



THE POPULATION COUNCIL, INC.

Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, 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 30, 2017

THE POPULATION COUNCIL, INC.

Balance Sheets

December 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 8,903,899	9,094,177
Grants and contributions receivable, net (notes 2(l) and 4):		
U.S. government agencies	9,420,796	9,579,969
Other	5,700,175	4,847,307
Other receivables	698,549	784,760
Prepaid expenses and other assets (note 8)	1,801,992	2,174,454
Postretirement medical benefits trust (note 9)	4,799,958	4,936,887
Investments (note 3)	98,729,206	100,636,451
Fixed assets, net (note 5)	<u>12,765,919</u>	<u>12,821,446</u>
Total assets	\$ <u>142,820,494</u>	<u>144,875,451</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 5,115,181	5,173,118
Awards, contracts, and fellowships payable	5,742,584	5,468,649
Program advances	13,784,675	14,079,032
Loans payable (note 10)	4,243,935	4,243,935
Deferred revenue	8,214,286	9,642,857
Deferred rent credit (note 8)	5,384,100	5,473,220
Accrued lease obligation	142,457	176,544
Postretirement medical benefits payable (note 9)	<u>10,121,754</u>	<u>9,997,576</u>
Total liabilities	<u>52,748,972</u>	<u>54,254,931</u>
Commitments and contingencies (notes 3, 8, 9 and 14)		
Net assets:		
Unrestricted:		
General undesignated	1,676,188	2,285,463
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	<u>72,064,882</u>	<u>71,823,347</u>
	73,741,070	74,108,810
Temporarily restricted (notes 6 and 7)	10,844,676	11,025,934
Permanently restricted (notes 6 and 7)	<u>5,485,776</u>	<u>5,485,776</u>
Total net assets	<u>90,071,522</u>	<u>90,620,520</u>
Total liabilities and net assets	\$ <u>142,820,494</u>	<u>144,875,451</u>

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Activities

Year ended December 31, 2016

	<u>General undesigned</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 and 12)	\$ 72,019,181	1,000	72,020,181	297,864	—	72,318,045
Royalties	4,027,938	—	4,027,938	—	—	4,027,938
Interest and dividends (net of \$196,441 investment fees)	1,653	1,386,726	1,388,379	272,018	—	1,660,397
Net (depreciation) appreciation in fair value of investments	(27,253)	5,506,833	5,479,580	1,027,499	—	6,507,079
Net assets released from restrictions	683,143	—	683,143	(683,143)	—	—
Total operating revenue	<u>76,704,662</u>	<u>6,894,559</u>	<u>83,599,221</u>	<u>914,238</u>	<u>—</u>	<u>84,513,459</u>
Operating expenses:						
Program services:						
HIV and AIDS	23,075,388	—	23,075,388	—	—	23,075,388
Poverty, gender, and youth	14,697,377	—	14,697,377	—	—	14,697,377
Reproductive health	28,305,429	3,155,775	31,461,204	—	—	31,461,204
Distinguished colleagues	102,367	—	102,367	—	—	102,367
Publications	1,349,942	—	1,349,942	—	—	1,349,942
Total program services	<u>67,530,503</u>	<u>3,155,775</u>	<u>70,686,278</u>	<u>—</u>	<u>—</u>	<u>70,686,278</u>
Supporting services:						
Management and general	13,288,902	387,197	13,676,099	—	—	13,676,099
Fund-raising	872,516	—	872,516	—	—	872,516
Total supporting services	<u>14,161,418</u>	<u>387,197</u>	<u>14,548,615</u>	<u>—</u>	<u>—</u>	<u>14,548,615</u>
Total operating expenses	<u>81,691,921</u>	<u>3,542,972</u>	<u>85,234,893</u>	<u>—</u>	<u>—</u>	<u>85,234,893</u>
(Deficiency) excess of operating revenue over operating expenses	(4,987,259)	3,351,587	(1,635,672)	914,238	—	(721,434)
Other changes in net assets:						
Gain on lease obligation and other, net	172	—	172	—	—	172
Pension and other postretirement changes other than net periodic benefit cost (note 9)	172,264	—	172,264	—	—	172,264
Transfer from endowments (note 7)	4,205,548	(3,110,052)	1,095,496	(1,095,496)	—	—
(Decrease) increase in net assets	<u>(609,275)</u>	<u>241,535</u>	<u>(367,740)</u>	<u>(181,258)</u>	<u>—</u>	<u>(548,998)</u>
Net assets at beginning 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>
Net assets at end of year	<u>\$ 1,676,188</u>	<u>72,064,882</u>	<u>73,741,070</u>	<u>10,844,676</u>	<u>5,485,776</u>	<u>90,071,522</u>

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	(6,524,889)	(6,929,573)	(13,454,462)	(1,135,660)	—	(14,590,122)
Other changes in net assets:						
Loss on lease obligation and other, net	(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 Functional Expenses

Year ended December 31, 2016

	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	\$ 6,645,457	2,416,911	3,899,842	—	—	12,962,210	—	—	—	12,962,210
Salaries and allowances	7,614,221	5,308,232	11,872,908	64,144	771,534	25,631,039	7,433,897	441,091	7,874,988	33,506,027
Pensions and other employee benefits (note 9)	2,347,962	1,512,427	3,451,822	21,196	252,089	7,585,496	2,454,201	135,921	2,590,122	10,175,618
Consultants and professional fees	390,744	714,944	1,415,514	303	39,682	2,561,187	757,635	89,047	846,682	3,407,869
Research and related services	1,938,355	1,145,352	3,272,236	5	68	6,356,016	—	2,864	2,864	6,358,880
Laboratory supplies, equipment, and maintenance	547,071	214,260	480,810	408	5,375	1,247,924	—	—	—	1,247,924
Travel and meetings	1,441,204	1,543,621	3,419,107	2,516	7,946	6,414,394	601,704	74,180	675,884	7,090,278
Occupancy, net (note 8)	1,431,284	1,269,785	2,401,024	12,678	204,331	5,319,102	703,562	99,797	803,359	6,122,461
Telecommunications, postage, and supplies	231,822	240,684	347,278	181	6,036	826,001	274,301	7,407	281,708	1,107,709
Office equipment and maintenance	83,230	38,623	204,727	83	1,291	327,954	419,506	8	419,514	747,468
Printing, publications, books, and journals	82,875	146,959	154,618	24	50,649	435,125	101,929	14,602	116,531	551,656
Insurance	54,658	6,391	123,115	3	35	184,202	169,008	—	169,008	353,210
Other fees	17,420	18,760	32,363	18	251	68,812	85,747	7,451	93,198	162,010
Other	5,383	2,822	8,188	22	294	16,709	21,835	—	21,835	38,544
Total expenses before depreciation and amortization	22,831,686	14,579,771	31,083,552	101,581	1,339,581	69,936,171	13,023,325	872,368	13,895,693	83,831,864
Depreciation and amortization of leasehold improvements, equipment, and other	243,702	117,606	377,652	786	10,361	750,107	652,774	148	652,922	1,403,029
Total	\$ 23,075,388	14,697,377	31,461,204	102,367	1,349,942	70,686,278	13,676,099	872,516	14,548,615	85,234,893

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.

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Decrease in net assets	\$ (548,998)	(15,433,978)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,403,029	1,192,253
(Gain) loss on lease obligation and other, net	(172)	32,781
Deferred rent credit	(89,120)	4,626,589
Net (appreciation) depreciation in fair value of investments	(6,507,079)	8,123,641
Pension and other postretirement changes other than net periodic benefit cost	(172,264)	811,075
Net loss on sale of fixed assets	110,685	122,533
Changes in assets and liabilities:		
Grants and contributions receivable	(693,695)	(438,951)
Other receivables	86,211	922,055
Prepaid expenses and other assets	372,462	(99,806)
Postretirement medical benefits trust	136,929	523,847
Accounts payable, accrued expenses, and other liabilities	184,523	(918,010)
Awards, contracts, and fellowships payable	273,935	1,493,473
Program advances	(294,357)	1,029,398
Deferred revenue	(1,428,571)	9,642,857
Postretirement medical benefits payable	296,442	(185,278)
Net cash (used in) provided by operating activities	(6,870,040)	11,444,479
Cash flows from investing activities:		
Purchase of investments	(49,612,773)	(20,815,528)
Proceeds from sale of investments	58,027,097	17,158,309
Purchases of fixed assets	(1,701,929)	(8,948,457)
Proceeds from sale of fixed assets	1,454	20,570
Net cash provided by (used in) investing activities	6,713,849	(12,585,106)
Cash flows from financing activities:		
Proceeds from loan	—	4,243,935
Payment on capital leases	(34,087)	(13,205)
Net cash (used in) provided by financing activities	(34,087)	4,230,730
Net (decrease) increase in cash and cash equivalents	(190,278)	3,090,103
Cash and cash equivalents at beginning of year	9,094,177	6,004,074
Cash and cash equivalents at end of year	\$ 8,903,899	9,094,177
Supplemental disclosures of noncash investing and financing activities:		
Capital leases	\$ —	189,749
Change in accounts payable for capital expenditures	(242,288)	509,596
Interest paid	63,868	22,656

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(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 more than 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 of 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, 2016 and 2015

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 2016 or 2015.

(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 actuarial 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. Two 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.
- *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.

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2016 and 2015

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 or published 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 (NAV) 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 NAV 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.

(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.

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(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, 2016 and 2015, the Council had unexpended awards from funding agencies approximating \$108,982,160 and \$105,432,700, 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.

(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

In October 2015, the Council received advance payment for outlicensed technologies and recognized the amount as deferred revenue to be amortized on a straight-line basis over the estimated useful life of the product or agreement. The related agreement was terminated in April 2017. The Council will recognize the balance of the deferred revenue as of December 31, 2016 in 2017.

(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 \$160,000 and \$14,000 in 2016 and 2015, respectively.

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(k) Royalties

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

(l) Concentration of Support

During 2016 and 2015, approximately \$30.1 million and \$26.4 million, respectively, of the Council's grants were funded directly by the United States Agency for International Development (USAID). As of December 31, 2016 and 2015, approximately \$7.1 million and \$7.4 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 61% of the Council's revenue in 2016 and 57% of the Council's revenue in 2015.

(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.

(n) New Authoritative Accounting Pronouncements

In June 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-10, *Technical Corrections and Improvements*, that addresses a variety of matters, including a refinement of the definition of an equity security that has a readily determinable fair value. Paragraph 30 of the ASU amends the master glossary term, readily determinable fair value, in part as follows: An equity security has a readily determinable fair value if it meets at least one of several conditions, including (c) The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Paragraph 30 of the ASU became effective upon issuance. This guidance has resulted in the correction and reclassification of certain investments held by the Foundation from investment funds measured at net asset value (or its equivalent) to Level 1 of the fair value hierarchy. This guidance has been applied retrospectively and is reflected in the fair value hierarchy as of December 31, 2015.

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(3) Investments

The following tables present the Council's fair value hierarchy for its investments as of December 31, 2016 and 2015. 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:

	2016	
	<u>Fair value</u>	<u>Level 1</u>
Short-term investments	\$ 7,801,643	7,801,643
Equities (common stock)	5,348,645	5,348,645
Mutual funds:		
Large growth equity	16,201,873	16,201,873
Large cap equity	16,039,484	16,039,484
International equity	11,095,573	11,095,573
Short duration equity	7,615,392	7,615,392
High-yield equity	1,411,445	1,411,445
International emerging	2,603,369	2,603,369
Fixed income	<u>12,820,723</u>	<u>12,820,723</u>
Subtotal	80,938,147	\$ <u><u>80,938,147</u></u>
Alternative investments measured at NAV:		
Limited partnerships	<u>17,791,059</u>	
	\$ <u><u>98,729,206</u></u>	

	2015	
	<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
Large cap equity	4,672,002	4,672,002
International equity	24,308,302	24,308,302
Short duration equity	10,248,740	10,248,740

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	<u>2015</u>	
	<u>Fair value</u>	<u>Level 1</u>
High-yield equity	\$ 1,338,182	1,338,182
International emerging	2,160,194	2,160,194
Fixed income	<u>12,460,740</u>	<u>12,460,740</u>
Subtotal	85,281,355	<u>\$ 85,281,355</u>
Alternative investments measured at NAV:		
Limited partnerships	<u>15,355,096</u>	
	<u>\$ 100,636,451</u>	

In accordance with ASU No. 2015-10, *Technical Corrections and Improvements*, the Council removed \$12,460,740 as of December 31, 2015 from investments measured at net asset value (or its equivalent) and included these amounts in Level 1 to correct the fair value hierarchy table.

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

	<u>2016</u>			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Distressed debt securities	\$ 6,817,497	3,641,091	Semi-annual	90–120 days
Diversified private equity funds-of-funds	396,192	360,976	No redemptions	Not applicable
Multi-strategy	5,430,416	—	Quarterly	Quarterly
Global long/short and event-driven	<u>5,146,954</u>	<u>—</u>	Quarterly	65 days
Total	<u>\$ 17,791,059</u>	<u>4,002,067</u>		

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	2015			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Distressed debt securities	\$ 4,815,392	5,365,678	Semi-annual	90–120 days
Diversified private equity funds-of-funds	593,324	360,976	No redemptions	Not applicable
Multi-strategy	5,074,909	—	Quarterly	Quarterly
Global long/short and event-driven	<u>4,871,471</u>	<u>—</u>	Quarterly	65 days
Total	<u>\$ 15,355,096</u>	<u>5,726,654</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.

(4) Grants and Contributions Receivable

At December 31, 2016 and 2015, grants and contributions receivable are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 15,166,971	14,470,276
Less allowance for uncollectible amounts	<u>(46,000)</u>	<u>(43,000)</u>
Total grants and contributions receivable, net	<u>\$ 15,120,971</u>	<u>14,427,276</u>

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(5) Fixed Assets

Fixed assets at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 20,751,637	20,630,630
Furniture and equipment	3,220,633	3,525,193
Computer equipment	1,536,813	2,135,573
Automobiles	665,371	589,033
Office condominium	513,894	513,894
Work-in-progress	1,153,549	—
	<u>27,841,897</u>	<u>27,394,323</u>
Less accumulated depreciation and amortization	<u>(15,075,978)</u>	<u>(14,572,877)</u>
	<u>\$ 12,765,919</u>	<u>12,821,446</u>

(6) Temporarily Restricted and Permanently Restricted Net Assets

At December 31, 2016 and 2015, temporarily restricted net assets are to be used for the following purposes:

	<u>2016</u>	<u>2015</u>
HIV and AIDS	\$ 1,332,624	1,080,198
Poverty, gender, and youth	3,170,097	3,406,935
Reproductive health	5,313,232	5,410,678
Publications	25,091	70,000
Future periods	1,003,632	1,058,123
	<u>\$ 10,844,676</u>	<u>11,025,934</u>

Included in temporarily restricted net assets is \$9.6 million and \$9.4 million of built up appreciation on permanently restricted net assets as of December 31, 2016 and 2015, respectively.

Permanently restricted net assets support operations as follows:

	<u>2016</u>	<u>2015</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>

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(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 2016 and 2015 spending authorizations were calculated at \$5.1 million and \$5.4 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 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 \$4.3 million and \$3.8 million for 2016 and 2015, 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.

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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, 2016 and 2015:

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 71,823,347	9,417,007	5,485,776	86,726,130
Contributions	1,429,571	—	—	1,429,571
Investment return:				
Interest, dividend and realized gains	5,333,491	1,038,540	—	6,372,031
Unrealized gains	1,724,371	291,984	—	2,016,355
Investment fees	(164,303)	(31,425)	—	(195,728)
Transfers in	173,852	—	—	173,852
Appropriation of endowment assets for expenditures and other costs	<u>(8,255,447)</u>	<u>(1,095,496)</u>	<u>—</u>	<u>(9,350,943)</u>
Endowment net assets, end of year	<u>\$ 72,064,882</u>	<u>9,620,610</u>	<u>5,485,776</u>	<u>87,171,268</u>
Donor-restricted endowment funds	\$ —	9,620,610	5,485,776	15,106,386
Board-designated endowment funds	<u>72,064,882</u>	<u>—</u>	<u>—</u>	<u>72,064,882</u>
Total funds	<u>\$ 72,064,882</u>	<u>9,620,610</u>	<u>5,485,776</u>	<u>87,171,268</u>

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	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 83,617,598	11,079,824	5,485,776	100,183,198
Designation	358,143	—	—	358,143
Investment return:				
Interest, dividend 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	\$ 71,823,347	9,417,007	5,485,776	86,726,130
Donor-restricted endowment funds	\$ —	9,417,007	5,485,776	14,902,783
Board-designated endowment funds	71,823,347	—	—	71,823,347
Total funds	\$ 71,823,347	9,417,007	5,485,776	86,726,130

(8) Leases

(a) Headquarters Office

The Council occupies its New York headquarters office under a new 16-year noncancelable operating lease for two floors expiring on December 31, 2030. The lease agreement includes rental escalations, which have been deferred and are being amortized over the term of the lease. As a part of the new agreement, the Council terminated the old operating lease in June 2016, earlier than the expiration date of February 28, 2017. 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, 2016 and 2015 was \$4,652,325 and \$4,737,166, respectively.

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Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2017	\$ 1,927,000
2018	1,927,000
2019	1,927,000
2020	1,927,000
2021	2,158,000
Thereafter	<u>20,575,000</u>
	<u>\$ 30,441,000</u>

Rent expense for the headquarters office was \$2,023,088 and \$2,068,954 in 2016 and 2015, respectively.

(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 \$2,129,732 and \$2,123,998 in 2016 and 2015, 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, 2016 and 2015 was \$731,775 and \$736,054, respectively. The net rent expense for this lease was \$370,230 and \$359,175 in 2016 and 2015, respectively.

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Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2017	\$ 379,000
2018	388,000
2019	398,000
2020	408,000
2021	418,000
Thereafter	<u>2,819,000</u>
	<u>\$ 4,810,000</u>

(d) Overseas Offices

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,259,902 and \$1,243,072 in 2016 and 2015, respectively. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2017	\$ 964,727
2018	420,031
2019	201,977
2020	181,477
2021	187,043
2022	<u>192,804</u>
	<u>\$ 2,148,059</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 2016 and 2015 was approximately \$2,627,124 and \$2,592,893, 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 \$4,799,958 and \$4,936,887 are included in the balance sheets as of December 31, 2016 and 2015, respectively. Assets of the trust primarily consisting of domestic equity and fixed-income securities (75%) and international equity and

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fixed-income securities (25%) are considered Level 1 under the Council's fair value hierarchy. The plan is contributory, with retiree contributions adjusted periodically.

The following table presents the information regarding the postretirement medical benefits plan at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Benefit obligation at December 31	\$ 10,121,754	9,997,576
Fair value of plan assets at December 31	<u>4,799,958</u>	<u>4,936,887</u>
Funded status	<u>\$ (5,321,796)</u>	<u>(5,060,689)</u>
Postretirement medical benefits payable	\$ 10,121,754	9,997,576
Benefit cost	395,183	347,136
Employer contribution	1,093	8,567
Plan participants' contributions	250,194	232,775
Benefits paid	(643,013)	(632,472)
Return on assets	254,797	(132,717)
Benefits obligation weighted average discount rate at December 31	4.40 %	4.40 %
Benefits cost weighted average discount rate for the year ended December 31	4.40	4.10

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2016 and 2015 and all future years. This annual rate of increase is net of participant contributions.

The asset allocations of postretirement plan assets at December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Short-term investments	6 %	7 %
Fixed-income securities:		
Domestic	28	25
International	2	—
Equity securities:		
Domestic	31	31
International	23	26
Other assets:		
Domestic	10	11
International	—	—
	<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:		
2017	\$	438,620
2018		435,300
2019		417,512
2020		434,248
2021		462,383
2022–2026		<u>2,537,149</u>
Projected contributions for 2017	\$	<u>4,725,212</u>

The net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost decreased from \$3,143,417 in 2015 to \$2,971,153 in 2016, primarily due to the change in certain actuarial assumptions. Amortization of the net actuarial loss in 2017 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, 2016, the outstanding balance on the loan is \$4,243,935 plus accrued capitalized interest of \$127,474. An additional \$2.2 million was drawn down in February 2017. Principal repayments commenced 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, 2016, the interest rate was 1.6% and interest paid during the year amounted to \$63,868.

(11) U.K. Department of International Development

The Council incurred expenses and received remittances from the U.K. Department of International Development during 2016 against purchase order numbers 5246, 40054814, 6171, and 40102471.

Total remittances received during 2016 are as follows:

Purchase order number 5246	\$	2,464,439
Purchase order number 40054814		836,217
Purchase order number 6171		2,933,373
Purchase order number 40102471		136,298

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Total expenditures incurred during 2016 are as follows:

Purchase order number 5246	\$	2,001,210
Purchase order number 40054814		1,388,586
Purchase order number 6171		3,291,394
Purchase order number 40102471		90,638

(12) International HIV/AIDS Alliance

The Council incurred expenses and received remittances from the International HIV/AIDS Alliance during 2016 against sub grant BUZASRH.POPU.1.

Receivable balance at December 31, 2015	\$	388,276
Receipt of funds		1,314,811
Expenditures incurred		<u>926,715</u>
Receivable balance at December 31, 2016	\$	<u>180</u>

(13) Save the Children Netherlands

The Council incurred expenses and received remittances from the Save the Children Netherlands/ More Than Brides Alliance during 2016 against grant MINBUZA-2016.55195.

Receivable balance at December 31, 2015	\$	—
Receipt of funds		514,651
Expenditures incurred:		
Program costs HQ		248,060
Country program costs – India		144,594
Country program costs – Mali		76,166
Country program costs – Niger		89,992
Country program costs – Malawi		<u>126,942</u>
Total program costs		685,754
Indirect cost		<u>149,083</u>
Total expenditures incurred		<u>834,837</u>
Receivable balance at December 31, 2016	\$	<u>320,186</u>

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(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, 2016 through May 30, 2017, which was the date the financial statements were available to be issued and determined that no additional disclosures are required.