-currency interest rate swaps	Other long-term liabilities	(705)	212	(493)	(828)	248	(580)
Net fair value of derivatives designated as hedging instruments		$ (546)	$ 6	$ (540)	$ (3,813)	$ 881	$ (2,932)

Fair Value Instruments

From time to time the Company enters into non-deliverable forward foreign-exchange contracts. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting. The use of non-deliverable forward foreign-exchange contracts is intended to offset changes in cash flow attributable to currency exchange movements. These contracts are intended primarily to economically hedge exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar.

The following table summarizes the non-deliverable forward foreign exchange contracts that are open as of August 31, 2021:

Subsidiary	Dates entered into	Financial Derivative (Counterparty)	Derivative Financial Instrument	Notional Amount (in thousands)	Settlement Date	Effective Period of Forward
Colombia	28-Apr-21	Scotiabank Colpatria, S.A.	Forward foreign exchange contracts (USD)	$ 5,000	28-Dec-21	April 28, 2021 - December 28, 2021
Colombia	28-May-21	Scotiabank Colpatria, S.A.	Forward foreign exchange contracts (USD)	$ 2,000	29-Dec-21	May 28, 2021 - December 29, 2021

While forward derivative gains and (losses) on non-deliverable forward foreign-exchange contracts were immaterial for the twelve months ended August 31 2021, 2020, and 2019, they are included in Other expense, net in the consolidated statements of income in the period of change.

Other Instruments

Other derivatives not designated as hedging instruments consist primarily of written call options in which the Company receives a premium that it uses to reduce the costs associated with its hedging activities. As of August 31, 2021, the Company has settled its outstanding call options and does not have any other contracts not designated as hedging instruments.

For the twelve-month periods ended August 31, 2021, 2020 and 2019, the Company included in its consolidated statements of income the loss of its other non-designated derivative contracts as follows (in thousands):

	Years Ended August 31,		
Income Statement Classification	**2021**	**2020**	**2019**
Other expense, net	$ —	$ (912)	$ —

NOTE 14 – RELATED-PARTY TRANSACTIONS

Relationships with Edgar Zurcher: Mr. Zurcher is also a director of a company that owns 40% of Payless ShoeSource Holdings, Ltd., which rents retail space from the Company. The Company recorded approximately $1.4 million, $1.5 million and $1.6 million in rental income for this space during the fiscal years ended 2021, 2020 and 2019. Additionally, Mr. Zurcher is a director of Molinos de Costa Rica S.A. The Company paid approximately $1.1 million, $1.1 million and $741,000 for products purchased from this entity during the fiscal years ended August 31, 2021, 2020 and 2019, respectively.

Relationships with Price Family Charitable Organizations: During the years ended August 31, 2021, 2020 and 2019, the Company sold approximately $1.6 million, $525,000 and $527,000, respectively, of supplies to Price Philanthropies Foundation. Robert Price, Chairman of the Company's Board of Directors, is the Chairman of the Board and President of the Price Philanthropies Foundation. Sherry S. Bahrambeygui, a director and the Chief Executive Officer of the Company, serves as Vice President and Vice Chairman of the Board of the Price Philanthropies Foundation. Jeffrey R. Fisher, a director of the Company, serves as the Chief Financial Officer and as a director of the Board of the Price Philanthropies Foundation.

Relationships with Mitchell G. Lynn: Mr. Lynn has been a director of the Company since November 2011. Mr. Lynn is a founder and a limited partner of CRI 2000, LP, dba Combined Resources International ("CRI") and Lightspeed Outdoors, LP (“LSO”). CRI designs and imports consumer products for wholesale distribution, primarily through warehouse clubs. LSO designs and imports recreational products for wholesale distribution and online retailing. The Company purchased approximately $179,000 of merchandise from CRI and LSO during fiscal year 2021 and immaterial amounts of merchandise during the fiscal years ended August 31, 2020 and 2019.

Relationship with Golf Park Plaza, S.A.: Golf Park Plaza, S.A. is a real estate joint venture located in Panama entered into by the Company in 2008 (see Note 15 - Unconsolidated Affiliate). On December 12, 2013, the Company entered into a lease agreement for approximately 17,976 square feet (1,670 square meters) of land with Golf Park Plaza, S.A. upon which the Company constructed its central offices in Panama. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. The Company recognized $105,700 in rent expense for each of the fiscal years ended August 31, 2021, 2020 and 2019.

NOTE 15 – UNCONSOLIDATED AFFILIATES

The Company determines whether any of the joint ventures in which it has made investments is a Variable Interest Entity ("VIE") at the start of each new venture and if a reconsideration event has occurred. At this time, the Company also considers whether it must consolidate a VIE and/or disclose information about its involvement in a VIE. A reporting entity must consolidate a VIE if that reporting entity has the power to direct the VIE's activities that most significantly impact the VIE's economic performance and has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The reporting entity that consolidates a VIE is called the primary beneficiary of that VIE.

In 2008, the Company entered into real estate joint ventures to jointly own and operate separate commercial retail centers adjacent to warehouse clubs in Panama (GolfPark Plaza, S.A.) and Costa Rica (Price Plaza Alajuela PPA, S.A.). Due to the initial nature of the joint ventures and the continued commitments for additional financing, the Company determined these joint ventures are VIEs. Since all rights, obligations and the power to direct the activities of a VIE that most significantly impact the VIE's economic performance is shared equally by both parties within each joint venture, the Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method. Under the equity method, the Company's investments in unconsolidated affiliates are initially recorded as an investment in the stock of an investee at cost and are adjusted for the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of the initial investment.

On December 12, 2013, the Company entered into a lease agreement for approximately 17,976 square feet (1,670 square meters) of land with Golf Park Plaza, S.A. upon which the Company constructed its central offices in Panama. Construction of the offices was completed in October 2014. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. The Company recognized $105,700 in rent expense for each of the fiscal years ended August 31, 2021, 2020 and 2019.

The table below summarizes the Company's interest in these VIEs and the Company's maximum exposure to loss as a result of its involvement with these VIEs as of August 31, 2021 (in thousands):

Entity	% Ownership	Initial Investment	Additional Investments	Net Income Inception to Date	Company's Variable Interest in Entity	Commitment to Future Additional Investments[(1)]	Company's Maximum Exposure to Loss in Entity[(2)]
GolfPark Plaza, S.A.	50 %	$ 4,616	$ 2,402	$ (8)	$ 7,010	$ 99	$ 7,109
Price Plaza Alajuela PPA, S.A.	50 %	2,193	1,236	105	3,534	785	4,319
Total		$ 6,809	$ 3,638	$ 97	$ 10,544	$ 884	$ 11,428

(1) The parties intend to seek alternate financing for the project, which could reduce the amount of investments each party would be required to provide. The parties may mutually agree on changes to the project, which could increase or decrease the amount of contributions each party is required to provide.

(2) The maximum exposure is determined by adding the Company's variable interest in the entity and any explicit or implicit arrangements that could require the Company to provide additional financial support.

The summarized financial information of the unconsolidated affiliates is as follows (in thousands):

	August 31, 2021	August 31, 2020
Current assets	$ 1,728	$ 1,398
Noncurrent assets	10,253	10,686
Current liabilities	151	138
Noncurrent liabilities	8	8

	Years Ended August 31,		
	2021	2020	2019
PriceSmart's share of net loss of unconsolidated affiliates	$ (58)	$ (95)	$ (61)

NOTE 16 – SEGMENTS

The Company and its subsidiaries are principally engaged in the international operation of membership shopping in 47 warehouse clubs located in 12 countries and one U.S. territory that are located in Central America, the Caribbean and Colombia. In addition, the Company operates distribution centers and corporate offices in the United States. The Company has aggregated its warehouse clubs, distribution centers and corporate offices into reportable segments. The Company’s reportable segments are based on management’s organization of these locations into operating segments by general geographic location, used by management and the Company's chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues, operating costs and inter-company charges included in the United States segment are not allocated to the segments within this presentation, as it is impractical to do so, and they appear as reconciling items to reflect the amount eliminated on consolidation of intersegment transactions. From time to time, the Company revises the measurement of each segment's operating income and net income, including certain corporate overhead allocations, and other measures as determined by the information regularly reviewed by the Company's chief operating decision maker. When the Company does so, the previous period amounts and balances are reclassified to conform to the current period's presentation.

The following tables summarize by segment certain revenues, operating costs and balance sheet items (in thousands):

	United States Operations	Central American Operations	Caribbean Operations[(1)]	Colombia Operations	Reconciling Items[(2)]	Total
Year Ended August 31, 2021						
Revenue from external customers	$ 88,397	$ 2,105,856	$ 1,004,793	$ 420,825	$ —	$ 3,619,871
Intersegment revenues	1,280,236	17,861	5,087	3,869	(1,307,053)	—
Depreciation, Property and equipment	6,970	31,319	15,432	8,858	—	62,579
Amortization, Intangibles	2,404	—	—	—	—	2,404
Operating income (loss)	12,687	151,933	74,769	21,932	(103,301)	158,020
Interest income from external sources	13	878	985	103	—	1,979
Interest income from intersegment sources	2,130	2,393	483	—	(5,006)	—
Interest expense from external sources	1,606	2,831	427	2,346	—	7,210
Interest expense from intersegment sources	34	1,286	2,647	298	(4,265)	—
Provision for income taxes	15,919	22,661	8,006	2,383	—	48,969
Net income (loss) attributable to PriceSmart, Inc.	(4,777)	127,879	61,025	17,333	(103,497)	97,963
Long-lived assets (other than deferred tax assets)[(3)]	79,404	490,099	197,030	164,970	—	931,503
Intangibles, net	7,762	—	—	—	—	7,762
Goodwill	10,695	24,332	10,068	—	—	45,095
Investment in unconsolidated affiliates	—	10,544	—	—	—	10,544
Total assets	246,896	795,940	434,428	228,526	—	1,705,790
Capital expenditures, net	9,061	45,524	23,342	28,181	—	106,108
Year Ended August 31, 2020						
Revenue from external customers	$ 73,703	$ 1,895,857	$ 993,657	$ 365,971	$ —	$ 3,329,188
Intersegment revenues	1,148,004	16,524	4,909	2,723	(1,172,160)	—
Depreciation, Property and equipment	6,888	29,312	15,441	7,174	—	58,815
Amortization, Intangibles	2,410	—	—	—	—	2,410
Operating income (loss)	3,873	125,351	57,217	18,071	(82,044)	122,468
Interest income from external sources	7	612	749	663	—	2,031
Interest income from intersegment sources	2,065	2,566	431	—	(5,062)	—
Interest expense from external sources	1,890	3,425	310	2,000	—	7,625
Interest expense from intersegment sources	39	1,547	2,258	561	(4,405)	—
Provision for income taxes	10,106	20,001	6,416	1,241	—	37,764
Net income (loss) attributable to PriceSmart, Inc.	(7,578)	103,697	50,553	13,554	(82,117)	78,109
Long-lived assets (other than deferred tax assets)[(3)]	81,008	475,744	177,166	146,862	—	880,780
Intangibles, net	10,166	—	—	—	—	10,166
Goodwill	10,696	24,418	10,092	—	—	45,206
Investment in unconsolidated affiliates	—	10,602	—	—	—	10,602
Total assets	272,190	741,523	395,244	247,868	—	1,656,825
Capital expenditures, net	6,072	48,150	14,460	35,565	—	104,247
Year Ended August 31, 2019						
Revenue from external customers	$ 68,335	$ 1,831,761	$ 933,886	$ 389,936	$ —	$ 3,223,918
Intersegment revenues	1,205,986	11,185	4,507	1,498	(1,223,176)	—
Depreciation, Property and equipment	5,334	24,684	14,052	8,484	—	52,554
Amortization, Intangibles	2,404	—	—	—	—	2,404
Operating income (loss)	3,805	122,629	50,724	14,909	(76,900)	115,167
Interest income from external sources	74	499	568	348	—	1,489
Interest income from intersegment sources	1,408	1,877	724	—	(4,009)	—
Interest expense from external sources	1,377	2,368	(401)	595	—	3,939
Interest expense from intersegment sources	60	1,505	2,132	8	(3,705)	—
Provision for income taxes	11,280	19,429	6,615	236	—	37,560
Net income (loss) attributable to PriceSmart, Inc.	(8,518)	100,614	44,168	14,124	(77,197)	73,191
Long-lived assets (other than deferred tax assets)	65,278	383,665	165,584	115,838	—	730,365
Intangibles, net	12,576	—	—	—	—	12,576
Goodwill	11,315	24,593	10,193	—	—	46,101
Investment in unconsolidated affiliates	—	10,697	—	—	—	10,697
Total assets	161,583	614,579	340,216	180,033	—	1,296,411
Capital expenditures, net	8,439	85,962	28,434	22,832	—	145,667

(1) Management considers its club in the U.S. Virgin Islands to be part of its Caribbean operations.

(2) The reconciling items reflect the amount eliminated on consolidation of intersegment transactions.

(3) Effective September 1, 2019 (fiscal year 2020), we adopted the requirements of Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)" (ASC 842) using the modified retrospective approach, under which financial results reported in prior periods were not restated. As a result, the Long-lived assets (other than deferred tax assets) as of August 31, 2021 and August 31, 2020 is not comparable with that as of August 31, 2019.

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of August 31, 2021 through the date of issuance of these consolidated financial statements and has determined that, except as set forth below, there are no subsequent events that require disclosure.

Divestiture

From March 2018 through September 2021, we operated a cross border package forwarding (casillero) and online marketplace business under the "Aeropost" banner in 38 countries in Latin America and the Caribbean. PriceSmart acquired Aeropost in 2018 to leverage Aeropost's technology and its management's experience in developing software and systems for e-commerce and logistics to advance PriceSmart's development of an omni-channel shopping experience for its Members. In October 2021, PriceSmart sold the legacy casillero and marketplace operations, which were not core to our main objectives. PriceSmart retained key Aeropost personnel and technology in the transaction, with which we believe we can continue to leverage and grow our omni-channel business. This technology and talent have helped us combine our brick and mortar operations with online capabilities, supported by a more sophisticated distribution system that provides us with the potential to expand our geography, reach more Members in more ways and continue to develop approaches to gain efficiencies, reduce costs and provide Members with great value. The Company believes this transaction will not have a material impact on our results of operations in fiscal year 2022.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

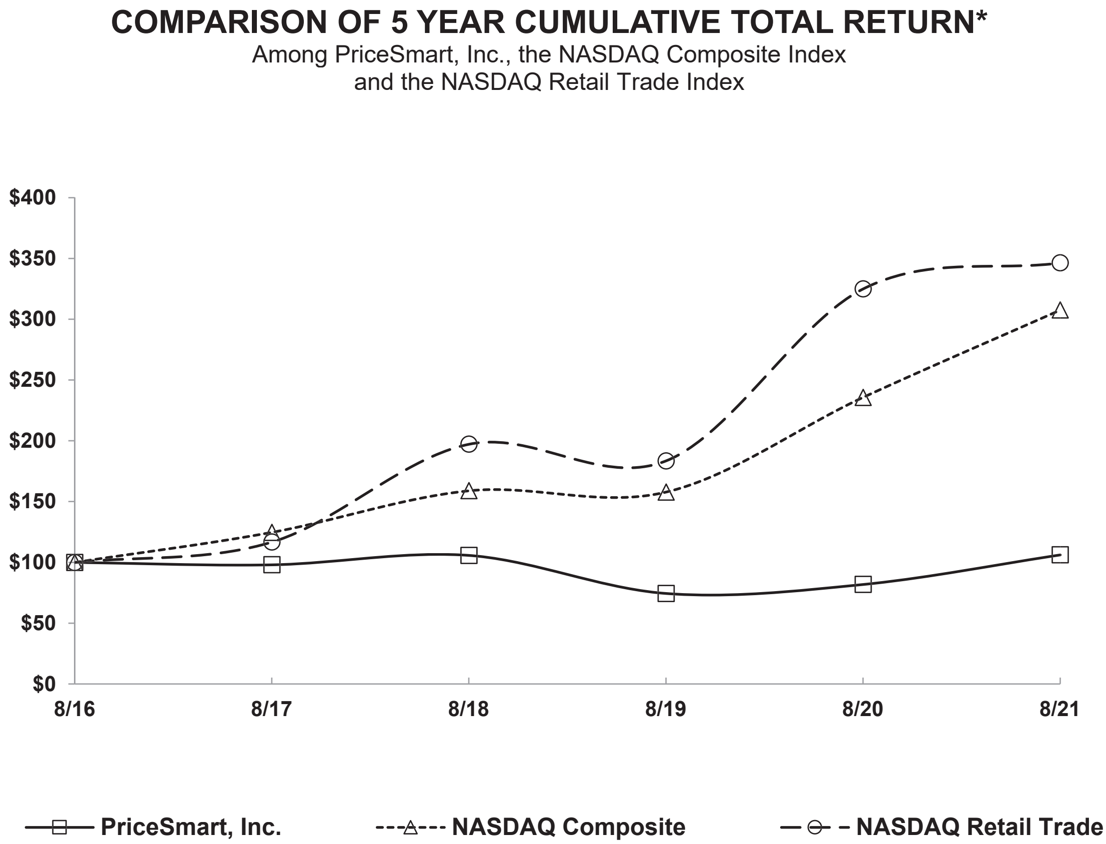
The Company's common stock has been quoted and traded on the NASDAQ Global Select Market under the symbol "PSMT" since September 2, 1997. As of October 11, 2021, there were approximately 21,777 holders of record of the common stock.

	Dates		Stock Price	
	From	To	High	Low
2021 FISCAL QUARTERS				
First Quarter	9/1/2020	11/30/2020	$ 82.63	$ 63.26
Second Quarter	12/1/2020	2/28/2021	103.07	81.89
Third Quarter	3/1/2021	5/31/2021	99.72	83.70
Fourth Quarter	6/1/2021	8/31/2021	$ 94.13	$ 79.56
2020 FISCAL QUARTERS				
First Quarter	9/1/2019	11/30/2019	$ 77.11	$ 58.25
Second Quarter	12/1/2019	2/29/2020	74.70	55.69
Third Quarter	3/1/2020	5/31/2020	65.09	42.94
Fourth Quarter	6/1/2020	8/31/2020	$ 67.26	$ 54.57

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the fiscal year ended August 31, 2021.

The graph below matches PriceSmart, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Retail Trade index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 8/31/2016 to 8/31/2021.



*$100 invested on 8/31/16 in stock or index, including reinvestment of dividends.
Fiscal year ending August 31.

	8/16	8/17	8/18	8/19	8/20	8/21
PriceSmart, Inc.	**100.00**	**98.07**	**105.74**	**74.45**	**81.90**	**106.20**
NASDAQ Composite	**100.00**	**124.73**	**158.97**	**157.83**	**235.69**	**307.55**
NASDAQ Retail Trade	**100.00**	**116.73**	**197.21**	**183.49**	**324.91**	**346.36**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Dividends

		First Payment			Second Payment		
Declared	Amount	Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
2/4/2021	$ 0.70	2/15/2021	2/26/2021	$ 0.35	8/15/2021	8/31/2021	$ 0.35
2/6/2020	$ 0.70	2/15/2020	2/28/2020	$ 0.35	8/15/2020	8/31/2020	$ 0.35
1/30/2019	$ 0.70	2/15/2019	2/28/2019	$ 0.35	8/15/2019	8/30/2019	$ 0.35

The Company anticipates the ongoing payment of semi-annual dividends in subsequent periods, although the actual declaration of future dividends, the amount of such dividends, and the establishment of record and payment dates is subject to final determination by the Board of Directors at its discretion after its review of the Company's financial performance and anticipated capital requirements, taking into account all relevant factors, including, but not limited to, the uncertainty surrounding the ongoing effects of the COVID-19 pandemic on our results of operations and cash flows.

Repurchase of Equity Securities

Upon vesting of restricted stock awarded by the Company to employees, the Company repurchases shares and withholds the amount of the repurchase payment to cover employees' tax withholding obligations.

As set forth in the table below, during fiscal year 2021, the Company repurchased a total of 62,282 shares in the indicated months. These were the only repurchases of equity securities made by the Company during fiscal 2021. The Company does not have a stock repurchase program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
September 1, 2020 - September 30, 2020	—	$ —	—	N/A
October 1, 2020 - October 31, 2020	6,773	73.87	—	N/A
November 1, 2020 - November 30, 2020	359	69.17	—	N/A
December 1, 2020 - December 31, 2020	—	—	—	N/A
January 1, 2021 - January 31, 2021	17,372	98.60	—	N/A
February 1, 2021 - February 28, 2021	—	—	—	N/A
March 1, 2021 - March 31, 2021	3,108	98.37	—	N/A
April 1, 2021 - April 30, 2021	299	97.77	—	N/A
May 1, 2021 - May 31, 2021	—	—	—	N/A
June 1, 2021 - June 30, 2020	—	—	—	N/A
July 1, 2021 - July 31, 2021	3,388	86.99	—	N/A
August 1, 2021 - August 31, 2021	30,983	86.28	—	N/A
Total	62,282	$ 88.97	—	N/A

ADDITIONAL INFORMATION

Corporate Offices
9740 Scranton Road
San Diego, CA 92121
(858) 404-8800

Stock Exchange Listing
NASDAQ Global Select Market
Stock Symbol: PSMT

Annual Meeting
Thursday, February 3, 2022 at 10:00 AM
PriceSmart, Inc. Corporate Headquarters
9740 Scranton Road
San Diego, CA 92121

Transfer Agent
Computershare Inc.
462 South 4th Street, Suite 1600
Louisville, KY, 40202
Telephone: (888) 867-6003
TDD for Hearing Impaired: (800) 490-1493
Outside U.S.: (201) 680-6578

Independent Registered Public Accounting Firm
Ernst & Young U.S. LLP
4365 Executive Drive, Suite 1600
San Diego, CA 92121

PriceSmart's annual reports to the Securities and Exchange Commission on Form 10-K and any quarterly reports on Form 10-Q, as amended, will be provided free of charge upon written request to Investor Relations, PriceSmart, Inc., 9740 Scranton Road., San Diego, CA 92121. Internet users can access PriceSmart's web site at http://www.investors.pricesmart.com.

DIRECTORS & OFFICERS OF PRICESMART, INC.
As of December 17, 2021

Robert E. Price	Chairman
Mitch Lynn	Vice Chairman
Sherry S. Bahrambeygui	Director
Jeffrey Fisher	Director
Gordon Hanson	Director
Beatriz Infante	Director
Leon Janks	Director
Patricia Márquez	Director
David Snyder	Director
Edgar Zurcher	Director
Sherry S. Bahrambeygui	Chief Executive Officer
Michael L. McCleary	Executive Vice President & Chief Financial Officer
William J. Naylon	Executive Vice President & Chief Operating Officer
Francisco Velasco	Executive Vice President — General Counsel, Chief Ethics & Compliance Officer and Corporate Secretary
Ana Luisa Bianchi	Executive Vice President — Chief Merchandising Officer
Juan Ignacio Biehl	Executive Vice President — Digital Experience and Chief Technology Officer
Rodrigo Calvo	Executive Vice President — Real Estate
Frank Diaz	Executive Vice President — Logistics and Distribution
Brud E. Drachman	Executive Vice President — Environmental Responsibility, Construction & Facilities
John D. Hildebrandt	Executive Vice President — Operations
Nicolas Maslowski	Executive Vice President — Member Experience and Strategic Analytics
Laura Santana	Executive Vice President — Information Technology
Jesus Von Chong	Executive Vice President — Regional Merchandising
Catherine D. Alvarez-Smith	Senior Vice President — Operational Controlling
George Burkle	Senior Vice President — US Export Sales
Eduardo Franceschi	Senior Vice President — Regional Operations
Carlos Herrera	Senior Vice President — Omnichannel Initiatives
Paul Kovaleski	Senior Vice President — Food Service, Bakery and Optical
Dhanraj Mahabir	Senior Vice President — Regional Operations
Ramon Mizrahi	Senior Vice President — Business Innovation and Omnichannel Integration
Wende Oliverio	Senior Vice President — Finance
Diana Pacheco	Senior Vice President — Human Resources
Atul Patel	Senior Vice President — Treasurer
Rafael Rodriguez	Senior Vice President — Distribution
Chris Souhrada	Senior Vice President — Business Development
Melissa Twohey	Senior Vice President — Merchandising – Corporate Foods
Pedro Vera	Senior Vice President — Regional Operations
Benjamin M. Woods	Senior Vice President — Merchandising – Non-Foods
Alma Adajar-Aban	Vice President — Internal Audit and Controls
Briana Anderson	Vice President — Buying Non-Foods
Alexa Bodden	Vice President — Membership & Marketing
Alonso Castro	Vice President — Legal
Guadalupe Cefalu	Vice President — Forecasting & Planning
Maynor Chavez	Vice President — Human Resources Operations
Sergio Cuevas	Vice President — Regional Operations
Jonathan Darcangelo	Vice President — Other Business
Gerardo Delgado	Vice President — Software Architecture

Daniel Fairbanks	Vice President — Private Label
David Hahn	Vice President — IT Development
Patricia M. Klassen	Vice President — Associate General Counsel and Assistant Corporate Secretary
Samantha Mejia	Vice President — Merchandising Regulatory
Jonathan Mendoza	Vice President — Construction & Facilities
Hana Nizel	Vice President — Merchandising – Corporate Fresh Foods
Kelly Orme	Vice President — Merchandising – Global Sourcing
Andres Ortiz	Vice President — Compensation & Benefits
Dennis Palma	Vice President — Business Services
David Price	Vice President — Omnichannel Initiatives & Social and Environmental Responsibility
Meshach Ramkissoon	Vice President — Merchandising – Regional Fresh Foods
Emma Reyes	Vice President — International Logistics & Trade Compliance
Ronald Rodriquez	Vice President — Logistics Planning & Implementation
Christina Santmyre	Vice President — Buying Non-Foods
Matthew Schiffer	Vice President —Transportation
Rosa Soto Alvarez	Vice President — Corporate Communications
Eric Torres	Vice President — Facilities Maintenance & Equipment
Marco Torres	Vice President — Operations
Robert Uno	Vice President — IT Infrastructure

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