Population Services International

Consolidated Financial Statements and Supplemental Schedules
Years Ended December 31, 2017 and 2016

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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** (PSI), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, 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, 2017 and 2016, 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, 2018

Consolidated Financial Statements

Population Services International

Consolidated Statements of Financial Position

December 31,	**2017**	2016
Assets		
Cash and cash equivalents (notes 2c and 3)	**$ 115,890,265**	$ 117,170,220
Funds held for others (note 2l)	**129,042**	2,262,389
Investments (notes 2e and 5)	**25,139,038**	20,483,089
Trade receivables, net (notes 2f and 6)	**4,585,732**	3,900,247
Grants and contracts receivable, net (notes 2g and 7)	**74,451,587**	73,377,087
Inventory (note 2h)	**79,314,086**	76,510,467
Inventory - held for others (note 2l)	**10,193,546**	-
Advances, prepaid expenses, and other assets (note 2i)	**49,997,205**	57,493,014
Contributions receivable (notes 2p and 8)	**3,750,755**	4,866,727
Due from independent network members (note 2x)	**5,659,519**	4,480,658
Property and equipment, net (notes 2j, 2k, 9, 13, and 14)	**44,462,885**	44,602,847
Total assets	**$ 413,573,660**	$ 405,146,745
Liabilities and Net Assets		
Liabilities		
Accounts payable	**$ 6,299,449**	$ 7,661,448
Accrued expenses	**38,047,343**	25,129,070
Inventory held for others (note 2l)	**10,193,546**	-
Accrued wages and benefits (note 12)	**27,606,252**	24,754,354
Deferred grants and fees (notes 2q and 7)	**128,973,145**	143,107,732
Deferred commodities (note 2h)	**71,017,126**	69,983,570
Deferred program income (note 2r)	**30,928,168**	32,955,154
Funds held for others (note 2l)	**129,042**	2,262,389
Bonds payable (note 15)	**40,083,631**	41,271,931
Total liabilities	**353,277,702**	347,125,648
Commitments and contingencies (notes 2d, 12, 14, 15 and 16)		
Net assets		
Unrestricted (note 2m)	**48,795,958**	47,920,432
Temporarily restricted (notes 2m and 10)	**11,488,813**	10,089,478
Permanently restricted (note 2m)	**11,187**	11,187
Total net assets	**60,295,958**	58,021,097
Total liabilities and net assets	**$ 413,573,660**	$ 405,146,745

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Activities

For the year ended December 31,	2017				2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Totals**	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and other support:								
Grants, fees, program income, donated commodities and other support from:								
U.S. government	**$ 181,293,548**	**$ -**	**$ -**	**$ 181,293,548**	$ 181,878,827	$ -	$ -	$ 181,878,827
Non-U.S. governments	**89,923,511**	**-**	**-**	**89,923,511**	107,572,295	-	-	107,572,295
International organizations	**203,015,416**	**-**	**-**	**203,015,416**	212,712,827	-	-	212,712,827
Foundations and corporations	**89,924,242**	**-**	**-**	**89,924,242**	77,880,894	-	-	77,880,894
Other	**27,418,603**	**-**	**-**	**27,418,603**	27,484,244	-	-	27,484,244
Contributions (note 2p)	**1,040,388**	**6,083,600**	**-**	**7,123,988**	872,073	6,698,509	-	7,570,582
Total grants, fees, program income, donated commodities, and other support	**592,615,708**	**6,083,600**	**-**	**598,699,308**	608,401,160	6,698,509	-	615,099,669
Net rental gain (note 14)	**31,436**	**-**	**-**	**31,436**	158,573	-	-	158,573
Investment return (note 5)	**3,061,855**	**-**	**-**	**3,061,855**	1,074,543	-	-	1,074,543
Net assets released from restrictions (note 10)	**4,684,265**	**(4,684,265)**	**-**	**-**	7,454,232	(7,454,232)	-	-
Total revenue, gains, and other support	**600,393,264**	**1,399,335**	**-**	**601,792,599**	617,088,508	(755,723)	-	616,332,785
Expenses:								
Program services								
Malaria	**158,210,060**	**-**	**-**	**158,210,060**	221,327,379	-	-	221,327,379
Family planning/HIV	**302,330,613**	**-**	**-**	**302,330,613**	235,258,244	-	-	235,258,244
Other services	**96,977,033**	**-**	**-**	**96,977,033**	110,528,490	-	-	110,528,490
Total program services	**557,517,706**	**-**	**-**	**557,517,706**	567,114,113	-	-	567,114,113
Management and general	**42,113,957**	**-**	**-**	**42,113,957**	44,691,408	-	-	44,691,408
Fundraising	**1,750,106**	**-**	**-**	**1,750,106**	1,734,982	-	-	1,734,982
Total expenses	**601,381,769**	**-**	**-**	**601,381,769**	613,540,503	-	-	613,540,503
Change in net assets before foreign currency gain (loss)	**(988,505)**	**1,399,335**	**-**	**410,830**	3,548,005	(755,723)	-	2,792,282
Foreign currency transaction gain (note 2o)	**1,443,647**	**-**	**-**	**1,443,647**	588,646	-	-	588,646
Foreign currency translation gain (loss) (note 2o)	**420,384**	**-**	**-**	**420,384**	(535,719)	-	-	(535,719)
Change in net assets	**875,526**	**1,399,335**	**-**	**2,274,861**	3,600,932	(755,723)	-	2,845,209
Net assets, beginning of year	**47,920,432**	**10,089,478**	**11,187**	**58,021,097**	44,319,500	10,845,201	11,187	55,175,888
Net assets, end of year	**$ 48,795,958**	**$ 11,488,813**	**$ 11,187**	**$ 60,295,958**	$ 47,920,432	$ 10,089,478	$ 11,187	$ 58,021,097

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Cash Flows

For the years ended December 31,	**2017**	2016
Cash flows from operating activities:		
Change in net assets	**$ 2,274,861**	$ 2,845,209
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	**1,561,140**	2,144,220
Change in allowance for receivables	**411,726**	94,243
Bad debt expense	**2,446,802**	1,498,257
Inventory write-off	**-**	1,069,876
Net gain on investments	**(1,863,333)**	(191,628)
Loss on disposal of property and equipment	**422**	90,182
Stock received in lieu of cash payment	**(36,141,766)**	(36,093,906)
Change in assets and liabilities		
Funds held for others	**2,133,247**	7,334,751
Trade receivables	**(820,643)**	(783,587)
Grants and contracts receivable	**(3,749,564)**	(15,036,095)
Inventory	**(2,803,619)**	11,798,447
Advances, prepaid expenses, and other assets	**7,092,519**	(5,128,104)
Contributions receivable	**1,115,972**	(1,016,477)
Due from independent network members	**(1,178,861)**	(65,997)
Accounts payable and accrued expenses	**11,680,029**	4,112,451
Accrued wages and benefits	**2,851,898**	(122,319)
Deferred grants and fees	**(14,134,587)**	(54,387,776)
Deferred commodities	**1,033,556**	(14,783,252)
Deferred program income	**(2,026,986)**	(6,292,171)
Funds held for others	**(2,133,247)**	(7,334,751)
Net cash used in operating activities	**(32,250,434)**	(110,248,427)
Cash flows from investing activities:		
Purchase of property and equipment	**(1,066,616)**	(522,050)
Purchase of investments	**(25,596,552)**	(65,157)
Proceeds from sale and maturity of investments	**58,945,702**	35,989,133
Net cash provided by investing activities	**32,282,534**	35,401,926
Cash flows from financing activities:		
Decrease in restricted cash	**-**	7,000
Repayments on bonds payable	**(1,188,300)**	(1,163,766)
(Payments) increase in capital lease obligations	**(123,755)**	250,053
Net cash used in financing activities	**(1,312,055)**	(906,713)
Net decrease in cash and cash equivalents	**(1,279,955)**	(75,753,214)
Cash and cash equivalents, beginning of year	**117,170,220**	192,923,434
Cash and cash equivalents, end of year	**$ 115,890,265**	$ 117,170,220
Supplemental non-cash operating activities:		
Accounts payable to related party applied against due from independent network members (Note 11)	**$ 7,472,749**	$ 5,470,831
Supplemental cash flow disclosure:		
Interest paid	**$ 436,670**	$ 249,762

See accompanying notes to the 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 38 malaria endemic countries, including 24 in Sub Saharan Africa.

Family Planning/HIV: PSI has Family Planning programs in over 30 countries which empower women and couples to lead healthier lives by increasing access to family planning products and services. Through collaboration with national governments, PSI seeks to provide access, create demand and improve service delivery of contraception within the context of informed choice through a number of approaches and strategies, including: creating franchised networks, working with health service providers, utilizing existing wholesale and retail distribution infrastructure, expanding the reach of products and services through outreach events and advocating for policy changes to reduce barriers to access and use of contraception for youth, women and couples. PSI also has HIV programs in over 50 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 maternal health and child survival; water, sanitation and hygiene (WASH); gender-based violence; and non-communicable disease and respiratory illness. Maternal health services focuses on providing products and services to combat the major causes of maternal death and improve women's health. Child health 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. WASH programs improve the health of low-income families in the developing world by increasing access to and use of WASH products and services, such as household water treatment and toilets. Also, PSI is leveraging our network's experience and expertise in sexual and reproductive health programming to integrate behavior change communication programs, health service interventions and advocacy initiatives that aim to respond to the urgent needs of gender-based violence. Lastly, PSI is focusing on strengthening health systems to correctly and cost-effectively diagnose and treat non-communicable disease and respiratory illness often integrating with other programs to increase scale and sustainability.

PSI works in more than 50 countries worldwide using a variety of organizational structures as determined by local laws and customs. These organizational structures, which are consolidated in these consolidated 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.

The consolidated financial statements also include the financial position and the results of operations of PSI's 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 consolidated 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, whereby revenue and support are recognized when earned and expenses are recognized when incurred.

(b) Principles of Consolidation

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

The consolidated financial statements include operations in the following countries:

Country	Legal Name of Entity[1]
Angola	*PSI Angola*
Belize	*Organización Panamericana de Mercadeo Social (PASMO) Belize**
Benin	*Association Beninoise pour le Marketing Social (ABMS)*
Benin	*PSI Benin*
Burundi	*PSI Burundi*
Cambodia	*PSI Cambodia*
Cameroon	*Association Camerounaise pour le Marketing Social (ACMS)*
Costa Rica	*Proyectos en Salud Integral, Sociedad Anónima (PSI S.A.)*
Cote d'Ivoire	*PSI Cote d'Ivoire*
Democratic Republic of Congo	*Association de Sante Familiale (ASF)[2]*
Dominican Republic	*Society for Family Health - Dominican Republic*
Dominican Republic	*PSI Dominican Republic**
El Salvador	*Organización Panamericana de Mercadeo Social de El Salvador,*

	Sociedad Anónima de Capital Variable (PASMO DE EL SALVADOR S.A. DE CV)
El Salvador	*Asociación Panamericana de Mercadeo Social (PASMO El Salvador)*
Ethiopia	*PSI Ethiopia*
Ghana	*PSI Ghana*
Guatemala	*Organización Panamericana de Mercadeo Social Guatemala (PASMO A.C.)*
Guatemala	*Organización Panamericana de Mercadeo Social, Sociedad Anónima (PASMO S.A.)*
Guinea	*PSI Guinea*
Haiti	*Organisation Haitienne de Marketing Social pour la Sante (OHMaSS)*
Honduras	*Organización Panamericana de Mercadeo Social de Honduras, Sociedad Anónima de Capital Variable (PASMO DE EL SALVADOR S.A. DE CV)*
India	*PSI India*
India	*PSI India IPL*
Jamaica	*Population Services Jamaica (PSJ)**
Kazakhstan	*PSI Central Asia Region (CAR)*
Kenya	*PSI Kenya*
Kyrgyzstan	*PSI Kyrgyzstan*
Laos	*PSI Laos*
Lesotho	*PSI Lesotho*
Liberia	*PSI Liberia*
Madagascar	*PSI Madagascar Association Malgache de Marketing Social (AMMS)* [3]
Malawi	*PSI Malawi*
Mali	*PSI Mali*
Mozambique	*PSI Mozambique*
Myanmar	*PSI Myanmar*
Nepal	*PSI Nepal*
Nicaragua	*Organización Panamericana de Mercadeo Social (PASMO) Nicaragua*
Nicaragua	*Organización Panamericana de Mercadeo Social Sociedad Anónima (PASMO S.A.) Nicaragua*
Niger	*PSI Niger*
Nigeria	*PSI Nigeria*
Pakistan	*PSI Pakistan*
Panama	*Organización Panamericana de Mercadeo Social (PASMO) Panama*
Panama	*Organización Panamericana de Mercadeo Social Sociedad Anónima (PASMO S.A.) Panama*
Papua New Guinea	*PSI Papua New Guinea*
Paraguay	*PSI Paraguay*
Somaliland	*PSI Somaliland*
South Africa	*Society for Family Health South Africa*
South Africa	*PSI South Africa*
South Sudan	*PSI South Sudan*

Swaziland	*PSI Swaziland*
Tajikistan	*PSI Tajikistan*
Tanzania	*Social Marketing for Health of Tanzania*[4]
Trinidad & Tobago	*PSI Trinidad*
Uganda	*Programme for Accessible Health, Communication and Education (PACE)*
Uganda	*PSI Uganda*
Vietnam	*PSI Vietnam*
Zambia	*Society for Family Health Zambia*
Zimbabwe	*PSI Zimbabwe*

[1] *PSI's negotiated indirect cost rate (NICRA) is applied to these controlled entities.*
[2] *Association de Sante Familiale deconsolidated January 1, 2018 (Note 17).*
[3] *AMMS was closed in November 2017 and PSI is operating under a branch registration PSI Madagascar*
[4] *Social Marketing for Health in Tanzania was closed during 2017 and PSI is now operating as PSI Tanzania*
** Organización Panamericana de Mercadeo Social (PASMO) Belize, PSI Dominican Republic and Population Services Jamaica ceased operations during 2016.*

PSI works through additional independent network members that are not included in the consolidated financial statements in the following countries:

Country	Legal Name of Entity
Bangladesh	*Social Marketing Company (SMC)*
Cambodia	*Population Services Khmer (PS Khmer)*[3]
Kenya	*Population Services Kenya (PS Kenya)*
Nigeria	*Society for Family Health Nigeria (SFH Nigeria)*
Pakistan	*Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar)*
Romania	*Social Marketing Solutions Romania (SMS Romania)*
Namibia	*Society for Family Health Namibia (SFH Namibia)*
Rwanda	*Society for Family Health Rwanda (SFH Rwanda)*
Senegal	*L'Agence pour le Developpement du Marketing Social (ADEMAS)*

[3] *Population Services Khmer ceased operations in October 2017.*

(c) Cash and Cash Equivalents

Cash and cash equivalents were $115,890,265 and $117,170,220 at December 31, 2017 and 2016, respectively and includes $385,340 and $2,285,600 of money market accounts and liquid investments with original maturities of three months or less.

(d) Financial Risks

PSI places its cash and cash equivalents in the United States 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 $82,137,397 and $92,220,865 at December 31, 2017 and 2016, 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, but not limited to, such matters as the assessment of additional local taxes and foreign currency risk. PSI limits financial risk of cash held in foreign countries by funding foreign operations on a two to four week cycle and using preferred banking partners where possible.

(e) 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 equity and fixed income mutual funds and fixed income securities are measured and reported at fair value. The fair value of fixed income securities and institutional mutual funds with a readily determinable fair value is based on quotations obtained from national security exchanges.

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

(f) 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 factor as collection history. Allowance for doubtful accounts totaled $479,408 and $471,397 for the years ended December 31, 2017 and 2016, respectively.

(g) 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 the performance of program activities and (or) from 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 $4,222,362 and $3,818,647 for the years ended December 31, 2017 and 2016, respectively.

(h) Inventory

PSI has products, such as condoms, insecticide treated nets (ITNs), family planning products 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 $79,314,086 and $76,510,467 at December 31, 2017 and 2016 respectively. Inventory as of

December 31, 2017 and 2016 does not include obsolete inventory. In countries where PSI unrestricted enterprise funds have been established, PSI purchases inventory from vendors for the purposes of resale. These enterprise fund related products, carried at cost, represent $8,580,672 and $6,039,382 of total inventory at December 31, 2017 and 2016, 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. At December 31, 2017 and 2016, these products represent $70,733,414 and $70,471,085 of total inventory, respectively. A deferred commodity balance exists for all inventory purchased or donated that has not yet been distributed. Deferred commodities totaled $71,017,126 and $69,983,570 for the years ended December 31, 2017 and 2016, respectively.

(i) Advances, Prepaid Expenses, and Other Assets

Advances to third parties and others consist primarily of advances to PSI subgrantees for future program implementation and to PSI employees to cover future travel expenses. Prepaid expenses and other assets consists primarily of funds provided to contractors to meet future obligations.

Advances, prepaid expenses and other assets is comprised of the following:

December 31,	**2017**	2016
Advances to third parties and others	**$ 31,038,722**	$ 46,199,511
Prepaid expenses	**10,702,830**	7,960,722
Other assets	**8,255,653**	3,332,781
	$ 49,997,205	$ 57,493,014

(j) Property and Equipment

PSI capitalizes 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 buildings are depreciated over the useful life of 39 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. If property and equipment is transferred to PSI upon program termination, the asset is stated at fair market value.

(k) 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, 2017 and 2016.

(l) Funds and Inventory Held for Others

In 2009, PSI began a Voluntary Pooled Procurement Program (VPP) with the Global Fund, 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 consolidated statement of financial position.

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, in an agency role, 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, 2017 and 2016, the cash balance reserved for procurement of $129,042 and $2,262,389 respectively was recorded in funds held for others as an asset and corresponding liability.

As of December 31, 2017, PSI held $10,193,546 in commodity inventory in the Democratic Republic of Congo for a donor award that had ended. The commodities were delivered to the succeeding donor award recipient by January 31, 2018. The commodities were reported as inventory held for others as an asset and corresponding liability at year end.

(m) 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.

(n) 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. 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. Approximately 68% and 66% of PSI's revenues in 2017 and 2016, respectively, result from grants and contracts with three parties, including the U.S. government. At December 31, 2017 and 2016, approximately 71% and 61% of grants and contracts receivables were from these three parties.

(o) 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 in the consolidated 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.

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 consolidated statements of financial position. The cumulative translation adjustment is reported as a component of unrestricted net assets within the consolidated statements 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 gains (losses) within the consolidated statement of activities. Transaction gains totaled $1,443,647 and $588,646 for the years ended December 31, 2017 and 2016, respectively. This is primarily due to volatility in the Euro and the Great British Pound.

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

Year ended December 31,	**2017**	2016
Cumulative translation adjustment, beginning of year	**$ (17,902,304)**	$ (17,366,585)
Translation gain (loss)	**420,384**	(535,719)
Cumulative translation adjustments, end of year	**$ (17,481,920)**	$ (17,902,304)

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 financial position balances denominated in foreign currencies, thereby creating exposure to movements in exchange rates.

(p) 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 consolidated statements of activities as net assets released from restrictions.

(q) 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 primarily 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 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 and deferred commodities revenue when received, and expensed when sold or distributed.

(r) Program Income, Deferred Program Income and Unrestricted Enterprise Funds

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 those countries where the programs operate.

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 consolidated statements of financial position as deferred program income.

In those instances where PSI unrestricted enterprise 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.

(s) In-Kind Contributions

In accordance with ASC 958-605, the value of certain goods and 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 consolidated financial statements within grants and contracts revenue. PSI received $24,916,518 and $58,121,949 of donated commodities, equipment, and services for the years ended December 31, 2017 and 2016, respectively.

(t) 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.

(u) Functional Expenses

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

(v) 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, 2017 and 2016, PSI did not make payments towards its estimated tax liability. PSI incurred an overpayment of actual taxes due in previous years which was applied towards the 2017 and 2016 tax liability. 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 has adopted the provisions of ASC Topic No. 740-10, *Income Taxes* (ASC 740-10). 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 consolidated financial statements. PSI does not believe there are any unrecognized tax benefits that should be recorded. For the years ended December 31, 2017 and 2016, there were no interest or penalties recorded or included in the consolidated 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 2014.

There were no material interest or penalties recorded for the years ended December 31, 2017 and 2016, respectively.

The effects of a tax position cannot be recognized in the consolidated financial statements unless it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that PSI is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. As of December 31, 2017, there were certain tax positions for which a liability was recorded related to international tax matters.

(w) Use of Estimates

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

(x) 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. During 2013 PSI agreed to defer the amount due and loaned 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 from SMS Romania during the year ended December 31, 2017. Payments from SMS Romania totaled $10,000 for the year ended December 31, 2016. An allowance for doubtful accounts has been established based upon management's judgment for $756,000 as of December 31, 2017 and 2016. The balance, net of the allowance, of the long term note receivable as of December 31, 2017 and 2016 was $79,458.

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 consolidated financial statements. PSI representatives are board members on the PS Khmer governing Board of Directors and supports PS Khmer management. PS Khmer sold commodities on behalf of PSI programs and PS Khmer owed PSI $441,234 for the year ended December 31, 2016, in connection with the sale of these goods. Effective October 1, 2017, PS Khmer ceased operations, and approximately $5.3 million of its assets were donated to PSI. Of these donated assets approximately $4.2 million were recorded as other revenue and approximately $1.1

million as a restricted contribution for use in Cambodia in the accompanying consolidated statement of activities.

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 deconsolidated for financial reporting purposes as of the effective date. During the years ended December 31, 2017 and 2016, PS Kenya sold commodities on behalf of PSI programs and PS Kenya owed PSI $5,595,102 and $3,209,967 for the years ended December 31, 2017 and 2016, respectively, in connection with the sale of these goods. In addition, PSI loaned PS Kenya an additional $750,000 during 2016. The balance of this short-term notes receivable was $750,000 as of December 31, 2016 and was fully repaid in 2017.

(y) Accounting Pronouncements to be Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition 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. FASB issued ASU 2015-14 that deferred the effective date for PSI until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for PSI's year ending December 31, 2018. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently determining the impact that adopting this guidance will have on PSI's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The update affects the accounting for equity investments and financial liabilities under the fair value option, as well as the presentation and disclosure requirements for financial instruments. The guidance is effective for PSI year ending December 31, 2019. Presently, management does not anticipate that the adoption of this update will have a material effect on PSI's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective for PSI's year ending December 31, 2020. Management continues to evaluate the potential impact of this update on PSI's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The update standardizes how certain transactions should be classified in the statement of cash flows. The guidance is effective for PSI's year ending December 31, 2019. Presently, management does not anticipate that the adoption of this update will have a material effect on PSI's consolidated financial statements.

(z) Reclassifications

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

3. Funds Maintained in Foreign Accounts

Certain items reflected in the consolidated statements of financial position, including cash and cash equivalents of $17,903,377 and $15,936,356 in local currencies at December 31, 2017 and 2016, respectively, and $15,092,084 and $8,511,999 in U.S. dollars, British Pounds, or Euros at December 31, 2017 and 2016, 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 in effect at the date of the consolidated statements of financial position.

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 institutional mutual funds and fixed income securities as of December 31, 2017 and 2016, respectively. The fair values of the participation units owned by PSI in mutual funds and fixed income securities, 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 investments reflects earnings of the respective underlying investments, including investment income and investment return of the fair value of the investments.

The table below presents the balances of investments measured at fair value on a recurring basis by hierarchy level at December 31, 2017 and 2016, respectively:

		2017	
	Level 1	**Level 2**	**Level 3**
Equity mutual funds	**$ 12,044,198**	**$ -**	**$ -**
Fixed income mutual funds	**11,017,189**	**-**	**-**
Fixed income securities	**2,077,651**	**-**	**-**
Total investments	**$ 25,139,038**	**$ -**	**$ -**

		2016	
	Level 1	Level 2	Level 3
Equity mutual funds	$ 5,723,293	$ -	$ -
Fixed income mutual funds	14,759,796	-	-
Total investments	$ 20,483,089	$ -	$ -

5. Investments

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

		2017		2016
Equity mutual funds	**$**	**12,044,198**	$	5,723,293
Fixed income mutual funds		**11,017,189**		14,759,796
Fixed income securities		**2,077,651**		-
Total investments	**$**	**25,139,038**	$	20,483,089

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

		2017		2016
Interest and dividend income	**$**	**1,198,522**	$	882,915
Realized gain (loss)		**716,425**		(106,806)
Unrealized gain		**1,146,908**		298,434
Total investment return	**$**	**3,061,855**	$	1,074,543

Investment management fees for the years ended December 31, 2017 and 2016 were not considered material by management.

6. Trade Receivables

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

		2017		2016
Trade receivables	**$**	**5,065,140**	$	4,371,644
Less allowance for doubtful accounts		**(479,408)**		(471,397)
Total trade receivables, net	**$**	**4,585,732**	$	3,900,247

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:

		2017		2016
Billed	$	18,036,051	$	16,064,786
Unbilled		60,637,898		61,130,948
		78,673,949		77,195,734
Less allowance for doubtful accounts		(4,222,362)		(3,818,647)
Total grants and contracts receivable, net	$	74,451,587	$	73,377,087
U.S. government	$	28,579,073	$	23,919,883
Non-U.S. governments		15,231,794		19,964,908
International organizations		29,591,918		28,641,080
Foundations and corporations		5,271,164		4,669,863
		78,673,949		77,195,734
Less allowance for doubtful accounts		(4,222,362)		(3,818,647)
Total grants and contracts receivable, net	$	74,451,587	$	73,377,087

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:

		2017		2016
U.S. government	$	1,686,409	$	2,917,199
Non-U.S. governments		18,397,997		22,436,397
International organizations		70,068,810		66,004,191
Foundations and corporations		38,819,929		51,749,945
Total deferred grants and fees	$	128,973,145	$	143,107,732

8. Contributions Receivable

Unconditional promises to give at December 31, 2017 and 2016 of $3,750,755 and $4,866,727, respectively and considered fully collectible within three years. As of December 31, 2017 and 2016 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. There are no contributions receivable that are considered to be uncollectible at December 31, 2017 or 2016.

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Land	$ 24,829,978	$ 24,829,978
Building	23,947,507	23,362,969
Leasehold improvements	6,229,970	5,891,190
Equipment held under capital leases	652,467	652,467
Furniture and equipment	7,525,145	8,075,825
	63,185,067	62,812,429
Less accumulated depreciation	(18,722,182)	(18,209,582)
Total property and equipment, net	$ 44,462,885	$ 44,602,847

Depreciation and amortization expense totaled $1,561,140 and $2,144,220 for the years ended December 31, 2017 and 2016, 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:

	2017	2016
HIV/AIDS	$ 1,790,719	$ 2,122,606
Family planning and maternal health	7,490,408	6,710,492
Other program uses or locations	2,207,686	1,256,380
Total temporarily restricted net assets	$ 11,488,813	$ 10,089,478

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

	2017	2016
HIV/AIDS	$ 261,887	$ 2,944,271
Family planning and maternal health	2,244,536	2,332,925
Other program uses or locations	2,177,842	2,177,036
Total temporarily restricted net assets released from restriction	$ 4,684,265	$ 7,454,232

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 2017 and 2016, PSI paid PSI/E $1,116,575 and $1,179,124, respectively in sub-award expenses. As of December 31, 2017 and 2016, PSI/E owed PSI $287,586 and $140,031 in relation to advances received from PSI that were not spent as of year-end.

PSI has entered into certain transactions with Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar), an organization of which PSI representatives are Board members of Greenstar and a member of Greenstar's Board is a board member on the PSI governing Board of Directors. During 2017 and 2016, PSI paid Greenstar approximately $1.9 million and $1.5 million, respectively in sub-award expenses.

Effective January 1, 2012, SFH Nigeria became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was deconsolidated 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, 2017 and 2016, PSI paid SFH Nigeria approximately $2.8 million and $3.8 million, respectively, and in 2016 paid the $848,107 remaining balance due to PSI on the note receivable. Additionally, SFH Nigeria paid PSI approximately $400,000 and $288,000 for sub-award expenses due to PSI. SFH Nigeria owed PSI $385,810 and $104,620 for the years ended December 31, 2017 and 2016, respectively.

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 consolidated financial statements. PSI representatives are board members on the PS Khmer governing Board of Directors and supports PS Khmer management. Effective October 1, 2017, PS Khmer ceased operations, and donated all its assets to PSI. PSI paid PS Khmer approximately $1.7 million and $3.1 million, respectively, for the years ended December 31, 2017 and 2016, in sub-award expenses. In addition, PS Khmer sold commodities on behalf of PSI. During 2017 and 2016, PS Khmer sold approximately $811,000 and $1.1 million, respectively, for PSI programs.

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 consolidated financial statements. PSI representatives are also on the PS Kenya governing Board of Directors and supports PS Kenya management. Futhermore, a PS Kenya representative is a board member on the PSI governing Board of Directors. PSI paid PS Kenya approximately $4.8 million and $9.6 million for the years ended December 31, 2017 and 2016, respectively, in sub-award expenses and loaned PS Kenya an additional $750,000 during 2016. In addition, PS Kenya sells commodities on behalf of PSI. During 2017 and 2016, PS Kenya sold PSI commodities totaling, approximately $4.2 million and $3.7 million, respectively, for PSI programs of which approximately $1.9 million and $3.5 million, respectively, was used to fund sub-award expenses with PS Kenya and an additional approximately $5.6 million and $3.2 million was owed to PSI at December 31, 2017 and 2016, respectively.

12. Accrued Wages and Benefits

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 $2,633,976 and $2,461,811, respectively for the years ended December 31, 2017 and 2016.

13. Lease Commitments

PSI has operating lease commitments for its offices and warehouses maintained throughout the world. These leases are generally renewable on an annual basis. Rent expense for PSI's space in foreign offices and warehouses was approximately $11.7 million and $11.5 million for the years ended December 31, 2017 and 2016, respectively.

14. Lease Rental Income

PSI occupies approximately 50% 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 years ended December 31, were as follows:

	2017	2016
Gross building rental income	**$ 5,054,264**	$ 5,442,387
PSI occupancy rent	**(2,679,520)**	(2,660,153)
Net revenue	**2,374,744**	2,782,234
Gross building expenses	**4,294,430**	4,400,474
PSI expense apportionment	**(1,951,122)**	(1,776,813)
Net expense	**2,343,308**	2,623,661
Net rental income	**$ 31,436**	$ 158,573

Future minimum lease income is as follows:

Years ending December 31,		
2017	$	2,565,818
2018		1,528,897
2019		1,537,666
2020		1,496,452
2021		1,108,530
Thereafter		4,754,696
Total future minimum lease income	$	12,992,059

15. Bonds Payable

PSI has several loan agreements to finance the acquisition of its headquarters building in Washington, D.C.

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 1.81% and 1.07% as of December 31, 2017 and 2016, 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 1.78% and 0.80% at December 31, 2017 and 2016, respectively.

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, 2017, PSI was in compliance with all of these covenants.

As of December 31, 2017, the aggregate maturities of the long-term bonds, including the payments under the terms described above, are as follows:

2018	$ 1,214,133
2019	10,669,498
2020	-
2021	-
2022	-
Thereafter	28,200,000
Total payments	$ 40,083,631

Interest expense on the Loan Agreement and the Bonds for the years ended December 31, 2017 and 2016 was $459,039 and $265,109, respectively, of which $48,761 and $26,392, respectively is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

16. 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 has accrued for potential disallowed expenses for the year ended December 31, 2017 for their various funding sources.

The reimbursement of indirect costs reflected in the accompanying consolidated financial statements as federal awards revenue is subject to final approval by federal grantors and could be adjusted upon the results of these reviews. Management believes that the results of any such adjustment will not be material to PSI's financial position or change in unrestricted net assets.

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.

17. Subsequent Events

PSI evaluated subsequent events through June 30, 2018 which is the date the consolidated financial statements were available to be issued. The following subsequent events have occurred:

PSI entered into an agreement to refinance its Variable Rate Revenue Bonds. The Variable Rate Revenue Bonds were modified by the Issuer to become privately placed bonds bearing interest at a monthly reset rate. PSI entered into a new agreement with STI Institutional & Government, Inc. (STI) whereby STI has purchased the Bonds outstanding. STI has also entered into a lending agreement with PSI for a term loan of $28.2 million with payments to begin February 2031 and final payments to be made May 1, 2048.

In conjunction with the Bond refinancing, PSI, through its subsidiary Prudence, entered into a new term loan totaling $11,942,000 that begins monthly escalating payments in June 2018 with interest at LIBOR plus 1%. The agreement matures February 1, 2031. The term loan is secured by the land, buildings and improvements of PSI's headquarters.

PSI also entered into a new $10 million line of credit with Suntrust Bank on May 2, 2018. The line of credit will accrue interest at LIBOR plus 1.10%. The line of credit has a one year term.

PSI has ceased operations within the Democratic Republic of Congo through its network member *Association de Sante Familiale*. For the year ended December 31, 2017, this member network reported $26,354,942 of total consolidated revenues and $36,594,793 of total consolidated expenditures.

Supplemental Schedules

Population Services International

Consolidated Schedule of Functional Expenses and Allocation of Indirect Expenses
Year ended December 31, 2017
(with summarized comparative financial information for the year ended December 31, 2016)

	Program Services							
	Malaria	Family Planning/ HIV	Other Services	Total	Management and General	Fundraising	Totals 2017	Totals 2016
U.S. based and residential project advisor salaries	$ 3,481,358	$ 10,533,723	$ 5,674,074	$ 19,689,155	$ 16,848,980	$ 558,635	**$ 37,096,770**	$ 36,801,563
Fringe benefits	1,310,661	3,965,735	2,135,877	7,412,273	6,343,600	210,315	**13,966,188**	12,466,884
Salaries and fringe benefits	4,792,019	14,499,458	7,809,951	27,101,428	23,192,580	768,950	**51,062,958**	49,268,447
Local staff salaries and fringe benefits	14,069,270	60,376,615	18,041,933	92,487,818	310,553	-	**92,798,371**	83,702,688
Allowances	2,495,322	4,730,080	2,494,389	9,719,791	697,189	-	**10,416,980**	10,511,658
Total salaries and related expenses	21,356,611	79,606,153	28,346,273	129,309,037	24,200,322	768,950	**154,278,309**	143,482,793
Travel	11,116,637	21,769,461	6,846,121	39,732,219	2,391,334	187,958	**42,311,511**	36,616,680
Consultants and contracts	13,497,698	20,503,528	7,793,474	41,794,700	4,426,854	494,551	**46,716,105**	34,608,196
Furniture and equipment	2,092,681	6,888,369	1,336,056	10,317,106	1,000,548	9,609	**11,327,263**	13,304,898
Commodities	59,533,761	64,520,952	9,604,737	133,659,450	-	-	**133,659,450**	175,023,528
Subrecipients	28,247,746	64,374,857	23,924,500	116,547,103	506,549	-	**117,053,652**	105,245,898
Promotions and advertising	8,857,702	16,515,123	8,595,857	33,968,682	4,051	-	**33,972,733**	31,368,321
Office costs	6,974,487	14,517,631	3,820,390	25,312,508	3,425,936	92,254	**28,830,698**	28,078,034
Other direct and indirect costs	6,532,737	13,601,228	5,405,294	25,539,259	6,101,165	30,484	**31,670,908**	43,667,935
Total expenses before depreciation	158,210,060	302,297,302	95,672,702	556,180,064	42,056,759	1,583,806	**599,820,629**	611,396,283
Depreciation and amortization	-	33,311	1,304,331	1,337,642	223,498	-	**1,561,140**	2,144,220
Total expenses before allocation of indirect costs	158,210,060	302,330,613	96,977,033	557,517,706	42,280,257	1,583,806	**601,381,769**	613,540,503
Allocation of indirect costs to fundraising	-	-	-	-	(166,300)	166,300	**-**	-
Total expenses per consolidated financial statements	158,210,060	302,330,613	96,977,033	557,517,706	42,113,957	1,750,106	**601,381,769**	613,540,503
Allocation of indirect costs to program services	8,393,838	20,486,949	7,508,269	36,389,056	(36,389,056)	-	**-**	-
Total expenses after allocations	$ 166,603,898	$ 322,817,562	$ 104,485,302	$ 593,906,762	$ 5,724,901	$ 1,750,106	**$ 601,381,769**	$ 613,540,503

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Schedule of Revenues by Funding Source
Year ended December 31, 2017
(with summarized comparative financial information for the year ended December 31, 2016)

	Unrestricted									
	U.S. Government	Non-U.S. Governments	International Organizations	Foundations / Corporations	Other	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
Revenue, gains, and other support:										
Grants, fees, program income, and other support:										
Grants, fees and donated commodities	$ 179,575,139	$ 83,864,738	$ 201,106,268	$ 84,853,395	$ 642,680	$ 550,042,220	$ -	$ -	$ 550,042,220	$ 565,550,549
Program income and unrestricted enterprise funds	1,718,409	6,058,773	1,909,148	5,070,847	26,408,628	41,165,805	-	-	41,165,805	38,280,936
Other	-	-	-	-	367,295	367,295	-	-	367,295	3,697,602
Contributions	-	-	-	-	1,040,388	1,040,388	6,083,600	-	7,123,988	7,570,582
Total grants, fees, program income, donated commodities, and other support	181,293,548	89,923,511	203,015,416	89,924,242	28,458,991	592,615,708	6,083,600	-	598,699,308	615,099,669
Net rental gain	-	-	-	-	31,436	31,436	-	-	31,436	158,573
Investment return	-	-	-	-	3,061,855	3,061,855	-	-	3,061,855	1,074,543
Net assets released from restrictions	-	-	-	-	4,684,265	4,684,265	(4,684,265)	-	-	-
Total revenue, gains, and other support	$ 181,293,548	$ 89,923,511	$ 203,015,416	$ 89,924,242	$ 36,236,547	$ 600,393,264	$ 1,399,335	$ -	$ 601,792,599	$ 616,332,785

See accompanying notes to the consolidated financial statements.