



**THE POPULATION COUNCIL, INC.**

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Trustees  
The Population Council, Inc.:

We have audited the accompanying financial statements of The Population Council, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of The Population Council, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

May 23, 2016

**THE POPULATION COUNCIL, INC.**

Balance Sheets

December 31, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 9,094,177	6,004,074
Grants and contributions receivable, net (note 4):		
U.S. government agencies	9,579,969	8,858,061
Other	4,847,307	5,130,264
Other receivables	784,760	1,706,815
Prepaid expenses and other assets	2,174,454	2,074,648
Postretirement medical benefits trust (note 9)	4,936,887	5,460,734
Investments (note 3)	100,636,451	105,102,873
Fixed assets, net (note 5)	12,821,446	4,509,000
Total assets	\$ 144,875,451	138,846,469
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 5,173,118	5,548,751
Awards, contracts, and fellowships payable	5,468,649	3,975,176
Program advances	14,079,032	13,049,634
Loan payable (note 10)	4,243,935	—
Deferred revenue	9,642,857	—
Deferred rent credit (note 8)	5,473,220	846,631
Capital lease obligation	176,544	—
Postretirement medical benefits payable (note 9)	9,997,576	9,371,779
Total liabilities	54,254,931	32,791,971
Commitments and contingencies (notes 3, 8, 9, and 14)		
Net assets:		
Unrestricted:		
General undesignated	2,285,463	3,970,778
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	71,823,347	83,617,598
	74,108,810	87,588,376
Temporarily restricted (notes 6 and 7)	11,025,934	12,980,346
Permanently restricted (notes 6 and 7)	5,485,776	5,485,776
Total net assets	90,620,520	106,054,498
Total liabilities and net assets	\$ 144,875,451	138,846,469

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2015

	<u>General undesignated</u>	<u>Unrestricted The John D. Rockefeller 3rd Memorial Fund and others</u>	<u>Total</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:						
Grants and contributions (notes 2(l), 11, 12 and 13)	\$ 69,734,965	1,000	69,735,965	1,359,375	—	71,095,340
Royalties	2,850,741	—	2,850,741	—	—	2,850,741
Interest and dividends (net of \$185,022 investment fees)	7,402	2,956,990	2,964,392	557,505	—	3,521,897
Net appreciation (depreciation) in fair value of investments	10,231	(6,737,765)	(6,727,534)	(1,396,107)	—	(8,123,641)
Other	75,281	—	75,281	—	—	75,281
Net assets released from restrictions	1,656,433	—	1,656,433	(1,656,433)	—	—
Total operating revenue	<u>74,335,053</u>	<u>(3,779,775)</u>	<u>70,555,278</u>	<u>(1,135,660)</u>	<u>—</u>	<u>69,419,618</u>
Operating expenses:						
Program services:						
HIV and AIDS	20,215,943	—	20,215,943	—	—	20,215,943
Poverty, gender, and youth	15,410,393	224,897	15,635,290	—	—	15,635,290
Reproductive health	29,249,247	2,455,313	31,704,560	—	—	31,704,560
Distinguished colleagues	238,042	—	238,042	—	—	238,042
Publications	1,682,456	—	1,682,456	—	—	1,682,456
Total program services	<u>66,796,081</u>	<u>2,680,210</u>	<u>69,476,291</u>	<u>—</u>	<u>—</u>	<u>69,476,291</u>
Supporting services:						
Management and general	13,131,220	469,588	13,600,808	—	—	13,600,808
Fund-raising	932,641	—	932,641	—	—	932,641
Total supporting services	<u>14,063,861</u>	<u>469,588</u>	<u>14,533,449</u>	<u>—</u>	<u>—</u>	<u>14,533,449</u>
Total operating expenses	<u>80,859,942</u>	<u>3,149,798</u>	<u>84,009,740</u>	<u>—</u>	<u>—</u>	<u>84,009,740</u>
Excess (deficiency) of operating revenue over operating expenses	<u>(6,524,889)</u>	<u>(6,929,573)</u>	<u>(13,454,462)</u>	<u>(1,135,660)</u>	<u>—</u>	<u>(14,590,122)</u>
Other changes in net assets:						
Loss on lease obligation and other, net (note 8)	(32,781)	—	(32,781)	—	—	(32,781)
Pension and other postretirement changes other than net periodic benefit cost (note 9)	(811,075)	—	(811,075)	—	—	(811,075)
Transfer from endowments (note 7)	5,683,430	(4,864,678)	818,752	(818,752)	—	—
Decrease in net assets	<u>(1,685,315)</u>	<u>(11,794,251)</u>	<u>(13,479,566)</u>	<u>(1,954,412)</u>	<u>—</u>	<u>(15,433,978)</u>
Net assets at beginning of year	<u>3,970,778</u>	<u>83,617,598</u>	<u>87,588,376</u>	<u>12,980,346</u>	<u>5,485,776</u>	<u>106,054,498</u>
Net assets at end of year	\$ <u>2,285,463</u>	<u>71,823,347</u>	<u>74,108,810</u>	<u>11,025,934</u>	<u>5,485,776</u>	<u>90,620,520</u>

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2014

	<b>General undesignated</b>	<b>Unrestricted The John D. Rockefeller 3rd Memorial Fund and others</b>	<b>Total</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Operating revenue:						
Grants and contributions (notes 2(l), 11, 12 and 13)	\$ 73,644,583	4,200	73,648,783	1,341,713	—	74,990,496
Royalties	2,458,835	—	2,458,835	—	—	2,458,835
Interest and dividends (net of \$193,967 investment fees)	3,206	3,525,090	3,528,296	715,276	—	4,243,572
Net appreciation in fair value of investments	11,573	2,062,202	2,073,775	381,990	—	2,455,765
Other	198,294	—	198,294	—	—	198,294
Net assets released from restrictions	1,901,882	—	1,901,882	(1,901,882)	—	—
<b>Total operating revenue</b>	<b>78,218,373</b>	<b>5,591,492</b>	<b>83,809,865</b>	<b>537,097</b>	<b>—</b>	<b>84,346,962</b>
Operating expenses:						
Program services:						
HIV and AIDS	22,944,764	—	22,944,764	—	—	22,944,764
Poverty, gender, and youth	18,231,823	196,458	18,428,281	—	—	18,428,281
Reproductive health	27,213,894	2,305,844	29,519,738	—	—	29,519,738
Distinguished colleagues	210,766	—	210,766	—	—	210,766
Publications	1,639,819	—	1,639,819	—	—	1,639,819
<b>Total program services</b>	<b>70,241,066</b>	<b>2,502,302</b>	<b>72,743,368</b>	<b>—</b>	<b>—</b>	<b>72,743,368</b>
Supporting services:						
Management and general	12,523,046	589,460	13,112,506	—	—	13,112,506
Fund-raising	693,845	—	693,845	—	—	693,845
<b>Total supporting services</b>	<b>13,216,891</b>	<b>589,460</b>	<b>13,806,351</b>	<b>—</b>	<b>—</b>	<b>13,806,351</b>
<b>Total operating expenses</b>	<b>83,457,957</b>	<b>3,091,762</b>	<b>86,549,719</b>	<b>—</b>	<b>—</b>	<b>86,549,719</b>
(Deficiency) excess of operating revenue over operating expenses	(5,239,584)	2,499,730	(2,739,854)	537,097	—	(2,202,757)
Other changes in net assets:						
Gain on lease obligation and other, net (note 8)	237,008	—	237,008	—	—	237,008
Pension and other postretirement changes other than net periodic benefit cost (note 9)	(1,386,542)	—	(1,386,542)	—	—	(1,386,542)
Transfer from endowments (note 7)	4,931,482	(4,146,710)	784,772	(784,772)	—	—
<b>Decrease in net assets</b>	<b>(1,457,636)</b>	<b>(1,646,980)</b>	<b>(3,104,616)</b>	<b>(247,675)</b>	<b>—</b>	<b>(3,352,291)</b>
Net assets at beginning of year	5,428,414	85,264,578	90,692,992	13,228,021	5,485,776	109,406,789
Net assets at end of year	\$ 3,970,778	83,617,598	87,588,376	12,980,346	5,485,776	106,054,498

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Functional Expenses

Year ended December 31, 2015

	Program services					Supporting services			Total expenses	
	HIV and AIDS	Poverty, gender, and youth	Reproductive health	Distinguished colleagues	Publications	Total	Management and general	Fund-raising		Total
Awards, contracts, and fellowships	\$ 4,652,306	2,634,597	4,405,644	—	—	11,692,547	—	—	—	11,692,547
Salaries and allowances	7,543,433	5,505,421	11,666,275	151,085	989,967	25,856,181	7,130,563	474,902	7,605,465	33,461,646
Pensions and other employee benefits (note 9)	2,287,129	1,546,388	3,410,260	49,368	297,900	7,591,045	2,281,512	154,777	2,436,289	10,027,334
Consultants and professional fees	397,687	567,144	1,583,284	525	29,852	2,578,492	1,113,104	82,143	1,195,247	3,773,739
Research and related services	1,626,069	1,102,648	3,453,462	6	43	6,182,228	—	—	—	6,182,228
Laboratory supplies, equipment, and maintenance	401,234	268,907	514,824	926	6,545	1,192,436	—	—	—	1,192,436
Travel and meetings	1,199,328	2,059,219	3,072,791	8,987	33,860	6,374,185	552,769	67,832	620,601	6,994,786
Occupancy, net (note 8)	1,390,320	1,301,419	2,376,275	24,188	258,583	5,350,785	734,048	95,514	829,562	6,180,347
Telecommunications, postage, and supplies	229,624	230,123	360,576	510	12,923	833,756	329,979	31,725	361,704	1,195,460
Office equipment and maintenance	77,426	78,800	158,373	268	3,132	317,999	474,434	29	474,463	792,462
Printing, publications, books, and journals	116,367	142,326	129,958	268	36,126	425,045	141,048	21,628	162,676	587,721
Insurance	64,356	11,887	163,456	7	52	239,758	184,719	—	184,719	424,477
Other	28,392	46,792	44,342	151	1,083	120,760	187,581	3,963	191,544	312,304
Total expenses before depreciation and amortization	20,013,671	15,495,671	31,339,520	236,289	1,670,066	68,755,217	13,129,757	932,513	14,062,270	82,817,487
Depreciation and amortization of leasehold improvements, equipment, and other	202,272	139,619	365,040	1,753	12,390	721,074	471,051	128	471,179	1,192,253
Total	\$ 20,215,943	15,635,290	31,704,560	238,042	1,682,456	69,476,291	13,600,808	932,641	14,533,449	84,009,740

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Functional Expenses

Year ended December 31, 2014

	Program services					Supporting services			Total expenses	
	HIV and AIDS	Poverty, gender, and youth	Reproductive health	Distinguished colleagues	Publications	Total	Management and general	Fund-raising		Total
Awards, contracts, and fellowships	\$ 3,612,982	3,992,645	3,445,191	—	—	11,050,818	—	—	—	11,050,818
Salaries and allowances	8,370,031	6,123,977	10,534,731	140,895	934,704	26,104,338	6,718,863	317,558	7,036,421	33,140,759
Pensions and other employee benefits (note 9)	2,509,319	1,661,658	3,114,797	46,549	308,682	7,641,005	2,174,579	104,181	2,278,760	9,919,765
Consultants and professional fees	604,792	702,714	1,258,824	406	23,795	2,590,531	1,161,534	109,612	1,271,146	3,861,677
Research and related services	2,502,415	975,132	4,638,383	6	49	8,115,985	6,782	—	6,782	8,122,767
Laboratory supplies, equipment, and maintenance	948,421	385,801	846,474	1,022	7,955	2,189,673	—	—	—	2,189,673
Travel and meetings	2,056,331	2,380,388	2,558,292	1,192	24,329	7,020,532	423,912	38,413	462,325	7,482,857
Occupancy, net (note 8)	1,419,307	1,250,493	1,943,926	18,485	237,063	4,869,274	1,129,440	42,225	1,171,665	6,040,939
Telecommunications, postage, and supplies	320,636	334,906	347,088	383	5,872	1,008,885	306,584	27,050	333,634	1,342,519
Office equipment and maintenance	151,992	122,750	97,245	125	5,371	377,483	463,497	5,046	468,543	846,026
Printing, publications, books, and journals	95,594	267,208	123,511	168	80,046	566,527	184,833	41,957	226,790	793,317
Insurance	65,743	12,921	201,101	11	87	279,863	174,494	—	174,494	454,357
Other	37,787	29,563	31,349	78	618	99,395	165,720	7,803	173,523	272,918
Total expenses before depreciation and amortization	22,695,350	18,240,156	29,140,912	209,320	1,628,571	71,914,309	12,910,238	693,845	13,604,083	85,518,392
Depreciation and amortization of leasehold improvements, equipment, and other	249,414	188,125	378,826	1,446	11,248	829,059	202,268	—	202,268	1,031,327
Total	\$ 22,944,764	18,428,281	29,519,738	210,766	1,639,819	72,743,368	13,112,506	693,845	13,806,351	86,549,719

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Decrease in net assets	\$ (15,433,978)	(3,352,291)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,192,253	1,031,327
Loss (gain) on lease obligation and other, net	32,781	(237,008)
Deferred rent credit	4,626,589	304,032
Net depreciation (appreciation) in fair value of investments	8,123,641	(2,455,765)
Pension and other postretirement changes other than net periodic benefit cost	811,075	1,386,542
Net loss (gain) on sale of fixed assets	122,533	(13,039)
Changes in assets and liabilities:		
Grants and contributions receivable	(438,951)	(1,844,179)
Other receivables	922,055	(996,852)
Prepaid expenses and other assets	(99,806)	185,822
Postretirement medical benefits trust	523,847	146,082
Accounts payable, accrued expenses, and other liabilities	(918,010)	(860,949)
Awards, contracts, and fellowships payable	1,493,473	649,085
Program advances	1,029,398	1,630,953
Deferred revenue	9,642,857	—
Postretirement medical benefits payable	(185,278)	1,954
Net cash provided by (used in) operating activities	11,444,479	(4,424,286)
Cash flows from investing activities:		
Purchase of investments	(20,815,528)	(46,038,241)
Proceeds from sale of investments	17,158,309	48,415,085
Purchases of fixed assets, including capitalized interest	(8,948,457)	(97,987)
Proceeds from sale of fixed assets	20,570	29,189
Net cash (used in) provided by investing activities	(12,585,106)	2,308,046
Cash flows from financing activities:		
Proceeds from loan payable	4,243,935	—
Repayment of capital lease obligation	(13,205)	—
Net cash provided by financing activities	4,230,730	—
Net increase (decrease) in cash and cash equivalents	3,090,103	(2,116,240)
Cash and cash equivalents at beginning of year	6,004,074	8,120,314
Cash and cash equivalents at end of year	\$ 9,094,177	6,004,074
Supplemental disclosures of noncash investing and financing activities:		
Capital leases	\$ 189,749	—
Accounts payable for capital expenditures	509,596	—
Interest paid	22,656	—

See accompanying notes to financial statements.



## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

### (1) Description of Organization and its Programs

The Population Council, Inc. (the Council) confronts critical health and development issues – from stopping the spread of HIV to improving reproductive health and ensuring that young people lead full and productive lives. Through biomedical, social science, and public health research in approximately 50 countries, the Council works with partners to deliver solutions that lead to more effective policies, programs, and technologies that improve lives around the world. Established in 1952 and headquartered in New York, the Council is a nongovernmental, nonprofit organization governed by an international board of trustees. It focuses on three program areas: prevention of HIV and AIDS; poverty, gender, and youth; and reproductive health.

The Council's mission is to improve the well-being and reproductive health of current and future generations around the world and to help achieve a humane, equitable, and sustainable balance between people and resources.

The Council's HIV and AIDS Program is devoted to addressing the spread of the HIV epidemic in developing countries. The Council also seeks to enable people to reduce the impact of HIV-related disability, death, stigma and discrimination, and orphanhood on their own lives and on the lives of people in their families, communities, and societies.

The Council assesses and improves programs aimed at people affected by HIV, from orphans to healthcare professionals. The Council rigorously explores topics that have been previously neglected in the developing world – such as men who have sex with men – gaining them much needed policy attention. The Council helps developing country decision makers, health program managers, and, ultimately, women and men successfully, safely, and appropriately adopt new HIV prevention technologies.

- The Council has pioneered basic research on the mechanisms that lead to infection and by cell-to-cell spread of HIV.
- The Council develops and tests innovative products and expands access to available technologies to reduce the risk of HIV transmission.
- The Council helps policymakers formulate sustainable programs.

The Council's Poverty, Gender, and Youth Program seeks to understand the social dimensions of poverty, the causes and consequences of gender inequality, the disparities in opportunity that arise during adolescence, and the critical elements of reaching a successful, productive adulthood in developing countries.

- Two focal areas are the conduct of impact evaluations on interventions to improve the lives of adolescent girls and strengthening education to keep girls in school.
- The Council conducts policy-oriented research and programs that improve the lives of vulnerable populations, especially disadvantaged girls.
- It studies the best ways to build the assets adolescent girls, who are among the most isolated and vulnerable populations, to give them social, educational, and economic opportunities to break the cycle of poverty.

## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

The Council's Reproductive Health Program works to improve sexual and reproductive health – especially for vulnerable populations in developing countries. In partnership with other nongovernmental organizations, government policymakers, program managers, and potential clients in developing countries:

- The Council studies and improves reproductive health services.
- The Council develops and introduces new contraceptives.
- The Council assists policymakers in formulating, launching, and expanding evidence-based programs and policies.

The Council derives its support and revenue from governments, foundations and other not-for-profit organizations, multilateral organizations, corporations, individuals, and internal sources such as investments, publications, and royalty income. The Council's headquarters and the Center for Biomedical Research are located in New York City. The Council also has an office in Washington, DC, as well as 14 country offices. The Council has been classified by the Internal Revenue Service as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, it is not subject to income taxes except to the extent that it has taxable income from activities that are not related to its exempt purpose. The Council recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for 2015 or 2014.

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosures of contingencies at the date of the financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include valuation of alternative investments and collectibility of grants and contributions receivable, the determination of postretirement benefit cost and the related liability, and the functionalization of expenses.

#### (b) Basis of Presentation

The Council classifies its net assets and revenues, gains, and losses based on the existence or absence of donor-imposed restrictions as follows:

*Unrestricted net assets* are not subject to any donor-imposed stipulations. However, the board of trustees may choose to designate amounts for particular uses. Three board-designated funds have been established to function as endowments, the largest of which is The John D. Rockefeller 3rd Memorial Fund.

*Temporarily restricted net assets* are subject to donor-imposed stipulations that will be met by either actions of the Council and/or the passage of time.

## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

*Permanently restricted net assets* are subject to donor-imposed stipulations that they be maintained permanently by the Council. Generally, the donors of these assets permit the Council to use all or part of the return earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

The Council excludes from the (deficiency) excess of operating revenue over operating expenses transfers to/from endowment, pension and other postretirement changes other than net periodic benefit cost and unusual or nonrecurring activities.

### (c) *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Council organizes its financial assets and liabilities at fair value into a three-level hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The Council measures the fair value of its limited partnership investments, which do not have readily determinable fair values, using net asset value per share or its equivalent as the practical expedient, as provided by the investment managers. The Council reviews and evaluates the value provided by the general partner, as well as the valuation methods and assumptions used in determining the net asset value of the limited partnership investments. The estimated fair value may differ significantly from the value that would have been used had a ready market for this investment existed.

The following methods and assumptions were used by the Council in estimating its fair value disclosures for financial instruments: for cash and cash equivalents, the respective amounts reported on the balance sheet equal or approximate fair value; for investments, fair values are discussed in note 2(f); and for grants and contributions receivable, the amounts reported on the balance sheets reflect their net realizable value. The fair values of accounts payable and accrued expenses; awards,

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contracts, and fellowships payable; and loans payable approximate their respective carrying amounts. The inputs to these fair value measurements are considered Level 3 in the fair value hierarchy.

The Council early adopted Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value (NAV), as practical expedient for fair value, are excluded from the fair value hierarchy. Prior to the issuance of ASU No. 2015-07, investments valued using the NAV per share practical expedient were categorized within the fair value hierarchy based upon the ability to redeem investments on the measurement date. The Council applied the provision of the update retrospectively to 2014.

**(d) Cash Equivalents**

Cash equivalents include short-term investments with original maturities of 90 days or less, except for those short-term investments managed by external investment managers as part of a long-term investment strategy.

**(e) Grants and Contributions**

The Council receives grants and contributions from a number of sources including the U.S. government, foreign governments, private foundations, and other donors. Grants and contributions are evaluated as to whether they qualify as exchange transactions or contributions as defined by GAAP. Grants and contributions that are treated as exchange transactions are reported as unrestricted revenue when expenses are incurred in accordance with the terms of the agreement. The excess of amounts received in exchange transactions over the amount of expenditures incurred are classified as program advances on the balance sheets.

Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

As of December 31, 2015 and 2014, the Council had unexpended awards from funding agencies approximating \$105,432,700 and \$99,923,000, respectively.

**(f) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices. Fair values of the limited partnership investments are based on NAV and are provided by the general partner based on the underlying net assets of the investment vehicle.

**(g) Fixed Assets**

Fixed assets include furniture, fixtures, equipment, computer software, and leasehold improvements that have unit costs in excess of \$5,000, and that are recorded at cost. Leasehold improvements are amortized using the straight-line method over the life of the lease or useful life of the asset, whichever is shorter. All other fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 4 to 20 years.

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**(h) Awards, Contracts, and Fellowships Payable**

The Council recognizes awards, contracts, and fellowships authorized during the year in operating expenses. A liability for unpaid amounts is included in the balance sheets.

**(i) Deferred Revenue**

The Council receives advance payments for outlicensed technologies that are recognized as deferred revenue and will be amortized on a straight-line basis over the estimated useful life of the product or agreement.

**(j) Foreign Currency Translation**

The Council has determined that the functional currency of its foreign offices is the U.S. dollar. Accordingly, assets and liabilities are translated using the current exchange rates in effect on the balance sheet date. Revenue and expense accounts are translated at the average rate in effect during the year. Grants and contributions revenue includes foreign exchange losses of approximately \$14,000 and \$179,000 in 2015 and 2014, respectively.

**(k) Royalties**

Royalties from license agreements are recognized in accordance with the conditions of each agreement.

**(l) Concentration of Support**

During 2015 and 2014, approximately \$26.4 million of the Council's grants were funded directly by the United States Agency for International Development (USAID). As of December 31, 2015 and 2014, approximately \$7.4 million and \$6 million, respectively, of the Council's grants receivable were also from USAID.

The three largest funding sources, being one U.S. government agency, one foreign agency and one private foundation constitute 57% of the Council's revenue in 2015 and 55% of the Council's revenue in 2014.

**(m) Risks and Uncertainties**

The Council invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and such changes could materially affect the amounts reported in the balance sheets.

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**(3) Investments**

The following tables present the Council's fair value hierarchy for its investments as of December 31, 2015 and 2014. The alternative investments are measured at fair value using the NAV per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the amounts presented in the balance sheets:

	<b>2015</b>	
	<u>Fair value</u>	<u>Level 1</u>
Short-term investments	\$ 11,490,152	11,490,152
Mutual funds:		
Large growth equity	18,603,043	18,603,043
Small cap equity	4,672,002	4,672,002
Large cap equity	24,308,302	24,308,302
International equity	10,248,740	10,248,740
Short duration equity	—	—
High-yield equity	1,338,182	1,338,182
International emerging	2,160,194	2,160,194
Subtotal	72,820,615	\$ <u>72,820,615</u>
Alternative investments measured at NAV:		
Fixed income	12,460,740	
Limited partnerships	15,355,096	
Total	\$ <u>100,636,451</u>	

	<b>2014</b>	
	<u>Fair value</u>	<u>Level 1</u>
Cash and cash equivalents	\$ 10,329,969	10,329,969
Short-term investments	6,966,603	6,966,603
Mutual funds:		
Large growth equity	18,429,201	18,429,201
Small cap equity	7,381,390	7,381,390
Large cap equity	27,361,324	27,361,324
International equity	11,561,421	11,561,421
Short duration equity	706,920	706,920
High-yield equity	1,362,389	1,362,389
International emerging	2,705,526	2,705,526
Total	86,804,743	\$ <u>86,804,743</u>
Alternative investments measured at NAV:		
Fixed income	12,434,068	
Limited partnerships	5,864,062	
Total	\$ <u>105,102,873</u>	

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The following tables present the strategies and related redemption information with respect to the Council's investments measured at NAV:

	<b>2015</b>			
	<b>Fair value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Distressed debt securities	\$ 604,519	—	Semiannual	90–120 days
Distressed debt securities	4,210,873	5,365,678	Semiannual	90–120 days
Diversified private equity fund-of-funds	593,324	360,976	No redemptions	Not applicable
Investment-driven fund	5,074,909	—	Quarterly	Quarterly
Investment-driven fund	4,871,471	—	Quarterly	65 days
Fixed income	12,460,740	—	Daily	3 days
	<u>\$ 27,815,836</u>	<u>5,726,654</u>		
	<b>2014</b>			
	<b>Fair value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Distressed debt securities	\$ 1,131,102	—	Semiannual	90–120 days
Distressed debt securities	3,021,344	7,156,418	Semiannual	90–120 days
Diversified private equity fund-of-funds	1,165,879	360,976	No redemptions	Not applicable
Investment-driven fund	545,737	—	Quarterly	95 days
Fixed income	12,434,068	—	Daily	3 days
	<u>\$ 18,298,130</u>	<u>7,517,394</u>		

Under the terms of limited partnership agreements, the Council is obligated to periodically advance additional funding for its limited partnership investments. The unfunded commitments have not been recorded as a liability in the accompanying balance sheets. Such commitments generally have fixed expiration dates or other termination clauses. The Council maintains sufficient liquidity in its investment portfolio to cover such calls.

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**(4) Grants and Contributions Receivable**

At December 31, 2015 and 2014, grants and contributions receivable are expected to be collected as follows:

	<b>2015</b>	<b>2014</b>
Less than one year	\$ 14,470,276	14,029,325
Less allowance for uncollectible amounts	(43,000)	(41,000)
Total grants and contributions receivable, net	\$ 14,427,276	13,988,325

**(5) Fixed Assets**

Fixed assets at December 31, 2015 and 2014 consist of the following:

	<b>2015</b>	<b>2014</b>
Leasehold improvements	\$ 20,630,630	16,377,918
Furniture and equipment	3,525,193	2,239,891
Computer equipment	2,135,573	2,142,498
Automobiles	589,033	600,504
Office condominium	513,894	513,894
	27,394,323	21,874,705
Less accumulated depreciation and amortization	(14,572,877)	(17,365,705)
	\$ 12,821,446	4,509,000

**(6) Temporarily Restricted and Permanently Restricted Net Assets**

At December 31, 2015 and 2014, temporarily restricted net assets are to be used for the following purposes:

	<b>2015</b>	<b>2014</b>
HIV and AIDS	\$ 1,080,198	1,461,661
Poverty, gender, and youth	3,406,935	3,888,622
Reproductive health	5,410,678	6,249,602
Publications	70,000	—
Future periods	1,058,123	1,380,461
	\$ 11,025,934	12,980,346



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Permanently restricted net assets support operations as follows:

	<u>2015</u>	<u>2014</u>
DeWitt Wallace Fellowship Fund	\$ 450,000	450,000
Policy Research Endowment Fund	2,035,776	2,035,776
New Capital Campaign General Fund	3,000,000	3,000,000
	<u>\$ 5,485,776</u>	<u>5,485,776</u>

**(7) Endowment Funds**

The Council's endowment consists of several individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Council follows the *New York Prudent Management of Institutional Funds Act* (NYPMIFA). Based on the interpretation of NYPMIFA by the Council's board of trustees, GAAP, and absent explicit donor stipulations to the contrary, the Council classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by NYPMIFA and in accordance with the disclosure provisions set forth by Accounting Standards Codification 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*.

In accordance with NYPMIFA, the Council considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Council and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Council
- (7) The investment policies of the Council

The annual 2015 and 2014 spending authorizations were calculated at \$5.4 million and \$4.3 million, respectively. Both amounts represent approximately 5% of the average market value of the endowment over the previous eight quarters ended September 30 unless an endowment fund's spending rate is specifically

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designated otherwise by a donor. The calculation is performed during the budgeting process and the withdrawal request is proposed to the board of trustees for use in support of the subsequent year's budget. In addition to the spending authorizations, the Board approved special appropriations of approximately \$3.8 million and \$3.6 million for 2015 and 2014, respectively, primarily to fund the development of the Nestorone®/Ethinyl Estradiol Contraceptive Vaginal Ring.

The authorized withdrawal is drawn down as funds are needed, during, or immediately subsequent to, the budget year for which funds were authorized. Actual withdrawals may be less than the authorized amount. When less is needed, the unused amount is carried forward for appropriation by the board in future budget periods.

The goal of the Council's endowment investment policy is to maximize long-term total return through a combination of income and capital appreciation, in a prudent manner consistent with sound investment practice, to achieve a return at least equal to the spending rate, net of fees over rolling five-year periods. To achieve the goals of growth and income, the endowment portfolio is divided into growth and fixed-income components.

The following tables present the changes in the Council's donor-restricted endowment funds and funds designated by the board of trustees to function as endowments for the years ended December 31, 2015 and 2014:

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
Endowment net assets, beginning of year	\$ 83,617,598	11,079,824	5,485,776	100,183,198
Designations	358,143	—	—	358,143
Investment return:				
Interest, dividends, and realized gains	4,136,013	782,861	—	4,918,874
Unrealized losses	(7,762,941)	(1,596,425)	—	(9,359,366)
Investment fees	(153,847)	(30,501)	—	(184,348)
Appropriation of endowment assets for expenditures and other costs	(8,371,619)	(818,752)	—	(9,190,371)
Endowment net assets, end of year	<u>\$ 71,823,347</u>	<u>9,417,007</u>	<u>5,485,776</u>	<u>86,726,130</u>
Donor-restricted endowment funds	\$ —	9,417,007	5,485,776	14,902,783
Board-designated endowment funds	<u>71,823,347</u>	<u>—</u>	<u>—</u>	<u>71,823,347</u>
Total funds	<u>\$ 71,823,347</u>	<u>9,417,007</u>	<u>5,485,776</u>	<u>86,726,130</u>

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	<b>2014</b>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 85,264,578	10,779,924	5,485,776	101,530,278
Designations	4,200	—	—	4,200
Investment return:				
Interest, dividends, and realized gains	8,738,370	1,718,983	—	10,457,353
Unrealized losses	(2,989,999)	(602,749)	—	(3,592,748)
Investment fees	(161,079)	(31,562)	—	(192,641)
Appropriation of endowment assets for expenditures and other costs	(7,238,472)	(784,772)	—	(8,023,244)
Endowment net assets, end of year	<u>\$ 83,617,598</u>	<u>11,079,824</u>	<u>5,485,776</u>	<u>100,183,198</u>
Donor-restricted endowment funds	\$ —	11,079,824	5,485,776	16,565,600
Board-designated endowment funds	<u>83,617,598</u>	<u>—</u>	<u>—</u>	<u>83,617,598</u>
Total funds	<u>\$ 83,617,598</u>	<u>11,079,824</u>	<u>5,485,776</u>	<u>100,183,198</u>

**(8) Leases**

**(a) Headquarters Office**

The Council occupies its New York headquarters office under a noncancelable operating lease for two floors expiring February 28, 2017, and one floor that expired on December 30, 2014. During November 2013, the Council entered into a new 15 year lease agreement for the New York headquarters office to commence on June 1, 2015. As part of the new agreement, the existing lease for the two floors expiring in February 2017 will terminate ten days after the Council commences business operations in the new space. The existing lease agreement includes rental escalations, which have been deferred and are being amortized over the term of the lease. The unamortized balance of the deferred rent credit as of December 31, 2015 and 2014 was \$4,737,166 and \$294,060, respectively.

Future minimum lease payments by the Council are as follows:

Year ending December 31:	<u>Amount</u>
2016	\$ 1,927,000
2017	1,927,000
2018	1,927,000
2019	1,927,000
2020	1,927,000
Thereafter	<u>22,733,000</u>
	<u>\$ 32,368,000</u>

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The Council subleased a portion of its headquarters office space until December 30, 2014. The Council collected \$802,000 in 2014.

The sublease agreements included rental abatements and escalations that are being recognized over the term of the lease.

Rent expense for the headquarters office was \$2,068,954 and \$2,285,048 in 2015 and 2014, net of sublease income of \$905,807 in 2014. Cash and cash equivalents, and accounts payable and accrued expenses include \$127,285 at December 31, 2014, related to sublease tenant security deposits.

**(b) Center for Biomedical Research**

The Council's Center for Biomedical Research occupies three floors of office and laboratory space at Rockefeller University (the University) under a noncancelable operating lease expiring June 30, 2021. Rent expense was \$2,123,998 and \$1,811,018 in 2015 and 2014, respectively. Annual rent expense is adjusted based upon the Council's pro rata share of actual expenses incurred by the University and the annual percentage increase in the New York area's Consumer Price Index.

**(c) Washington, DC Regional Office**

During 1997, the Council entered into an operating lease agreement for office space located in Washington, DC. The agreement contains a special cancellation right in the event that specific cooperative agreements between the Council and the USAID are either not renewed or are otherwise terminated. The term of the lease agreement expired on March 31, 2014. During 2014, the Council entered into a second amendment to the current agreement to expand the premises and extend the lease term through February 29, 2028. The new lease agreement includes rental abatements and other allowances totaling \$728,750, which have been deferred and is being amortized over the term of the lease. The unamortized balance of the deferred rent credit as of December 31, 2015 was \$736,054. The net rent expense for this lease was \$359,175 and \$325,977 in 2015 and 2014, respectively.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2016	\$ 369,000
2017	379,000
2018	388,000
2019	398,000
2020	408,000
Thereafter	<u>3,237,000</u>
	<u>\$ 5,179,000</u>

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**(d) Overseas Offices**

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,243,072 and \$1,279,016 in 2015 and 2014, respectively. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2016	\$ 747,759
2017	174,275
2018	67,256
2019	3,009
	<u>\$ 992,299</u>

**(9) Pension and Other Retirement Benefits**

The Council has a noncontributory defined contribution pension plan, covering substantially all of its U.S. employees with at least one year of service and who work at least 20 hours per week. Contributions of 15% of the U.S. paid employees' base salaries are funded annually up to a maximum of \$30,000 per employee until April 1, 2014 when the contribution was reduced to 12% up to a maximum of \$24,000. Total pension expense for 2015 and 2014 was approximately \$2,592,893 and \$2,712,785, respectively.

In addition to providing pension benefits, the Council sponsors a defined benefit postretirement healthcare plan that provides medical and dental benefits for retired employees who meet certain minimum age and length of service requirements. During 1998, the Council established a trust to fund a portion of its postretirement medical benefit plan. Assets of the trust amounting to \$4,936,887 and \$5,460,734 are included in the balance sheets as of December 31, 2015 and 2014, respectively. Assets of the trust primarily consisting of domestic equity and fixed-income securities (74%) and international equity and fixed-income securities (26%) are considered Level 1 under the Council's fair value hierarchy. The plan is contributory, with retiree contributions adjusted periodically.

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The following table presents the information regarding the postretirement medical benefits plan at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Benefit obligation at December 31	\$ 9,997,576	9,371,779
Fair value of plan assets at December 31	<u>4,936,887</u>	<u>5,460,734</u>
Funded status	<u>\$ (5,060,689)</u>	<u>(3,911,045)</u>
Postretirement medical benefits payable	\$ 9,997,576	9,371,779
Benefit cost	347,136	151,986
Employer contribution	8,567	3,950
Plan participants' contributions	232,775	206,202
Benefits paid	(632,472)	(528,590)
Return on assets	(132,717)	172,357
Benefit obligation weighted average discount rate at December 31	4.40%	4.10%
Benefit cost weighted average discount rate for the year ended December 31	4.10%	4.85%

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2015 and 2014 and all future years. This annual rate of increase is net of participant contributions.

The asset allocations of postretirement plan assets at December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments	7%	8%
Fixed-income securities:		
Domestic	25	22
International		
Equity securities:		
Domestic	31	28
International	26	27
Other assets:		
Domestic	11	13
International	—	2
	<u>100%</u>	<u>100%</u>

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Projected benefit payments, net of participant contributions for each of the next five years and thereafter, are as follows:

Year(s) ending December 31:		
2016	\$	487,811
2017		507,795
2018		501,025
2019		498,452
2020		512,348
2021–2025		<u>2,754,850</u>
Projected contributions for 2016	\$	<u><u>5,262,281</u></u>

The net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost increased from \$2,332,342 in 2014 to \$3,143,417 in 2015, primarily due to the change in certain actuarial assumptions, including the increase of the benefit obligation-weighted average discount rate. Amortization of the net actuarial loss in 2015 will be \$87,323.

**(10) Loan Payable**

On February 27, 2015, the Council entered into a loan agreement with SunTrust bank. Pursuant to the agreement, the bank loaned the Council an aggregate principal amount of \$7.5 million to support the build out of the Council's new office spaces in New York and Washington DC., as well as the costs incurred to implement an Enterprise Resource Planning system. As of December 31, 2015 the outstanding balance on the loan is \$4,243,935 plus accrued capitalized interest of \$191,341, with the remaining amount available to be drawn down prior to March 2017. Principal payments will commence in March 2017, and are payable monthly through February 2022. Interest on the loan accrues at LIBOR plus 1% of the aggregate principal and is payable monthly. As of December 31, 2015 the interest rate was 1.5% and interest paid during the year amounted to \$22,656.

**(11) U.K. Department of International Development**

The Council incurred expenses and received remittances from the U.K. Department of International Development during 2015 against purchase order numbers 5246, 40054814, and 6171.

Total remittances received during 2015 are as follows:

Purchase order number 5246	\$	1,083,499
Purchase order number 40054814		3,852,917
Purchase order number 6171		3,542,424

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Total expenditures incurred during 2015 are as follows:

Purchase order number 5246	\$	1,800,684
Purchase order number 40054814		2,503,097
Purchase order number 6171		2,655,539

**(12) Danish Ministry of Foreign Affairs**

Grants and contributions revenue in 2015 includes contributions of \$1,266,452 remitted from the Danish Ministry of Foreign Affairs on July 13, 2015 for the award File No. 104.N.151.PC/UMF no. 627.0020.34/Development Policy and Global Cooperation.

**(13) International HIV/AIDS Alliance**

The Council incurred expenses and received remittances from the International HIV/AIDS Alliance during 2015 against sub grant BUZASRH.POPU.1.

Receivable balance at December 31, 2014	\$	435,850
Receipt of funds		1,406,830
Expenditures incurred		<u>1,359,256</u>
Receivable balance at December 31, 2015	\$	<u><u>388,276</u></u>

**(14) Contingencies**

The Council is contingently liable under certain claims and lawsuits, many of which are covered in whole or in part by insurance. In management's opinion, none of these claims and lawsuits will have a material adverse effect on the Council's financial position or changes in net assets.

**(15) Subsequent Events**

In connection with the preparation of the financial statements, the Council evaluated subsequent events from the balance sheet date of December 31, 2015 through May 23, 2016, which was the date the financial statements were available to be issued and determined that no additional disclosures are required.