



Population Services International

Consolidated Financial Statements and
Supplemental Schedules
Years Ended December 31, 2014 and 2013

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Population Services International

Consolidated Financial Statements and
Supplemental Schedules
Years Ended December 31, 2014 and 2013

Population Services International

Contents

Independent Auditor's Report	3-4
Consolidated Financial Statements	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-28
Supplemental Schedules	
Consolidated Schedule of Functional Expenses and Allocation of Indirect Expenses	29
Consolidated Schedule of Revenues by Funding Source	30



Tel: 301-654-4900
Fax: 301-654-3567
www.bdo.com

7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

Independent Auditor's Report

The Board of Directors
Population Services International
Washington, D.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Population Services International** (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the **Population Services International** as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidated schedule of functional expenses and allocation of indirect expenses and the consolidated schedule of revenue by funding source are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

BDO USA, LLP

June 30, 2015

**Consolidated
Financial Statements**

Population Services International

Consolidated Statements of Financial Position

<i>December 31,</i>	2014	2013
Assets		
Cash and cash equivalents (notes 2c and 3)	\$ 173,355,857	\$ 178,250,326
Restricted cash (2d)	1,722,697	-
Funds held for others (note 2m)	11,367,536	35,298,053
Investments (notes 2f and 5)	21,044,673	10,612,868
Trade receivables, net (notes 2g and 6)	3,173,025	3,001,758
Grants and contracts receivable, net (notes 2h and 7)	28,534,885	75,526,679
Inventory (note 2i)	84,661,078	82,964,817
Advances, prepaid expenses, deposits, and other receivables (note 2j)	53,465,073	49,333,164
Contributions receivable (note 2q and 8)	332,074	3,576,254
Due from independent network members (Note 2y)	4,811,762	3,943,565
Property and equipment, net (notes 2k, 9, 13, and 14)	47,677,561	52,305,665
Total assets	\$ 430,146,221	\$ 494,813,149
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses (note 13 and 16)	\$ 17,497,786	\$ 38,455,694
Accrued wages and benefits (note 12)	23,743,701	22,867,254
Deferred grants and fees (note 7)	148,613,241	177,832,178
Deferred commodities	80,248,344	75,170,332
Deferred program income (note 2s)	42,054,250	40,197,538
Funds held for others (note 2m)	11,367,536	35,298,053
Bonds payable (note 15)	43,476,161	44,494,493
Total liabilities	367,001,019	434,315,542
Commitments and contingencies (notes 2e, 12, 13, 14, 15 and 19)	-	-
Net assets		
Unrestricted (note 2n)	57,048,306	49,958,364
Temporarily restricted (notes 2n and 10)	6,085,709	10,528,056
Permanently restricted (note 2n)	11,187	11,187
Total net assets	63,145,202	60,497,607
Total liabilities and net assets	\$ 430,146,221	\$ 494,813,149

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Activities

For the year ended December 31,

	2014				2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and other support:								
Grants, fees, program income, and other support from:								
U.S. government	\$ 232,675,904	\$ -	\$ -	\$ 232,675,904	\$ 233,183,950	\$ -	\$ -	\$ 233,183,950
Non-U.S. governments	169,447,106	-	-	169,447,106	123,863,421	-	-	123,863,421
International organizations	137,674,821	-	-	137,674,821	138,874,688	-	-	138,874,688
Foundations and corporations	67,862,692	-	-	67,862,692	85,595,072	-	-	85,595,072
Other	26,083,689	-	-	26,083,689	25,590,959	-	-	25,590,959
Contributions (note 2q)	1,669,309	517,120	-	2,186,429	463,133	2,223,860	-	2,686,993
Total grants, fees, program income, and other support	635,413,521	517,120	-	635,930,641	607,571,223	2,223,860	-	609,795,083
Net rental gain (note 14)	729,093	-	-	729,093	493,007	-	-	493,007
Investment return (note 5)	1,849,963	-	-	1,849,963	1,036,451	-	-	1,036,451
Foreign currency transaction loss (note 2p)	(66,640)	-	-	(66,640)	(2,778,581)	-	-	(2,778,581)
Net assets released from restrictions (note 10)	4,959,467	(4,959,467)	-	-	1,706,602	(1,706,602)	-	-
Total revenue, gains, and other support	642,885,404	(4,442,347)	-	638,443,057	608,028,702	517,258	-	608,545,960
Expenses:								
Program services								
Malaria	193,076,913	-	-	193,076,913	169,782,305	-	-	169,782,305
HIV/Family planning	295,592,915	-	-	295,592,915	306,103,092	-	-	306,103,092
Other services	99,670,033	-	-	99,670,033	91,210,423	-	-	91,210,423
Total program services	588,339,861	-	-	588,339,861	567,095,820	-	-	567,095,820
Management and general	40,004,544	-	-	40,004,544	32,811,580	-	-	32,811,580
Fundraising	2,885,587	-	-	2,885,587	2,141,133	-	-	2,141,133
Total expenses	631,229,992	-	-	631,229,992	602,048,533	-	-	602,048,533
Change in net assets before foreign currency translation (loss) gain	11,655,412	(4,442,347)	-	7,213,065	5,980,169	517,258	-	6,497,427
Foreign currency translation (loss) / gain (note 2p)	(4,565,470)	-	-	(4,565,470)	422,305	-	-	422,305
Change in net assets	7,089,942	(4,442,347)	-	2,647,595	6,402,474	517,258	-	6,919,732
Net assets, beginning of year	49,958,364	10,528,056	11,187	60,497,607	43,555,890	10,010,798	11,187	53,577,875
Net assets, end of year	\$ 57,048,306	\$ 6,085,709	\$ 11,187	\$ 63,145,202	\$ 49,958,364	\$ 10,528,056	\$ 11,187	\$ 60,497,607

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 2,647,595	\$ 6,919,732
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	4,206,189	5,200,814
Change in allowance for receivables	(2,698,363)	87,409
Bad debt expense	3,972,013	1,575,991
Net gain on investments	(1,849,963)	(1,036,451)
Loss on disposal of property and equipment	1,436,248	31,968
Stock received in lieu of cash payment	(45,999,065)	(46,066,579)
Change in assets and liabilities		
Funds held for others	(23,930,517)	80,861,967
Trade receivables	(326,039)	1,099,217
Grants and contracts receivable	47,872,916	(11,561,774)
Inventory	(1,696,261)	(9,097,626)
Advances, prepaid expenses, deposits and other receivables	(4,445,977)	(9,300,209)
Contributions receivable	1,244,180	(3,419,274)
Due from independent network members	(868,197)	1,050,000
Accounts payable and accrued expenses	(21,117,360)	13,957,333
Accrued wages and benefits	876,447	1,494,885
Deferred grants and fees	(29,218,937)	(3,524,048)
Deferred commodities	5,078,012	6,857,755
Deferred program income	1,856,712	2,669,477
Funds held for others	23,930,517	(80,861,967)
Net cash used in operating activities	(39,029,850)	(43,061,380)
Cash flows from investing activities:		
Purchase of property and equipment	(700,265)	(1,210,013)
Disposal of property and equipment	-	89,549
Purchase of investments	(19,161,000)	(9,704,104)
Proceeds from sale and maturity of investments	56,578,223	65,092,766
Net cash provided by investing activities	36,716,958	54,268,198
Cash flows from financing activities:		
Increase in restricted cash	(1,722,697)	-
Repayments on bonds payable	(1,018,332)	(997,313)
Increase (decrease) in capital lease obligations	159,452	(162,753)
Net cash used in financing activities	(2,581,577)	(1,160,066)
Net (decrease) increase in cash and cash equivalents	(4,894,469)	10,046,752
Cash and cash equivalents, beginning of year	178,250,326	168,203,574
Cash and cash equivalents, end of year	\$ 173,355,857	\$ 178,250,326
Supplemental non-cash operating activities:		
Accounts payable to related party applied against due from independent network members (Note 11)	\$ 2,355,385	\$ 1,250,000
Supplemental cash flow disclosure:		
Interest paid	\$ 150,438	\$ 174,816

See accompanying notes to the consolidated financial statements.

Population Services International

Notes to Consolidated Financial Statements

1. Organization and Programs

Population Services International and its affiliates (hereafter PSI) is a 501(c)(3) nonprofit organization incorporated in the Commonwealth of North Carolina, United States of America. Founded in 1970, PSI is dedicated to improving the health of people in the developing world by focusing on serious challenges like a lack of family planning, HIV and AIDS, barriers to maternal health, and the greatest threats to children under five, including malaria, diarrhea, pneumonia and malnutrition. PSI works in partnership with local governments, ministries of health and local organizations to create health solutions that are sustainable within the countries it operates.

PSI's primary health area focuses include:

Malaria: PSI supports efforts to increase access to effective malaria prevention and treatment interventions, and works closely with ministries of health, primarily in Africa and Asia, to scale up proven interventions and sustain coverage over time. These interventions include: delivery of long-lasting insecticide treated nets, long-lasting insecticide retreatment tablets, artemisinin-based combination therapies, rapid diagnostic tests, strategic behavior change communications and applied operational research. PSI uses multiple channels to deliver these interventions, including the public and private sectors and community case management strategies. PSI works in 32 malaria endemic countries, including 24 in Sub Saharan Africa.

HIV/AIDS: PSI has HIV programs in over 60 countries around the world. Interventions, which include social marketing of HIV products and services and targeted HIV communication, are based upon a commitment to produce measurable health impact and an emphasis upon rigorous research and evaluation. Although condom social marketing and targeted communication remain cornerstones of PSI's work to address the HIV pandemic, country programs implement an increasingly comprehensive range of interventions in response to the changing needs of specific country contexts and populations.

Other primary health areas: PSI's other primary health areas include the areas reproductive health, child survival, and tuberculosis. Reproductive health services focuses on increasing contraceptive prevalence rates and decreasing maternal mortality ratios, in line with international standards and national priorities. Child survival efforts are focused on finding the most appropriate channels to reach caretakers and provide them with high quality, cost effective, and integrated health services that address the main causes of childhood morbidity and mortality. Lastly, tuberculosis and related services, engage private providers in the diagnosis and treatment and integrating HIV counseling and testing and TB services.

PSI operates in approximately sixty countries worldwide using a variety of organizational structures as determined by local laws and customs. These organizational structures, which are consolidated in these financial statements, include locally registered branch offices and nongovernmental organizations (NGOs), as well as locally incorporated for-profit entities and charitable trusts, as appropriate. These subsidiaries and affiliates operating in foreign countries are subject to the tax laws of the respective countries in which they operate.

Population Services International

Notes to Consolidated Financial Statements

The consolidated financial statements also include the financial position and the results of operations of its wholly owned for-profit subsidiary, d.b.a. Prudence, LLC (Prudence), which was incorporated in the District of Columbia in April 2007. Prudence was organized to own and operate the building which is secured by long-term debt on the property where PSI's headquarters are located at 1120 19th Street, N.W. in Washington, DC.

2. Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements of PSI are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting.

(b) *Principles of Consolidation*

The consolidated financial statements include the accounts of PSI and its affiliates worldwide, collectively referred to hereafter as PSI where PSI has control in the form of majority voting interest in the Board of Directors or host leadership of the affiliate. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) *Cash and Cash Equivalents*

Cash and cash equivalents were \$173,355,857 and \$178,250,326 at December 31, 2014 and 2013, respectively and include \$807,026 and \$10,443,454 of money market accounts and highly liquid investments with original maturities of three months or less.

(d) *Restricted Cash*

Restricted cash consists of funds deposited in a non-interest bearing account in connection with letters of credit that support existing PSI contracts. Restricted cash was \$1,722,697 at December 31, 2014. There was no restricted cash at December 31, 2013.

(e) *Financial Risks*

PSI places its cash and cash equivalents with high credit quality financial institutions that are federally insured for \$250,000 under the Federal Depository Insurance Corporation Act (FDIC). Amounts held in excess of the FDIC limits were \$156,514,147 and \$177,832,871 at December 31, 2014 and 2013, respectively. PSI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

PSI has operations in many countries throughout the world, many of which have politically and economically volatile environments and whose governments are still in development stages. As a result, PSI may have financial risks associated with these operations, including such matters as the assessment of additional local taxes.

Population Services International

Notes to Consolidated Financial Statements

(f) Investments

Investments are measured and reported at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 820 "Fair Value Measurements" (ASC 820). Dividends and interest are reflected as income when earned.

Investments in certificates of deposit, U.S. government agency securities, equity index funds and equity securities are measured and reported at fair value. The fair value of equity securities and institutional mutual funds with a readily determinable fair value is based on quotations obtained from national security exchanges.

Investment securities are exposed to risks, such as interest rate, market and credit. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the fair value of investments reported in the statements of financial position.

(g) Trade Receivables

Trade receivables arise from the sale of commodities. These balances are receivable in less than one year and are carried at undiscounted cost, less an allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon management's judgment including such factors as prior collection history.

(h) Grants and Contracts Receivable

PSI receives funding from grants and contracts received from U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. These balances are receivable in less than one year and are carried at undiscounted cost, less an allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon management's judgment including such factors as prior collection history. Allowance for doubtful accounts totaled \$3,209,240 and \$5,955,410 for the years ended December 31, 2014 and 2013, respectively.

(i) Inventory

PSI carries an inventory of products, such as condoms, insecticide treated nets (ITNs), and oral rehydration salts (ORS), held for distribution or resale. Inventory is carried at the lower of cost or market value using the first expired, first out method. These products are either purchased from vendors or received as contributions from grantors and totaled \$84,661,078 and \$82,964,817 at December 31, 2014 and 2013 respectively. Inventory as of December 31, 2014 and 2013 does not include obsolete inventory.

Population Services International

Notes to Consolidated Financial Statements

In countries where PSI unrestricted revolving funds have been established to maintain programs, PSI purchases inventory from vendors using these unrestricted funds. These products, carried at cost, totaled \$3,907,871 and \$4,290,747 at December 31, 2014 and 2013, respectively.

PSI also maintains inventory either received directly from grantors as donated commodities or purchased using funds received from grantors. Inventory from grantors is carried at cost and expensed on a first-expired, first-out basis when distributed to customers. At December 31, 2014 and 2013, these products totaled \$80,753,207 and \$78,674,070, respectively.

(j) Advances, Prepaid Expenses, Deposits and Other Receivables

Advances, prepaid expenses, deposits and other receivables consist of funds provided to PSI employees, contractors and subgrantees to meet future obligations. In addition, advances are made to PSI employees to cover future travel expenses. Other receivables represent miscellaneous receivables not occurring through trade or grant activity.

(k) Property and Equipment

PSI capitalizes all property and equipment with a cost of \$5,000 or more. Property and equipment is stated at cost if acquired by PSI, or at fair value if donated. The building is depreciated over the useful life of thirty nine years. Equipment includes computers, software, vehicles, furniture, and fixtures and is depreciated on a straight-line basis over estimated useful lives ranging from three to seven years. Leasehold improvements are depreciated over the lesser of the lease term or the estimated useful lives of the assets. Repairs and maintenance are charged to expense when incurred. In accordance with contractual disposition guidelines, certain equipment acquired for direct use in programs is expensed in the year of acquisition, as disposition is determined by the grantor upon program termination.

(l) Impairment of Long Lived Assets

PSI reviews asset carrying amounts annually in addition to whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, charged to the consolidated statement of activities, to its current fair value. No impairment loss has been recognized at December 31, 2014 and 2013.

(m) Funds Held for Others

In 2009, PSI began a Voluntary Pooled Procurement Program (VPP), where PSI acts as a procurement service agent on behalf of other organizations in purchasing long lasting malaria nets for use in developing countries. In 2012, PSI entered into similar arrangements with other third parties. Under these arrangements, funds are advanced to PSI to pay vendors on behalf of the organizations that are procuring funds and are recorded as funds held for others in the statement of financial position.

Population Services International

Notes to Consolidated Financial Statements

As part of PSI's procurement service agent arrangements and in accordance with ASC Topic No. 958-605 "*Not-for-profit Entities Revenue Recognition*" (ASC 958-605), PSI maintains a cash account that is reserved for procurements on behalf of other organizations in purchasing commodities for use in developing countries. As of December 31, 2014 and 2013, the balance in cash of \$11,367,536 and \$35,298,053, respectively was held in funds held for others as an asset and corresponding liability.

(n) *Net Assets*

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of PSI and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to any donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations expected to be met either by actions of PSI and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations where the principal amount must be maintained in perpetuity.

(o) *Financial Instruments and Credit Risk*

Financial instruments which potentially subject PSI to concentrations of credit risk consist principally of investments held at credit worthy financial institutions. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to grants and contracts receivable is mitigated by PSI, by creating allowances for uncollectible accounts and by the fact that most of the receivable balances are either from government grants or from donors with long standing relationships with PSI. Kreditanstalt fur Wiederaufbau (KfW), Department of Defense (DOD), United States Agency for International Development (USAID), John Snow, Inc. (JSI) and the United Kingdom Department for International Development (DFID) accounted for approximately 58% of total grants and contracts receivable as of December 31, 2014. USAID and Center for Disease Control (CDC) accounted for 62% of total grants and contracts receivable as of December 31, 2013. PSI considers the credit risk with respect to grant receivables to be limited due to payment history, diversity and relationship with the vendors, and the individual size of the receivables.

The grants, fees and program income which support program activities comes primarily from both federal and foreign governments, as well as from large international donors with longstanding relationships with PSI.

(p) *Foreign Currency Translation*

The functional currency for U.S. activities is the U.S. dollar. The functional currency for foreign activities is the respective local currency. Gains and losses resulting from the translation of local (foreign) currency amounts to the functional currency are included in foreign currency translation (losses) gains in the statements of activities. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included as a component of unrestricted net assets.

Population Services International

Notes to Consolidated Financial Statements

All elements of the financial statements reflecting PSI's operations in foreign countries are translated into U.S. dollars using applicable exchange rates. For assets and liabilities, this is the rate in effect at the date of the statements of financial position. The cumulative translation adjustment is reported as a component of unrestricted net assets within the consolidated statement of financial position.

For revenue and expense items, translation is performed using the monthly average exchange rate of the previous month. Realized gains and losses related to the monthly translation are reported as foreign currency transaction (losses) gains within the consolidated statement of activities.

Translation of the financial statements of PSI's foreign operations resulted in translation (losses) gains as follows:

<i>Years ended December 31,</i>	2014	2013
Cumulative translation adjustment, beginning of year	\$ (12,188,882)	\$ (12,611,187)
Translation (loss)/gain	(4,565,470)	422,305
Cumulative translation adjustments, end of year	\$ (16,754,352)	\$ (12,188,882)

Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of revenues recognized and expenses incurred in foreign currencies. Movements in foreign currency rates also affect statements of position balances denominated in foreign currencies, thereby creating exposure to movements in exchange rates.

(q) Contributions Revenue and Receivable

Contributions, which include unconditional promises to give are accounted for in accordance with ASC Topic No. 958-310 *"Not-for-profit Entities Receivables"* (ASC 958-310) are recognized as revenues in the period received or when the promise is made, if earlier, net of an allowance for any estimated uncollectible amounts. Contributions receivable are discounted to their present value if their due date extends beyond one year.

When donor restrictions are met by actions of PSI and/or the passage of time, related net assets are reclassified to unrestricted and reported in the statements of activities as net assets released from restrictions.

(r) Grants and Contracts

Revenue from grants and contracts whereby PSI agrees to perform specified services is deemed to be earned and reported as unrestricted revenue when reimbursable expenses are incurred under ASC 958-605. In the event PSI's expenses under a contract exceed specified ceilings in the contract, PSI's unrestricted net assets absorb excess direct and indirect costs.

PSI's U.S. government revenues are derived from awards with U.S. Agency for International Development (USAID), Centers for Disease Control (CDC) and the Department of Defense (DOD). These grants and contracts include provisions relating to the reimbursement of direct costs and indirect expenses at provisional rates. The recoveries billable during the year at

Population Services International

Notes to Consolidated Financial Statements

the provisional rates are adjusted at year-end based on the final actual indirect cost rates for the year. Any variance between the actual indirect cost rate and the final negotiated indirect cost rate is recorded as an adjustment to revenue in the year the final rate is negotiated.

Allowable expenses incurred in excess of cumulative reimbursements are reported as grants and contracts receivable. Cash received in excess of allowable expenditures is reported as deferred grants and fees.

PSI also receives commodities directly from contracting agencies and private donors in lieu of funds to purchase goods and services from third parties. The receipt of commodities is recorded as inventory at replacement cost value when received and expensed when sold.

(s) Program Income and Deferred Program Income

As a part of PSI's delivery of its programs, family planning and other health-related products are obtained from sponsors or purchased with PSI funds. These products are subsequently sold in local communities in those countries where the programs operate.

In those instances where PSI unrestricted funds are used to procure these products, inventory is recorded at the lower of cost or net realizable value when these products are purchased and unrestricted revenue and program service expense is recognized when these products are sold.

When third-party funds are used to procure health products, PSI acts in a fiduciary capacity for the sale of products related to the projects. The proceeds from these sales are collected by PSI and are typically available only for reinvestment in local in-country programs, based on contract provisions with the funding sources. PSI records these proceeds as deferred program income, and recognizes revenue when the proceeds are spent on program-related expenses. Unexpended amounts held by the projects are presented in the statements of financial position as deferred program income.

(t) In-Kind Contributions

Under ASC 958-605, the value of certain services provided to and/or paid on behalf of PSI's programs that are susceptible to objective measurement or valuation have been reflected in the financial statements within grants and contracts. PSI received \$79,453,839 and \$69,090,982 of donated commodities, equipment, and services for the years ended December 31, 2014 and 2013, respectively.

Additionally, a substantial number of volunteers have donated significant amounts of time to PSI's program services and to its fundraising campaigns. Although the value of these services is significant, PSI does not record such value in its financial statements since the criteria for recognition is not met in accordance with ASC 958-605.

Population Services International

Notes to Consolidated Financial Statements

(u) Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period.

(v) Functional Expenses

PSI expenses are reported on a functional basis based on health service areas. PSI reports health areas within three major categories Malaria, HIV/Family Planning and Other Services. Certain costs have been allocated between programs and supporting services benefited, based on direct salaries and fringe benefits.

(w) Income Taxes

PSI is recognized as exempt from federal income taxes, other than net unrelated business income, under Section 501 (c)(3) of the Internal Revenue Code and is not a private foundation under Section 509 (a)(1). PSI incurs unrelated business income in connection with the operations of its wholly owned for profit subsidiary Prudence. For the years ended December 31, 2014 and 2013 PSI incurred a tax impact of approximately \$174,627 and \$168,127 respectively. In addition, some of the foreign operations of PSI are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

PSI has filed for and received income tax exemptions in the various U.S. jurisdictions where it is required to do so. PSI files the Federal Form 990 tax return with the U.S. and with various states.

PSI adopted the provisions of ASC Topic 740-10, *Income Taxes* (ASC 740-10), on January 1, 2007. Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10 had no impact on PSI's financial statements. PSI does not believe there are any unrecognized tax benefits that should be recorded. No interest or penalties were accrued as of January 1, 2007 as a result of the adoption of ASC 740-10. For the years ended December 31, 2014 and 2013, there were no interest or penalties recorded or included in the statements of activities. PSI is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

(x) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.

Population Services International

Notes to Consolidated Financial Statements

(y) Due from Independent Network Members

Effective January 1, 2011, SC Social Marketing Solutions Romania (SMS Romania) became an independently governed organization. In accordance with the accounting guidance on consolidation, SMS Romania was deconsolidated for financial reporting purposes as of the effective date. At the time of deconsolidation, SMS Romania had a net intercompany balance due to PSI of approximately one million dollars which was reclassified to Due from Unconsolidated Affiliates and the long term note receivable was payable over ten years at an effective interest rate of 4.25%. During 2013 PSI agreed to defer the amount due and loan SMS Romania an additional \$200,000. A revised payment schedule was made effective with a maturity date of December 31, 2021. No payments were received on the note receivable during the years ended December 31, 2014 and December 31, 2013. The balance of the long term note receivable as of December 31, 2014 and 2013 was approximately \$845,000.

Effective January 1, 2012, Society of Family Health Nigeria (SFH Nigeria) became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of January 1, 2012. As of the date of de-consolidation, SFH Nigeria's inter-company balance due to PSI was approximately \$13.8 million. On September 10, 2012, PSI and SFH Nigeria entered into an agreement to convert approximately \$6.3 million of the inter-company balance to a long-term note receivable payable over 4 years with a maturity date of June 30, 2015. The remaining inter-company balance of approximately \$7.5 million was written off as a loss on deconsolidation in the Consolidated Statements of Activities as of December 31, 2011 and 2012 in the amounts of \$4.9 million and \$2.6 million, respectively. On June 3, 2014, the repayment terms of the long term note receivable were modified extending the maturity date until December 31, 2016. During 2014 and 2013, \$1.25 million of program expenses incurred each year in connection with a sub-recipient agreement with PSI was applied as a reduction to the long-term note receivable. The balance of the long-term note receivable as of December 31, 2014 and 2013 was \$1,848,107 and \$3,098,107, respectively.

Effective, January 1, 2014 PSI Kenya transitioned operations to Population Services Kenya (PS Kenya) in Kenya, an independently governed organization. In accordance with the accounting guidance on consolidation, PS Kenya was de-consolidated for financial reporting purposes as of the effective date. During the year 2014, PS Kenya sold commodities on behalf of PSI programs and at December 31, 2014, PS Kenya owed PSI approximately \$2.1 million in connection with the sale of these goods.

(z) Accounting Pronouncements to be Adopted

In April 2013, FASB issued Accounting Standards Update (ASU) 2013-06, *Services Received from Personnel of an Affiliate (ASU 2013-6)*. The amendments in ASU 2013-06 require a recipient not-for-profit entity to recognize all services from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. If measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments are effective prospectively for fiscal years beginning after June 15, 2014. PSI's management is

Population Services International

Notes to Consolidated Financial Statements

currently evaluating the effect the provisions of ASU 2013-06 will have on PSI's consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606 (ASU 2014-09)* which becomes effective for nonpublic entities effective for annual periods beginning after December 15, 2018. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. PSI's management is currently evaluating the effect the provisions of ASU 2014-09 will have on PSI's consolidated financial statements.

In September 2014, FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15)*. The amendments in ASU 2014-15 define when and how companies are required to disclose going concern uncertainties, which must be evaluated each period. Specifically, the ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the consolidated financial statements are issued (or available to be issued). If substantial doubt exists, certain disclosures are required; the extent of those disclosures depends on an evaluation of management's plans (if any) to mitigate the going concern uncertainty. The new standard applies prospectively to annual periods ending after December 15, 2016. PSI's management is currently evaluating the effect the provisions of ASU 2014-15 will have on PSI's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-10)*. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The ASU will be effective for periods beginning after December 15, 2015. PSI's management is currently evaluating the effect the provisions of ASU 2014-07 will have on PSI's consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified in the consolidated financial statements and accompanying notes to conform to the current year presentation.

Population Services International

Notes to Consolidated Financial Statements

3. Funds Maintained in Foreign Accounts

Certain items reflected in the consolidated statements of financial position, including cash and cash equivalents of approximately \$12 million in local currency for both years, and approximately \$16 million and \$19 million in U.S. dollars, British pounds, or Euros at December 31, 2014 and 2013, respectively are maintained at financial institutions in foreign countries. For financial reporting purposes, the year-end foreign currency balances are translated into U.S. dollars using current exchange rates.

4. Fair Market Value of Financial Instruments

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as PSI would use in pricing PSI's asset or liability based on independently derived and observable market data.

The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include equity securities and publicly traded mutual funds that are actively traded on a major exchange or over-the-counter market.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly. The fair value of certain bonds and other investments are estimated using recently executed transactions, bid/ask prices and pricing models that factor in, where applicable, interest rates, bond spreads and volatility.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

In determining the appropriate levels, PSI performs a detailed analysis of the assets and liabilities that are subject to the codification provisions of ASC 820.

PSI investments consisted of equity securities and mutual funds as of December 31, 2014 and consisted of certificates of deposits, equity securities, mutual funds and U.S. government agency securities as of December 31, 2013. The following section describes the valuation methodologies use by PSI to measure its financial assets and liabilities at fair value:

- **Certificates of deposits, equity securities and U.S. government agency securities:** PSI's equity securities, certificates of deposits and U.S. government agency securities consist of readily marketable securities whose quoted prices are available in the open market. PSI's estimates fair value for these investments is based on Level 1 inputs.

Population Services International

Notes to Consolidated Financial Statements

- **Mutual Funds:** The fair values of the participation units owned by PSI in mutual funds, invested in security portfolios, are based on the underlying investments and are based on the net asset value of the shares held by PSI as determined by quoted market prices at the end of the year. Investment income from the mutual funds reflects earnings of the respective underlying funds, including investment income and investment return of the fair value of the investments.

The table below presents the balances of assets measured at fair value on a recurring basis by hierarchy level at December 31, 2014 and 2013, respectively:

	Level 1	2014 Level 2	Level 3
Equity securities	\$ 2,034	\$ -	\$ -
Mutual funds	21,042,639	-	-
Total investments	\$ 21,044,673	\$ -	\$ -

	Level 1	2013 Level 2	Level 3
Equity securities	\$ 355,860	\$ -	
Mutual funds	10,257,008	-	
Total investments	\$ 10,612,868	\$ -	

Trade receivables, contribution receivables, grants and contracts receivable, accounts payable and accrued expenses: The estimated fair values of PSI's short-term financial instruments, including trade, contributions and grants receivables and accounts payable and accrued expenses arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Bonds payable: The fair value of PSI's bonds payable is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to PSI for debt of the same remaining maturities. The tax-exempt bonds incur variable interest rates that reset weekly.

Population Services International

Notes to Consolidated Financial Statements

The following table presents the carrying amounts and estimated fair values of financial instruments measured at fair value on a non-recurring basis at December 31:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Trade receivables, net	\$ 3,173,025	\$ 3,173,025	\$ 3,001,758	\$ 3,001,758
Contribution receivables	332,074	332,074	3,576,254	3,576,254
Grants and contract receivables, net	28,534,885	28,534,885	75,526,679	75,526,679
Accounts payable and accrued expenses	17,497,786	17,497,786	38,455,694	38,455,694
Bonds payable	43,476,161	43,476,161	44,494,493	44,494,493
Total financial instruments	\$ 93,013,931	\$ 93,013,931	\$ 165,054,878	\$ 165,054,878

5. Investments

Investments are summarized at fair value as follows at December 31:

	2014	2013
Equity securities	\$ 2,034	\$ 355,860
Mutual funds	21,042,639	10,257,008
Total investments	\$ 21,044,673	\$ 10,612,868

Investment return for the year ended December 31 consists of the following:

	2014	2013
Interest and dividend income	\$ 918,895	\$ 680,477
Realized gain on investments	717,292	436,672
Unrealized gain (loss) on investments	213,776	(80,698)
Total investment return	\$ 1,849,963	\$ 1,036,451

Investment management fees for the years ended December 31, 2014 and 2013 were not considered material by management.

Population Services International

Notes to Consolidated Financial Statements

6. Trade Receivables

The amounts due from the sales of commodities consist of the following, as of December 31:

	2014	2013
Trade receivables	\$ 3,770,832	\$ 3,551,758
Less allowance for doubtful accounts	(597,807)	(550,000)
Total trade receivables, net	\$ 3,173,025	\$ 3,001,758

7. Grants and Contracts Receivable and Deferred Grants and Fees

The amounts due from grants and contracts consist of the following, as of December 31:

	2014	2013
Billed	\$ 16,477,593	\$ 37,280,760
Unbilled	15,266,532	44,201,329
	31,744,125	81,482,089
Less allowance for doubtful accounts	(3,209,240)	(5,955,410)
Total grants and contracts receivable, net	\$ 28,534,885	\$ 75,526,679
U.S. government	\$ 10,526,575	\$ 50,956,526
Non-U.S. governments	13,385,815	20,085,197
International organizations	5,032,218	6,702,738
Foundations and corporations	2,799,517	3,737,628
	31,744,125	81,482,089
Less allowance for doubtful accounts	(3,209,240)	(5,955,410)
Total grants and contracts receivable, net	\$ 28,534,885	\$ 75,526,679

Unbilled amounts are expected to be billed and collected within the next year. Unbilled receivables represent allowable costs incurred in excess of amounts billed.

Deferred grants and fees represent advances from various program sponsors. The following amounts were advanced from the program sponsors, as of December 31:

	2014	2013
U.S. government	\$ 4,225,127	\$ 1,734,302
Non-U.S. governments	24,118,338	38,051,966
International organizations	68,761,169	106,977,667
Foundations and corporations	51,508,607	31,068,243
Total deferred grants and fees	\$ 148,613,241	\$ 177,832,178

Population Services International

Notes to Consolidated Financial Statements

8. Contributions Receivable

Unconditional promises to give at December 31, 2014 and 2013 of \$332,074 and \$3,576,254, respectively and considered fully collectible within three years. As of December 31, 2014 and 2013 there were no conditional promises to give. The discount related to the long term portion of the contribution receivable balance was not considered material by management.

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2014	2013
Land	\$ 24,829,978	\$ 25,096,385
Building	23,274,384	23,438,143
Leasehold improvements	5,851,004	5,428,306
Equipment held under capital leases	711,010	734,560
Furniture and equipment	7,950,589	22,750,695
	<u>62,616,965</u>	<u>77,448,089</u>
Less accumulated depreciation	(14,939,404)	(25,142,424)
Total property and equipment, net	<u>\$ 47,677,561</u>	<u>\$ 52,305,665</u>

Depreciation expense totaled \$4,206,189 and \$5,200,814 for the years ended December 31, 2014 and 2013, respectively.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for use based on specific donor restrictions. Temporarily restricted net assets are restricted for use as follows, as of December 31:

	2014	2013
HIV/AIDS	\$ 3,218,420	\$ 3,661,544
Water purification systems	166,127	505,247
Family planning and women's health	1,715,999	3,492,638
Other program uses or locations	985,163	2,868,627
Total temporarily restricted net assets	<u>\$ 6,085,709</u>	<u>\$ 10,528,056</u>

Population Services International

Notes to Consolidated Financial Statements

Net assets released from restrictions for the year ended December 31:

	2014	2013
HIV/AIDS	\$ 447,338	\$ 379,498
Water purification systems	340,468	352,976
Family planning and women's health	2,057,299	75,911
Other program uses or locations	2,114,362	898,217
Total temporarily restricted net assets released from restriction	\$ 4,959,467	\$ 1,706,602

11. Related Party Transactions

PSI Europe (PSI/E) was formed in 1996 as an independently governed organization that is not consolidated in these financial statements. PSI appointed one of three founding members of PSI/E. During 2014 and 2013, PSI paid PSI/E \$999,597 and \$675,589, respectively.

PSI has entered into certain transactions with Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar), an organization of which PSI's President is also a Board member and a member of Greenstar's Board is a board member on the PSI governing Board of Directors. During 2014 and 2013, PSI paid Greenstar approximately \$7.4 million and \$7.9 million, respectively in sub-award expenses and in 2014 PSI directly procured approximately \$396,000 in goods and services on Greenstar's behalf in relation to sub-award expenses.

Effective January 1, 2011, SMS Romania became an independently governed organization. In accordance with the accounting guidance on consolidation, SMS Romania was deconsolidated for financial reporting purposes as of the effective date. PSI representatives are also Board members of SMS Romania. During the year ended December 31, 2014, PSI did not engage in any related party transactions with SMS Romania. During the year ended December 31, 2013, PSI agreed to defer amounts due and paid an additional \$200,000 to SMS Romania increasing a note receivable to PSI.

Effective January 1, 2012, SFH Nigeria became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of the effective date. PSI representatives are Board members of SFH Nigeria and a SFH Nigeria representative is a board member on the PSI governing Board of Directors. For the years ended December 31, 2014 and 2013, PSI paid SFH Nigeria approximately \$1.3 million and \$2.5 million, respectively, and applied an additional \$1,250,000 to the long-term note receivable in both years for sub-award expenses due to SFH Nigeria. Additionally, SFH Nigeria paid PSI approximately \$1.3 million and 1.8 million for sub-award expenses due to PSI.

Effective January 1, 2013, PSI Cambodia transitioned operations to Population Services Khmer (PS Khmer) in Cambodia, an independent entity that is not consolidated in these financial statements. PSI representatives are board members on the PS Khmer governing Board of Directors and supports PS Khmer management. PSI paid PS Khmer approximately \$4.2 million and \$3.9 million, respectively, for the years ended 2014 and 2013, in sub-award expenses.

Population Services International

Notes to Consolidated Financial Statements

Effective, January 1, 2014 PSI Kenya transitioned operations to Population Services Kenya (PS Kenya) in Kenya, an independent entity that is not consolidated in these financial statements. PSI representatives are also on the PS Kenya governing Board of Directors and supports PS Kenya management. Also, a PS Kenya representative is a board member on the PSI governing Board of Directors. PSI paid PS Kenya approximately \$19.7 million for the year ended 2014 in sub-award expenses. In addition, PS Kenya sells commodities on behalf of PSI. During 2014, PS Kenya sold approximately \$3.2 million for PSI programs of which approximately \$1.1 million was used to fund sub-award expenses with PS Kenya and the additional \$2.1 million was owed to PSI at December 31, 2014.

12. Accrued Wages and Benefits

Effective December 31, 2002, PSI merged three related defined contribution employee benefit plans into one plan that includes four tiers of eligibility. PSI makes contributions into the tiers of this plan for eligible employees residing in developed or less developed countries (as defined in the plan document) and having completed at least one year and 1,000 hours of service, based on the following criteria. Tier 1 (formerly Plan I, established January 1, 1980 and amended January 1, 1998) receives 6% of covered compensation earned for international employees permanently assigned to less developed countries. Tier 2 (formerly Plan II, established January 1, 1996) receives 2% of covered compensation earned for employees residing in or serving in developed countries. Tier 3 (formerly Plan III, established January 1, 1998 and the surviving consolidated plan) receives 11% of covered compensation earned for employees residing in or serving in developed countries. Tier 4 receives discretionary supplemental contributions for certain eligible executive employees.

Pension expense for all pension plans aggregated \$2,082,960 and \$1,839,537, respectively for the years ended December 31, 2014 and 2013.

13. Lease Commitments

PSI is obligated under capital leases for equipment that expire at various dates during the next five years. At December 31, 2014 and 2013, the gross amount of equipment and related accumulated amortization recorded under capital leases were as follows:

	2014	2013
Equipment	\$ 711,010	\$ 734,560
Less accumulated amortization	(333,197)	(495,335)
Total equipment under capital leases, net	\$ 377,813	\$ 239,225

Amortization expense totaled \$171,714 and \$154,198 for the years ended December 31, 2014 and 2013, respectively.

Population Services International

Notes to Consolidated Financial Statements

Amortization of assets held under capital leases is included in depreciation expense. Future minimum lease payments are as follows:

Years ending December 31,

2015	\$ 200,045
2016	148,683
2017	56,943
2018	28,471
Total minimum lease payments	434,142
Less amount representing interest	(22,109)
Obligations under capital leases, included in accounts payable and accrued expenses as of December 31, 2014	\$ 412,033

14. Lease Rental Income

PSI occupies approximately 40% of its headquarters building, and its portion of the occupancy costs is included in management and general expenses. PSI leases the remaining commercial space to various third parties. The terms of the leases range from 2 to 10 years, including renewal options.

Total gross revenues, expenses and PSI's direct apportionment for the twelve months ended December 31, were as follows:

	2014	2013
Gross building rental income	\$ 5,254,267	\$ 5,324,864
PSI occupancy rent	(2,225,039)	(2,174,999)
Net revenue	3,029,228	3,149,865
Gross building expenses	3,807,117	4,058,510
PSI expense apportionment	(1,506,982)	(1,401,652)
Net expense	2,300,135	2,656,858
Net rental income	\$ 729,093	\$ 493,007

Population Services International

Notes to Consolidated Financial Statements

Future minimum lease income is as follows:

Years ending December 31,

2015	\$ 2,703,757
2016	2,821,061
2017	2,435,617
2018	1,961,171
2019	1,963,489
<hr/>	
Thereafter	5,078,379
<hr/>	
Total future minimum lease income	\$ 16,963,474

15. Bonds Payable

In 2007, PSI entered into several loan agreements to finance the acquisition of its headquarters building in Washington, DC.

Loan Agreement

Under a loan agreement with a bank dated April 20, 2007, \$47,855,000 was borrowed for the acquisition. In November 2007, PSI entered into another loan agreement for \$28,200,000 in connection with the issuance of Variable Rate Revenue Bonds (see below) through the District of Columbia. \$26,502,828 of the proceeds from the issuance of the Variable Rate Revenue Bonds was used as repayment of the original loan agreement and an amended and restated Deed of Trust Note agreement was signed for the remaining balance of \$21,352,172.

In 2008, PSI was required to pay the bank \$2,331,000 towards the principal outstanding under the Deed of Trust Note agreement to ensure that PSI was in compliance with its loan-to-value ratio of 90% of the appraised value of the property. Additionally, the remaining eligible expenditures under the Bonds, totaling \$1,697,172, were incurred, submitted for payment, and were released. PSI was required to pay the bank the \$1,697,172 to further reduce the Deed of Trust Note agreement balance to \$17,324,000.

Under the Deed of Trust Note, monthly payments began on December 1, 2012 and a separate annual payment was made beginning December 1, 2013 and continuing until maturity on November 15, 2019 when the remaining balance of \$10,174,349 is to be paid. Interest is payable at the beginning of each month effective December 1, 2007 based on the LIBOR rate plus 0.45%. The interest rate was 0.61% and 0.62% as of December 31, 2014 and 2013, respectively. The Deed of Trust note agreement is secured by the land, buildings and improvements of PSI's headquarters.

Variable Rate Revenue Bonds

The Variable Rate Revenue Bonds in the amount of \$28,200,000 mature on November 1, 2042. Installment payments begin on November 1, 2027, and range from \$2 to \$3.2 million per year through the maturity date. The interest rate was 0.22% and 0.24% at December 31, 2014 and 2013, respectively.

Population Services International

Notes to Consolidated Financial Statements

The Bonds are secured by land, building and improvements of PSI's headquarters. In order to provide enhanced security and liquidity for the weekly remarketing of the Bonds, PSI entered into a letter of credit with a bank totaling \$28,576,000, which expires on November 15, 2019. Under the terms of the letter of credit, the bank is obligated to lend funds to PSI in amounts sufficient to pay the purchase price of any bonds tendered for purchase. The letter of credit has various financial covenants including maintaining certain debt coverage ratios, maintaining certain liquidity ratios, limitations on other debt and limitations on sale, lease or assignment of assets with a net book value exceeding certain amounts per fiscal year. As of December 31, 2014, PSI was in compliance with all of these covenants.

As of December 31, 2014, the aggregate maturities of the long-term bonds, including the payments under the terms described above, are as follows:

2015	\$ 1,040,464
2016	1,163,766
2017	1,188,300
2018	1,214,133
2019	10,669,498
Thereafter	28,200,000

Total payments	\$ 43,476,161
----------------	---------------

Interest expense on the Loan Agreement and the Bonds for the years ended December 31, 2014 and 2013 was \$149,290 and \$173,474, respectively, of which \$12,563 and \$13,711, respectively is included in accounts payable in the accompanying statements of financial position.

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, are as follows:

	2014	2013
General accounts payable	\$ 2,818,178	\$ 5,358,140
General accrued expenses	8,194,711	17,618,681
Negotiated indirect cost rate (NICRA)	921,387	1,547,033
Purchase order accrual	2,183,447	10,871,953
Other accounts payable and accrued expenses	3,380,063	3,059,887

	\$ 17,497,786	\$ 38,455,694
--	---------------	---------------

The fair values of accounts payable and accrued expenses classified as financial liabilities measured at amortized cost was based on cash flows discounted at rates commensurate within the respective platform.

All accounts payable and accrued expenses have a maturity of no more than twelve months from the balance sheet date. Book values approximate to fair value at December 31, 2014 and 2013.

Population Services International

Notes to Consolidated Financial Statements

17. Line-of-Credit

In August 2011, a new line of credit was received to replace a previously held letter of credit. The line, which totals \$20 million and is secured by PSI's investments, carries an interest rate of LIBOR plus 0.95%, and has an expiration date of January 31, 2015, which renews annually at the discretion of the financial institution. During 2014, the secured investments were released as collateral and PSI is not entitled to obtain advances until the collateral is reinstated. As of December 31, 2014 and December 31, 2013, PSI did not have an outstanding balance under the line-of-credit. The interest rate was 1.1% as of December 31, 2014 and 2013. PSI did not draw on the line-of-credit during the year ended December 31, 2014 and 2013 and there was no interest expense incurred during 2014 and 2013.

18. Commitments and Contingencies

Grants: PSI receives a substantial portion of its revenue from U.S. and non-U.S. government grants and contracts, which are subject to audit. The ultimate determination of amounts received under these projects generally is based upon allowable costs reported to and audited by the governments or their designees. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management believes that no material liability will result from such audits.

Foreign operations: Due to the nature of its operations, PSI is subject to the continuing impact of foreign governments and their policy changes. Such changes could have wide-ranging impact on PSI's operations; however no material event has occurred previously.

Other: PSI is party to various legal actions and claims arising in the ordinary course of its business. PSI's management believes that their ultimate disposition will not have a material adverse effect on PSI's financial position or change in net assets.

19. Subsequent Events

PSI evaluated subsequent events through June 30, 2015 which is the date the consolidated financial statements were available to be issued. No subsequent events were noted that required adjustment to the consolidated financial statements.

Supplemental Schedules

Population Services International

Consolidated Schedule of Functional Expenses and Allocation of Indirect Expenses

Year ended December 31, 2014

(with summarized comparative financial information for the year ended December 31, 2013)

	Program Services				Management and General	Fundraising	Totals	
	Malaria	HIV/Family Planning	Other Services	Total			2014	2013
U.S. based and residential project advisor salaries	\$ 3,100,412	\$ 8,775,118	\$ 3,019,516	\$ 14,895,046	\$ 13,440,902	\$ 884,792	\$ 29,220,740	\$ 27,770,127
Fringe benefits	1,085,144	3,071,291	1,056,517	5,212,952	4,704,033	309,658	10,226,643	9,853,909
Salaries and fringe benefits	4,185,556	11,846,409	4,076,033	20,107,998	18,144,935	1,194,450	39,447,383	37,624,036
Local staff salaries and fringe benefits	12,829,568	60,539,815	14,810,747	88,180,130	431,516	400	88,612,046	89,528,560
Allowances	3,050,904	4,666,978	2,396,763	10,114,645	203,304	67	10,318,016	10,432,892
Total salaries and related expenses	20,066,028	77,053,202	21,283,543	118,402,773	18,779,755	1,194,917	138,377,445	137,585,488
Travel	8,136,474	18,745,712	5,672,894	32,555,080	2,612,160	201,441	35,368,681	33,438,597
Consultants and contracts	4,667,150	15,679,627	4,119,307	24,466,084	4,495,423	418,384	29,379,891	26,746,294
Furniture and equipment	2,971,456	5,384,315	3,658,018	12,013,789	829,817	2,971	12,846,577	10,069,444
Commodities	109,469,022	61,188,642	19,706,539	190,364,203	-	-	190,364,203	184,580,056
Subrecipients	24,234,957	59,376,348	29,163,390	112,774,695	-	-	112,774,695	101,068,867
Promotions and advertising	8,312,200	29,297,430	5,748,186	43,357,816	104	3,263	43,361,183	48,611,661
Office costs	6,711,665	16,247,435	2,732,334	25,691,434	4,399,840	104,158	30,195,432	28,278,414
Other direct and indirect costs	8,507,961	12,597,532	5,094,028	26,199,521	8,111,503	44,672	34,355,696	26,468,898
Total expenses before depreciation	193,076,913	295,570,243	97,178,239	585,825,395	39,228,602	1,969,806	627,023,803	596,847,719
Depreciation and amortization	-	22,672	2,491,794	2,514,466	1,691,723	-	4,206,189	5,200,814
Total expenses before allocation of indirect costs	193,076,913	295,592,915	99,670,033	588,339,861	40,920,325	1,969,806	631,229,992	602,048,533
Allocation of indirect costs to fundraising	-	-	-	-	(915,781)	915,781	-	-
Total expenses per financial statements	193,076,913	295,592,915	99,670,033	588,339,861	40,004,544	2,885,587	631,229,992	602,048,533
Allocation of indirect costs to program services	6,713,834	19,493,585	5,827,124	32,034,543	(32,034,543)	-	-	-
Total expenses after allocations	\$ 199,790,747	\$ 315,086,500	\$ 105,497,157	\$ 620,374,404	\$ 7,970,001	\$ 2,885,587	\$ 631,229,992	\$ 602,048,533

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Schedule of Revenues by Funding Source
Year ended December 31, 2014

(with summarized comparative financial information for the year ended December 31, 2013)

	Unrestricted					Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
	U.S. Government	Non-U.S. Governments	International Organizations	Foundations/ Corporations	Other					
Revenue, gains, and other support:										
Grants, fees, program income, and other support:										
Grants and fees	\$ 229,430,298	\$ 162,924,566	\$ 137,055,738	\$ 66,333,984	\$ 3,482,037	\$ 599,226,623	\$ -	\$ -	\$ 599,226,623	\$ 567,382,709
Program income	3,245,606	6,522,540	619,083	1,528,708	21,780,574	33,696,511	-	-	33,696,511	38,003,611
Other	-	-	-	-	821,078	821,078	-	-	821,078	1,721,770
Contributions	-	-	-	-	1,669,309	1,669,309	517,120	-	2,186,429	2,686,993
Total grants, fees, program income, and other support	232,675,904	169,447,106	137,674,821	67,862,692	27,752,998	635,413,521	517,120	-	635,930,641	609,795,083
Net rental gain	-	-	-	-	729,093	729,093	-	-	729,093	493,007
Investment return	-	-	-	-	1,849,963	1,849,963	-	-	1,849,963	1,036,451
Foreign currency transaction loss	-	-	-	-	(66,640)	(66,640)	-	-	(66,640)	(2,778,581)
Net assets released from restrictions	-	-	-	-	4,959,467	4,959,467	(4,959,467)	-	-	-
Total revenue, gains, and other support	\$ 232,675,904	\$ 169,447,106	\$ 137,674,821	\$ 67,862,692	\$ 35,224,881	\$ 642,885,404	\$ (4,442,347)	\$ -	\$ 638,443,057	\$ 608,545,960

See accompanying notes to the consolidated financial statements.