



# Population Services International

## Consolidated Financial Statements and Supplemental Schedules Years Ended December 31, 2016 and 2015

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

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Consolidated Financial Statements and  
Supplemental Schedules  
Years Ended December 31, 2016 and 2015

# Population Services International

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## Independent Auditor's Report

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Population Services International (PSI)**, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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



### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the **Population Services International** as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Other Information*

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

*BDO USA, LLP*

June 30, 2017

**Consolidated  
Financial Statements**

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# Population Services International

## Consolidated Statements of Financial Position

December 31,	2016	2015
<b>Assets</b>		
Cash and cash equivalents (notes 2c and 3)	\$ 117,170,220	\$ 192,923,434
Restricted cash (note 2d)	-	7,000
Funds held for others (note 2m)	2,262,389	9,597,140
Investments (notes 2f and 5)	20,483,089	20,121,531
Trade receivables, net (notes 2g and 6)	3,900,247	3,239,843
Grants and contracts receivable, net (notes 2h and 7)	73,377,087	59,330,656
Inventory (note 2i)	76,510,467	89,378,790
Advances, prepaid expenses, and other assets (note 2j)	57,493,014	53,118,312
Contributions receivable (notes 2q and 8)	4,866,727	3,850,250
Due from independent network members (note 2y)	4,480,658	4,494,661
Property and equipment, net (notes 2k, 9, 13, and 14)	44,602,847	45,961,450
<b>Total assets</b>	<b>\$ 405,146,745</b>	<b>\$ 482,023,067</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses (note 13)	32,790,518	\$ 28,428,014
Accrued wages and benefits (note 12)	24,754,354	24,876,673
Deferred grants and fees (notes 2r and 7)	143,107,732	197,495,508
Deferred commodities (note 2i)	69,983,570	84,766,822
Deferred program income (note 2s)	32,955,154	39,247,325
Funds held for others (note 2m)	2,262,389	9,597,140
Bonds payable (note 15)	41,271,931	42,435,697
<b>Total liabilities</b>	<b>347,125,648</b>	<b>426,847,179</b>
<b>Commitments and contingencies (notes 2e, 12, 13, 14, 15 and 17)</b>		
<b>Net assets</b>		
Unrestricted (note 2n)	47,920,432	44,319,500
Temporarily restricted (notes 2n and 10)	10,089,478	10,845,201
Permanently restricted (note 2n)	11,187	11,187
<b>Total net assets</b>	<b>58,021,097</b>	<b>55,175,888</b>
<b>Total liabilities and net assets</b>	<b>\$ 405,146,745</b>	<b>\$ 482,023,067</b>

*See accompanying notes to the consolidated financial statements.*

# Population Services International

## Consolidated Statements of Activities

For the year ended December 31,

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and other support:								
Grants, fees, program income, donated commodities and other support from:								
U.S. government	\$ 181,878,827	\$ -	\$ -	\$ 181,878,827	\$ 229,104,755	\$ -	\$ -	\$ 229,104,755
Non-U.S. governments	107,572,295	-	-	107,572,295	136,638,773	-	-	136,638,773
International organizations	212,712,827	-	-	212,712,827	169,377,457	-	-	169,377,457
Foundations and corporations	77,880,894	-	-	77,880,894	83,362,077	-	-	83,362,077
Other	27,484,244	-	-	27,484,244	28,870,220	-	-	28,870,220
Contributions (note 2q)	872,073	6,698,509	-	7,570,582	517,479	5,780,653	-	6,298,132
Total grants, fees, program income, donated commodities, and other support	608,401,160	6,698,509	-	615,099,669	647,870,761	5,780,653	-	653,651,414
Net rental gain (note 14)	158,573	-	-	158,573	7,083	-	-	7,083
Investment return (note 5)	1,074,543	-	-	1,074,543	121,063	-	-	121,063
Net assets released from restrictions (note 10)	7,454,232	(7,454,232)	-	-	1,021,161	(1,021,161)	-	-
Total revenue, gains, and other support	617,088,508	(755,723)	-	616,332,785	649,020,068	4,759,492	-	653,779,560
Expenses:								
Program services								
Malaria	221,327,379	-	-	221,327,379	241,573,065	-	-	241,573,065
Family planning/HIV	235,258,244	-	-	235,258,244	278,637,999	-	-	278,637,999
Other services	110,528,490	-	-	110,528,490	87,829,594	-	-	87,829,594
Total program services	567,114,113	-	-	567,114,113	608,040,658	-	-	608,040,658
Management and general	44,691,408	-	-	44,691,408	40,907,648	-	-	40,907,648
Fundraising	1,734,982	-	-	1,734,982	3,827,726	-	-	3,827,726
Total expenses	613,540,503	-	-	613,540,503	652,776,032	-	-	652,776,032
Change in net assets before foreign currency gain (loss)	3,548,005	(755,723)	-	2,792,282	(3,755,964)	4,759,492	-	1,003,528
Foreign currency transaction gain (loss) (note 2p)	588,646	-	-	588,646	(8,360,609)	-	-	(8,360,609)
Foreign currency translation loss (note 2p)	(535,719)	-	-	(535,719)	(612,233)	-	-	(612,233)
Change in net assets	3,600,932	(755,723)	-	2,845,209	(12,728,806)	4,759,492	-	(7,969,314)
Net assets, beginning of year	44,319,500	10,845,201	11,187	55,175,888	57,048,306	6,085,709	11,187	63,145,202
Net assets, end of year	\$ 47,920,432	\$ 10,089,478	\$ 11,187	\$ 58,021,097	\$ 44,319,500	\$ 10,845,201	\$ 11,187	\$ 55,175,888

See accompanying notes to the consolidated financial statements.



# Population Services International

## Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,845,209	\$ (7,969,314)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	2,144,220	2,390,983
Change in allowance for receivables	94,243	468,754
Bad debt expense	1,498,257	1,856,780
Inventory write-off	1,069,876	1,013,616
Net (gain) loss on investments	(191,628)	708,990
Loss on disposal of property and equipment	90,182	30,725
Stock received in lieu of cash payment	(36,093,906)	(45,180,423)
Change in assets and liabilities		
Funds held for others	7,334,751	(1,770,396)
Trade receivables	(783,587)	8,117
Grants and contracts receivable	(15,036,095)	(32,520,240)
Inventory	11,798,447	(5,731,328)
Advances, prepaid expenses, and other assets	(5,128,104)	(309,372)
Contributions receivable	(1,016,477)	(3,518,176)
Due from independent network members	(65,997)	(52,631)
Accounts payable and accrued expenses	4,112,451	11,116,301
Accrued wages and benefits	(122,319)	1,132,972
Deferred grants and fees	(54,387,776)	48,882,267
Deferred commodities	(14,783,252)	4,518,478
Deferred program income	(6,292,171)	(2,806,925)
Funds held for others	(7,334,751)	1,770,396
Net cash (used in) operating activities	(110,248,427)	(25,960,426)
Cash flows from investing activities:		
Purchase of property and equipment	(522,050)	(355,732)
Purchase of investments	(65,157)	(598,869)
Proceeds from sale and maturity of investments	35,989,133	45,993,444
Net cash provided by investing activities	35,401,926	45,038,843
Cash flows from financing activities:		
Decrease (increase) in restricted cash	7,000	1,715,697
Repayments on bonds payable	(1,163,766)	(1,040,464)
Increase (decrease) in capital lease obligations	250,053	(186,073)
Net cash (used in) provided by financing activities	(906,713)	489,160
Net (decrease) increase in cash and cash equivalents	(75,753,214)	19,567,577
Cash and cash equivalents, beginning of year	192,923,434	173,355,857
Cash and cash equivalents, end of year	\$ 117,170,220	\$ 192,923,434
Supplemental non-cash operating activities:		
Accounts payable to related party applied against due from independent network members (Note 11)	\$ 5,470,831	\$ 3,997,411
Supplemental cash flow disclosure:		
Interest paid	\$ 249,762	\$ 165,007

See accompanying notes to the consolidated financial statements.

# Population Services International

## Notes to Consolidated Financial Statements

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### 1. Organization and Programs

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

**Malaria:** PSI supports efforts to increase access to effective malaria prevention and treatment interventions, and works closely with ministries of health, primarily in Africa and Asia, to scale up proven interventions and sustain coverage over time. These interventions include: delivery of long-lasting insecticide treated nets, long-lasting insecticide retreatment tablets, artemisinin-based combination therapies, rapid diagnostic tests, strategic behavior change communications and applied operational research. PSI uses multiple channels to deliver these interventions, including the public and private sectors and community case management strategies. PSI works in 38 malaria endemic countries, including 24 in Sub Saharan Africa.

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

# Population Services International

## Notes to Consolidated Financial Statements

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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 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 consolidated financial statements, include locally registered branch offices and nongovernmental organizations (NGOs), as well as locally incorporated for-profit entities and charitable trusts, as appropriate. These subsidiaries and affiliates operating in foreign countries are subject to the tax laws of the respective countries in which they operate.

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

## 2. Summary of Significant Accounting Policies

### (a) *Basis of Accounting*

The accompanying consolidated financial statements of PSI are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting, whereby revenue and support are recognized when earned and expenses are recognized when incurred.

### (b) *Principles of Consolidation*

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

The consolidated financial statements include operations in the following countries:

Country	Legal Name of Entity <sup>1</sup>
Angola	<i>PSI Angola</i>
Belize	<i>Organización Panamericana de Mercadeo Social (PASMO) Belize</i>
Benin	<i>Association Beninoise pour le Marketing Social (ABMS)</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 Sante Familiale (ASF)</i>
Dominican Republic	<i>Society for Family Health - Dominican Republic</i>

# Population Services International

## Notes to Consolidated Financial Statements

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Dominican Republic	<i>PSI 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>
Ethiopia	<i>PSI Ethiopia</i>
Ghana	<i>PSI Ghana</i>
Guatemala	<i>Organización Panamericana de Mercadeo Social Guatemala (PASMO A.C.)</i>
Guatemala	<i>Organización Panamericana de Mercadeo Social, Sociedad Anónima (PASMO S.A.)</i>
Guinea	<i>PSI Guinea</i>
Haiti	<i>Organisation Haitienne de Marketing Social pour la Sante (OHMaSS)</i>
Honduras	<i>Organización Panamericana de Mercadeo Social de Honduras, Sociedad Anónima de Capital Variable (PASMO DE EL SALVADOR S.A. DE CV)</i>
India	<i>PSI India</i>
India	<i>PSI India IPL</i>
Jamaica	<i>Population Services Jamaica (PSJ)</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)</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>
Pakistan	<i>PSI Pakistan</i>
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>

# Population Services International

## Notes to Consolidated Financial Statements

Swaziland	<i>PSI Swaziland</i>
Tajikistan	<i>PSI Tajikistan</i>
Tanzania	<i>Social Marketing Trust of Tanzania (operates as PSI Tanzania)</i>
Thailand	<i>PSI Thailand Foundation*</i>
Togo	<i>PSI Togo*</i>
Trinidad & Tobago	<i>PSI Trinidad</i>
	<i>Programme for Accessible Health, Communication and Education (PACE)</i>
Uganda	<i>PSI Vietnam</i>
Vietnam	<i>Society for Family Health Zambia</i>
Zambia	<i>PSI Zimbabwe</i>
Zimbabwe	

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

\* PSI Thailand Foundation and PSI Togo ceased operations during 2015.

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

<b>Country</b>	<b>Legal Name of Entity</b>
Bangladesh	<i>Social Marketing Company (SMC)</i>
Cambodia	<i>Population Services Khmer (PS Khmer)</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>
Romania	<i>Social Marketing Solutions Romania (SMS Romania)</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>

### (c) *Cash and Cash Equivalents*

Cash and cash equivalents were \$117,170,220 and \$192,923,434 at December 31, 2016 and 2015, respectively and include \$2,285,600 and \$1,871,851 of money market accounts and liquid investments with original maturities of three months or less.

### (d) *Restricted Cash*

Restricted cash consists of funds deposited in a non-interest bearing account in connection with letters of credit that support existing PSI contracts. PSI held no restricted cash at December 31, 2016. Restricted cash was \$7,000 at December 31, 2015.

### (e) *Financial Risks*

PSI places its cash and cash equivalents with high credit quality financial institutions that are federally insured for \$250,000 under the Federal Depository Insurance Corporation Act (FDIC). Amounts held in excess of the FDIC limits were \$92,220,865 and \$173,532,482 at December 31, 2016 and 2015, 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.

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## Notes to Consolidated Financial Statements

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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.

### **(f) Investments**

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

Investments in equity and fixed income mutual funds 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.

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.

### **(g) Trade Receivables**

Trade receivables arise from the sale of commodities. These balances are receivable in less than one year and are carried at undiscounted cost, less an allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon management's judgment including such factors as prior collection history. Allowance for doubtful accounts totaled \$471,397 and \$522,872 for the years ended December 31, 2016 and 2015, respectively.

### **(h) Grants and Contracts Receivable**

PSI receives funding from grants and contracts received from U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through the performance of program activities and (or) from incurring qualifying expenses for particular programs. These balances are receivable in less than one year and are carried at undiscounted cost, less an allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon management's judgment including such factors as prior collection history. Allowance for doubtful accounts totaled \$3,818,647 and \$3,752,929 for the years ended December 31, 2016 and 2015, respectively.

### **(i) Inventory**

PSI carries an inventory of products, such as condoms, insecticide treated nets (ITNs), family planning products and oral rehydration salts (ORS), held for distribution or resale. Inventory is carried at the lower of cost or market value using the first expired, first out method. These products are either purchased from vendors or received as contributions from grantors and totaled \$76,510,467 and \$89,378,790 at December 31, 2016 and 2015 respectively. Inventory as of December 31, 2016 and 2015 does not include obsolete inventory. In countries where PSI unrestricted enterprise funds have been established, PSI purchases inventory from vendors using these unrestricted funds for the resale of the products. These products, carried at cost,

# Population Services International

## Notes to Consolidated Financial Statements

represent \$6,039,382 and \$4,395,714 of total inventory at December 31, 2016 and 2015, respectively.

PSI also maintains inventory either received directly from grantors as donated commodities or purchased using funds received from grantors. Inventory from grantors is carried at cost and expensed on a first-expired, first-out basis when distributed. At December 31, 2016 and 2015, these products represent \$70,471,085 and \$84,983,076 of total inventory, respectively. A deferred commodity balance exists for all inventory purchased or donated that has not yet been distributed. Deferred commodities totaled \$69,983,570 and \$84,766,822 for the years ended December 31, 2016 and 2015, respectively.

### *(j) Advances, Prepaid Expenses, and Other Assets*

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

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

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Advances to third parties and others	\$ 46,199,511	\$ 44,155,138
Prepaid expenses	7,960,722	7,858,830
Other assets	3,332,781	1,104,344
	<b>\$ 57,493,014</b>	<b>\$ 53,118,312</b>

### *(k) 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 building is 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.

### *(l) Impairment of Long Lived Assets*

PSI reviews asset carrying amounts annually in addition to whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, charged to the consolidated statement of activities, to its current fair value. No impairment loss has been recognized at December 31, 2016 and 2015.

# Population Services International

## Notes to Consolidated Financial Statements

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### **(m) Funds Held for Others**

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

As part of PSI's procurement service agent arrangements and in accordance with ASC Topic No. 958-605 "*Not-for-Profit Entities Revenue Recognition*" (ASC 958-605), PSI maintains, in an agency role, a cash account that is reserved for procurements on behalf of other organizations in purchasing commodities for use in developing countries. As of December 31, 2016 and 2015, the cash balance reserved for procurement of \$2,262,389 and \$9,597,140, respectively was recorded in funds held for others as an asset and corresponding liability.

### **(n) Net Assets**

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

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

### **(o) Financial Instruments and Credit Risk**

Financial instruments which potentially subject PSI to concentrations of credit risk consist principally of investments held at credit worthy financial institutions. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to grants and contracts receivable is mitigated by PSI, by creating allowances for uncollectible accounts and by the fact that most of the receivable balances are either from government grants or from donors with long standing relationships with PSI. 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 66% and 63% of PSI's revenues in 2016 and 2015, respectively, result from grants and contracts with three parties, including the U.S. government. At December 31, 2016 and 2015, approximately 61% and 30% of grants and contracts receivables were from these three parties.



# Population Services International

## Notes to Consolidated Financial Statements

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### (p) *Foreign Currency Translation*

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

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

For revenue and expense items, translation is performed using the monthly average exchange rate of the previous month. Realized gains and losses related to the monthly translation are reported as foreign currency transaction gains (losses) within the consolidated statement of activities. Transaction gains totaled \$588,646 for the year ended December 31, 2016 while transaction losses totaled \$8,360,609 for the year ended December 31, 2015 primarily due to volatility in the Euro and 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>	<b>2016</b>	<b>2015</b>
Cumulative translation adjustment, beginning of year	\$ (17,366,585)	\$ (16,754,352)
Translation loss	(535,719)	(612,233)
Cumulative translation adjustments, end of year	\$ (17,902,304)	\$ (17,366,585)

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.

### (q) *Contributions Revenue and Receivable*

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

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

# Population Services International

## Notes to Consolidated Financial Statements

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### *(r) Grants and Contracts*

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

PSI's U.S. government revenues are derived 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.

### *(s) 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 local communities in those countries where the programs operate.

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

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

### *(t) 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

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revenue. PSI received \$58,121,949 and \$99,701,884 of donated commodities, equipment, and services for the years ended December 31, 2016 and 2015, respectively.

Additionally, a substantial number of volunteers have donated 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 consolidated financial statements since the criteria for recognition is not met in accordance with ASC 958-605.

### *(u) Expenses*

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

### *(v) Functional Expenses*

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

### *(w) Income Taxes*

PSI is recognized as exempt from federal income taxes, other than net unrelated business income, under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation under Section 509(a)(1). PSI incurs unrelated business income in connection with the operations of its wholly owned for profit subsidiary Prudence. For the year ended December 31, 2016, PSI did not make payments towards its estimated tax liability. For the year ended December 31, 2015, PSI paid approximately \$232,000 respectively related to its estimated tax liability which resulted in an overpayment of actual taxes due which was applied towards the 2016 estimated tax liability. In addition, some of the foreign operations of PSI are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

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

PSI has adopted the provisions of ASC Topic No. 740-10, *Income Taxes* (ASC 740-10). Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10 had no impact on PSI's consolidated financial statements. PSI does not believe there are any unrecognized tax benefits that should be recorded. For the years ended December 31, 2016 and 2015, there were no interest or penalties recorded or included in the consolidated statements of activities. PSI is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

There were no material interest or penalties recorded for the years ended December 31, 2016 and 2015, respectively.

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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, 2016, there were certain tax positions for which a liability was recorded related to international tax matters.

(x) *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.

(y) *Due from Independent Network Members*

Effective January 1, 2011, SC Social Marketing Solutions Romania (SMS Romania) became an independently governed organization. In accordance with the accounting guidance on consolidation, SMS Romania was deconsolidated for financial reporting purposes as of the effective date. At the time of deconsolidation, SMS Romania had a net intercompany balance due to PSI of approximately one million dollars which was reclassified to Due from Unconsolidated Affiliates and the long term note receivable was payable over ten years. During 2013 PSI agreed to defer the amount due and loaned SMS Romania an additional \$200,000. A revised payment schedule was made effective with a maturity date of December 31, 2021. Payments from SMS Romania totaled \$10,000 for the year ended December 31, 2016. No payments were received on the note receivable during the year ended December 31, 2015. An allowance for doubtful accounts has been established based upon management’s judgment for \$756,000 and \$676,000 as of December 31, 2016 and 2015, respectively. The balance, net of the allowance, of the long term note receivable as of December 31, 2016 and 2015 was \$79,458 and \$169,458, respectively.

Effective January 1, 2012, Society of Family Health Nigeria (SFH Nigeria) became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of January 1, 2012. As of the date of de-consolidation, SFH Nigeria’s inter-company balance due to PSI was approximately \$13.8 million. On September 10, 2012, PSI and SFH Nigeria entered into an agreement to convert approximately \$6.3 million of the inter-company balance to a long-term note receivable payable over 4 years with a maturity date of June 30, 2015. The remaining inter-company balance of approximately \$7.5 million was written off as a loss on deconsolidation in the Consolidated Statements of Activities as of December 31, 2011 and 2012 in the amounts of \$4.9 million and \$2.6 million, respectively. On June 3, 2014, the repayment terms of the long term note receivable were modified extending the maturity date until December 31, 2016. During 2016 and 2015, \$848,107 and \$1.0 million, respectively, of program expenses incurred each year in connection with a sub-recipient agreement with PSI was applied as a reduction to the long-term note receivable. The balance of the long-term

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note receivable was paid in full as of December 31, 2016. The balance was \$848,107, as of December 31, 2015.

Effective January 1, 2013, PSI Cambodia transitioned operations to Population Services Khmer (PS Khmer) in Cambodia, an independent entity that is not consolidated in these consolidated financial statements. PSI representatives are board members on the PS Khmer governing Board of Directors and supports PS Khmer management. PS Khmer sold commodities on behalf of PSI programs and PS Khmer owed PSI \$441,234 and \$432,035 for the years ended December 31, 2016 and 2015, respectively, in connection with the sale of these goods.

Effective, January 1, 2014 PSI Kenya transitioned operations to Population Services Kenya (PS Kenya) in Kenya, an independently governed organization. In accordance with the accounting guidance on consolidation, PS Kenya was de-consolidated for financial reporting purposes as of the effective date. During the years ended December 31, 2016 and 2015, PS Kenya sold commodities on behalf of PSI programs and PS Kenya owed PSI \$3,209,967 and \$3,045,061 for the years ended December 31, 2016 and 2015, respectively, in connection with the sale of these goods. In addition, PSI loaned PS Kenya an additional \$750,000 during 2016. The balance of this short-term notes receivable was \$750,000 as of December 31, 2016.

### **(z) Accounting Pronouncements to be 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 related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for PSI's year ending December 31, 2018. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently determining the impact that adopting this guidance will have on PSI's consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update establishes a comprehensive revenue recognition standard for virtually all industries including those that previously followed industry-specific guidance. The update requires that revenue should be recognized to depict the transfer of promised goods and 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. The original effective date for ASU 2014-09 would have required PSI to adopt the update in fiscal year 2018. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date*, which deferred the effective date for one year. Accordingly, the guidance is now effective for PSI's year ending December 31, 2019. Since the issuance of ASU 2015-14, the FASB has issued several updates intended to improve an organization's understanding and application of the revenue recognition guidance contained within ASU 2014-09. These updates include:

- In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This update (a) requires an organization to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or service) to be provided to the customer, (b) illustrates how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods and services to a customer, and (c) clarifies that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer and provides more specific guidance on how the indicators should be considered.
- In April 2016, the FASB Issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing*. This update provides additional implementation guidance regarding identifying performance obligations and the licensing of intellectual property.
- In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients*. This update clarifies issues regarding assessing collectability, presentation of sales taxes collected from customers, noncash consideration, and completed contracts and contract modifications when an organization adopts ASU 2014-09.

Management continues to evaluate the potential impact of these updates 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

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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.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update requires organizations to classify transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities, in the statement of cash flows. The update also clarifies how organizations should present the flow of cash into and out of a bank account that holds restricted cash. The guidance is effective for PSI's year ending December 31, 2018. Presently, management does not anticipate that the adoption of this update will have a material effect on PSI's 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 \$15,936,356 and \$15,404,808 in local currencies at December 31, 2016 and 2015, respectively, and \$8,511,999 and \$10,410,018 in U.S. dollars, British pounds, or Euros at December 31, 2016 and 2015, respectively are maintained at financial institutions in foreign countries. For financial reporting purposes, the year-end foreign currency balances are translated into U.S. dollars using current exchange rates.

### **4. Fair Market Value of Financial Instruments**

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

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

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of

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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 as of December 31, 2016 and 2015, respectively. 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 investments measured at fair value on a recurring basis by hierarchy level at December 31, 2016 and 2015, respectively:

	Level 1	2016 Level 2	Level 3
Equity mutual funds	\$ 5,723,293	\$ -	\$ -
Fixed income mutual funds	14,759,796	-	-
<b>Total investments</b>	<b>\$ 20,483,089</b>	<b>\$ -</b>	<b>\$ -</b>
	Level 1	2015 Level 2	Level 3
Equity mutual funds	\$ 5,520,533	\$ -	\$ -
Fixed income mutual funds	14,600,998	-	-
<b>Total investments</b>	<b>\$ 20,121,531</b>	<b>\$ -</b>	<b>\$ -</b>

The following section describes the valuation methodologies use by PSI to measure its other financial assets and liabilities at fair value:

**Trade receivables, contribution receivables, grants and contracts receivable, accounts payable and accrued expenses:** The estimated fair values of PSI's short-term financial instruments, including trade, contributions and grants receivables and accounts payable and accrued expenses arising in



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the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

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

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:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Trade receivables, net	\$ 3,900,247	\$ 3,900,247	\$ 3,239,843	\$ 3,239,843
Contribution receivables	4,866,727	4,866,727	3,850,250	3,850,250
Grants and contract receivables, net	73,377,087	73,377,087	59,330,656	59,330,656
Accounts payable and accrued expenses	32,790,518	32,790,518	28,428,014	28,428,014
Bonds payable	41,271,931	41,271,931	42,435,697	42,435,697
Total financial instruments	\$ 156,206,510	\$ 156,206,510	\$ 137,284,460	\$ 137,284,460

## 5. Investments

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

	2016	2015
Equity mutual funds	\$ 5,723,293	\$ 5,520,533
Fixed income mutual funds	14,759,796	14,600,998
Total investments	\$ 20,483,089	\$ 20,121,531

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

	2016	2015
Interest and dividend income	\$ 882,915	\$ 830,053
Realized (loss)	(106,806)	(380,360)
Unrealized gain (loss)	298,434	(328,630)
Total investment return	\$ 1,074,543	\$ 121,063

Investment management fees for the years ended December 31, 2016 and 2015 were not considered material by management.

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### 6. Trade Receivables

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

	2016	2015
Trade receivables	\$ 4,371,644	\$ 3,762,715
Less allowance for doubtful accounts	(471,397)	(522,872)
Total trade receivables, net	\$ 3,900,247	\$ 3,239,843

### 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:

	2016	2015
Billed	\$ 16,064,786	\$ 17,477,560
Unbilled	61,130,948	45,606,025
	77,195,734	63,083,585
Less allowance for doubtful accounts	(3,818,647)	(3,752,929)
Total grants and contracts receivable, net	\$ 73,377,087	\$ 59,330,656
U.S. government	\$ 23,919,883	\$ 16,432,213
Non-U.S. governments	19,964,908	22,488,653
International organizations	28,641,080	15,789,137
Foundations and corporations	4,669,863	8,373,582
	77,195,734	63,083,585
Less allowance for doubtful accounts	(3,818,647)	(3,752,929)
Total grants and contracts receivable, net	\$ 73,377,087	\$ 59,330,656

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:

	2016	2015
U.S. government	\$ 2,917,199	\$ 8,057,707
Non-U.S. governments	22,436,397	23,045,853
International organizations	66,004,191	110,368,820
Foundations and corporations	51,749,945	56,023,128
Total deferred grants and fees	\$ 143,107,732	\$ 197,495,508

# Population Services International

## Notes to Consolidated Financial Statements

### 8. Contributions Receivable

Unconditional promises to give at December 31, 2016 and 2015 of \$4,866,727 and \$3,850,250, respectively and considered fully collectible within three years. As of December 31, 2016 and 2015 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, 2016 or 2015.

### 9. Property and Equipment

Property and equipment consists of the following at December 31:

	2016	2015
Land	\$ 24,829,978	\$ 24,829,978
Building	23,362,969	23,342,910
Leasehold improvements	5,891,190	5,895,870
Equipment held under capital leases	652,467	613,363
Furniture and equipment	8,075,825	8,009,045
	62,812,429	62,691,166
Less accumulated depreciation	(18,209,582)	(16,729,716)
Total property and equipment, net	\$ 44,602,847	\$ 45,961,450

Depreciation and amortization expense totaled \$2,144,220 and \$2,390,983 for the years ended December 31, 2016 and 2015, 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:

	2016	2015
HIV/AIDS	\$ 2,122,606	\$ 3,012,033
Family planning and maternal health	6,710,492	6,183,518
Other program uses or locations	1,256,380	1,649,650
Total temporarily restricted net assets	\$ 10,089,478	\$ 10,845,201

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## Notes to Consolidated Financial Statements

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

	2016	2015
HIV/AIDS	\$ 2,944,271	\$ 206,387
Family planning and maternal health	2,332,925	598,975
Other program uses or locations	2,177,036	215,799
Total temporarily restricted net assets released from restriction	\$ 7,454,232	\$ 1,021,161

### 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 2016 and 2015, PSI paid PSI/E \$1,179,124 and \$999,597, respectively in sub-award expenses. As of December 31, 2016 and 2015, PSI/E owed PSI \$140,031 and \$109,188 in relation to advances received from PSI that were not spent as of year-end.

PSI has entered into certain transactions with Greenstar Social Marketing Pakistan (Guarantee) Limited (Greenstar), an organization of which PSI representatives are Board members of Greenstar and a member of Greenstar's Board is a board member on the PSI governing Board of Directors. During 2016 and 2015, PSI paid Greenstar approximately \$1.5 million and \$2.1 million, respectively in sub-award expenses. PSI did not procure goods and services on Greenstar's behalf during 2016. PSI directly procured approximately \$173,000 in goods and services on Greenstar's behalf in relation to sub-award expenses during 2015.

Effective January 1, 2012, SFH Nigeria became an independently governed organization. In accordance with the accounting guidance on consolidation, SFH Nigeria was de-consolidated for financial reporting purposes as of the effective date. PSI representatives are Board members of SFH Nigeria and a SFH Nigeria representative is a board member on the PSI governing Board of Directors. For the years ended December 31, 2016 and 2015, PSI paid SFH Nigeria approximately \$3.8 million and \$2.6 million, respectively, and applied an additional \$848,107 and \$1.0 million, respectively, to the long-term note receivable for sub-award expenses due to SFH Nigeria. Additionally, SFH Nigeria paid PSI approximately \$288,000 and \$500,000 for sub-award expenses due to PSI. SFH Nigeria owed PSI \$104,620 and \$71,426 for the years ended December 31, 2016 and 2015, 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. PSI paid PS Khmer approximately \$3.1 million and \$4.0 million, respectively, for the years ended December 31, 2016 and 2015, in sub-award expenses. In addition, PS Khmer sells commodities on behalf of PSI. During 2016 and 2015, PS Khmer sold approximately \$1.1 million and \$1.0 million, respectively, for PSI programs of which approximately \$1.1 million and \$880,000, respectively, was used to fund sub-award expenses with PS Khmer and an additional \$441,234 and \$432,035 was owed to PSI at December 31, 2016 and 2015, respectively.

# Population Services International

## Notes to Consolidated Financial Statements

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Effective, January 1, 2014 PSI Kenya transitioned operations to Population Services Kenya (PS Kenya) in Kenya, an independent entity that is not consolidated in these consolidated financial statements. PSI representatives are also on the PS Kenya governing Board of Directors and supports PS Kenya management. Also, a PS Kenya representative is a board member on the PSI governing Board of Directors. PSI paid PS Kenya approximately \$9.6 million and \$22.9 million for the years ended December 31, 2016 and 2015, respectively, in sub-award expenses and loaned PS Kenya an additional \$750,000 during 2016. In addition, PS Kenya sells commodities on behalf of PSI. During 2016 and 2015, PS Kenya sold PSI commodities totaling, approximately \$3.7 million and \$3.3 million, respectively, for PSI programs of which approximately \$3.5 million and \$2.1 million, respectively, was used to fund sub-award expenses with PS Kenya and an additional approximately \$3.2 million and \$3.0 million was owed to PSI at December 31, 2016 and 2015, respectively.

### 12. Accrued Wages and Benefits

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

Pension expense for all pension plans aggregated \$2,461,811 and \$2,136,345, respectively for the years ended December 31, 2016 and 2015.

### 13. Lease Commitments

PSI is obligated under capital leases for equipment that expire at various dates during the next five years. At December 31, 2016 and 2015, the gross amount of equipment and related accumulated amortization recorded under capital leases were as follows:

	2016	2015
Equipment	\$ 652,467	\$ 613,363
Less accumulated amortization	(207,892)	(401,504)
Total equipment under capital leases, net	\$ 444,575	\$ 211,859

Amortization expense totaled \$125,853 and \$165,954 for the years ended December 31, 2016 and 2015, respectively.

# Population Services International

## Notes to Consolidated Financial Statements

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

*Years ending December 31,*

2017	\$ 197,478
2018	169,007
2019	140,536
2020	140,536
2021	20,918
Total minimum lease payments	668,475
Less amount representing interest	(188,926)
Obligations under capital leases, included in accounts payable and accrued expenses as of December 31, 2016	\$ 479,549

### 14. Lease Rental Income

PSI occupies approximately 48% of its headquarters building, and its portion of the occupancy costs is included in management and general expenses. PSI leases the remaining commercial space to various third parties. The terms of the leases range from 2 to 10 years, including renewal options.

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

	2016	2015
Gross building rental income	\$ 5,442,387	\$ 4,829,912
PSI occupancy rent	(2,660,153)	(2,342,551)
Net revenue	2,782,234	2,487,361
Gross building expenses	4,400,474	4,350,602
PSI expense apportionment	(1,776,813)	(1,870,324)
Net expense	2,623,661	2,480,278
Net rental income	\$ 158,573	\$ 7,083

# Population Services International

## Notes to Consolidated Financial Statements

Future minimum lease income is as follows:

*Years ending December 31,*

2017	\$ 2,020,277
2018	2,494,138
2019	1,459,755
2020	1,337,986
2021	1,296,772
Thereafter	4,601,295
Total future minimum lease income	\$ 13,210,223

### 15. Bonds Payable

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

#### Loan Agreement

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

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

Under the Deed of Trust Note, monthly payments began on December 1, 2012 and a separate annual payment was made beginning December 1, 2013 and continuing until maturity on November 15, 2019 when the remaining balance of \$10,174,349 is to be paid. Interest is payable at the beginning of each month effective December 1, 2007 based on the LIBOR rate plus 0.45%. The interest rate was 1.07% and 0.69% as of December 31, 2016 and 2015, respectively. The Deed of Trust note agreement is secured by the land, buildings and improvements of PSI's headquarters.

# Population Services International

## Notes to Consolidated Financial Statements

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### 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 0.80% and 0.09% at December 31, 2016 and 2015, 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, 2016, PSI was in compliance with all of these covenants.

As of December 31, 2016, the aggregate maturities of the long-term bonds, including the payments under the terms described above, are as follows:

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2017	\$ 1,188,300
2018	1,214,133
2019	10,669,498
2020	-
2021	-
Thereafter	28,200,000
<hr/>	
Total payments	\$ 41,271,931

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Interest expense on the Loan Agreement and the Bonds for the years ended December 31, 2016 and 2015 was \$265,109 and \$163,399, respectively, of which \$26,392 and \$11,045, respectively is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

### 16. Line-of-Credit

PSI has a line-of-credit of \$20 million that is secured by PSI's investments, carries an interest rate of LIBOR plus 0.95%. During 2014, the secured investments were released as collateral and PSI is not entitled to obtain advances until the collateral is reinstated. The line-of-credit was terminated on January 31, 2015.



# Population Services International

## Notes to Consolidated Financial Statements

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### 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 year ended December 31, 2016 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 30, 2017 which is the date the consolidated financial statements were available to be issued. No subsequent events were noted that required adjustment to the consolidated financial statements.

## Supplemental Schedules

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# Population Services International

## Consolidated Schedule of Functional Expenses and Allocation of Indirect Expenses

Year ended December 31, 2016

(with summarized comparative financial information for the year ended December 31, 2015)

	Program Services				Management and General	Fundraising	Total 2016	Total 2015
	Malaria	Family Planning / HIV	Other Services	Total				
U.S. based and residential project advisor salaries	\$ 4,284,297	\$ 10,039,241	\$ 5,134,370	\$ 19,457,908	\$ 16,705,692	\$ 637,963	\$ 36,801,563	\$ 32,188,369
Fringe benefits	1,451,348	3,400,893	1,739,313	6,591,554	5,659,214	216,116	12,466,884	12,032,407
Salaries and fringe benefits	5,735,645	13,440,134	6,873,683	26,049,462	22,364,906	854,079	49,268,447	44,220,776
Local staff salaries and fringe benefits	15,722,723	52,134,735	15,881,696	83,739,154	(36,466)	-	83,702,688	82,911,598
Allowances	2,846,326	4,192,819	2,885,773	9,924,918	586,720	20	10,511,658	10,017,009
Total salaries and related expenses	24,304,694	69,767,688	25,641,152	119,713,534	22,915,160	854,099	143,482,793	137,149,383
Travel	13,240,431	15,313,530	5,590,114	34,144,075	2,249,731	222,874	36,616,680	37,288,603
Consultants and contracts	9,556,099	12,140,716	6,548,553	28,245,368	6,109,509	253,319	34,608,196	35,829,347
Furniture and equipment	2,088,225	8,426,477	2,114,779	12,629,481	595,639	79,778	13,304,898	9,440,802
Commodities	110,674,168	46,229,024	18,120,336	175,023,528	-	-	175,023,528	216,247,836
Subrecipients	23,754,858	45,738,368	35,752,672	105,245,898	-	-	105,245,898	113,316,633
Promotions and advertising	11,008,544	13,525,869	6,828,778	31,363,191	4,358	772	31,368,321	40,159,509
Office costs	9,289,631	12,191,665	2,959,379	24,440,675	3,499,268	138,091	28,078,034	27,332,094
Other direct and indirect costs	17,386,870	11,886,317	5,668,691	34,941,878	8,715,175	10,882	43,667,935	33,620,842
Total expenses before depreciation	221,303,520	235,219,654	109,224,454	565,747,628	44,088,840	1,559,815	611,396,283	650,385,049
Depreciation and amortization	23,859	38,590	1,304,036	1,366,485	777,735	-	2,144,220	2,390,983
Total expenses before allocation of indirect costs	221,327,379	235,258,244	110,528,490	567,114,113	44,866,575	1,559,815	613,540,503	652,776,032
Allocation of indirect costs to fundraising	-	-	-	-	(175,167)	175,167	-	-
Total expenses per financial statements	221,327,379	235,258,244	110,528,490	567,114,113	44,691,408	1,734,982	613,540,503	652,776,032
Allocation of indirect costs to program services	10,701,969	17,907,793	7,784,853	36,394,615	(36,394,615)	-	-	-
Total expenses after allocations	\$ 232,029,348	\$ 253,166,037	\$ 118,313,343	\$ 603,508,728	\$ 8,296,793	\$ 1,734,982	\$ 613,540,503	\$ 652,776,032

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Schedule of Revenues by Funding Source

Year ended December 31, 2016

(with summarized comparative financial information for the year ended December 31, 2015)

	Unrestricted									
	U.S. Government	Non-U.S. Governments	International Organizations	Foundations / Corporations	Other	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2016	Totals 2015
Revenue, gains, and other support:										
Grants, fees, program income, and other support:										
Grants, fees and donated commodities	\$ 178,166,407	\$ 98,521,527	\$ 210,482,840	\$ 74,919,368	\$ 3,460,407	\$ 565,550,549	\$ -	\$ -	\$ 565,550,549	\$ 609,284,489
Program income and unrestricted enterprise funds	3,712,420	9,050,768	2,229,987	2,961,526	20,326,235	38,280,936	-	-	38,280,936	37,549,883
Other	-	-	-	-	3,697,602	3,697,602	-	-	3,697,602	518,910
Contributions	-	-	-	-	872,073	872,073	6,698,509	-	7,570,582	6,298,132
Total grants, fees, donated commodities, program income, and other support	181,878,827	107,572,295	212,712,827	77,880,894	28,356,317	608,401,160	6,698,509	-	615,099,669	653,651,414
Net rental gain	-	-	-	-	158,573	158,573	-	-	158,573	7,083
Investment return	-	-	-	-	1,074,543	1,074,543	-	-	1,074,543	121,063
Net assets released from restrictions	-	-	-	-	7,454,232	7,454,232	(7,454,232)	-	-	-
Total revenue, gains, and other support	\$ 181,878,827	\$ 107,572,295	\$ 212,712,827	\$ 77,880,894	\$ 37,043,665	\$ 617,088,508	\$ (755,723)	\$ -	\$ 616,332,785	\$ 653,779,560

See accompanying notes to the consolidated financial statements.