



Population Services International

Consolidated Financial Statements and
Supplemental Schedule
Years Ended December 31, 2018 and 2017

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 Schedule
Years Ended December 31, 2018 and 2017

Population Services International

Contents

Independent Auditor's Report	2-3
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses	6-7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9-30
Supplemental Schedule	
Consolidated Schedule of Revenues by Funding Source	31



Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

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

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, 2018 and 2017, 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 the 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 financial position of **Population Services International** as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of revenues by funding source is not a required part of the basic 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 25, 2019

**Consolidated
Financial Statements**

Population Services International

Consolidated Statements of Financial Position

<i>December 31,</i>	2018	2017
Assets		
Cash and cash equivalents (notes 2c and 3)	\$ 65,300,472	\$ 115,890,265
Funds held for others (note 2l)	-	129,042
Investments (notes 2e and 5)	23,675,528	25,139,038
Trade receivables, net (notes 2f and 6)	6,291,783	4,585,732
Grants and contracts receivable, net (notes 2g and 7)	64,133,648	74,451,587
Inventory (note 2h)	58,524,513	79,314,086
Inventory - held for others (note 2l)	-	10,193,546
Advances, prepaid expenses, and other assets (note 2i)	43,923,809	49,997,205
Contributions receivable (notes 2p and 8)	3,953,924	3,750,755
Due from independent network member (note 2x)	5,011,580	5,659,519
Property and equipment, net (notes 2j, 2k, 9, and 14)	49,902,186	44,462,885
Total assets	\$ 320,717,443	\$ 413,573,660
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 13,823,456	\$ 6,299,449
Accrued expenses	23,163,991	38,047,343
Inventory held for others (note 2l)	-	10,193,546
Accrued wages and benefits (note 12)	22,595,703	27,606,252
Deferred grants and fees (notes 2q and 7)	92,105,130	128,973,145
Deferred commodities (note 2h)	50,132,228	71,017,126
Deferred program income (note 2r)	23,042,598	30,928,168
Funds held for others (note 2l)	-	129,042
Notes and bonds payable (note 15)	39,705,683	40,083,631
Total liabilities	264,568,789	353,277,702
Commitments and contingencies (notes 2d, 12, 14, 15 and 17)		
Net assets		
Without donor restrictions (note 2m)	44,665,994	48,795,958
With donor restrictions (notes 2m and 10)	11,482,660	11,500,000
Total net assets	56,148,654	60,295,958
Total liabilities and net assets	\$ 320,717,443	\$ 413,573,660

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Activities

<i>For the year ended December 31,</i>	2018			2017		
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals
Revenue and other support:						
Grants, fees, program income, donated commodities and other support from:						
U.S. government	\$ 188,945,815	\$ -	\$ 188,945,815	\$ 181,293,548	\$ -	\$ 181,293,548
Non-U.S. governments	80,873,301	-	80,873,301	89,923,511	-	89,923,511
International organizations	147,196,618	-	147,196,618	203,015,416	-	203,015,416
Foundations and corporations	89,676,669	-	89,676,669	89,924,242	-	89,924,242
Other	30,456,997	-	30,456,997	27,418,603	-	27,418,603
Contributions (note 2p)	1,821,985	4,318,913	6,140,898	1,040,388	6,083,600	7,123,988
Total grants, fees, program income, donated commodities, and other support	538,971,385	4,318,913	543,290,298	592,615,708	6,083,600	598,699,308
Investment return, net (note 5)	(940,564)	-	(940,564)	3,061,855	-	3,061,855
Net assets released from restrictions (note 10)	4,336,253	(4,336,253)	-	4,684,265	(4,684,265)	-
Total revenue, gains, and other support	542,367,074	(17,340)	542,349,734	600,361,828	1,399,335	601,761,163
Expenses:						
Program services						
Malaria	136,710,713	-	136,710,713	158,210,060	-	158,210,060
Reproductive health/HIV	280,342,129	-	280,342,129	302,330,613	-	302,330,613
Other services	89,443,678	-	89,443,678	96,977,033	-	96,977,033
Total program services	506,496,520	-	506,496,520	557,517,706	-	557,517,706
Supporting services						
Management and general	36,018,633	-	36,018,633	42,280,257	-	42,280,257
Fundraising	2,048,086	-	2,048,086	1,583,806	-	1,583,806
Total supporting services	38,066,719	-	38,066,719	43,864,063	-	43,864,063
Total expenses	544,563,239	-	544,563,239	601,381,769	-	601,381,769
Change in net assets before						
Other revenues and expenses	(2,196,165)	(17,340)	(2,213,505)	(1,019,941)	1,399,335	379,394
Other revenues and expenses:						
Commercial building income	2,357,676	-	2,357,676	2,374,744	-	2,374,744
Commercial building expenses	(2,791,298)	-	(2,791,298)	(2,343,308)	-	(2,343,308)
Foreign currency transaction (loss) / gain (note 2o)	(250,353)	-	(250,353)	1,443,647	-	1,443,647
Foreign currency translation (loss) / gain (note 2o)	(1,249,824)	-	(1,249,824)	420,384	-	420,384
Change in net assets	(4,129,964)	(17,340)	(4,147,304)	875,526	1,399,335	2,274,861
Net assets, beginning of year	48,795,958	11,500,000	60,295,958	47,920,432	10,100,665	58,021,097
Net assets, end of year	\$ 44,665,994	\$ 11,482,660	\$ 56,148,654	\$ 48,795,958	\$ 11,500,000	\$ 60,295,958

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statement of Functional Expenses Year ended December 31, 2018

	Program Services				Supporting Services			Commerical Building	Totals 2018
	Malaria	Reproductive Health / HIV	Other Services	Total	Management and General	Fundraising	Total		
U.S. based and residential project advisor salaries	\$ 3,612,906	\$ 11,574,430	\$ 5,402,860	\$ 20,590,196	\$ 17,334,478	\$ 722,055	\$ 18,056,533	\$ -	\$ 38,646,729
Fringe benefits	1,333,467	4,271,942	2,002,787	7,608,196	6,389,211	266,499	6,655,710	-	14,263,906
Salaries and fringe benefits	4,946,373	15,846,372	7,405,647	28,198,392	23,723,689	988,554	24,712,243	-	52,910,635
Local staff salaries and fringe benefits	9,064,558	63,810,655	17,469,025	90,344,238	295,840	-	295,840	-	90,640,078
Allowances	2,038,631	5,475,198	2,763,003	10,276,832	411,805	-	411,805	-	10,688,637
Total salaries and related expenses	16,049,562	85,132,225	27,637,675	128,819,462	24,431,334	988,554	25,419,888	-	154,239,350
Travel	9,344,504	21,316,299	5,909,070	36,569,873	2,250,007	201,339	2,451,346	-	39,021,219
Consultants and contracts	9,877,720	21,440,593	3,990,327	35,308,640	5,370,191	734,373	6,104,564	-	41,413,204
Furniture and equipment	492,155	4,102,603	1,774,974	6,369,732	963,081	61,167	1,024,248	-	7,393,980
Commodities	64,686,548	52,705,500	11,903,507	129,295,555	-	-	-	-	129,295,555
Subrecipients	20,274,706	55,023,211	18,997,068	94,294,985	940,871	-	940,871	-	95,235,856
Promotions and advertising	4,325,192	14,559,452	8,048,262	26,932,906	4,168	-	4,168	-	26,937,074
Office costs	4,252,846	13,636,128	5,493,367	23,382,341	3,734,146	39,993	3,774,139	1,559,595	28,716,075
Other direct and indirect costs	7,404,826	12,381,298	5,613,071	25,399,195	(2,481,236)	22,660	(2,458,576)	277,764	23,218,383
Total expenses before depreciation	136,708,059	280,297,309	89,367,321	506,372,689	35,212,562	2,048,086	37,260,648	1,837,359	545,470,696
Depreciation and amortization	2,654	44,820	76,357	123,831	806,071	-	806,071	953,939	1,883,841
Total expenses	\$ 136,710,713	\$ 280,342,129	\$ 89,443,678	\$ 506,496,520	\$ 36,018,633	\$ 2,048,086	38,066,719	\$ 2,791,298	\$ 547,354,537

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statement of Functional Expenses Year ended December 31, 2017

	Program Services				Supporting Services			Commerical Building	Totals 2017
	Malaria	Reproductive Health / HIV	Other Services	Total	Management and General	Fundraising	Total		
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	\$ 17,407,615	\$ -	\$ 37,096,770
Fringe benefits	1,310,661	3,965,735	2,135,877	7,412,273	6,343,600	210,315	6,553,915	-	13,966,188
Salaries and fringe benefits	4,792,019	14,499,458	7,809,951	27,101,428	23,192,580	768,950	23,961,530	-	51,062,958
Local staff salaries and fringe benefits	14,069,270	60,376,615	18,041,933	92,487,818	310,553	-	310,553	-	92,798,371
Allowances	2,495,322	4,730,080	2,494,389	9,719,791	697,189	-	697,189	-	10,416,980
Total salaries and related expenses	21,356,611	79,606,153	28,346,273	129,309,037	24,200,322	768,950	24,969,272	-	154,278,309
Travel	11,116,637	21,769,461	6,846,121	39,732,219	2,391,334	187,958	2,579,292	-	42,311,511
Consultants and contracts	13,497,698	20,503,528	7,793,474	41,794,700	4,426,854	494,551	4,921,405	33,824	46,749,929
Furniture and equipment	2,092,681	6,888,369	1,336,056	10,317,106	1,000,548	9,609	1,010,157	-	11,327,263
Commodities	59,533,761	64,520,952	9,604,737	133,659,450	-	-	-	-	133,659,450
Subrecipients	28,247,746	64,374,857	23,924,500	116,547,103	506,549	-	506,549	-	117,053,652
Promotions and advertising	8,857,702	16,515,123	8,595,857	33,968,682	4,051	-	4,051	-	33,972,733
Office costs	6,974,487	14,517,631	5,073,648	26,565,766	2,950,448	92,254	3,042,702	1,483,408	31,091,876
Other direct and indirect costs	6,532,737	13,601,228	5,405,294	25,539,259	6,101,165	30,484	6,131,649	48,306	31,719,214
Total expenses before depreciation	158,210,060	302,297,302	96,925,960	557,433,322	41,581,271	1,583,806	43,165,077	1,565,538	602,163,937
Depreciation and amortization	-	33,311	51,073	84,384	698,986	-	698,986	777,770	1,561,140
Total expenses	\$ 158,210,060	\$ 302,330,613	\$ 96,977,033	\$ 557,517,706	\$ 42,280,257	\$ 1,583,806	\$ 43,864,063	\$ 2,343,308	\$ 603,725,077

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (4,147,302)	\$ 2,274,861
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	1,883,841	1,561,140
Change in allowance for receivables	154,188	411,726
Bad debt expense	916,558	2,446,802
Net loss (gain) on investments	1,984,211	(1,863,333)
(Gain) loss on disposal of property and equipment	(17,723)	422
Stock received in lieu of cash payment	(32,113,187)	(36,141,766)
Change in assets and liabilities		
Funds held for others	129,042	2,133,247
Trade receivables	(1,998,003)	(820,643)
Grants and contracts receivable	9,134,555	(3,749,564)
Inventory	30,983,119	(2,803,619)
Advances, prepaid expenses, and other assets	5,840,539	7,092,519
Contributions receivable	(203,169)	1,115,972
Due from independent network member	647,939	(1,178,861)
Accounts payable and accrued expenses	(17,697,360)	11,680,029
Accrued wages and benefits	(5,010,549)	2,851,898
Deferred grants and fees	(36,868,015)	(14,134,587)
Deferred commodities	(20,884,898)	1,033,556
Deferred program income	(7,885,570)	(2,026,986)
Funds held for others	(129,042)	(2,133,247)
Net cash used in operating activities	(75,280,826)	(32,250,434)
Cash flows from investing activities:		
Purchase of property and equipment	(6,667,972)	(1,066,616)
Purchase of investments	(4,701,010)	(25,596,552)
Proceeds from sale and maturity of investments	36,293,496	58,945,702
Net cash provided by investing activities	24,924,514	32,282,534
Cash flows from financing activities:		
Repayment of note payable due to refinancing	(11,883,631)	-
Proceeds from note agreement	12,153,006	-
Repayments on bonds payable	(647,323)	(1,188,300)
Increase (payments) in capital lease obligations	144,467	(123,755)
Net cash used in financing activities	(233,481)	(1,312,055)
Net decrease in cash and cash equivalents	(50,589,793)	(1,279,955)
Cash and cash equivalents, beginning of year	115,890,265	117,170,220
Cash and cash equivalents, end of year	\$ 65,300,472	\$ 115,890,265
Supplemental non-cash operating activities:		
Accounts payable to related party applied against due from independent network members (Note 11)	\$ 7,181,664	\$ 7,472,749
Supplemental cash flow disclosure:		
Interest paid	\$ 895,383	\$ 436,670

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 access to modern contraception, HIV and AIDS, malaria, non-communicable diseases and water, sanitation and hygiene (WASH). 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 is using its global presence and 50 years of experience to help reimagine healthcare to accelerate the Sustainable Development Goals. Achieving universal health coverage calls for innovative and sustainable solutions to some of development's most vexing problems. We're working to put more healthcare directly into the hands of consumers. We'll see greater health outcomes faster when we treat a beneficiary more like a consumer - when we engage her in program design, and wherever possible when we bring care right to her front door. We are doing this in our particular health areas:

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, 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 28 malaria endemic countries, including 23 in Sub Saharan Africa.

Reproductive Health/HIV: PSI has reproductive health programs in over 30 countries which empower women and couples to lead healthier lives by increasing access to reproductive health information, products and services. Through collaboration with national governments and local partners, PSI seeks to provide access, create demand and improve service delivery of contraception and other reproductive health (RH) products within the context of informed choice through a number of approaches and strategies, including: strengthening service delivery networks within the health system, working with health service providers to build their capacity, designing programs with and for beneficiaries to ensure programs are tailor to their needs and advocating for policy changes to reduce barriers to access and use of RH products and services 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 *Non-communicable Diseases (NCDs)*: Recognizing the growing global burden of NCDs and their significant impact on individuals, families, and broader communities, PSI has prioritized NCDs as one of five health areas within its current global strategic plan. PSI launched cervical cancer prevention projects in 2012, with a focus on increasing coverage of cervical cancer screening and preventive treatment through our PSI existing HIV and family planning (FP) networks. In 2014, PSI formally expanded its NCD strategy to include cardiovascular disease (CVD) prevention and control, with a focus on detection and

Population Services International

Notes to Consolidated Financial Statements

management of hypertension and Type 2 diabetes and use of technology in chronic disease management. As of November 2018, PSI has implemented NCD projects in 19 countries; as of 2019, PSI has ongoing NCD projects are currently active in 10 countries. *Water, Sanitation & Hygiene (WASH)*: PSI's 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. *Maternal Health*: focusing on providing products and services to combat the major causes of maternal death and improve women's health. *Child Survival*: focusing in 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. 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.

Population Services International

Notes to Consolidated Financial Statements

The consolidated financial statements include operations in the following countries:

Country	Legal Name of Entity ¹
Angola	<i>PSI Angola</i>
Benin	<i>Association Beninoise pour le Marketing Social (ABMS)</i>
Benin	<i>PSI Benin</i>
Burundi	<i>PSI Burundi</i>
Cambodia	<i>PSI Cambodia</i>
Cameroon	<i>Association Camerounaise pour le Marketing Social (ACMS)</i>
Costa Rica	<i>Proyectos en Salud Integral, Sociedad Anónima (PSI S.A.)</i>
Cote d'Ivoire	<i>PSI Cote d'Ivoire</i>
Democratic Republic of Congo	<i>Association de Santé Familiale (ASF)²</i>
Dominican Republic	<i>Society for Family Health - Dominican Republic</i>
El Salvador	<i>Organización Panamericana de Mercadeo Social de El Salvador, Sociedad Anónima de Capital Variable (PASMO DE EL SALVADOR S.A. DE CV)</i>
El Salvador	<i>Asociación Panamericana de Mercadeo Social (PASMO El Salvador)</i>
Ethiopia	<i>PSI Ethiopia</i>
Ghana	<i>PSI Ghana³</i>
Guatemala	<i>Organización Panamericana de Mercadeo Social Guatemala (PASMO A.C.)</i>
Guatemala	<i>Asociación Panamericana de Mercadeo Social, Sociedad Anónima (PASMO S.A.)</i>
Guinea	<i>PSI Guinea⁴</i>
Haiti	<i>Organisation Haitienne de Marketing Social pour la Santé (OHMaSS)</i>
Honduras	<i>Asociación Panamericana de Mercadeo Social de Honduras (PASMO S.A. GUATEMALA)</i>
India	<i>PSI India</i>
India	<i>PSI India IPL</i>
Kazakhstan	<i>PSI Central Asia Region (CAR)</i>
Kenya	<i>PSI Kenya</i>
Kyrgyzstan	<i>PSI Kyrgyzstan</i>
Laos	<i>PSI Laos</i>
Lesotho	<i>PSI Lesotho</i>
Liberia	<i>PSI Liberia</i>
Madagascar	<i>PSI Madagascar Association Malgache de Marketing Social (AMMS)⁵</i>
Malawi	<i>PSI Malawi</i>
Mali	<i>PSI Mali</i>
Mozambique	<i>PSI Mozambique</i>
Myanmar	<i>PSI Myanmar</i>
Nepal	<i>PSI Nepal</i>
Nicaragua	<i>Organización Panamericana de Mercadeo Social (PASMO) Nicaragua</i>
Nicaragua	<i>Organización Panamericana de Mercadeo Social Sociedad Anónima (PASMO S.A.) Nicaragua</i>
Niger	<i>PSI Niger</i>
Nigeria	<i>PSI Nigeria</i>
Pakistan	<i>PSI Pakistan</i>

Population Services International

Notes to Consolidated Financial Statements

Panama	<i>Organización Panamericana de Mercadeo Social (PASMO) Panama</i>
Panama	<i>Organización Panamericana de Mercadeo Social Sociedad Anónima (PASMO S.A.) Panama</i>
Papua New Guinea	<i>PSI Papua New Guinea</i>
Paraguay	<i>PSI Paraguay</i>
Somaliland	<i>PSI Somaliland</i>
South Africa	<i>Society for Family Health South Africa</i>
South Africa	<i>PSI South Africa</i>
South Sudan	<i>PSI South Sudan</i>
Swaziland	<i>PSI Swaziland</i>
Tajikistan	<i>PSI Tajikistan</i>
Tanzania	<i>Social Marketing for Health of Tanzania⁶</i>
Trinidad & Tobago	<i>PSI Trinidad</i>
Uganda	<i>Programme for Accessible Health, Communication and Education (PACE)</i>
Uganda	<i>PSI Uganda</i>
Vietnam	<i>PSI Vietnam</i>
Zambia	<i>Society for Family Health Zambia</i>
Zimbabwe	<i>PSI Zimbabwe</i>

¹ PSI's negotiated indirect cost rate (NICRA) is applied to these controlled entities.

² Association de Santé Familiale deconsolidated January 1, 2018 (Note 17).

³ PSI Ghana was closed on June 30, 2018

⁴ PSI Guinea was closed on June 30, 2018

⁵ AMMS was closed in November 2017 and PSI is operating under a branch registration PSI Madagascar

⁶ Social Marketing for Health in Tanzania was closed during 2017 and PSI is now operating as PSI Tanzania

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	<i>Social Marketing Company (SMC)</i>
Cambodia	<i>Population Services Khmer (PS Khmer)⁷</i>
Kenya	<i>Population Services Kenya (PS Kenya)</i>
Nigeria	<i>Society for Family Health Nigeria (SFH Nigeria)</i>
Pakistan	<i>Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar)</i>
Namibia	<i>Society for Family Health Namibia (SFH Namibia)</i>
Rwanda	<i>Society for Family Health Rwanda (SFH Rwanda)</i>
Senegal	<i>L'Agence pour le Developpement du Marketing Social (ADEMAS)</i>

⁷ Population Services Khmer ceased operations in October 2017.

Population Services International

Notes to Consolidated Financial Statements

(c) *Cash and Cash Equivalents*

Cash and cash equivalents were \$65,300,472 and \$116,019,307 at December 31, 2018 and 2017, respectively and includes \$317,429 and \$385,340 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 \$40,174,456 and \$82,137,397 at December 31, 2018 and 2017, 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 in certain operating countries. 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 \$471,197 and \$479,408 for the years ended December 31, 2018 and 2017, respectively.

Population Services International

Notes to Consolidated Financial Statements

(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. The allowance for doubtful accounts associated with current outstanding granted contracts receivable totaled \$4,076,385 and \$4,222,362 for the years ended December 31, 2018 and 2017, respectively.

(h) Inventory

PSI has products, such as condoms, insecticide treated nets (ITNs), FP products and oral rehydration salts (ORS), held for distribution or resale. These products are either purchased from vendors or received as contributions from grantors. Inventory is carried at the lower of cost or market value using the first expired, first out method. Inventory as of December 31, 2018 and 2017 does not include obsolete inventory. PSI maintains inventory either received directly from grantors as donated commodities or purchased using funds received from grantors. In countries where PSI unrestricted enterprise funds have been established, PSI purchases inventory from vendors for the purposes of resale. Inventory held consisted of the following:

<i>December 31,</i>	2018	2017
Inventory from grantors	\$ 50,069,526	\$ 70,733,414
Enterprise-funded inventory	8,454,987	8,580,672
	\$ 58,524,513	\$ 79,314,086

A deferred commodity balance exists for all inventory purchased or donated that has not yet been distributed. Deferred commodities totaled \$50,132,228 and \$71,017,126 for the years ended December 31, 2018 and 2017, 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 consist primarily of funds provided to contractors to meet future obligations.

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

<i>December 31,</i>	2018	2017
Advances to third parties and others	\$ 24,221,370	\$ 31,038,722
Prepaid expenses	7,071,513	10,702,830
Other assets	12,630,926	8,255,653
	\$ 43,923,809	\$ 49,997,205

Population Services International

Notes to Consolidated Financial Statements

(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, 2018 and 2017.

(l) Funds and Inventory Held for Others

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, 2018 and 2017, the cash balance reserved for procurement of \$0 and \$129,042 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. There was no such activity for the year ended December 31, 2018.

(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:

- *Without donor restrictions* - Net assets not subject to any donor-imposed stipulations.
- *With donor restrictions* - Net assets subject to donor-imposed stipulations. This includes net assets expected to be met either by actions of PSI and/or the passage of time and net assets subject where the principal amount must be maintained in perpetuity.

Population Services International

Notes to Consolidated Financial Statements

(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 60% and 68% and of PSI's revenues in 2018 and 2017, respectively, result from grants and contracts with three parties, including the U.S. government. At December 31, 2018 and 2017, approximately 47% and 71% 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 (losses) gains totaled \$(250,353) and \$1,443,647 for the years ended December 31, 2018 and 2017, 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:

<i>Year ended December 31,</i>	2018	2017
Cumulative translation adjustment, beginning of year	\$ (17,481,920)	\$ (17,902,304)
Translation (loss) gain	(1,249,824)	420,384
Cumulative translation adjustments, end of year	\$ (18,731,744)	\$ (17,481,920)

Population Services International

Notes to Consolidated Financial Statements

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 contract expenses 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 programs. The proceeds from these sales are collected

Population Services International

Notes to Consolidated Financial Statements

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 in accordance with the terms of the agreement. Unexpended amounts held by the programs 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 \$32,208,722 and \$24,916,518 of donated commodities, equipment, and services for the years ended December 31, 2018 and 2017, 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

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Expenses that can be identified with a specific program or support service are charged directly according to their natural expenditure classifications. Management and general expenses include those costs that are not directly identifiable with any specific function, but which provide for the overall support and direction to PSI. The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. The statements of functional expenses present the natural classification detail of expenses by function. Some direct field costs not readily attributable to a single project including rent and administrative support are allocated to projects based on approved cost drivers indicative of level of effort.

(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 and starting in 2018 on transportation fringe benefits offered to its employees. For the years ended December 31, 2018 and 2017, PSI did not make any payments towards its estimated tax liability. PSI incurred an overpayment of actual taxes due in previous years which was applied towards the 2018 and 2017 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.

Population Services International

Notes to Consolidated Financial Statements

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. PSI is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

There were no material interest or penalties recorded for the years ended December 31, 2018 and 2017, 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, 2018, 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 Member

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, 2018 and 2017, PS Kenya sold commodities on behalf of PSI programs. In connection with the sale of these commodities, PS Kenya owed PSI \$5,026,621 and \$5,595,102 for the years ended December 31, 2018 and 2017, respectively.

(y) Accounting Pronouncement Adopted

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

Population Services International

Notes to Consolidated Financial Statements

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. PSI has adopted the ASU and has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented except PSI has opted to present the liquidity and availability information for 2018 only as permitted under the ASU in the year of adoption. There was no effect on the consolidated change in net assets reported at December 31, 2017.

(z) *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 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.

Population Services International

Notes to Consolidated Financial Statements

(aa) 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 \$10,356,253 and \$17,903,377 in local currencies at December 31, 2018 and 2017, respectively, and \$13,891,290 and \$15,092,084 in U.S. dollars, British Pounds, or Euros at December 31, 2018 and 2017, 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, 2018 and 2017, 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

Population Services International

Notes to Consolidated Financial Statements

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, 2018 and 2017, respectively:

	2018		
	Level 1	Level 2	Level 3
Equity mutual funds	\$ 10,704,301	\$ -	\$ -
Fixed income mutual funds	5,143,152	-	-
Fixed income securities	7,828,075	-	-
Total investments	\$ 23,675,528	\$ -	\$ -

	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	\$ -	\$ -

5. Investments

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

	2018	2017
Equity mutual funds	\$ 10,704,301	\$ 12,044,198
Fixed income mutual funds	5,143,152	11,017,189
Fixed income securities	7,828,075	2,077,651
Total investments	\$ 23,675,528	\$ 25,139,038

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

	2018	2017
Interest and dividend income	\$ 1,043,647	\$ 1,198,522
Realized (loss) gain	(420,999)	716,425
Unrealized (loss) gain	(1,563,212)	1,146,908
Total investment (loss) return	\$ (940,564)	\$ 3,061,855

Investment management fees for the years ended December 31, 2018 and 2017 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:

	2018		2017
Trade receivables	\$ 6,762,980	\$	5,065,140
Less allowance for doubtful accounts	(471,197)		(479,408)
Total trade receivables, net	\$ 6,291,783	\$	4,585,732

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:

	2018		2017
Billed	\$ 24,907,464	\$	18,036,051
Unbilled	43,302,569		60,637,898
	68,210,033		78,673,949
Less allowance for doubtful accounts	(4,076,385)		(4,222,362)
Total grants and contracts receivable, net	\$ 64,133,648	\$	74,451,587
U.S. government	\$ 33,800,493	\$	28,579,073
Non-U.S. governments	22,957,207		15,231,794
International organizations	9,158,773		29,591,918
Foundations and corporations	2,293,560		5,271,164
	68,210,033		78,673,949
Less allowance for doubtful accounts	(4,076,385)		(4,222,362)
Total grants and contracts receivable, net	\$ 64,133,648	\$	74,451,587

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:

	2018		2017
U.S. government	\$ 2,056,139	\$	1,686,409
Non-U.S. governments	15,350,751		18,397,997
International organizations	43,303,502		70,068,810
Foundations and corporations	31,394,738		38,819,929
Total deferred grants and fees	\$ 92,105,130	\$	128,973,145

Population Services International
Notes to Consolidated Financial Statements

8. Contributions Receivable

Unconditional promises to give at December 31, 2018 and 2017 of \$3,953,924 and \$3,750,755 respectively and considered fully collectible within three years. As of December 31, 2018 and 2017 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, 2018 or 2017.

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2018	2017
Land	\$ 24,784,424	\$ 24,829,978
Building	23,891,378	23,947,507
Leasehold improvements	11,491,668	6,229,970
Equipment held under capital leases	321,879	652,467
Furniture and equipment	8,921,062	7,525,145
	<u>69,410,411</u>	<u>63,185,067</u>
Less accumulated depreciation	(19,508,225)	(18,722,182)
Total property and equipment, net	<u>\$ 49,902,186</u>	<u>\$ 44,462,885</u>

Depreciation and amortization expense totaled \$1,883,841 and \$1,561,140 for the years ended December 31, 2018 and 2017, respectively.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for use based on the following specific donor restrictions, as of December 31:

	2018	2017
Subject to expenditure for specified purpose:		
HIV/AIDS	\$ 1,196,202	\$ 1,790,719
Family planning and maternal health	4,199,459	7,490,408
Other program uses or locations	6,086,999	2,218,873
	<u>11,482,660</u>	<u>11,500,000</u>
Total net assets with donor restrictions	<u>\$ 11,482,660</u>	<u>\$ 11,500,000</u>

Population Services International

Notes to Consolidated Financial Statements

Net assets were released from donor restrictions by incurring expenses satisfying the specific donor restrictions. Purpose restrictions accomplished for the year ended December 31, were as follows:

	2018	2017
HIV/AIDS program expense	\$ 595,468	\$ 261,887
Family planning and maternal health program expense	2,816,422	2,244,536
Other program uses or locations	924,363	2,177,842
Total net assets released from restriction due to satisfaction of purpose restrictions	\$ 4,336,253	\$ 4,684,265

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 2018 and 2017, PSI paid PSI/E approximately \$1.1 million each year respectively in sub-award expenses. As of December 31, 2018 and 2017, PSI/E owed PSI approximately \$238,000, and \$288,000 in relation to advances received from PSI that were not yet spent.

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 2018 and 2017, PSI paid Greenstar approximately \$2.3 and \$1.9 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, 2018 and 2017, PSI paid SFH Nigeria approximately \$1 million and \$2.8 million, respectively. Additionally, SFH Nigeria paid PSI approximately \$14,000 and \$400,000 for expenses due to PSI in 2018 and 2017 respectively. SFH Nigeria owed PSI approximately \$0 and \$386,000 for the years ended December 31, 2018 and 2017, 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 for the year ended December 31, 2017, in sub-award expenses. In addition, PS Khmer sold commodities on behalf of PSI. During 2017, PS Khmer sold approximately \$811,000 for PSI programs.

Population Services International

Notes to Consolidated Financial Statements

PSI representatives are on the PS Kenya governing Board of Directors and supports PS Kenya management (see note 2x). Furthermore, a PS Kenya representative is a board member on the PSI governing Board of Directors. PSI paid PS Kenya approximately \$4.2 and \$4.8 million for the years ended December 31, 2018 and 2017, respectively. During 2018 and 2017, PS Kenya sold PSI commodities totaling, approximately \$3.5 and \$4.2 million, respectively, for PSI programs of which approximately \$3.0 and \$1.9 million, respectively, was used to fund sub-award expenses with PS Kenya.

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 \$2,835,289 and \$2,633,976, respectively for the years ended December 31, 2018 and 2017.

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 \$10.2 and \$11.7 million for the years ended December 31, 2018 and 2017, respectively.

14. Lease Rental Income

PSI purchased the headquarters building in 2007. PSI occupies approximately 50% of the 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.

Population Services International
Notes to Consolidated Financial Statements

Future minimum lease income is as follows:

Years ending December 31,

2019	\$ 1,535,707
2020	1,603,583
2021	1,587,279
2022	1,196,722
2023	1,230,342
Thereafter	3,790,952
Total future minimum lease income	\$ 10,944,585

15. Notes and Bonds Payable

In 2007 PSI acquired the building that housed its headquarters operations. The building was initially financed by a Deed of Trust Note (the 2007 Note) of \$21.3 million and the issuance of Variable Rate Revenue Bonds (Variable Rate Revenue Bonds) through the District of Columbia, in the amount of \$28.2 million. In 2008 PSI made a paydown of the taxable loan in the amount of \$4 million.

Loan Agreement

Under the 2007 Note, monthly payments were required with a maturity on November 15, 2019 when the remaining balance of \$10.1 million was to be paid. From January to May 2, 2018, interest was payable at the beginning of each month at a variable interest rate based on one-month LIBOR.

On May 2, 2018 PSI retired the 2007 Note and secured a new Second Amended Deed of Trust Note (2018 Note) in the amount of \$11.9 million. Monthly payments are due through maturity on February 1, 2031. The new interest is payable for remaining term of 2018 Note at a variable interest rate based on one-month LIBOR. The interest rate was 3.35% and 1.81% as of December 31, 2018 and 2017, respectively. The 2018 Note is secured by the land, building and its improvements.

Variable Rate Revenue Bonds

The Variable Rate Revenue Bonds totaling \$28,200,000 were scheduled to mature on May 1, 2048. Installment payments were to begin on February 1, 2031, and were to range from \$907,000 to \$2.1 million per year through the maturity date. Interest was based on one-month LIBOR. From 2007 to 2018, PSI had a letter of credit agreement with a bank totaling \$28,576,000. The letter of credit was scheduled to expire in 2019.

On May 2, 2018 the letter of credit was replaced with a Lender Mode Credit Agreement (the Credit Agreement) from a bank. The Credit Agreement required the lender to purchase all the Variable Rate Bonds and to lend the same amount of the repurchased Variable Rate Bonds to PSI as a loan. The Credit Agreement carries 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, 2018, PSI was in compliance with all of these covenants. The interest rate was 2.0% and 1.78% at December 31, 2018 and 2017, respectively. The Bonds and the Credit Agreement are secured by the land, building and its improvements.

Population Services International

Notes to Consolidated Financial Statements

As of December 31, 2018, the aggregate maturities of the loan agreements, including the payments under the terms described above, are as follows:

2019	\$	769,764
2020		798,164
2021		827,612
2022		858,146
2023		889,807
Thereafter		35,562,189
<hr/>		
Total payments	\$	39,705,682

Interest expense on the Loan Agreements for the years ended December 31, 2018 and 2017 was \$945,588 and \$459,039, respectively, of which \$98,866 and \$48,761, respectively is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

In May 2019, PSI initiated interest rate swaps to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, PSI converted its variable rate indebtedness to fixed rates based on a notional principle amount. The interest rate swap agreements are derivative instruments that will be recognized at fair value on future audited financial statements. The swap arrangements were for the entire indebtedness of \$42 million with maturity dates range from 2019 through 2033.

Line of Credit

In 2018 and prior years, PSI had a Line of Credit with a bank, secured by its Investments. On May 2, 2018, as a part of the refinancing of the 2007 Note and Variable Rate Bonds, a new line of credit was negotiated with an unsecured line of credit of \$10 million. No amounts were drawn on the lines of credit in either 2017 or in 2018. Subsequent to December 31, 2018, PSI renegotiated a new line of credit of \$20 million which is secured by its investments.

16. Liquidity and Availability of Resources

The following reflects financial assets as of the consolidated statements of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date. Amounts not available include amounts set aside for satisfaction of donor restrictions.

Population Services International
Notes to Consolidated Financial Statements

<i>December 31,</i>	2018
Financial assets	
Cash and cash equivalents (notes 2c and 3)	\$ 65,300,472
Investments (notes 2e and 5)	23,675,528
Trade receivables, net (notes 2f and 6)	6,291,783
Grants and contracts receivable, net (notes 2g and 7)	64,133,648
Contributions receivable (notes 2p and 8)	3,953,924
Due from independent network members (note 2x)	5,011,580
Total financial assets available within one year	168,366,935
 Less:	
Amounts unavailable for general expenditures within one year due to:	
Net assets with donor restrictions	(11,482,660)
Contributions scheduled to be collected in more than one year	(310,909)
Network member receivables due in more than one year	(3,252,992)
Total amounts unavailable for general expenditures within one year	(15,046,561)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 153,320,374

PSI's operations are primarily funded by grants, contracts, and contributions from various funders, some of which are restricted for time and or purpose. For some funders, PSI receives funding in advance of program expenses being incurred, which is noted on the consolidated statements of financial position as \$92,105,130 in deferred grants and fees. PSI is obligated to spend this advance funding in accordance with the contractual obligations over the next 12 months. PSI also holds a further \$23,042,598 in deferred program income which may be spent in accordance with the award requirements or returned to the funder. These amounts should be taken into consideration when reviewing financial assets available to meet PSI cash needs.

As part of PSI's liquidity management, PSI structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. PSI has a goal to maintain financial assets on hand to meet at least 60 days of normal operating expenses which are on average, approximately \$77 million. Given PSI's diverse global operational portfolio, management circumvents foreign currency risk exposure by retaining funds in US dollars as much as possible to minimize declines in foreign currency volatility. To help manage unanticipated liquidity needs, PSI has short-term investments totaling approximately \$24 million that could be used to cover cash short-falls as needed. Additionally, PSI also has a Line of Credit of \$10 million with Suntrust Bank that can be drawn on if needed. This Line of Credit has been increased in 2019 to \$20 million.

Population Services International

Notes to Consolidated Financial Statements

17. 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 years ended December 31, 2018 and 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.

18. Subsequent Events

PSI evaluated subsequent events through June 25, 2019 which is the date the consolidated financial statements were available to be issued. The following subsequent events have occurred: In 2019, PSI initiated interest rate swaps to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, PSI converted its variable rate indebtedness to fixed rates based on a notional principle amount. The interest rate swap agreements are derivative instruments that will be recognized at fair value on future audited consolidated financial statements. The swap arrangements were for both the 2018 Note and the Credit Agreement with maturity dates range from 2019 through 2033. Additionally, PSI entered into a revised line of credit agreement in May 2019 (see Note 15).

Supplemental Schedule

Population Services International

Consolidated Schedule of Revenues by Funding Source

Year ended December 31, 2018

(with summarized comparative financial information for the year ended December 31, 2017)

	Unrestricted					Total Unrestricted	With Donor Restrictions	Totals 2018	Totals 2017
	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, fees and donated commodities	\$ 185,995,903	\$ 71,652,308	\$ 145,665,862	\$ 86,212,804	\$ 1,249,150	\$ 490,776,027	\$ -	\$ 490,776,027	\$ 550,042,220
Program income and unrestricted enterprise funds	2,949,912	9,220,993	1,530,756	3,463,865	28,579,082	45,744,608	-	45,744,608	41,165,805
Other	-	-	-	-	628,765	628,765	-	628,765	367,295
Contributions	-	-	-	-	1,821,985	1,821,985	4,318,913	6,140,898	7,123,988
Total grants, fees, program income, donated commodities, and other support	188,945,815	80,873,301	147,196,618	89,676,669	32,278,982	538,971,385	4,318,913	543,290,298	598,699,308
Investment return, net	-	-	-	-	(940,564)	(940,564)	-	(940,564)	3,061,855
Net assets released from restrictions	-	-	-	-	4,336,253	4,336,253	(4,336,253)	-	-
Total revenue, gains, and other support	\$ 188,945,815	\$ 80,873,301	\$ 147,196,618	\$ 89,676,669	\$ 35,674,671	\$ 542,367,074	\$ (17,340)	\$ 542,349,734	\$ 601,761,163

See accompanying notes to the consolidated financial statements.