Population Services International

Consolidated Financial Statements and Supplemental Schedules

Years Ended December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

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.

BDO

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(With Independent Auditor's Report Thereon)

Population Services International

Contents

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Independent Auditor's Report

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, 2012 and 2011, 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 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 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, 2012 and 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidated schedule of functional expenses and allocation of indirect expenses and consolidated schedule of revenues by funding sources 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 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 taken as a whole.

BDO USA, LLP

August 13, 2013

Consolidated
Financial Statements

Population Services International

Consolidated Statements of Financial Position

December 31,		**2012**		2011
Assets				
Cash and cash equivalents (notes 2c and 3)	**$**	**168,203,574**	$	114,306,807
Funds held for others (note 2l)		**116,160,020**		57,310,018
Investments (notes 2e and 5)		**18,898,500**		20,302,182
Trade receivables, net (notes 2f and 6)		**3,866,859**		2,739,960
Grants and contracts receivable, net (notes 2g and 7)		**65,172,148**		106,689,959
Inventory (note 2h)		**73,867,191**		79,451,766
Advances, prepaid expenses, deposits, and other receivables (note 2i)		**41,056,826**		57,531,369
Contributions receivable (note 8)		**156,980**		99,928
Due from unconsolidated affiliates (Note 2x)		**4,993,565**		916,554
Property and equipment, net (notes 2j, 9, 13, and 14)		**56,084,385**		64,025,400
Total assets	**$**	**548,460,048**	$	503,373,943
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses (note 16)	**$**	**23,544,921**	$	50,788,244
Accrued wages and benefits (note 12)		**21,372,369**		23,616,836
Line-of-credit (note 17)		**-**		-
Deferred grants and fees (note 7)		**181,356,226**		159,322,295
Deferred commodities		**68,312,577**		74,923,869
Deferred program income (note 2r)		**37,528,061**		43,788,112
Funds held for others (note 2l)		**116,160,020**		57,310,018
Other liabilities (note 13)		**1,116,193**		998,909
Bonds payable (note 15)		**45,491,806**		45,524,000
Total liabilities		**494,882,173**		456,272,283
Commitments and contingencies (notes 2n, 12, 13, 14, 15 and 19)		**-**		-
Net assets:				
Unrestricted (note 2m)		**43,555,890**		34,752,708
Temporarily restricted (notes 2m and 10)		**10,010,798**		12,337,765
Permanently restricted (note 2m)		**11,187**		11,187
Total net assets		**53,577,875**		47,101,660
Total liabilities and net assets	**$**	**548,460,048**	$	503,373,943

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Activities

For the year ended December 31,	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and other support:								
Grants, fees, program income, and other support from:								
U.S. government	$ 221,456,610	$ -	$ -	$ 221,456,610	$ 255,128,571	$ -	$ -	$ 255,128,571
Non-U.S. governments	135,013,509	-	-	135,013,509	140,836,309	-	-	140,836,309
International organizations	83,904,845	-	-	83,904,845	169,352,911	-	-	169,352,911
Foundations and corporations	75,138,158	-	-	75,138,158	89,982,003	-	-	89,982,003
Other	26,120,814	-	-	26,120,814	24,649,326	-	-	24,649,326
Contributions (note 2p)	187,045	3,235,240	-	3,422,285	457,154	1,886,021	-	2,343,175
Total grants, fees, program income, and other support	541,820,981	3,235,240	-	545,056,221	680,406,274	1,886,021	-	682,292,295
Net rental gain (note 14)	962,501	-	-	962,501	383,459	-	-	383,459
Investment return (note 5)	731,708	-	-	731,708	408,766	-	-	408,766
Foreign currency transaction (loss) gain (note 2o)	(301,198)	-	-	(301,198)	(282,147)	-	-	(282,147)
Net assets released from restrictions (note 10)	5,562,207	(5,562,207)	-	-	1,543,798	(1,543,798)	-	-
Total revenue, gains, and other support	548,776,199	(2,326,967)	-	546,449,232	682,460,150	342,223	-	682,802,373
Expenses:								
Program services								
Malaria	159,231,511	-	-	159,231,511	259,493,148	-	-	259,493,148
HIV/Family Planning	264,101,373	-	-	264,101,373	309,471,328	-	-	309,471,328
Other Services	78,863,959	-	-	78,863,959	68,205,629	-	-	68,205,629
Total Program Services	502,196,843	-	-	502,196,843	637,170,105			637,170,105
Management and general	35,180,003	-	-	35,180,003	35,328,956	-	-	35,328,956
Fundraising	318,517	-	-	318,517	360,037	-	-	360,037
Total expenses	537,695,363	-	-	537,695,363	672,859,098	-	-	672,859,098
Change in net assets before loss on deconsolidations and foreign currency translation loss	11,080,836	(2,326,967)	-	8,753,869	9,601,052	342,223	-	9,943,275
Loss on deconsolidations (Note 18)	(2,551,706)	-	-	(2,551,706)	(6,096,954)	-	-	(6,096,954)
Foreign currency translation gain (loss) (note 2o)	274,052	-	-	274,052	(5,422,458)	-	-	(5,422,458)
Change in net assets	8,803,182	(2,326,967)	-	6,476,215	(1,918,360)	342,223	-	(1,576,137)
Net assets, beginning of year	34,752,708	12,337,765	11,187	47,101,660	36,671,068	11,995,542	11,187	48,677,797
Net assets, end of year	$ 43,555,890	$ 10,010,798	$ 11,187	$ 53,577,875	$ 34,752,708	$ 12,337,765	$ 11,187	$ 47,101,660

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Cash Flows

For the years ended December 31,	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 6,476,215	$ (1,576,137)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	5,633,638	6,916,670
Change in allowance for receivables	1,718,684	3,815,204
Bad debt expense	661,527	130,849
Net (gain) loss on investments	(339,079)	530,611
Loss on disposal of property and equipment	3,505,651	122,446
Stock received in lieu of cash payment	(51,756,331)	(45,972,382)
Change in assets and liabilities		
Funds held for others	(58,850,002)	21,787,385
Trade receivables	(1,332,944)	1,976,157
Grants and contracts receivable	39,505,908	(5,092,602)
Inventory	5,584,575	52,562,282
Advances, prepaid expenses, deposits and other receivables	16,312,280	(19,381,712)
Contributions receivable	(57,052)	11,562
Due from unconsolidated affiliates	(4,077,011)	(916,554)
Accounts payable and accrued expenses	(27,243,323)	5,838,701
Accrued wages and benefits	(2,244,467)	13,017,787
Deferred grants and fees	22,033,931	12,424,562
Deferred commodities	(6,611,292)	(54,774,355)
Deferred program income	(6,260,051)	7,297,402
Funds held for others	58,850,002	(21,787,385)
Other liabilities	96,638	(120,210)
Net cash provided by (used in) operating activities	1,607,497	(23,189,719)
Cash flows from investing activities:		
Purchase of property and equipment	(1,198,274)	(3,908,913)
Disposal of property and equipment	-	1,219,864
Purchase of investments	(6,363,265)	(16,544,088)
Proceeds from sale and maturity of investments	59,862,357	60,835,939
Net cash provided by investing activities	52,300,818	41,602,802
Cash flows from financing activities:		
Borrowings on letter of credit	-	3,000,000
Repayments on letter of credit	-	(10,453,498)
Repayments on bonds payable	(32,194)	-
Increase (decrease) in capital lease obligations	20,646	(149,793)
Net cash used in financing activities	(11,548)	(7,603,291)
Net increase in cash and cash equivalents	53,896,767	10,809,792
Cash and cash equivalents, beginning of year	114,306,807	103,497,015
Cash and cash equivalents, end of year	$ 168,203,574	$ 114,306,807
Supplemental non-cash operating activities:		
Accounts payable to related party applied against due from unconsolidated affiliates (Note 11)	$ 2,000,000	$ -
Supplemental cash flow disclosure:		
Interest paid	$ 263,907	$ 482,833

See accompanying notes to the consolidated financial statements.

1. Organization and Programs

Population Services International (hereafter PSI) is a nonprofit organization that 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 (LLINs), long-lasting insecticide retreatment tablets, artemisinin-based combination therapies (ACTs), rapid diagnostic tests (RDTs), strategic behavior change communications and applied operational research. PSI uses multiple channels to deliver these interventions, including the public and private sectors and community case management strategies. PSI works in 32 malaria endemic countries, including 24 in Sub Saharan Africa.

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

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

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

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

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Principles of Consolidation

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

(c) Cash and Cash Equivalents

Cash and cash equivalents were $168,203,574 and $114,306,807 at December 31, 2012 and 2011, respectively and include $2,090,185 and $9,926,716 of money market accounts and highly liquid investments with original maturities of three months or less.

(d) Financial Risks

PSI places its cash and cash equivalents with high credit quality financial institutions. Due to a temporary federal program in effect from December 31, 2010 through December 31, 2012, non-interest bearing cash balances of PSI were fully insured. Beginning in 2013, insurance coverage will revert to $250,000 per depositor at each financial institution, and PSI's non-interest bearing cash balances may again exceed federally insured limits, although as of December 31, 2012, PSI did not hold any non-interest bearing accounts in the U.S.

Interest-bearing amounts on deposits in excess of federally insured limits were $240,008,423 and $105,872,868 at December 31, 2012 and 2011, respectively. PSI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

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

(e) Investments

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

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

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

(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 factors as prior collection history.

(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 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 $5,633,885 and $3,915,204 for the years ended December 31, 2012 and 2011, respectively.

(h) Inventory

PSI carries an inventory of products, such as condoms, insecticide treated nets (ITNs), and oral rehydration salts (ORS), held for distribution or resale. Inventory is carried at the lower of cost or market value using the first expired, first out method. These products are either purchased from vendors or received as contributions from grantors. Inventory as of December 31, 2012 and 2011 does not include obsolete inventory.

In countries where PSI unrestricted revolving funds have been established to maintain programs, PSI purchases inventory from vendors using these unrestricted funds. These products, carried at cost, totaled $3,551,079 and $2,132,540 at December 31, 2012 and 2011, respectively.

PSI also maintains inventory either received directly from grantors as donated commodities or purchased using funds received from grantors. Inventory from grantors is carried at cost and expensed on a first-expired, first-out basis when distributed to customers. At December 31, 2012 and 2011, these products totaled $70,316,112 and $77,319,226, respectively.

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

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

(j) Property and Equipment

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

(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, 2012 and 2011.

(l) Funds Held for Others

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

As part PSI's procurement service agent arrangements and in accordance with ASC No. 958-605 *"Not-for-profit Entities Revenue Recognition"* (ASC 958-605), PSI maintains a cash account that is reserved for procurements on behalf of other organizations in purchasing commodities for use in developing countries. As of December 31, 2012 and 2011, the balance in cash of $116,160,020 and $57,310,018, respectively was held in funds held for others as an asset and corresponding liability.

(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. United States Agency for International Development (USAID), United Kingdom Department for International Development (DFID) and Kreditanstalt fur Wiederaufbau (KfW) accounted for 43% and 55% of total grants and contracts receivable as of December 31, 2012 and December 31, 2011, respectively. 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.

(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) gains in the statements of activities. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included as a component of unrestricted net assets.

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

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

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

Years ended December 31,	**2012**	2011
Cumulative translation adjustment, beginning of year	**$ (12,885,239)**	$ (7,462,781)
Translation losses	**274,052**	(5,422,458)
Cumulative translation adjustments, end of year	**$ (12,611,187)**	$ (12,885,239)

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

(p) *Contributions*

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

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

(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 primarily derived from awards with USAID and Centers for Disease Control (CDC). 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 when received and expensed when sold.

(r) Program Income

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

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

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

(s) In-Kind Contributions

Under ASC 958-605, the value of certain services provided to and/or paid on behalf of PSI's programs that are susceptible to objective measurement or valuation have been reflected in the financial statements within grants and contracts. PSI received $53,083,428 and $102,876,254 of donated commodities, equipment, and services for the years ended December 31, 2012 and 2011, respectively.

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

(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

Expenses of PSI are reported on a functional basis based on health service areas. PSI reports health areas within three major categories Malaria, HIV/Family Planning and Other Services.

Certain costs have been allocated between programs and supporting services benefited, based on direct salaries and fringe benefits.

(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 year ended December 31, 2012 PSI incurred a tax impact of approximately $67,000. This amount is included in other liabilities on the statement of financial position. In addition, some of the foreign operations of PSI are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

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

PSI adopted the provisions of ASC 740-10, *Income Taxes*, on January 1, 2007. Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10 had no impact on PSI's financial statements. PSI does not believe there are any unrecognized tax benefits that should be recorded. No interest or penalties were accrued as of January 1, 2007 as a result of the adoption of ASC 740-10. For the years ended December 31, 2012 and 2011, there were no interest or penalties recorded or included in the statements of activities. PSI is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

(w) Use of Estimates

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

(x) Due from Unconsolidated Affiliates

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 reclassified to Due from Unconsolidated Affiliates. The long term note receivable is payable over ten years at an effective interest rate of 4.25%. Payments made on the note receivable during the year ended December 31, 2012 were $271,096. The balance of the long term note receivable as of December 31, 2012 was approximately $645,000.

Effective January 1, 2012, Society of Family Health Nigeria (SFH Nigeria) became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of January 1, 2012. As of the date of de-consolidation, SFH Nigeria's inter-company balance due to PSI was approximately $13.8 million. On September 10, 2012, PSI and SFH Nigeria entered into a agreement to convert approximately $6.3 million of the inter-company balance to a long-term note receivable payable 4 years with a maturity date of June 30, 2015. The remaining inter-company balance of approximately $7.5 million was written off as a loss on deconsolidation in the Consolidated Statements of Activities as December 31, 2011 and 2012 in the amounts of $4.9 and $2.6 million, respectively. During 2012, $2.0 million program expenses incurred in connection with a sub-recipient agreement with PSI was applied as a reduction to the long-term note receivable. The balance of the long-term note receivable as of December 31, 2012 was approximately $4.3 million.

(y) Recent Accounting Pronouncements

In May 2012, the FASB issued ASU 2011-04—*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* for fair value measurements intended to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The guidance modifies the existing standard to include disclosure of all transfers between Level 1 and Level 2 asset and liability fair value categories. In addition, it provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The guidance requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The guidance is effective for interim and annual reporting periods beginning after December 15, 2012, with early adoption prohibited. This guidance was adopted by PSI for the year ended December 31, 2011 and had no impact on PSI's consolidated financial statements.

In October 2012, the FASB released ASU 2012-05—*Statement of Cash Flows (Topic 230): Not-for-Profit Entities (NFP): Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires that cash receipts from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash, should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case, those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. This guidance is effective prospectively for interim and annual reporting periods beginning after June 15, 2013.

In October 2012, the FASB released ASU 2012-04—*Technical Corrections and Improvements*. The amendments in ASU 2012-04 cover a wide range of Topics in the Codification, which are generally non-substantive in nature.

In December 2012, FASB issued ASU 2011-11—*Balance Sheet (Topic 820): Disclosures about Offsetting Assets and Liabilities* to provide enhanced disclosures that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. The guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013.

(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 approximately $16 million and $44 million in local currency, and approximately $28 million and $20 million in U.S. dollars, British pounds, or Euros at December 31, 2012 and 2011, respectively are maintained at financial institutions in foreign countries. For financial reporting purposes, the year-end foreign currency balances are translated into U.S. dollars using current exchange rates.

4. Fair Market Value of Financial Instruments

PSI adopted ASC 820 in 2009 that 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 as of December 31, 2012 and 2011 consisted of certificates of deposits, equity securities, mutual funds and U.S. government agency securities. The following section describes the valuation methodologies use by PSI to measure its financial assets and liabilities at fair value:

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

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

The table below presents the balances of assets measured at fair value on a recurring basis by hierarchy level at December 31, 2012 and 2011, respectively:

		2012	
	Level 1	**Level 2**	**Level 3**
Certificates of deposit held in excess of three months	$ 6,290,280	$ -	$ -
Equity securities	3,026,211	-	-
Mutual funds	3,817,416	-	-
U.S. government agency securities	5,764,593	-	-
Total investments	$ 18,898,500	$ -	$ -

		2011	
	Level 1	**Level 2**	**Level 3**
Certificates of deposit held in excess of three months	$ 3,850,274	$ -	$ -
Equity securities	5,639,842	-	-
Mutual funds	3,532,843	-	-
U.S. government agency securities	7,279,223	-	-
Total investments	$ 20,302,182	$ -	$ -

Trade receivables, grants and contracts receivable, accounts payable and accrued expenses: The estimated fair values of PSI's short-term financial instruments, including trade and grants receivables and accounts payable and accrued expenses arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. There are no receivables or payables with payment terms in excess of one year.

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

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

	2012		2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Trade receivables, net	**$ 3,866,859**	**$ 3,866,859**	$ 2,739,960	$ 2,739,960
Grants and contract receivables, net	**65,172,148**	**65,172,148**	106,689,959	106,689,959
Accounts payable and accrued expenses	**23,544,921**	**23,544,921**	50,788,244	50,788,244
Bonds payable	**45,491,806**	**45,491,806**	45,524,000	45,524,000
Total financial instruments	**$ 138,075,734**	**$ 138,075,734**	$ 205,742,163	$ 205,742,163

5. Investments

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

	2012	2011
Certificates of deposit held in excess of three months	**$ 6,290,280**	$ 3,850,274
Equity securities	**3,026,211**	5,639,842
Mutual funds	**3,817,416**	3,532,843
U.S. government agency securities	**5,764,593**	7,279,223
Total investments	**$ 18,898,500**	$ 20,302,182

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

	2012	2011
Interest and dividend income	**$ 428,186**	$ 927,761
Realized gain (loss) on investments	**151,825**	(164,357)
Unrealized gain (loss) on investments	**151,697**	(354,638)
Total investment return	**$ 731,708**	$ 408,766

Investment management fees for the years ended December 31, 2012 and 2011 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:

	2012	2011
Trade receivables	**$ 4,650,975**	$ 3,524,076
Less allowance for doubtful accounts	**(784,116)**	(784,116)
Total trade receivables, net	**$ 3,866,859**	$ 2,739,960

7. Grants and Contracts Receivable

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

	2012	2011
Billed	**$ 12,945,310**	$ 23,065,901
Unbilled	**57,860,723**	87,539,262
	70,806,033	110,605,163
Less allowance for doubtful accounts	**(5,633,885)**	(3,915,204)
Total grants and contracts receivable, net	**$ 65,172,148**	$ 106,689,959
U.S. government	**$ 20,914,035**	$ 47,896,860
Non-U.S. governments	**29,473,739**	38,240,335
International organizations	**17,229,177**	13,480,868
Foundations and corporations	**3,189,082**	10,987,100
	70,806,033	110,605,163
Less allowance for doubtful accounts	**(5,633,885)**	(3,915,204)
Total grants and contracts receivable, net	**$ 65,172,148**	$ 106,689,959

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:

	2012	2011
U.S. government	$ 2,226,324	$ 575,786
Non-U.S. governments	40,418,704	64,541,390
International organizations	95,674,269	63,105,147
Foundations and corporations	43,036,929	31,099,972
Total deferred grants and fees	$ 181,356,226	$ 159,322,295

8. Contributions Receivable

Unconditional promises to give at December 31, 2012 and 2011 of $156,980 and $99,928, respectively, are receivable in less than one year and considered fully collectible. As of December 31, 2012 and 2011 there were no conditional promises to give.

9. Property and Equipment

Property and equipment consists of the following at December 31:

	2012	2011
Land	$ 24,938,612	$ 24,911,548
Building	23,505,846	26,310,285
Leasehold improvements	5,272,707	4,823,763
Equipment held under capital leases	734,560	754,429
Furniture and equipment	23,330,696	34,042,694
	77,782,421	90,842,719
Less accumulated depreciation	(21,698,036)	(26,817,319)
Total property and equipment, net	$ 56,084,385	$ 64,025,400

Depreciation expense totaled $5,633,639 and $6,916,670 for the years ended December 31, 2012 and 2011, 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:

	2012	2011
HIV/AIDS	**$ 3,937,445**	$ 5,429,071
Water purification systems	**871,373**	1,857,338
Family planning	**244,156**	528,617
Other program uses or locations	**4,957,824**	4,522,739
Total temporarily restricted net assets	**$ 10,010,798**	$ 12,337,765

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

	2012	2011
HIV/AIDS	**$ 2,414,344**	$ 1,232,204
Water purification systems	**1,798,514**	127,068
Family planning	**401,139**	-
Other program uses or locations	**948,210**	184,526
Total temporarily restricted net assets released from restriction	**$ 5,562,207**	$ 1,543,798

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 2012 and 2011, PSI paid PSI/E $407,177 and $421,379, respectively.

PSI has entered into certain transactions with Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar), an organization of which PSI's President is also a Board member. During 2012 and 2011, PSI paid Greenstar approximately $9.1 million and $4.9 million, respectively in sub-award expenses.

Effective January 1, 2011, SMS Romania became an independently governed organization. In accordance with the accounting guidance on consolidation, SMS Romania was deconsolidated for financial reporting purposes as of the effective date. PSI representatives are also Board members of SMS Romania. During the year end December 31, 2012, SMS Romania made payments to PSI of $271,096 towards a notes receivable to PSI. During 2011, PSI advanced SMS Romania $174,316 as they are a subrecipient on program awards where PSI is the prime recipient.

Effective January 1, 2011, SC Social Marketing Association (SMA Namibia) became an independently governed organization. In accordance with the accounting guidance on consolidation, SMA Namibia was deconsolidated for financial reporting purposes as of the effective date. PSI representatives are also Board members of SMA Namibia. During 2012, PSI did not engage in related party transactions with SMA Namibia. During 2011, PSI advanced SMS Namibia $174,316 as they are a subrecipient on program awards where PSI is the prime recipient.

Effective January 1, 2012, SFH Nigeria became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of the effective date. PSI representatives are also Board members of SFH Nigeria. During 2012, SFH Nigeria incurred $3,415,163 in program expenses due from PSI in connection with a sub-recipient agreement with PSI, of which $2.0 million was applied to the long-term note receivable and the balance was paid in cash.

12. Employee Benefits

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

Pension expense for all pension plans aggregated $2,037,976 and $1,679,715, respectively for the years ended December 31, 2012 and 2011.

PSI/Nigeria, a consolidated PSI affiliate through January 1, 2012, where they became an independently government organization, maintained a defined contribution retirement plan pursuant to the pension reform act of 2004 set forth by the National Pension Commission of the Federal Republic of Nigeria which is available to all full-time employees. The pension law in Nigeria, which took effect in 2006, requires a minimum contribution of 7.5% employee and 7.5% employer based on basic salary, housing and transport. Effective as of 2006, PSI/Nigeria operates the government statutory contribution plan. Pension expense for PSI/Nigeria was $422,572 for the year ended December 31, 2011. See Note 18.

13. Lease Commitments

PSI is obligated under capital leases for equipment that expire at various dates during the next five years. At December 31, 2012 and 2011, the gross amount of equipment and related accumulated amortization recorded under capital leases were as follows:

	2012	2011
Equipment	**$ 734,560**	$ 754,429
Less accumulated amortization	**(341,137)**	(409,320)
Total equipment under capital leases, net	**$ 393,423**	$ 345,109

Amortization expense totaled $185,537 and $221,719 for the years ended December 31, 2012 and 2011, respectively.

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

Years ending December 31,	
2013	$ 181,419
2014	91,740
2015	91,740
2016	91,740
Total minimum lease payments	456,639
Less amount representing interest	(41,304)
Obligations under capital leases, included in other liabilities	$ 415,335

14. Lease Rental Income

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

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

	2012	2011
Gross building rental income	$ 5,494,425	$ 4,436,260
PSI occupancy rent	(2,125,170)	(2,039,273)
Net revenue	3,369,255	2,396,987
Gross building expenses	3,924,430	3,455,220
PSI expense apportionment	(1,517,676)	(1,441,692)
Net expense	2,406,754	2,013,528
Net rental income	$ 962,501	$ 383,459

Future minimum lease income is as follows:

Years ending December 31,	
2013	$ 2,874,494
2014	2,626,506
2015	2,455,373
2016	2,284,487
2017	1,899,126
Thereafter	4,998,802
Total future minimum lease income	$ 17,138,788

15. Bonds Payable

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

Loan Agreement

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

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

PSI was required to pay the bank the $1,697,172 to further reduce the Deed of Trust Note agreement balance to $17,324,000.

Under the Deed of Trust Note, monthly payments began on December 1, 2012 and a separate annual payment will be made beginning December 1, 2013 and continuing until maturity on November 15, 2019 when the remaining balance of $10,174,349 is to be paid. Interest is payable at the beginning of each month effective December 1, 2007 based on the LIBOR rate plus 0.45%. The interest rate was 0.66% and 0.72% as of December 31, 2012 and 2011, respectively. The Deed of Trust note agreement is secured by the land, buildings and improvements of PSI's headquarters.

Variable Rate Revenue Bonds

The Variable Rate Revenue Bonds in the amount of $28,200,000 mature on November 1, 2042. Installment payments begin on November 1, 2027, and range from $2 to $3.2 million per year through the maturity date. The interest rate was 0.23% and 0.98% at December 31, 2012 and 2011, 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, 2012, PSI was in compliance with all of these covenants.

As of December 31, 2012, the aggregate maturities of the long-term bonds, including the payments under the terms described above, are as follows:

2013	$	997,313
2014		1,018,332
2015		1,040,464
2016		1,163,766
2017		1,188,300
Thereafter		40,083,631
Total payments	$	45,491,806

Interest expense on the Bonds and Deed of Trust Note for the years ended December 31, 2012 and 2011 was $257,997 and $312,173, respectively, of which $15,053 and $20,963, respectively is included in accounts payable in the accompanying statements of financial position.

16. Accounts Payable and Accrued Expenses

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

	2012	2011
General accounts payable	**$ 5,723,388**	$ 5,530,151
General accrued expenses	**10,830,362**	24,091,726
Negotiated indirect cost rate (NICRA)	**652,149**	5,835,160
Purchase order accrual	**1,677,685**	12,382,984
Other accounts payable and accrued expenses	**4,661,337**	2,948,223
	$ 23,544,921	$ 50,788,244

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

All accounts payable and accrued expenses have a maturity of no more than twelve months from the balance sheet date. Book values approximate to fair value at December 31, 2012 and 2011.

17. Line-of-Credit

In August 2011, a new line of credit was received to replace a previously held letter of credit. The line, which totals $20 million and is secured by PSI's investments, carries an interest rate of LIBOR plus 0.95%, and has an expiration date of December 31, 2013, which renews annually at the discretion of the financial institution. As of December 31, 2012 and December 31, 2011, PSI did not have an outstanding balance under the line-of-credit. The interest rate was 1.2% as of both December 31, 2012 and 2011. PSI did not draw on the line-of-credit during the year ended December 31, 2012 and there was no interest expense incurred during 2012. Interest expense on the line-of-credit for the year ended December 31, 2011 was $73,897.

18. Loss on Deconsolidation

Effective January 1, 2011, SMA Namibia became an independently governed organization. In accordance with the accounting guidance on consolidation, SMA Namibia was deconsolidated for financial reporting purposes as of the effective date. At the time of deconsolidation, SMA Namibia had a net intercompany balance due to PSI of approximately $1.2 million which was written off and included as a loss on deconsolidation in the Consolidated Statement of Activities for the twelve months ended December 31, 2011. There was no additional loss on deconsolidation in 2012.

Effective January 1, 2012, Society of Family Health Nigeria (SFH Nigeria) became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of January 1, 2012. As of the date of de-consolidation, SFH Nigeria's inter-company balance due to PSI was approximately $13.8 million.

On September 10, 2012, PSI and SFH Nigeria entered into a agreement to convert approximately $6.3 million of the inter-company balance to a long-term note receivable payable 4 years with a maturity date of June 30, 2015. The remaining inter-company balance of approximately $7.5 million was written off as a loss on deconsolidation in the Consolidated Statements of Activities as December 31, 2011 and 2012 in the amounts of $4.9 and $2.6 million, respectively.

As of December 31, 2011, SFH Nigeria represented the 9% and 3% of total assets and total liabilities, respectively, as included on the Consolidated Statement of Financial Position. For the twelve months ended December 31, 2011 SFH Nigeria's revenues included in the Consolidated Statement of Activities were approximately 11% of total revenue, gains, and other support:

	Nigeria	Consolidated
Total Assets	$ 44,637,337	$ 503,373,943
Total Liabilities	15,664,299	456,272,283
Total Revenue, Gains and Other Support	58,918,326	546,449,232

19. Commitments and Contingencies

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

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

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

20. Subsequent Events

PSI evaluated subsequent events through August 13, 2013 which is the date the financial statements were available to be issued. No subsequent events were noted that required adjustment to the financial statements.

In the ordinary course of business, PSI is subject to routine audits by taxing jurisdictions. On August 5, 2013, PSI received an Examination request from the Internal Revenue Service related to the District of Columbia Bond issuance of $28,200,000 on November 15, 2007. According to the notice, the scope of the examination will be to ascertain the compliance of PSI's debt issuance with the Federal tax requirements applicable to Qualified 501(c)(3) Non-Hospital Bonds. Management is compiling the Information Document Request identified within Form 4564 provided with the notification. Management does not have any reason to believe that the debt issuance is non-compliant with any applicable tax requirements.

Supplemental Schedules

Population Services International

Consolidated Schedule of Functional Expenses and Allocation of Indirect Expenses
Year ended December 31, 2012
(with summarized comparative financial information for the year ended December 31, 2011)

	Program Services				Management		Totals	Totals
	Malaria	HIV/Family Planning	Other Services	Total	and General	Fundraising	2012	2011
U.S. based and residential project advisor salaries	$ 2,428,682	$ 8,775,816	$ 3,201,848	$ 14,406,346	$ 14,472,943	$ 57,616	$ 28,936,905	$ 28,151,774
Fringe benefits	908,166	3,281,575	1,196,332	5,386,073	5,412,871	21,544	10,820,488	9,600,861
Salaries and fringe benefits	3,336,848	12,057,391	4,398,180	19,792,419	19,885,814	79,160	39,757,393	37,752,635
Local staff salaries and fringe benefits	11,612,706	58,442,470	14,504,653	84,559,829	187,549	-	84,747,378	91,082,519
Allowances	2,318,006	5,296,366	1,978,469	9,592,841	576,349	-	10,169,190	12,037,164
Total salaries and related expenses	17,267,560	75,796,227	20,881,302	113,945,089	20,649,712	79,160	134,673,961	140,872,318
Travel	7,206,732	17,885,112	5,873,075	30,964,919	2,380,701	18,118	33,363,738	34,954,920
Consultants and contracts	2,890,248	11,419,463	5,487,190	19,796,901	4,910,030	142,405	24,849,336	25,679,881
Furniture and equipment	3,741,458	5,925,410	5,587,320	15,254,188	508,798	-	15,762,986	6,790,413
Commodities	95,881,746	52,843,985	10,003,689	158,729,420	-	-	158,729,420	257,019,668
Subrecipients	12,282,316	35,535,174	11,968,603	59,786,093	-	-	59,786,093	73,411,979
Promotions and advertising	6,197,367	33,563,511	8,840,008	48,600,886	7,507	-	48,608,393	57,236,444
Office costs	4,275,206	17,037,475	3,504,806	24,817,487	5,146,902	2,192	29,966,581	35,062,799
Other direct and indirect costs	9,061,386	12,878,091	4,141,874	26,081,351	239,865	-	26,321,216	34,914,006
Total expenses before depreciation	158,804,019	262,884,448	76,287,867	497,976,334	33,843,515	241,875	532,061,724	665,942,428
Depreciation and amortization	427,492	1,216,925	2,576,092	4,220,509	1,413,130	-	5,633,639	6,916,670
Total expenses before allocation of indirect costs	159,231,511	264,101,373	78,863,959	502,196,843	35,256,645	241,875	537,695,363	672,859,098
Allocation of indirect costs to fundraising	-	-	-	-	(76,642)	76,642	-	-
Total expenses per financial statements	159,231,511	264,101,373	78,863,959	502,196,843	35,180,003	318,517	537,695,363	672,859,098
Allocation of indirect costs to program services	6,009,979	21,117,744	7,192,598	34,320,321	(34,320,321)	-	-	-
Total expenses after allocations	$ 165,241,490	$ 285,219,117	$ 86,056,557	$ 536,517,164	$ 859,682	$ 318,517	$ 537,695,363	$ 672,859,098

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Schedule of Revenues by Funding Source
Year ended December 31, 2012
(with summarized comparative financial information for the year ended December 31, 2011)

	Unrestricted								
	U.S. Government	Non-U.S. Governments	International Organizations	Foundations/ Corporations	Other	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2012
Revenue, gains, and other support:									
Grants, fees, program income, and other support:									
Grants and fees	$ 217,902,957	$ 128,195,812	$ 83,051,537	$ 74,695,015	$ 2,810,107	$ 506,655,428	$ -	$ -	$ 506,655,428
Program income	3,553,653	6,817,697	853,308	443,143	19,934,734	31,602,535	-	-	31,602,535
Other	-	-	-	-	3,375,973	3,375,973	-	-	3,375,973
Contributions	-	-	-	-	187,045	187,045	3,235,240	-	3,422,285
Total grants, fees, program income, and other support	221,456,610	135,013,509	83,904,845	75,138,158	26,307,859	541,820,981	3,235,240	-	545,056,221
Net rental gain	-	-	-	-	962,501	962,501	-	-	962,501
Investment income	-	-	-	-	731,708	731,708	-	-	731,708
Foreign currency transaction (loss) income	-	-	-	-	(301,198)	(301,198)	-	-	(301,198)
Net assets released from restrictions	-	-	-	-	5,562,207	5,562,207	(5,562,207)	-	-
Total revenue, gains, and other support	$ 221,456,610	$ 135,013,509	$ 83,904,845	$ 75,138,158	$ 33,263,077	$ 548,776,199	$ (2,326,967)	$ -	$ 546,449,232

See accompanying notes to the consolidated fir