



Population Services International

Consolidated Financial Statements, Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and OMB Circular A-133

Years Ended December 31, 2014 and 2013

Population Services International

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Years Ended December 31, 2014 and 2013

Population Services International

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

7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

Independent Auditor's Report

To the Board of Directors
Population Services International
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Population Services International (PSI), which comprise the consolidated statement of financial position as of December 31, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 PSI'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 PSI'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.

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Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses and allocation of indirect expenses, consolidated schedule of revenues by funding resources, schedule of overhead calculation, schedule of general and administrative calculation and schedule of fringe benefit rate calculation on pages 29, 30, 39, 41 and 42 respectively are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of Population Services International's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSI's internal control over financial reporting and compliance.

BDO USA, LLP

June 30, 2015

Consolidated
Financial Statements

Population Services International

Consolidated Statements of Financial Position

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

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Activities

For the year ended December 31,

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

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Statements of Cash Flows

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

See accompanying notes to the consolidated financial statements.

Population Services International

Notes to Consolidated Financial Statements

1. Organization and Programs

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

PSI's primary health area focuses include:

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

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

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

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

Population Services International

Notes to Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies

(a) *Basis of Accounting*

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

(b) *Principles of Consolidation*

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

(c) *Cash and Cash Equivalents*

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

(d) *Restricted Cash*

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

(e) *Financial Risks*

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

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

Population Services International

Notes to Consolidated Financial Statements

(f) Investments

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

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

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

(g) Trade Receivables

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

(h) Grants and Contracts Receivable

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

(i) Inventory

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

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Notes to Consolidated Financial Statements

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

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

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

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

(k) Property and Equipment

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

(l) Impairment of Long Lived Assets

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

(m) Funds Held for Others

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

Population Services International

Notes to Consolidated Financial Statements

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

(n) *Net Assets*

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

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

(o) *Financial Instruments and Credit Risk*

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

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

(p) *Foreign Currency Translation*

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

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Notes to Consolidated Financial Statements

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

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

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

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

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

(q) Contributions Revenue and Receivable

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

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

(r) Grants and Contracts

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

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

Population Services International

Notes to Consolidated Financial Statements

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

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

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

(s) Program Income and Deferred Program Income

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

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

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

(t) In-Kind Contributions

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

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

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Notes to Consolidated Financial Statements

(u) Expenses

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

(v) Functional Expenses

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

(w) Income Taxes

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

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

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

(x) Use of Estimates

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

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Notes to Consolidated Financial Statements

(y) Due from Independent Network Members

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

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

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

(z) Accounting Pronouncements to be Adopted

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

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

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606 (ASU 2010-09)* which becomes effective for nonpublic entities effective for annual periods beginning after December 15, 2018. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. PSI's management is currently evaluating the effect the provisions of ASU 2014-09 will have on PSI's consolidated financial statements.

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

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

Reclassifications

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

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Notes to Consolidated Financial Statements

3. Funds Maintained in Foreign Accounts

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

4. Fair Market Value of Financial Instruments

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

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

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

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

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

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

PSI investments consisted of equity securities and mutual funds as of December 31, 2014 and consisted of certificates of deposits, equity securities, mutual funds and U.S. government agency securities as of December 31, 2013. The following section describes the valuation methodologies used 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.

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Notes to Consolidated Financial Statements

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

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

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

5. Investments

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

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

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

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

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

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Notes to Consolidated Financial Statements

6. Trade Receivables

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

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

7. Grants and Contracts Receivable and Deferred Grants and Fees

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

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

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

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

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

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Notes to Consolidated Financial Statements

8. Contributions Receivable

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

9. Property and Equipment

Property and equipment consists of the following at December 31:

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

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

10. Temporarily Restricted Net Assets

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

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

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

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

11. Related Party Transactions

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

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

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

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

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

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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 financial statements. PSI representatives are also on the PS Kenya governing Board of Directors and supports PS Kenya management. Also, a PS Kenya representative is a board member on the PSI governing Board of Directors. PSI paid PS Kenya approximately \$19.7 million for the year ended 2014 in sub-award expenses. In addition, PS Kenya sells commodities on behalf of PSI. During 2014, PS Kenya sold approximately \$3.2 million for PSI programs of which approximately \$1.1 million was used to fund sub-award expenses with PS Kenya and the additional \$2.1 million was owed to PSI at December 31, 2014.

12. Accrued Wages and Benefits

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

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

13. Lease Commitments

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

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

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

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

Years ending December 31,

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

14. Lease Rental Income

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

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

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

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Future minimum lease income is as follows:

Years ending December 31,

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

15. Bonds Payable

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

Loan Agreement

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

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

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

Variable Rate Revenue Bonds

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

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

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

2015	\$ 1,040,464
2016	1,163,766
2017	1,188,300
2018	1,214,133
2019	10,669,498
Thereafter	28,200,000
Total payments	\$ 43,476,161

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

16. Accounts Payable and Accrued Expenses

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

	2014	2013
General accounts payable	\$ 2,818,178	\$ 5,358,140
General accrued expenses	8,194,711	17,618,681
Negotiated indirect cost rate (NICRA)	921,387	1,547,033
Purchase order accrual	2,183,447	10,871,953
Other accounts payable and accrued expenses	3,380,063	3,059,887
	\$ 17,497,786	\$ 38,455,694

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

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

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17. Line-of-Credit

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

18. Commitments and Contingencies

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

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

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

19. Subsequent Events

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

Supplemental Schedules

Population Services International

Consolidated Schedule of Functional Expenses and Allocation of Indirect Expenses Year ended December 31, 2014 (with summarized comparative financial information for the year ended December 31, 2013)

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

See accompanying notes to the consolidated financial statements.

Population Services International

Consolidated Schedule of Revenues by Funding Source

Year ended December 31, 2014

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

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

See accompanying notes to the consolidated financial statements.

Population Services International

Schedule of Expenditures of Federal Awards Year ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Project Name	Pass-Through Entity Identifying Number/Grant Award	Federal CFDA Number	Federal Expenditures	Amounts paid to subrecipients
Major program:				
U.S. Agency for International Development (USAID):				
Social Marketing for Health:				
Angola Evidence Based Communication and Targeted HIV Prevention	674-A-00-10-00131-00	98.674-A-00-10-00131-00	\$ 2,067,764	\$ 405,416
Angola Integrated Health Social Marketing	AID-654-A-11-00002	98.AID-654-A-11-00002	5,178,946	260,537
Cambodia Social Marketing and Behavior Change Interventions	442-A-00-08-00001-00	98.442-A-00-08-00001-00	528,578	430,074
Cambodia Support for International Family Planning Organizations	C3981	98.C3981	481	-
Central Asia - Health Outreach Program	176-A-00-09-00023-00	98.176-A-00-09-00023-00	4,105,273	1,366,997
Congo AIDSTAR Advancing Social Marketing for Health	GHH-I-00-07-00062-00	98.GHH-I-00-07-00062-00	340,903	-
Congo President's Malaria Initiative Expansion Project	AID-623-A-12-00028	98.AID-623-A-12-00028	6,386,514	2,602,662
Dominican Republic Condom Social Marketing Program	AID-517-A-10-00002	98.AID-517-A-10-00002	993,213	193,395
Ethiopia AIDSTAR Prevention Care Package for HIV/AIDS	GHH-I-01-07-00062-00	98.GHH-I-01-07	12	-
Ethiopia Mulu Prevention Project	AID-663-A-12-00004	98.AID-663-A-12-00004	10,801,601	6,368,863
Ethiopia Targeted HIV Prevention	663-C-00-08-00401-00	98.663-C-00-08-00401-00	(8,372)	(107)
Haiti Prevention of Sexual Transmission	521-A-10-00006-00	98.521-A-10-00006-00	2,170,631	703,690
Haiti Social Marketing	GHH-I-00-07-00062-00	98.GHH-I-00-07-00062-00	721,766	37,003
India Saving Lives at Birth	AID-OAA-F-13-00084	98.AID-OAA-F-13-00084	54,076	-
Kenya /	AID-615-A-12-00002	98.AID-615-A-12-00002	13,043,980	12,387,859
Lesotho HIV Prevention Among Youth and Adults	AID-674-A-00-12-00001	98.AID-674-A-00-12-00001	3,145,767	1,305,270
Malawi National Distribution and Management of LLINs	674-C-00-11-00021-00	98.674-C-00-11-00021-00	834,772	45,365
Malawi Prevention for Populations and Settings with High Risk Behav	674-A-00-09-00031-00	98.674-A-00-09-00031-00	4,371,738	992,460
Mozambique Integrated Social Marketing Program	656-A-00-11-00107-00	98.656-A-00-11-00107-00	4,313,334	698,016
Multi Regional Support for International Family Planning Organization	AID-OAA-A-10-00030	98.AID-OAA-A-10-00030	10,927,063	1,418,835
Myanmar Partnership for a Healthier Burma	AID-486-A-13-00013	98.AID-486-A-13-00013	487,799	-
Niger US Embassy Gender Project	S-NG600-14-CA-031	98.S-NG600-14-CA-031	7,506	-
Papua New Guinea US Embassy	SPP50013GR013	98.SPP50013GR013	77,713	-
PNG_USDS_Smart Economics	S-PP500-14-GR-0015	98.S-PP500-14-GR-0015	135,322	-
Regional Asia Behavior Change Communication for Disease Prevention	AID-486-A-11-00004	98.AID-486-A-11-00004	6,866,767	1,741,829
Rwanda Social Marketing Project	AID-696-A-13-0001	98.AID-696-A-13-0001	64,790	-
Rwanda Behavior Change and Social Marketing	696-A-00-08-00025-00	98.696-A-00-08	(1,425)	-
Russia HIV Prevention	118-A-00-10-00041-00	98.118-A-00-10-00041-00	845	-
Swaziland Combination Prevention Program	674-A-00-11-00008-00	98.674-A-00-11-00008-00	2,999,135	519,949
Tanzania Social Marketing Program	621-A-00-10-00020-00	98.621-A-00-10-00020-00	5,690,510	2,783,235
Tanzania HIV Prevention	621-A-00-11-00008-00	98.621-A-00-11-00008-00	1,740,062	612,838
Vietnam AIDSTAR Social Marketing Prevention and Support Services	GHH-I-00-07-00062-00	98.GHH-I-00-07-00062-00	(36,052)	-
Washington Based Support for International Family Planning and Heal	AID-OAA-A-14-00037	98.AID-OAA-A-14-00037	250,920	-
Zambia AIDSTAR Private Sector Social Marketing	GHH-I-04-07-00062-00	98.GHH-I-04-07-00062-00	14,830,593	3,218,450
Zambia Randomized Evaluation of HIV/FP Service Models	AID-OAA-A-12-00026	98.AID-OAA-A-12-00026	1,276,773	419,031
Zimbabwe HIV/AIDS Prevention	C950.PI	98.C950.PI	(4)	-
Zimbabwe Statistical Package for Social Sciences Project	674-A-00-10-00081-00	98.674-A-00-10-00081-00	22,621,921	2,971,356
Zimbabwe US Embassy Football Union Soccer Players Project	S-DRLAB-11-GR-069	98.S-DRLAB-11-GR-069	8	-
Subtotal USAID Social Marketing for Health			126,991,223	41,483,023
Direct Grants				
USAID Social Marketing for Health				
Pass-through funds received from:				
Abt Associates - Ethiopia Positive Change	GPO-I-00-04-00007-00	98.GPO-I-00-04-00007-00	1,469	-
Abt Associates - India Tuberculosis Control and Care Initiative	GPO-I-08-04-00007-00	98.GPO-I-08-04-00007-00	61	-
Abt Associates - Private Sector Project	GPO-I-00-04-00007-00	98.GPO-I-00-04-00007-00	3,747	-
Abt Associates - Private Sector Project	GPO-I-07-04-00007-00	98.GPO-I-07-04-00007-00	3,454	-
Abt Associates-Malawi Waterguard	C3926	98.C3926	(365)	-
Abt Associates - Point of Use Water Disinfection and Zinc Treatmen	GPO-I-00-04-00007-00\16969	98.GPO-I-00-04-00007-00\16969	9,125	-
Abt Associates - Zimbabwe Private Sector Project	GPO-I-00-04-00007-00\14855	98.GPO-I-00-04-00007-00\14855	9,012	-
Academy for Educational Development - India Behavior Change Cor	AID-GHS-1-00-07-00008	98.AID-GHS-1-00-07-00008	115,080	-
Agency for the Development of Social Marketing (ADEMAS) - Seneg	AID-685-A-12-00001	98.AID-685-A-12-00001	629,980	-
AVERT Society India Helpline	PSI-SAADHAN HELPLINE/201	98.PSI-SAADHAN HELPLINE/201	(274)	-
CARE - Cameroon HIV/AIDS Prevention Program	624-A-00-10-00079-00	98.624-A-00-10-00079-00	(662)	-
Caribbean HIV & AIDS Alliance-Condom Social Marketing and Manag	53206-97-10.1.2011	98.53206-97-10.1.2011	14	-
Caribbean HIV & AIDS Alliance-Condom Social Marketing and Manag	53206-97-8.1.2012	98.53206-97-8.1.2012	(1,913)	-
Catholic Relief Services-Strengthening and Accessing Livelihood Op	53456-52-6.22.2012	98.53456-52-6.22.2012	63,771	-
Cooperative Housing Foundation -Liberia Water, Sanitation and Hyg	669-A-00-10-00087-00	98.669-A-00-10-00087-00	290,973	-
Family Health International - Benin Urban Slum Hygiene Improveme	4360-ABMS-01	98.4360-ABMS-01	103,963	-
Family Health International - South Sudan HIV/AIDS Prevention	GHH-I-02-07-00043-00	98.GHH-I-02-07-00043-00	444,245	-
Futures Group - Swaziland Accelerated Saturation Initiative	674-A-00-11-00005-00	98.674-A-00-11-00005-00	218	-
Institute Reproductive Health - Benin Family Planning Standard Day	C2464.PI	98.C2464.PI	(3)	-
Institute Reproductive Health - India Market Validation Testing	RX-4270-912-PSI-DI	98.RX-4270-912-PSI-DI	(662)	-
Institute Reproductive Health - India Standard Days Method Using	GPO-A-00-07-00003-00	98.GPO-A-00-07-00003-00	7	-
KHANA - Cambodia HIV Prevention	AID-442-A-13-00001	98.AID-442-A-13-00001	466,740	331,320
JHPIEGO Corporation - Technologies for Health Accelovate	AID-OAA-A-11-00050	98.AID-OAA-A-11-00050	(790)	-
JHPIEGO Corporation - Regional Maternal and Child Survival Progra	AID-OAA-A-14-00028	98.AID-OAA-A-14-00028	2,561,083	77,987
John Hopkins University -Central African Republic Capacity Building	176-A-00-04-00014-00	98.176-A-00-04-00014-00	1,038	-
John Hopkins University - Regional Maternal and Child Health Integ	GHS-A-00-08-00002-00	98.GHS-A-00-08-00002-00	3,377,078	887,342
John Hopkins University - Malawi Bridge Youth Alert	690-A-00-03-00195-00	98.690-A-00-03-00195-00	28	-

(Continued)

Population Services International

Schedule of Expenditures of Federal Awards Year ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Project Name	Pass-Through Entity Identifying Number/Grant Award	Federal CFDA Number	Federal Expenditures	Amounts paid to subrecipients
U.S. Agency for International Development (continued):				
Social Marketing for Health (continued):				
John Hopkins University - Tanzania Communication and Malaria Ini	621-A-00-08-00005-00	98.621-A-00-08-00005-00	373	-
John Hopkins University - Zimbabwe HIV Prevention Program Resea	GHH-1-00-07-00032-00	98.GHH-1-00-07-00032-00	(466)	-
John Hopkins University - Washington Based Health Capacity Progr	AID-OAA-A-12-00058	98.AID-OAA-A-12-00058	103,036	-
John Snow, Inc. - Regional Malaria Prevention	GPO-I-00-06-00007-00	98.GPO-I-00-06-00007-00	1,162,014	(143,507)
John Snow, Inc. - Burundi Malaria Prevention	GPO-I-00-06-00007-00	98.GPO-I-00-06-00007-00	191,209	-
John Snow, Inc. - Burundi Malaria Prevention	GPO-I-00-06-00007-00	98.GPO-I-00-06-00007-00	598,900	-
Louis Berger Group Inc. - South Sudan Safe Water	650-1-00-06-00010-00	98.650-100-06-00010-00	(11)	-
Management Sciences for Health (MSH) - Honduras Condoms	GHH-I-00-07-00068-00	98.GHH-I-00-07-00068-00	9	-
Management Sciences for Health (MSH) - South Sudan Health Transl	GHS-1-00-07-00006-00	98.GHS-1-00-07-00006-00	330	-
Mennonite Economic Development Associates - Tanzania Achievem	621-A-00-10-00005-00	98.621-A-00-10-00005-00	(34)	-
Pact, Inc. - Vietnam Behavioral Change Communications Social Nor	486-A-00-06-00007-00	98.486-A-00-06-00007-00	882	-
Path - Washington Based President's Malaria Initiative RDTs	AID-OAA-A-12-00057	98.AID-OAA-A-12-00057	447,540	61,362
Pathfinder International- Kenya APHIAplus Services Delivery Projec	AID-623-A-11-00009	98.AID-623-A-11-00009	457,649	454,086
Pathfinder International - Mozambique Strengthening Communities	656-A-00-09-00134-00	98.656-A-00-09-00134-00	397,857	-
Public Health Foundation of India - HIV/AIDS Partnership	AID-386-A-00003	98.AID-386-A-00003	(707)	-
Save the Children Federation, Inc. - Ethiopia Prevention and Care S	663-A-00-09-00410-00	98.663-A-00-09-00410-00	16,598	-
Save the Children - Vietnam HIV Prevention of Mother-to-Child Tra	292-83-6.1.2010	98.292-83-6.1.2010	(5)	-
SFH Namibia - Namibia SFH Most At Risk Populations	674-A-00-11-00017-0	98.674-A-00-11-00017-0	3	-
University of North Carolina - Angola MEASURE Phase II Monitoring i	GHA-A-00-08-00003-00	98.GHA-A-00-08-00003-00	5	-
University of North Carolina - Angola MEASURE Phase III Monitoring	5261-42-12.31.2012	98.5261-42-12.31.2012	(7)	-
University of Manitoba - India HIV/AIDS Behavioral Change Commur	386-A-00-06-00144	98.386-A-00-06-00144	1,756	-
Woman Care Global Expanding Contraception	AID-OAA-A-13-00088	98.AID-OAA-A-13-00088	467,453	-
World Learning - Ethiopia Mulu Malaria Prevention	AID-663-A-12-00005	98.AID-663-A-12-00005	786,880	-
Subtotal USAID Social Marketing for Health Pass-Through Grants			12,707,681	1,668,590
Donated commodities (note 3)	N/A	N/A	49,807,481	-
Total Social Marketing for Health			189,506,385	43,151,613
Nonmajor program:				
USAID Foreign Assistance for Programs Overseas:				
Angola AIDS Prevention Expansion	690-A-00-04-00254-00	98.001	(174,609)	-
Benin HIV/AIDS Program	680-A-00-07-00002-00	98.001	382,300	2,623
Central America and Mexico HIV Program	AID-596-A-10-00001	98.001	3,552,259	812,059
Congo/Kinshasa Child Survival	GHS-A-00-04-00009-00	98.001	(2,570)	-
Congo/Kinshasa Condom Social Marketing Behavior Change	623-A-00-05-00341-00	98.001	(2,048)	-
El Salvador HIV Prevention	591-A-00-09-00005-00	98.001	(10,333)	-
Ethiopia Safe Water System	DFD-G-00-05-00159-00	98.001	259,382	-
Honduras-Strengthening Adolescent Reproductive Health	AID-522-A-13-00001	98.001	458,697	-
India Project Connect	386-A-00-06-00145-00	98.001	5,038	-
Kenya APHIA Phase II Health Communication and Marketing	623-A-00-07-00020-00	98.001	987	-
Laos Mekong Region HIV	486-A-00-04-00015-00	98.001	(4)	-
Liberia Mercy Ebola Action	AID-OFDA-G-15-00004	98.001	292,485	-
Madagascar Integrated Social Marketing Program	AID-687-A-13-00001	98.001	7,156,916	1,423,284
Madagascar Social Marketing Program	687-A-00-05-00109-00	98.001	8,606	-
Madagascar Social Marketing Child Survival, Maternal Health, Family F	687-A-00-08-00032-00	98.001	214,694	-
Malawi HIV Prevention & Health	690-A-00-05-00091-00	98.001	147	-
Malawi Diarrhea Control	GHS-A-00-06-00017-00	98.001	93,261	-
Mali Corridors of Change	668-A-00-01-00042-00	98.001	124	-
Mali Pathway to Health	688-A-00--8-00052-00	98.001	107	-
Mozambique Malaria & Diarrhea	656-A-00-06-00115-00	98.001	48,418	2,306
Nigeria PrePackage Malaria	620A-00-05-00002-00	98.001	(153)	-
Russia Prevent AIDS Program	118-A-00-05-00051-00	98.001	(2,469)	(2,467)
Rwanda Integrated HIV/AIDS Act	C2928.PI	98.001	(224)	-
West and Central Africa Region Sanitation	AID-624-A-14-00005	98.001	93,971	-
Zambia Better Health Social Marketing	690-A-00-04-00264-00	98.001	60	-
Zimbabwe Hygiene Promotion and Home-Based Water Treatment	DFD-G-00-09-00036-00	98.001	1,688	-
Zimbabwe Scaling Up Point-of-Use Water Treatment and Hygiene	AID-OFDA-G-11-00097	98.001	190,911	-
Subtotal USAID Foreign Assistance for Programs Overseas Direct Grants			12,567,641	2,237,805
USAID Foreign Assistance for Programs Overseas:				
Pass-through funds received from:				
Academy for Educational Development (AED) - Zambia SFH	690-A-00-04-00095-00	98.001	70	-
Family Health International - Rwanda Mobile Counseling and Testin	696-A-00-08-00062-00	98.001	7	-
Family Health International - South Sudan HIV/AIDS Prevention	623-A-00-05-00320-00	98.001	1,693	-
Foundation for Professional Development - South Africa HIV Prever	56142-20-4114	98.001	284,017	-
Institute Reproductive Health - Regional Awareness Standard Days I	HRN-A-00-97-00011-00	98.001	3	-
Pathfinder - Kenya APHIA HIV/AIDS Prevention Programs	623-A-00-06-00024-00	98.001	421	-
Plan International, Inc. - Child Survival	GHS-A-00-05-00015-00	98.001	426	-
Public Health Foundation - HIV/AIDS Partnership	F115-PSI-01JUNE2012	98.001	330,486	-
RTI, International - Guinea Faisons Ensemble	675-A-00-07-00028	98.001	(4,544)	-

(Continued)

Population Services International

Schedule of Expenditures of Federal Awards Year ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Project Name	Pass-Through Entity Identifying Number/Grant Award	Federal CFDA Number	Federal Expenditures	Amounts paid to subrecipients
USAID Foreign Assistance for Programs Overseas (continued):				
Pass-through funds received from (continued):				
SFH Nigeria - HIV/AIDs Prevention	SUB/USAID/HIV/PSI/003	98.001	1,936	-
SFH Nigeria - Improved Reproductive Health Services	620-A-00-05-00098-00	98.001	1,297	-
SFH Nigeria - Strengthening HIV Prevention Services	AID-620-A-12-00002	98.001	331,052	-
Social Marketing Company - Bangladesh Social Marketing	AID-388-A-12-00003	98.001	244,399	-
Subtotal USAID Foreign Assistance for Program Overseas			1,191,263	-
Pass-Through Grants				-
Donated commodities (note 3)	N/A	N/A	3,299,249	-
Total Foreign Assistance for Program Overseas			17,058,153	2,237,805
Total U.S. Agency for International Development			206,564,538	45,389,418
Major program				
U.S. Department of Health and Human Services (HHS):				
HIV Demonstration, Research, Public and Professional Education Projects:				
Global AIDS Program	1U2GPS001885-01	93.067	356,254	-
Global AIDS Program	5U62PS325182-, 04, 05	93.067	(2,201)	(2,201)
Global AIDS Program	U62/CCU325222-01	93.067	(13,428)	-
Global AIDS Program	1U2GPS001891-01	93.067	1,018,687	282,484
Global AIDS Program	5U2GPS001841-02	93.067	5,556	-
Global AIDS Program	1U2GPS002803-01	93.067	(16,949)	(23,437)
Global AIDS Program	1U2GPS002995-01	93.067	4,977,194	449,243
Global AIDS Program	1U2GPS002951-01	93.067	1,264,999	52,880
Global AIDS Program	1U2GGH000248-01	93.067	6,363,436	1,533,451
Global AIDS Program	U2GGH000477-01	93.067	481,418	165,340
Global AIDS Program	U2GGH000216-01	93.067	2,006,445	-
Global AIDS Program	U2GGH000194-01	93.067	241,591	-
Global AIDS Program	U2GGH000268-01	93.067	1,693,904	188,809
Global AIDS Program	SMI60011GR017	93.067	(43)	-
Global AIDS Program	1U2GGH000243-01	93.067	3,160,154	273,573
Donated commodities (note 3)	N/A	N/A	3,187	-
Total Global AIDS Program			21,540,204	2,920,142
Nonmajor programs				
Multi-Regional Global Partnership	5U19GH000061-02/03	93.283	186,299	-
Total Global Partnership			186,299	-
HIV Demonstration, Research, Public and Professional Education Project	U62/CCU324316-01, 03, 04	93.941	66	-
Total HIV Demonstration, Research, Public and Professional Education Projects			66	-
Pass-through funds received from:				
ANADER Cote D'Ivoire Expanding HIV Access	U62/CCU025120	93. U62/CCU025120	1,194	-
CAPRISA - South Africa HIV Prevention Package	U2G/PS001350-03	93. U2G/PS001350-03	113	-
The Regents of University of California - Mozambique HIV Prevention	U2 GPS001468	93. U2 GPS001468	57	-
RTI International - Multi-Regional Social Marketing	8-312-0212750	93.8-312-0212750	(6,052)	-
Total U.S. Department of Health and Human Services:			21,721,881	2,920,142
Major program:				
U.S. Department of Defense (DOD):				
HIV/AIDS Prevention Program:				
Barbados HIV/AIDS Prevention	N00244-13-1-0053	12.350	211,778	-
Cameroon HIV Prevention	N00244-10-1-0025	12.350	(2,434)	-
Cameroon HIV Prevention	N00244-13-1-0041	12.350	113,949	-
Cameroon HIV Prevention	N00244-14-1-0061	12.350	43,176	-
Central African Republic HIV/AIDS Prevention	N00244-12-0056	12.350	(1,502)	-
Congo Kinshasa Armed Forces AIDS Prevention	N00244-08-1-0029	12.350	793,016	214,391
Botswana HIV Prevention	N0024-10-1-0001	12.350	905,017	-
Burundi HIV Prevention	N00244-10-1-0026	12.350	306,113	-
Burundi HIV Prevention	N00244-14-1-0063	12.350	119,933	-
Dominican Republic HIV/AIDS Prevention	N00244-12-1-0043	12.350	198,111	-
Democratic Republic of Congo- HIV/AIDS Prevention	N00244-14-1-0059	12.350	284,186	-
El Salvador HIV/AIDS Prevention	N00244-14-1006	12.350	68,317	-
Guatemala Strengthening HIV Prevention	N00244-11-1-0048	12.350	162,049	-
Honduras HIV Prevention	N00244-09-1-0040	12.350	190,462	-
Jamaica HIV Prevention	N00244-10-1-0002	12.350	100,090	-
Jamaica HIV Prevention	N00244-14-1-0010	12.350	149,724	-
Lesotho HIV Prevention	N00244-09-1-0038	12.350	65	-
Lesotho - Voluntary Medical Male Circumcision	N00244-14-1-0004	12.350	306,646	-
Mozambique HIV Prevention	N0024-10-0010	12.350	454,300	-
Mozambique HIV Prevention	N00244-14-1-0051	12.350	1,281,279	-
Rwanda HIV Prevention	N00244-10-1-0016	12.350	260	-
Rwanda HIV Prevention	N00244-13-1-0004	12.350	(10,425)	-

(Continued)

Population Services International
Schedule of Expenditures of Federal Awards
Year ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Project Name	Pass-Through Entity Identifying Number/Grant Award	Federal CFDA Number	Federal Expenditures	Amounts paid to subrecipients
Major program (continued)				
U.S. Department of Defense (DOD) (continued):				
HIV/AIDS Prevention Program (continued):				
South Africa HIV/AIDS Reduction	N00244-11-1-0017	12.350	342,001	-
Suriname Behavior Change	N00244-10-1-0003	12.350	222,937	32,142
Togo US Embassy HIV Prevention	C2570	12.350	4	-
Trinidad and Tobago HIV Prevention	N00244-10-1-0004	12.350	124,560	-
Zambia HIV Prevention	N00244-12-1-0003	12.350	1,493,761	100,000
Subtotal DOD HIV AIDS Prevention Program				
Direct Grants			7,857,373	346,533
DOD HIV AIDS Prevention Program				
Pass-through funds received from:				
SFH Rwanda Reducing HIV	N68171-14-1-0034	12.350	158,808	18
Subtotal DOD HIV/AIDS Prevention Program				
Pass-Through Grants				
Donated commodities (note 3)	N/A	N/A	636,541	-
Total HIV/AIDS Prevention Program			795,349	18
Total U.S. Department of Defense			8,652,722	346,551
Total federal award expenditures			\$ 236,939,141	\$ 48,656,111

See accompanying notes to schedule of expenditures of federal awards.

Population Services International

Notes to Schedule of Expenditures of Federal Awards

1. General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of federal awards programs expended by PSI. Federal awards received directly from federal agencies, as well as federal awards passed through other organizations to PSI, are included on the Schedule.

2. Basis of Presentation

The Schedule includes the federal grant activity of PSI under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in the consolidated financial statements. Because the Schedule presents only a selected portion of the operations of PSI, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of PSI.

PSI makes sub-awards to organizations to assist project implementation in the country offices. The schedule for the year ended December 31, 2014 includes only reimbursable expenses reported by the subrecipients to PSI during the year ended December 31, 2014.

The reimbursement of indirect costs reflected in the accompanying consolidated financial statements as federal grants 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 the PSI's consolidated financial position or change in net assets.

PSI had no federally funded insurance programs or loan guarantees during the year ended December 31, 2014.

3. Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting. Commodities received directly from grantors are reported in the Schedule at the amount charged to the award at the time of receipt from the grantor. Commodities purchased with award funds are reported in the Schedule at the time of purchase at cost. Revenue is recognized to the extent allowable direct and indirect expenses are incurred.

Awarding agencies retain the right to disallow certain reimbursements and expenses claimed based on audit findings. In the event of final disallowance, the funds will be reimbursed to the awarding agency from PSI's unrestricted net assets.

Population Services International

Notes to Schedule of Expenditures of Federal Awards

4. Subrecipients

Of the federal expenditures presented in the Schedule, PSI provided federal awards to subrecipients for the year ended December 31, 2014, as follows:

Program Name	Federal CFDA Number	Amounts Provided to Subrecipients
USAID - Foreign Assistance for Programs Overseas	98.001	\$ 2,237,805
Social Marketing for Health	98. No CFDA	43,151,613
Global AIDS	93.067	2,920,142
Department of Defense HIV / AIDS Prevention Program	12.350	346,551
Total provided to subrecipients		\$ 48,656,111

Population Services International

Notes to Schedule of Expenditures of Federal Awards

5. Commodities

PSI receives commodities from United States Agency for International Development (USAID) or other sources for distribution in connection with its federally sponsored programs. In accordance with OMB Circular A-133, PSI reports the fair value of commodities received during the year in the Schedule. The fair value of commodities received during the year ended December 31, 2014 was as follows:

Angola	\$ 4,421,174
Benin	119,064
Burundi	2,503,552
Cameroon	91,090
Cote d'Ivoire	3,186
Democratic Republic of Congo	8,852,961
Dominican Republic	882,450
Ethiopia	1,347,372
Haiti	636,979
Kenya	13,148,985
Laos	164,078
Lesotho	1,086,903
Madagascar	3,604,922
Malawi	3,668,496
Mali	7,498,393
Mozambique	2,400
Myanmar	424,712
South Sudan	119,232
Thailand	980
Togo	282,857
Zambia	2,563,726
Zimbabwe	2,322,946
	\$ 53,746,458

The fair value reported for these commodities was estimated using USAID's current contract price for commodities at December 31, 2014, and its record of quantities shipped and received by these programs during 2014.

Population Services International

Notes to Schedule of Expenditures of Federal Awards

6. Reconciliation of SEFA

PSI records revenue adjustments to conform to U.S. GAAP which are not required to be recorded within the Schedule.

Year ended December 31, 2014

Schedule of Expenditures of Federal Awards	\$ 236,939,141
Revenue adjustments to conform to U.S. GAAP	(4,263,237)
Financial statement U.S. government grants, as reported	\$ 232,675,904

Notes to Schedule
Overhead Calculation

Population Services International

Schedule of Overhead Calculation

Year ended December 31, 2014

	Indirect costs	Allocation	Amount after allocation
Management and general expenses:			
Indirect salaries	\$ 5,117,850	\$ -	\$ 5,117,850
Indirect fringe benefits	1,791,224	-	1,791,224
Indirect salaries and fringe benefits	6,909,074	-	6,909,074
Indirect field salaries and fringe benefits	96,992	-	96,992
Allowances	159,756	-	159,756
Total salaries and related expenses	7,165,822	-	7,165,822
Travel	1,400,936	-	1,400,936
Consultants and other contract services	1,534,592	(1,534,592)	-
Accounting and auditing services	-	2,790	2,790
Information systems support services	-	25,327	25,327
Legal services	-	307,143	307,143
Other professional services	-	1,199,332	1,199,332
Furniture and equipment (expensed)	218,525	-	218,525
Promotions and advertising	45	-	45
Office costs	2,059,246	-	2,059,246
Other indirect costs	162,849	-	162,849
Total expenses before depreciation	12,542,015	-	12,542,015
Depreciation	705,643	-	705,643
Total allocable overhead costs	\$ 13,247,658	\$ -	\$ 13,247,658 (A)
Allocation base:			
Direct salaries	\$ 15,744,009	\$ -	15,744,009
Bids and proposals salaries	214,023	\$ -	214,023
Direct fringe benefits	5,510,403	\$ -	5,510,403
Bids and proposals salaries and fringe benefits	74,908	-	74,908
Total program services direct salaries and fringe benefits	\$ 21,543,343	\$ -	\$ 21,543,343 (B)
Overhead rate for 2014: (A) divided by (B)			61.5%

See accompanying independent auditor's report.

Population Services International

Notes to Schedule of Overhead Calculation

1. Overhead Reimbursement

All U.S. government grants, contracts, and cooperative agreements administered by PSI allow for reimbursement of overhead charges based on negotiated indirect cost rates. The allocation base for overhead costs is direct U.S. based and resident project advisors' salaries and fringe benefits.

2. Provisional Rates

Each grant, contract, and cooperative agreement allows for billing of overhead costs during the year based on negotiated provisional rates.

Population Services International

Schedule of General and Administrative Calculation

Year ended December 31, 2014

	Indirect costs	Allocation	Amount after allocation
Management and general expenses:			
Indirect salaries	\$ 8,320,398	\$ -	\$ 8,320,398
Indirect fringe benefits	2,911,880	-	2,911,880
Indirect salaries and fringe benefits	11,232,278	-	11,232,278
Indirect field salaries and fringe benefits	334,524	-	334,524
Allowances	43,548	-	43,548
Total salaries and related expenses	11,610,350	-	11,610,350
Travel	1,210,927	-	1,210,927
Consultants and other contract services	2,943,196	(2,943,196)	-
Accounting and auditing services	-	632,212	632,212
Information systems support services	-	125,286	125,286
Legal services	-	192,508	192,508
Other professional services	-	1,993,190	1,993,190
Furniture and equipment (expensed)	375,371	-	375,371
Promotions and advertising	59	-	59
Office costs	2,332,466	-	2,332,466
Other indirect costs	66,545	-	66,545
Overhead on bids and proposal salaries	177,672	-	177,672
Total expenses before depreciation	18,716,586	-	18,716,586
Depreciation	986,080	-	986,080
Total allocable general and administrative costs	\$ 19,702,666	\$ -	\$ 19,702,666
Allocation base:			
Direct salaries	\$ 15,779,837	\$ -	\$ 15,779,837
Fringe on direct labor	5,522,610	-	5,522,610
Local salaries and fringe benefits	88,180,530	-	88,180,530
Allowances	10,114,712	-	10,114,712
Travel	32,756,521	-	32,756,521
Consultants and contract services	24,884,468	-	24,884,468
Furniture and equipment	11,972,195	-	11,972,195
Promotion and advertising	43,361,079	-	43,361,079
Office costs	25,064,299	-	25,064,299
Other direct costs	24,997,038	-	24,997,038
Overhead on direct labor	13,069,985	-	13,069,985
Other service center costs	8,667	-	8,667
Total program services modified direct costs	\$ 295,711,941	\$ -	\$ 295,711,941

General and administrative rate for 2014: (A) divided by (B)

6.7%

See accompanying independent auditor's report.

Population Services International

Schedule of Fringe Benefit Rate Calculation

Year ended December 31, 2014

		2014
Fringe benefit pool:		
FICA and Medicare	\$	1,867,743
Earned vacation		2,717,845
Health, life, and disability insurance		3,453,866
Pension contributions		2,082,960
Unemployment tax		51,766
Severance		52,463
Total fringe benefits (A)	\$	10,226,643 (A)
Total salaries (B)	\$	29,220,740 (B)
Fringe benefit rate for 2014: (A) divided by (B)		35.0%

See accompanying independent auditors' report.

Independent Auditor's
Reports Required by *Government*
Auditing Standards and OMB Circular A-133



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

7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Population Services International
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Population Services International (PSI), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered PSI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of PSI's internal control. Accordingly, we do not express an opinion on the effectiveness of PSI's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of PSI's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, items 2014-001, 2014-002, 2014-003, 2014-004 and 2014-005.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether PSI's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PSI's Response to Findings

PSI's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. PSI's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PSI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

June 30, 2015



Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Directors
Population Services International
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited Population Services International's (PSI) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of PSI's major federal programs for the year ended December 31, 2014. PSI's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of PSI's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PSI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of PSI's compliance.

Opinion on Each Major Federal Program

In our opinion, PSI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-006, 2014-007, 2014-008, 2014-009 and 2014-010. Our opinion on each major federal program is not modified with respect to these matters.

PSI's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. PSI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of PSI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PSI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PSI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-006, 2014-007, 2014-008, 2014-009 and 2014-010 that we consider to be significant deficiencies.



PSI's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. PSI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

June 30, 2015

Population Services International

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA/Contract Number

Name of Federal Program or Cluster

98.No CFDA
93.067
12.350

Social Marketing for Health
Global AIDS
HIV/AIDS Prevention Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

Population Services International

Schedule of Findings and Questioned Costs

Section II - Financial Statement Findings

2014-001 - Cost Allocation

Criteria: OMB Circular A-110, Part C Section 21 (b)(iii) requires the recipients of federal funds maintain financial management systems providing effective control over accountability for all funds, property and other assets. In addition, as noted above, the preparation of the financial statements is the responsibility of management, including management's assertions that the financial statements are complete and accurate; that the rights and obligations recorded in the financial statements exist, belong to the entity, and are properly valued; and that the information presented in the financial statements is presented in accordance with generally accepted accounting principles.

Condition: During our testing procedures, BDO testing identified various common cost allocation matters. We noted instances where costs were based on excel calculations that had incorrect inputs or inputs which were based on incorrect supporting documentation. BDO testing also identified instances where there was no documented evidence to support that the common cost allocation was reviewed and approved in accordance with country-specific documented policies. Additionally, certain amounts tested should have been allocated between multiple projects, but instead were charged to a single project.

Context: These conditions were identified during our testing of PSI's financial transactions for the year ended December 31, 2014.

Effect: The lack of adequate oversight in the area of common cost allocation increases the risk of incorrect allocation of costs within the financial statements.

Cause: Controls, as documented above, were not operating as designed during the year ended December 31, 2014.

Recommendation: We recommend that PSI enhance its training in regard to the common cost allocation review, and that additional compliance reviews be performed to determine compliance with PSI's policies in regard to common cost allocation.

Views of Responsible Officials: PSI agrees with the auditor's comments regarding the cost allocation. PSI's current common direct costs policy requires that the allocation of the common direct costs being adequately and accurately supported, reviewed and approved. Additional training and guidance will be provided and re-communicated to ensure cost allocations are reviewed and approved and in compliance with PSI's policies. In addition, The Global Internal Auditors of PSI will also review and test implemented policies and procedures to ensure the controls are operating effectively during their internal audit assessments.

2014-002 Subgrantee Monitoring

Criteria: OMB Circular A-110, Part C Section 21 (b)(iii) requires the recipients of federal funds maintain financial management systems providing effective control over accountability for all funds, property and other assets. In addition, as noted above, the preparation of the financial statements is the responsibility of management, including management's assertions that the financial statements are complete and accurate; that the rights and obligations recorded in the

Population Services International

Schedule of Findings and Questioned Costs

financial statements exist, belong to the entity, and are properly valued; and that the information presented in the financial statements is presented in accordance with generally accepted accounting principles.

Condition: During our detailed testing procedures, BDO noted instances where subrecipients charged costs to PSI without sufficient documentation to support the expenditures reported.

Context: These conditions were identified during our testing of PSI's subgrantee transactions for the year ended December 31, 2014.

Effect: The lack of adequate oversight related to processing subgrantee transactions increases the risk of misstatement within the financial statements.

Cause: Controls, as documented above, were not operating as designed during the year ended December 31, 2014.

Recommendation: BDO recommends that PSI perform a more detailed review of its subgrant expenses and enhance training to the subrecipients on appropriate documentation requirements to support expenditures related to PSI pass through funding.

Views of Responsible Officials: PSI agrees with the above mentioned findings. Through enhanced training of Headquarters Regional Support Teams and Country Office staff on subrecipient management, PSI will continue to reinforce United States Government requirements and use of subrecipient monitoring tools. The trainings will reinforce the need to define a tailored monitoring plan to verify subrecipient compliance with appropriate expenditure documentation requirements. In addition, national internal auditors and members of the Global Internal Auditor team will monitor usage of these tools. These measures will lead to improved verification of subrecipient transactions.

2014-003 Payroll and Benefits

Criteria: OMB Circular A-110, Part C Section 21 (b)(iii) requires the recipients of federal funds maintain financial management systems providing effective control over accountability for all funds, property and other assets. In addition, as noted above, the preparation of the financial statements is the responsibility of management, including management's assertions that the financial statements are complete and accurate; that the rights and obligations recorded in the financial statements exist, belong to the entity, and are properly valued; and that the information presented in the financial statements is presented in accordance with generally accepted accounting principles.

Condition: During our testing over the employee payroll and benefit process, BDO identified noncompliance with documented country-specific policies and procedures. Management used incorrect hire date and salary data for severance and leave calculations; did not properly approve timesheets, and recorded incorrect timesheet data.

Context: These conditions were identified during our testing of PSI's payroll and benefits transactions for the year ended December 31, 2014.

Population Services International

Schedule of Findings and Questioned Costs

Effect: The lack of adequate oversight related to processing payroll and benefit transactions increases the risk of misstatement within the financial statements.

Cause: Controls, as documented above, were not operating as designed during the year ended December 31, 2014.

Recommendation: BDO recommends that PSI address this matter by instituting additional training in regard to compliance with the established policies and procedures manual that clearly dictates payroll and related benefit processing requirements.

Views of Responsible Officials: PSI agrees with the above mentioned findings. The comments regarding inaccurate calculation of severance and leave calculation was related to one single PSI country office. Following the auditors' recommendation the country office has taken actions to update and correct the severance and leave calculation based on the correct employees hire date and salary data. Training and guidance will be provided and re-communicated to employees to ensure payroll processing requirements are met. Periodic reviews are conducted by PSI's Global Internal Auditors and Field Finance Support teams to ensure country platforms are in compliance with payroll and benefits policies and procedures.

2014-004 Compliance with Documented Expenditure Policies and Procedures

Criteria: OMB Circular A-110, Part C Section 21 (b)(iii) requires the recipients of federal funds maintain financial management systems providing effective control over accountability for all funds, property and other assets. In addition, as noted above, the preparation of the financial statements is the responsibility of management, including management's assertions that the financial statements are complete and accurate; that the rights and obligations recorded in the financial statements exist, belong to the entity, and are properly valued; and that the information presented in the financial statements is presented in accordance with generally accepted accounting principles.

Condition: During BDO's testing of the expense samples, BDO identified instances where the supporting documentation did not comply with PSI's documented disbursement policies. Testing identified instances in which expenditure documentation did not contain required PSI personnel approval, or was incomplete or could not be located. Inconsistencies in how certain expenses were classified for financial reporting were also identified. Additionally BDO noted during our testing of advance and prepaid balances instances where samples were recorded as field advances or other assets, when the related activity validating recording as an expense had previously occurred.

Context: These conditions were identified during our testing of PSI's expenditure transactions for the year ended December 31, 2014.

Effect: The lack of compliance with documented controls increases the risk for misstatements in the financial statements.

Cause: Controls, as documented above, were not operating as designed during the year ended December 31, 2014.

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Schedule of Findings and Questioned Costs

Recommendation: We recommend that PSI enhance training to enhance compliance with its institutional payment and expenditure documentation policies and procedures. Compliance with those procedures would alleviate matters noted.

Views of Responsible Officials: PSI agrees with the auditor's comments regarding the compliance with documented expenditure policies and procedures. PSI will provide refresher training to enhance compliance with its existing payment and expenditure documentation policies and procedures.

2014-005 Oversight and Control of Commodities

Criteria: OMB Circular A-110, Part C Section 21 (b)(iii) requires the recipients of federal funds maintain financial management systems providing effective control over accountability for all funds, property and other assets. In addition, as noted above, the preparation of the financial statements is the responsibility of management, including management's assertions that the financial statements are complete and accurate; that the rights and obligations recorded in the financial statements exist, belong to the entity, and are properly valued; and that the information presented in the financial statements is presented in accordance with generally accepted accounting principles.

Condition: PSI procures commodities such as contraceptives, oral rehydration salts, and insecticide treated nets for distribution and resale. As a result of our testing, errors were identified that resulted in deficiencies in the controls surrounding the commodity process. Matters noted include:

- Errors in the pricing of commodities based on our price testing.
- PSI does not maintain a purchases listing for the year.
- Certain in country procurements did not comply with PSI documented policies.
- Not all platforms that met inventory observation thresholds had a 3rd party inventory observation at year-end.

Context: These conditions were identified during our testing of PSI's commodity and procurement transactions for the year ended December 31, 2014.

Effect: The lack of compliance with documented commodity controls increases the risk for misstatements in the financial statements.

Cause: Controls, as documented above, were not operating as designed during the year ended December 31, 2014.

Recommendation: To improve the internal controls over commodities, we recommend the following modifications to PSI's policies and procedures:

- Collaborate with procurement and accounts payable to derive a listing of inventory procurements during the year. This is a significant undertaking, however the importance of being able to fully and accurately monitor and record purchase detail both in Washington and abroad is a critical control, especially in light of the magnitude of purchases performed by PSI in any given year and for donor reporting purposes.
- Increase controls over inventory inputs to ensure that the appropriate level of review is performed to mitigate the risk of misstatement.
- Comply with the established inventory observation policies.

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Schedule of Findings and Questioned Costs

Views of Responsible Officials: PSI agrees with the auditor's comments regarding the oversight and control over commodities. It should be noted that the control deficiency resulted in no misstatement of expenses to the federal government funded grants. PSI is committed to continuously improving the system of internal controls surrounding commodity transactions.

Modifications to PSI's existing policies and procedures to mitigate the risk of misstatement include the following key action plans:

- Provide refresher inventory training courses to improve controls and oversight over commodity inputs to mitigate risk of incorrect unit prices during data entry.
- PSI will continue to enhance its current commodity tracking system.
- PSI Procurement is currently in the process of developing and performing training courses on revised procurement policy and procedure manual. The revised policy and procedure manual will address both OMB Uniform Guidance and PSI's existing procurement documentation requirements. The revised policy and procurement manual and related training sessions can be expected in the last quarter of 2015 to PSI overseas offices.
- Ongoing training and guidance to the respective overseas offices to comply with inventory observation policies and additional detailed review processes developed to mitigate the risk of misstatement.

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Schedule of Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

2014-006 Activities Allowed or Unallowed and Period of Availability of Federal Awards

Information on Federal Programs:

U.S. Department of Health and Human Services - Global AIDS
CFDA Number: 93.067
Grant Award Number: Various

U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: Various

Criteria or Specific Requirement: OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the grant agreements, controls over compliance should be designed and operating effectively in order to ensure compliance over allowable costs, allowable activities, and the period of availability of federal funds.

Condition: During our testing of disbursements, we identified the following exceptions:

- One out of 132 samples did not comply with internal control over compliance with respect to testing of non-payroll related transactions. Evidence of local compliance with documented Uganda review and approval policies was not provided on the original documentation provided by management. In one of 132 payroll-related testing samples, Zambian fringe benefit costs were incorrectly charged to severance expense within the accounting records for the major program Social Marketing for Health.
- Two out of 264 samples resulted in improper allocation of costs between programs. In one of these instances, an employee time card included time for a non-U.S. Government funded program; however, payroll costs were improperly allocated to the Mozambique U.S. AID ISM Program. In the second instance, certain non-payroll related expenditures were charged to the Regional SE Asia U.S. AID TB Regional Program even though these expenses related to non-U.S. Government funded projects.
- In one out of 132 payroll samples, an approved timesheet for Mali was not provided for the major program Social Marketing for Health.

Questioned Costs: Not determinable.

Context: This is a condition per review of PSI's compliance with specified requirements.

Effect: While no instances of questioned costs were identified from the testing performed, we concluded that inadequate review and approval of expenditures could result in unallowable costs being charged to the major programs. Further, if errors are not detected timely, PSI may overcharge the major programs.

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Schedule of Findings and Questioned Costs

Cause: PSI personnel did not comply with PSI's documented policies and procedures related to authorization and approval of expenditures.

Recommendation: We recommend that PSI adhere to its documented policies and procedures regarding authorization and approval of expenditures.

Views of Responsible Officials and Planned Corrective Actions: PSI agrees with the above findings and acknowledges the importance of following the existing policies and procedures regarding authorization and approval of expenditures. PSI will continue to enhance its cost allocation and approval process through training.

2014-007 Procurement and Suspension and Debarment

Information on Federal Program(s):

U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: Various

U.S. Department of Health and Human Services - Global AIDS
CFDA Number: 93.067
Grant Award Number: Various

U.S. Department of Defense - HIV / AIDS Prevention Program
CFDA Number: 12.350
Grant Award Number: Various

Criteria or Specific Requirement: OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, 2 CFR 215.13, notes that federal awarding agencies and recipients shall comply with Federal Section 215.15 agency regulations implementing E.O's 12549 and 12689, "Debarment and Suspension". Under those regulations, certain parties who are debarred, suspended or otherwise excluded may not be participants or principals in Federal assistance awards and subawards, and in certain contracts under those awards and subawards."

Additionally, OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, 2 CFR 215.13, 2 CFR 215.40 through 215.48 notes that federal awarding agencies and recipients shall comply with relevant procurement standards including maintaining and abiding by a writing procurement policy.

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Schedule of Findings and Questioned Costs

Condition: During our testing we noted the following:

- 18 of 37 procurement files tested resulted in evidence provided that revealed the required debarment and suspension analysis was performed after entering into the agreement with the vendor. PSI's subsequent suspension and debarment analysis identified no vendors that were suspended or debarred.
- For three of 37 procurement files tested, management was unable to provide evidence that a check for suspension and debarment was performed. BDO was provided with management's subsequent results of performance of suspension and debarment which indicated no issues with the three vendors.

Questioned Costs: Not determinable.

Context: This is a condition per review of PSI's compliance with specified requirements.

Effect: Failure to verify that a vendor is not suspended or debarred and to comply with PSI's internal procurement policy could result in transactions involving unreasonable costs or result in unintentionally entering into a contract with an entity that is barred from performing work for the federal government.

Cause: PSI personnel did adhere to PSI's documented policies and procedures for entering into procurement and subrecipient contracts.

Recommendation: We recommend that management adhere to its documented policies and procedures to verify that vendors and subrecipients are not suspended or debarred prior to entering into contracts utilizing federal funding. We also recommend management ensure all required procurement documentation is maintained in organized files and that a standardized checklist is used for all PSI locations.

Views of Responsible Officials and Planned Corrective Actions: PSI agrees with the auditor's comments that procurement policies and procedures should be followed to ensure compliance with the vendor debarment and suspension requirement. PSI understands the importance of this requirement and has updated and re-communicated the relevant policies and procedures to all PSI overseas offices in September 2014. Additional regular reminders will be sent out and more refresher training of this policy will also be provided to all new and existing procurement staff.

2014-008 Reporting

Information on Federal Program(s):

U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: AID-654-A-11-0002

U.S. Department of Health and Human Services - Global AIDS
CFDA Number: 93.067
Grant Award Number: 1U2GGH000234-01

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Schedule of Findings and Questioned Costs

Criteria or Specific Requirement: Per OMB Circular A-110, 2 CFR 2.15.51, and PSI's grant agreements, the recipient is required to submit performance/programmatic reports to the federal awarding agency.

Condition: During our testing of report compliance we noted the following conditions:

- One of eight performance reports required by the grant agreements for the major program were not submitted to the granting agency.
- In one instance, program income on the Standard Form 425 Report was over-reported by approximately \$21,000 (Award Number AID-654-A-11-0002 - Angola). BDO noted that in the subsequent report for this award, PSI management acknowledged the issue and corrected the reporting prospectively.

Questioned Costs: Not determinable.

Context: This is a condition per review of PSI's compliance with specified requirements.

Effect: Failure to perform oversight and approval of financial and performance / programmatic reports could result in PSI providing information to the federal government that is incomplete or inaccurate.

Cause: PSI personnel did not adhere to the documented instructions of certain financial reports. Additionally, PSI personnel did not comply with the reporting requirements contained in the grant agreement related to the requirement to submit certain performance reports.

Recommendation: We recommend that management adhere to its documented policies and procedures and the documented instructions for reporting requirements contained within grant agreements to ensure that the financial and performance reports are properly submitted to the federal government.

Views of Responsible Officials and Planned Corrective Actions: PSI agrees with the recommendations to adhere to documented policies and instructions for reporting requirements contained within grant agreements. It should be noted that PSI management identified the reporting issue through its existing internal controls and corrected the future reporting. PSI will continue to reinforce that financial and reporting requirements are properly submitted to the federal government.

2014-009 Subrecipient Monitoring

Information on Federal Programs:

U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: Various

U.S. Department of Health and Human Services - Global AIDS
CFDA Number: 93.067
Grant Award Number: 1U2GPS001891-01

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Schedule of Findings and Questioned Costs

U.S. Department of Defense - HIV / AIDS Prevention Program

CFDA Number: 12.350

Grant Award Number: N00244-10-1-0003

Criteria or Specific Requirement: OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, section 400(d) notes: “A pass through entity shall perform the following for the Federal awards it makes: Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.”

Condition: During our testing of subrecipients, we identified the following conditions:

- For 11 of 30 subrecipients samples, PSI had provided the incorrect CFDA number to the subrecipient within the pass-through agreement.
- For one of 30 subrecipient samples, PSI did not provide a CFDA number to the subrecipient within the pass-through agreement.
- 17 of 30 subrecipients tested where PSI did not perform the suspension and debarment check or the suspension and debarment check did not occur prior to the execution of the subaward. BDO was provided with management’s subsequent results of performance of suspension and debarment which indicated no issues with the 17 subrecipients.
- For one of 30 subrecipients samples, BDO noted PSI did not obtain the subrecipient DUNS number prior to entering into the subaward. The subsequent modifications to the subaward also did not contain the DUNS number until the final modification occurred in 2014. For the same subrecipient award, management did not provide the subrecipient with a CFDA number. The CFDA number that should have been provided in the subaward document was 93.067. This finding relates to the U.S. Department of Health and Human Services HIV Demonstration, Research, Public and Professional Education Projects (Award Number 1U2GPS001891-01 - Rwanda).
- For one of 30 subrecipient samples, BDO identified one instance in which PSI did not sufficiently document the risk assessment process to conclude that a site visit was not necessary for a subrecipient under the U.S. AID - Social Marketing for Health Program (Award Number GHH-I-04-07-00062-00 - Zambia).
- For one of 30 subrecipients tested, management was unable to provide sufficient documentation for BDO to fully evaluate the monitoring of the subrecipient. This finding relates to the U.S. Department of Health and Human Services HIV Demonstration, Research, Public and Professional Education Projects (Award Number 1U2GPS001891-01 - Rwanda). Management noted that due to the office closure in Rwanda during the year ended December 31, 2014, the ability to locate documentation has been difficult.

Questioned Costs: Not determinable.

Context: This is a condition per review of PSI’s compliance with specified requirements for subrecipients.

Effect: Failure to comply with the subrecipient monitoring requirement of OMB Circular A-133 could result in unallowable expenses being charged to the grants by the subrecipient.

Cause: PSI personnel did not comply with the monitoring controls identified within PSI’s documented policies and procedures.

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Schedule of Findings and Questioned Costs

Recommendation: We recommend that management perform a subrecipient review to ensure that all subrecipients are provided accurate information when receiving federal funding on a pass through basis.

Views of Responsible Officials and Planned Corrective Actions: PSI agrees with the above mentioned findings. Through enhanced training of Headquarters Regional Support Teams and Country Office staff, PSI will continue to reinforce appropriate subrecipient monitoring activities. This will include: inclusion of correct CFDA numbers in subagreements; suspension and debarment checks; inclusion of DUNS numbers; documentation of subrecipient risk assessments; and documentation of subrecipient monitoring.

2014-010. Allegation of Fraud

Information on Federal Program(s):

U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: Various

U.S. AID - Foreign Assistance for Overseas Programs
CFDA Number: 98.001
Grant Award Number: Various

Criteria: OMB Circular A-122, Section 10(b)(2) requires if more than one proceeding involves the same alleged misconduct, the costs of all such proceedings shall be unallowable if any one of them results from a civil or administrative proceeding involving an allegation of fraud or similar misconduct.

Condition: During FY 2014, PSI identified multiple fraud incidents impacting PSI's U.S. AID programs. These fraud incidents have been reported to the U.S. AID Office of the Inspector General by PSI.

- In Zambia, the local PSI office Internal Audit department identified multiple instances of fraud relating to falsification of contracts, reports, and other records affecting the U.S. AID PRISM program. Total identified fraudulent transactions totaled \$36,628.
- In Benin and Malawi, instances of falsification of reports related to fuel charges were identified. In both cases, the funder was identified and the amounts associated with the fraud were properly written off. The amounts affecting U.S. AID were estimated to be \$13,474.
- PSI's Internal Audit Department identified instances in both Sudan and Tanzania in which stock was sold to customers; however, employees kept the cash received for their own personal gain. Additionally, in Tanzania, PSI procurement policies and procedures were not adhered to, resulting in commodities being issued to the distributor without the knowledge of the distributor as well as long-outstanding settlements of debts.
- In Zimbabwe, employees falsified hotel lodging invoices for project-related travel amounting to \$240 in misappropriated funds.

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Schedule of Findings and Questioned Costs

Questioned Costs: There are no questioned costs as the amounts have been fully reimbursed to U.S. AID.

Context: These conditions were identified through PSI's internal review and audit processes and were reported to us during our internal control assessment for the year ended December 31, 2014.

Effect: These conditions could result in unallowable expenses being charged to U.S. AID if controls in place had not identified the conditions.

Cause: Individuals intentionally circumvented PSI's established internal controls.

Recommendation: PSI should ensure that the internal control recommendations made by its Global Internal Audit department are implemented to mitigate the risk of reoccurrence.

Views of Responsible Officials and Planned Correction Actions: PSI continues to raise awareness of key anti-fraud controls and actions to be taken in the event there is a suspicion of fraud through appropriate training to its employees. Where PSI's Global Internal Audit team has identified control improvement recommendations, PSI will monitor the implementation of these recommendations to reduce the risk of reoccurrence. PSI will continue to monitor trends and utilize case studies to enhance training to staff and identify improvement opportunities to reduce the risk of reoccurrence. In addition, the PSI Global Internal Auditors regularly communicate PSI's fraud and whistle blower policies to all employees.

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Status of Prior Year Findings

Section IV - Status of Prior Year Findings of Noncompliance

Individuals Responsible for Corrective Action Plan

Kim Schwartz
Chief Financial Officer
202-785-0072

Questioned Programs:

U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Multiple

2013-003 - Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Information on Federal Program(s): U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: 656-A-00-11-00107-00

Prior Year Finding:

During our testing of disbursements, we were unable to be validate three salary expense samples to supporting documentation.

Current Year Status:

Repeated in current year.

Management's Corrective Action Plan:

See 2014-006 for management's corrective action plan.

2013-04 - Procurement, Suspension and Debarment

Information on Federal Program(s): U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: various

Prior Year Finding:

During our testing of procurements, we noted that six of 10 procurement files had no evidence that the suspension and debarment requirements were performed until after the contract activity had begun.

Current Year Status:

Repeated in current year.

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Status of Prior Year Findings

Management's Corrective Action Plan:

Refer to 2014-007 for management's corrective action plan.

2013-005 - Reporting

Information on Federal Program(s): U.S. AID - Social Marketing for Health
CFDA Number: 98.No CFDA
Grant Award Number: AID-OAA-A-12-00058

Prior Year Finding:

During our testing of financial and programmatic reports, 2 out of sixteen reports were submitted three to twenty-one days after the respective due date. Additionally, for one report, no documentation was provided supporting that the report was issued before its respective due date.

Current Year Status:

Repeated in current year.

Management's Corrective Action Plan:

Refer to 2014-008 for management's corrective action plan.