



THE POPULATION COUNCIL, INC.

Financial Statements

December 31, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016, 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

June 22, 2018

THE POPULATION COUNCIL, INC.

Balance Sheets

December 31, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 8,220,936	8,903,899
Grants and contributions receivable, net (notes 2(l) and 4):		
U.S. government agencies	8,263,170	9,420,796
Other	6,778,814	5,700,175
Other receivables	822,774	698,549
Prepaid expenses and other assets (note 8)	1,729,958	1,801,992
Investments (note 3)	102,971,232	98,729,206
Fixed assets, net (note 5)	12,116,891	12,765,919
Total assets	<u>\$ 140,903,775</u>	<u>138,020,536</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 4,939,680	5,115,181
Awards, contracts, and fellowships payable	6,283,463	5,742,584
Program advances	12,813,832	13,784,675
Loans payable (note 10)	5,369,946	4,243,935
Deferred revenue	—	8,214,286
Deferred rent credit (note 8)	5,285,743	5,384,100
Accrued lease obligation	106,091	142,457
Postretirement medical benefits payable (note 9)	6,501,186	5,321,796
Total liabilities	<u>41,299,941</u>	<u>47,949,014</u>
Commitments and contingencies (notes 3, 8, 9, and 13)		
Net assets:		
Unrestricted:		
General undesignated	1,744,215	1,676,188
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	79,564,308	72,064,882
	81,308,523	73,741,070
Temporarily restricted (notes 6 and 7)	12,809,535	10,844,676
Permanently restricted (notes 6 and 7)	5,485,776	5,485,776
Total net assets	<u>99,603,834</u>	<u>90,071,522</u>
Total liabilities and net assets	<u>\$ 140,903,775</u>	<u>138,020,536</u>

See accompanying notes to the financial statements.

THE POPULATION COUNCIL, INC.

Statement of Activities

Year ended December 31, 2017

	<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 and 12)	\$ 70,352,420	1,000	70,353,420	1,410,716	—	71,764,136
Royalties	10,960,758	—	10,960,758	—	—	10,960,758
Interest and dividends (net of \$185,022 investment fees)	146	1,290,813	1,290,959	260,319	—	1,551,278
Net (depreciation) appreciation in fair value of investments	(8,569)	10,421,902	10,413,333	2,037,352	—	12,450,685
Other	78,067	—	78,067	—	—	78,067
Net assets released from restrictions	1,062,294	—	1,062,294	(1,062,294)	—	—
Total operating revenue	<u>82,445,116</u>	<u>11,713,715</u>	<u>94,158,831</u>	<u>2,646,093</u>	<u>—</u>	<u>96,804,924</u>
Operating expenses:						
Program services:						
Social & behavioral sciences	55,552,271	—	55,552,271	—	—	55,552,271
Biomedical research	10,009,697	7,613,581	17,623,278	—	—	17,623,278
Total program services	<u>65,561,968</u>	<u>7,613,581</u>	<u>73,175,549</u>	<u>—</u>	<u>—</u>	<u>73,175,549</u>
Supporting services:						
Management and general	12,432,962	130,313	12,563,275	—	—	12,563,275
Fund-raising	680,350	—	680,350	—	—	680,350
Total supporting services	<u>13,113,312</u>	<u>130,313</u>	<u>13,243,625</u>	<u>—</u>	<u>—</u>	<u>13,243,625</u>
Total operating expenses	<u>78,675,280</u>	<u>7,743,894</u>	<u>86,419,174</u>	<u>—</u>	<u>—</u>	<u>86,419,174</u>
Excess of operating revenue over operating expenses	3,769,836	3,969,821	7,739,657	2,646,093	—	10,385,750
Other changes in net assets:						
Loss on lease obligation and other, net (note 8)	(72)	—	(72)	—	—	(72)
Pension and other postretirement changes other than net periodic benefit cost (note 9)	(853,366)	—	(853,366)	—	—	(853,366)
Transfer from endowments (notes 2(i) and 7)	(2,848,371)	3,529,605	681,234	(681,234)	—	—
Increase in net assets	<u>68,027</u>	<u>7,499,426</u>	<u>7,567,453</u>	<u>1,964,859</u>	<u>—</u>	<u>9,532,312</u>
Net assets at beginning 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>
Net assets at end of year	\$ <u>1,744,215</u>	<u>79,564,308</u>	<u>81,308,523</u>	<u>12,809,535</u>	<u>5,485,776</u>	<u>99,603,834</u>

See accompanying notes to the financial statements.

THE POPULATION COUNCIL, INC.

Statement of Activities

Year ended December 31, 2016

	<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 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 appreciation (depreciation) 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	76,704,662	6,894,559	83,599,221	914,238	—	84,513,459
Operating expenses:						
Program services:						
Social & Behavioral Sciences	52,466,869	—	52,466,869	—	—	52,466,869
Biomedical Research	15,063,634	3,155,775	18,219,409	—	—	18,219,409
Total program services	67,530,503	3,155,775	70,686,278	—	—	70,686,278
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	14,161,418	387,197	14,548,615	—	—	14,548,615
Total operating expenses	81,691,921	3,542,972	85,234,893	—	—	85,234,893
(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	(609,275)	241,535	(367,740)	(181,258)	—	(548,998)
Net assets at beginning of year	2,285,463	71,823,347	74,108,810	11,025,934	5,485,776	90,620,520
Net assets at end of year	\$ 1,676,188	72,064,882	73,741,070	10,844,676	5,485,776	90,071,522

See accompanying notes to the financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2017

	Program services			Supporting services			Total expenses
	Social & behavioral sciences	Biomedical research	Total	Management and general	Fund-raising	Total	
Awards, contracts, and fellowships	\$ 14,015,490	1,183,136	15,198,626	—	—	—	15,198,626
Salaries and allowances	19,111,620	5,285,641	24,397,261	6,982,528	295,787	7,278,315	31,675,576
Pensions and other employee benefits (note 9)	5,768,589	1,723,336	7,491,925	2,161,551	100,231	2,261,782	9,753,707
Consultants and professional fees	2,003,063	2,357,067	4,360,130	472,934	189,295	662,229	5,022,359
Research and related services	2,980,757	3,114,877	6,095,634	—	—	—	6,095,634
Program supplies and maintenance	388,910	693,352	1,082,262	—	—	—	1,082,262
Travel and meetings	6,550,585	168,647	6,719,232	302,116	7,759	309,875	7,029,107
Occupancy, net (note 8)	3,090,394	2,290,288	5,380,682	768,189	61,317	829,506	6,210,188
Telecommunications, postage, and supplies	674,786	79,366	754,152	288,011	1,550	289,561	1,043,713
Office equipment and maintenance	332,516	39,017	371,533	335,677	—	335,677	707,210
Printing, publications, books, and journals	302,090	19,667	321,757	129,510	21,398	150,908	472,665
Insurance	24,348	112,043	136,391	164,477	—	164,477	300,868
Other fees	70,436	852	71,288	78,327	3,013	81,340	152,628
Other	—	—	—	62,037	—	62,037	62,037
Total expenses before depreciation and amortization	55,313,584	17,067,289	72,380,873	11,745,357	680,350	12,425,707	84,806,580
Depreciation and amortization of leasehold improvements, equipment, and other	238,687	555,989	794,676	817,918	—	817,918	1,612,594
2017 Total	\$ 55,552,271	17,623,278	73,175,549	12,563,275	680,350	13,243,625	86,419,174
2016 Total	\$ 52,466,869	18,219,409	70,686,278	13,676,099	872,516	14,548,615	85,234,893

See accompanying notes to the financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2016

	Program services			Supporting services			Total expenses
	Social & behavioral sciences	Biomedical research	Total	Management and general	Fund-raising	Total	
Awards, contracts, and fellowships	\$ 11,576,526	1,385,684	12,962,210	—	—	—	12,962,210
Salaries and allowances	19,557,470	6,073,569	25,631,039	7,433,897	441,091	7,874,988	33,506,027
Pensions and other employee benefits (note 9)	5,713,959	1,871,537	7,585,496	2,454,201	135,921	2,590,122	10,175,618
Consultants and professional fees	1,945,805	615,382	2,561,187	757,635	89,047	846,682	3,407,869
Research and related services	2,573,581	3,782,435	6,356,016	—	2,864	2,864	6,358,880
Program supplies and maintenance	275,890	972,034	1,247,924	—	—	—	1,247,924
Travel and meetings	6,086,678	327,716	6,414,394	601,704	74,180	675,884	7,090,278
Occupancy, net (note 8)	3,042,604	2,276,498	5,319,102	703,562	99,797	803,359	6,122,461
Telecommunications, postage, and supplies	722,795	103,206	826,001	274,301	7,407	281,708	1,107,709
Office equipment and maintenance	282,921	45,033	327,954	419,506	8	419,514	747,468
Printing, publications, books, and journals	387,357	47,768	435,125	101,929	14,602	116,531	551,656
Insurance	23,838	160,364	184,202	169,008	—	169,008	353,210
Other fees	68,261	551	68,812	85,747	7,451	93,198	162,010
Other	16,709	—	16,709	21,835	—	21,835	38,544
Total expenses before depreciation and amortization	52,274,394	17,661,777	69,936,171	13,023,325	872,368	13,895,693	83,831,864
Depreciation and amortization of leasehold improvements, equipment, and other	192,475	557,632	750,107	652,774	148	652,922	1,403,029
Total	\$ 52,466,869	18,219,409	70,686,278	13,676,099	872,516	14,548,615	85,234,893

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 9,532,312	(548,998)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	1,612,594	1,403,029
Loss (gain) on lease obligation and other, net	72	(172)
Deferred rent credit	(98,357)	(89,120)
Net appreciation in fair value of investments	(12,450,685)	(6,507,079)
Pension and other postretirement changes other than net periodic benefit cost	853,366	(172,264)
Net (gain) loss on sale of fixed assets	(8,913)	110,685
Changes in assets and liabilities:		
Grants and contributions receivable	78,987	(693,695)
Other receivables	(124,225)	86,211
Prepaid expenses and other assets	72,034	372,462
Accounts payable, accrued expenses, and other liabilities	40,188	184,523
Awards, contracts, and fellowships payable	540,879	273,935
Program advances	(970,843)	(294,357)
Deferred revenue	(8,214,286)	(1,428,571)
Postretirement medical benefits payable	326,024	433,371
Net cash used in operating activities	(8,810,853)	(6,870,040)
Cash flows from investing activities:		
Purchase of investments	(25,184,283)	(49,612,773)
Proceeds from sale of investments	33,392,942	58,027,097
Purchases of fixed assets	(1,179,327)	(1,701,929)
Proceeds from sale of fixed assets	8,913	1,454
Net cash provided by investing activities	7,038,245	6,713,849
Cash flows from financing activities:		
Proceeds from loan	2,200,000	—
Payment on loan payable	(1,073,989)	—
Payment on capital leases	(36,366)	(34,087)
Net cash provided by (used in) financing activities	1,089,645	(34,087)
Net decrease in cash and cash equivalents	(682,963)	(190,278)
Cash and cash equivalents at beginning of year	8,903,899	9,094,177
Cash and cash equivalents at end of year	\$ 8,220,936	8,903,899
Supplemental disclosure of noncash activities:		
Accounts payable for capital expenditures	(26,527)	(242,288)
Interest paid	119,286	63,868

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2017 and 2016

(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 Social and Behavioral Science research areas – HIV and AIDS; poverty, gender, and youth; and reproductive health – and is home to the Center for Biomedical Research (CBR).

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 low- and middle-income 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 key populations at risk of HIV – gaining them much needed policy attention. The Council helps decision makers in low and middle-income countries, health program managers, and, ultimately, women and men successfully, safely, and appropriately adopt new HIV prevention technologies. Specifically:

- The Council expands access to available technologies to reduce the risk of HIV transmission,
- The Council helps policymakers formulate sustainable programs to improve prevention, care and treatment for people living with HIV, and
- The Council seeks to demonstrate how addressing social barriers, including stigma and gender inequities, can improve HIV and AIDS program outcomes.

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 low and middle-income countries. Specifically:

- The Council conducts policy-oriented research and programs that improve the lives of vulnerable populations, especially disadvantaged girls,
- It conducts rigorous impact evaluations on interventions to improve the lives of adolescent girls, evaluating what works, for which girls, under what circumstances, and at what cost, and
- 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.

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The Council's Reproductive Health Program works to improve sexual and reproductive health – especially for marginalized populations in low and middle-income 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 supports the introduction of new contraceptives worldwide, and
- The Council assists policymakers in formulating, launching, and expanding evidence-based programs and policies.

The Council's CBR is a vibrant hub of scientific investigation and product development. For more than 60 years, research conducted at the CBR laboratories has addressed critical questions in reproductive health and supported the development of innovative products that help protect the health and well-being of millions of people worldwide.

CBR's researchers pioneered the field of long-acting, reversible contraception (LARCs), including development of intrauterine devices (IUDs) and implants. Today, more than 170 million people worldwide are using contraceptive technologies developed at CBR or based on CBR's technologies strategies. The Council has pioneered basic research on the mechanisms that lead to infection and by cell-to-cell spread of HIV. Specifically:

- The Council conducts basic research on the biology of HIV and reproductive health,
- The Council is investigating new approaches to prevent HIV and other sexually transmitted infections, including multi-purpose prevention technologies, and
- The Council is developing next-generation contraceptives and delivery systems, including rings, gels, tablets, fast-dissolving inserts, which are designed to be safer, lower-cost and easier to use.

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 CBR are located in New York City. The Council also has an office in Washington, DC, as well as 13 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 2017 or 2016.

(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

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

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recognized during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include valuation of alternative investments and the actuarial determination of postretirement benefit cost and the related liability.

(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 larger 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.

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 excess/(deficiency) 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 or published 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.

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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.

(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 is 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, 2017 and 2016, the Council had unexpended awards from funding agencies approximating \$95,576,012 and \$108,982,160, 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

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 and the Council recognized the balance of the deferred revenue as of December 31, 2016 as revenue in 2017. The Board of Directors designated the revenue as endowment and the funds were transferred from the Council's operating funds to its unrestricted endowment funds.

(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 \$109,000 and \$160,000 in 2017 and 2016, respectively.

(k) Royalties

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

(l) Concentration of Support

During 2017 and 2016, approximately \$29.2 million and \$30.1 million, respectively, of the Council's grants were funded directly by the United States Agency for International Development (USAID). As of December 31, 2017 and 2016, approximately \$6.2 million and \$7.1 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 58% of the Council's revenue in 2017 and 61% of the Council's revenue in 2016.

(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

The FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not for Profit Entities*, which among other things, changes how not for profit entities report net asset classes, expenses and liquidity in their financial statements. The significant requirements of the new

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ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and retaining the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. The Council plans to adopt ASU 2016-14 for the year ending December 31, 2018.

(o) Reclassifications

Certain reclassifications of 2016 amounts have been made to conform to the 2017 presentation.

(3) Investments

The following tables present the Council's fair value hierarchy for its investments as of December 31, 2017 and 2016. 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:

	2017	
	Fair value	Level 1
Short-term investments	\$ 13,020,386	13,020,386
Equities (common stock)	6,358,891	6,358,891
Mutual funds:		
Large cap growth	28,987,236	28,987,236
International equity	11,658,927	11,658,927
Small mid cap holdings	9,027,150	9,027,150
High-yield equity	1,265,818	1,265,818
International emerging	3,332,763	3,332,763
Fixed income	11,516,281	11,516,281
Subtotal	85,167,452	\$ 85,167,452
Alternative investments measured at NAV:		
Limited partnerships	17,803,780	
	\$ 102,971,232	

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	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 cap growth	32,241,357	32,241,357
International equity	11,095,573	11,095,573
Small mid cap holdings	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>	

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

	2017			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Distressed debt securities	\$ 6,326,932	2,812,085	Semi-annual	90–120 days
Diversified private equity fund-of-funds	313,543	360,976	No redemptions	Not applicable
Multi-strategy	5,780,524	—	Quarterly	Quarterly
Global long/short and event-driven	<u>5,382,781</u>	<u>—</u>	Quarterly	65 days
Total	\$ <u><u>17,803,780</u></u>	<u><u>3,173,061</u></u>		

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	2016			
	<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 fund-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>		

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, 2017 and 2016, grants and contributions receivable are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 15,086,984	15,166,971
Less allowance for uncollectible amounts	<u>(45,000)</u>	<u>(46,000)</u>
Total grants and contributions receivable, net	<u>\$ 15,041,984</u>	<u>15,120,971</u>

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(5) Fixed Assets

Fixed assets at December 31, 2017 and 2016 consist of the following:

	2017	2016
Leasehold improvements	\$ 21,070,484	20,751,637
Furniture and equipment	3,267,755	3,220,633
Computer equipment	3,023,899	1,536,813
Automobiles	595,952	665,371
Office condominium	513,894	513,894
Work-in-progress	178,954	1,153,549
	28,650,938	27,841,897
Less accumulated depreciation and amortization	(16,534,047)	(15,075,978)
	\$ 12,116,891	12,765,919

(6) Temporarily Restricted and Permanently Restricted Net Assets

At December 31, 2017 and 2016, temporarily restricted net assets are to be used for the following purposes:

	2017	2016
Social & behavioral science research	\$ 4,554,733	4,764,313
Biomedical research	6,650,514	5,076,731
Future periods	1,604,288	1,003,632
	\$ 12,809,535	10,844,676

Included in temporarily restricted net assets is \$11.2 million and \$9.6 million of built up appreciation on permanently restricted net assets as of December 31, 2017 and 2016, respectively.

Permanently restricted net assets support operations as follows:

	2017	2016
DeWitt Wallace Fellowship Fund	\$ 450,000	450,000
Policy Research Endowment Fund	2,035,776	2,035,776
General Fund	3,000,000	3,000,000
	\$ 5,485,776	5,485,776

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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 2017 and 2016 spending authorizations were calculated at \$5.0 million and \$5.1 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 of Directors approved special appropriations of approximately \$6.8 million and \$4.3 million for 2017 and 2016, respectively, primarily to fund the development of the Nestorone®/Ethinyl Estradiol Contraceptive Vaginal Ring. In addition, the Board of Directors approved \$1.7 million of special appropriations as bridge funding for CBR activities in 2017.

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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 of Directors 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, 2017 and 2016:

	2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 72,064,882	9,620,610	5,485,776	87,171,268
Designations	8,301,649	—	—	8,301,649
Investment return:				
Interest, dividend and realized gains	7,156,206	1,407,735	—	8,563,941
Unrealized gains	4,764,147	930,422	—	5,694,569
Investment fees	(207,639)	(40,765)	—	(248,404)
Appropriation of endowment assets for expenditures and other costs	(12,514,937)	(681,234)	—	(13,196,171)
Endowment net assets, end of year	<u>\$ 79,564,308</u>	<u>11,236,768</u>	<u>5,485,776</u>	<u>96,286,852</u>
Donor-restricted endowment funds	\$ —	11,236,768	5,485,776	16,722,544
Board-designated endowment funds	<u>79,564,308</u>	<u>—</u>	<u>—</u>	<u>79,564,308</u>
Total funds	<u>\$ 79,564,308</u>	<u>11,236,768</u>	<u>5,485,776</u>	<u>96,286,852</u>

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	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>

(8) Leases

(a) Headquarters Office

The Council occupies its New York headquarters office under a 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 part of the agreement, the Council terminated the old operating lease in June 2016, earlier than the expiration date of February 28, 2017. The 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, 2017 and 2016 was \$4,567,484 and \$4,652,325, respectively.

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Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2018	\$ 1,927,000
2019	1,927,000
2020	1,927,000
2021	2,158,000
2022	2,158,000
Thereafter	<u>18,417,000</u>
	<u>\$ 28,514,000</u>

Rent expense for the headquarters office was \$2,086,660 and \$2,023,088 in 2017 and 2016, respectively.

(b) Center for Biomedical Research

The Council's CBR 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 \$2,166,390 and \$2,129,732 in 2017 and 2016, 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.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2018	\$ 2,259,000
2019	2,282,000
2020	2,282,000
2021	<u>1,141,000</u>
	<u>\$ 7,964,000</u>

(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

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lease. The unamortized balance of the deferred rent credit as of December 31, 2017 and 2016 was \$718,259 and \$731,775, respectively. The net rent expense for this lease was \$382,639 and \$370,230 in 2017 and 2016, respectively.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2018	\$ 388,000
2019	398,000
2020	408,000
2021	418,000
2022	428,000
Thereafter	<u>2,391,000</u>
	<u>\$ 4,431,000</u>

(d) Overseas Offices

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,153,924 and \$1,259,902 in 2017 and 2016, respectively. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2018	\$ 1,084,831
2019	522,416
2020	484,447
2021	407,446
2022	399,687
2023	<u>1,177</u>
	<u>\$ 2,900,004</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 12% of the U.S. paid employees' base salaries are funded annually up to a maximum of \$24,000 per employee. Total pension expense for 2017 and 2016 was approximately \$2,467,700 and \$2,627,124, respectively.

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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 \$4,996,294 and \$4,799,958 are included in the balance sheets as of December 31, 2017 and 2016, respectively. Assets of the trust primarily consisting of short-term investments, domestic equity and fixed-income securities (64%) and international equity and fixed-income securities (36%) 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Benefit obligation at December 31	\$ 11,497,480	10,121,754
Fair value of plan assets at December 31	<u>4,996,294</u>	<u>4,799,958</u>
Funded status	<u>\$ (6,501,186)</u>	<u>(5,321,796)</u>
Postretirement medical benefits payable	\$ 11,497,480	10,121,754
Benefit cost	396,007	395,183
Employer contribution	30,701	1,093
Plan participants' contributions	309,708	250,194
Benefits paid	(788,836)	(643,013)
Return on assets	644,763	254,797
Benefits obligation weighted average discount rate at December 31	3.85 %	4.40 %
Benefits cost weighted average discount rate for the year ended December 31	4.40	4.40

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2017 and 2016 and all future years. This annual rate of increase is net of participant contributions.

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The asset allocations of postretirement plan assets at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Short-term investments	6 %	6 %
Fixed-income securities:		
Domestic	19	28
International	9	2
Equity securities:		
Domestic	29	31
International	27	23
Other assets:		
Domestic	10	10
	100 %	100 %

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

Year(s) ending December 31:	
2018	\$ 460,758
2019	457,387
2020	473,186
2021	488,640
2022	496,250
2023–2027	2,812,079
Projected contributions for 2018	\$ 5,188,300

The net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost decreased from \$2,971,153 in 2016 to \$3,824,520 in 2017, primarily due to the change in certain actuarial assumptions. Amortization of the net actuarial loss in 2018 will be \$96,395.

(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, 2017, the outstanding balance on the loan is \$5,369,946 plus accrued capitalized interest of \$129,319. 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, 2017, the interest rate was 2.4% and interest paid during the year amounted to \$119,286.

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(11) U.K. Department of International Development

The Council incurred expenses and received remittances from the U.K. Department of International Development during 2017 against purchase order numbers 5246, 40054814, 6171, 40102471 and 40106484.

Total remittances received during 2017 are as follows:

Purchase order number 5246	\$	1,197,700
Purchase order number 40054814		564,164
Purchase order number 6171		1,987,783
Purchase order number 40102471		415,432
Purchase order number 40106484		55,935

Total expenditures incurred during 2017 are as follows:

Purchase order number 5246	\$	1,282,616
Purchase order number 40054814		589,215
Purchase order number 6171		3,826,457
Purchase order number 40102471		523,376
Purchase order number 40106484		56,180

(12) Save the Children Netherlands

The Council incurred expenses and received remittances from the Save the Children Netherlands/More Than Brides Alliance during 2017 against grant MINBUZA-2016.55195.

Receivable balance at December 31, 2016	\$	320,186
Receipt of funds		1,075,709
Expenditures incurred:		
Program costs HQ		231,355
Country program costs – India		96,997
Country program costs – Mali		51,832
Country program costs – Niger		1,692
Country program costs – Malawi		2,879
Total program costs		384,755
Indirect cost		77,836
Total expenditures incurred		462,591
Program advances balance at December 31, 2017	\$	<u>(292,932)</u>

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(13) 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.

(14) Subsequent Events

In connection with the preparation of the financial statements, the Council evaluated subsequent events from the balance sheet date of December 31, 2017 through June 22, 2018, which was the date the financial statements were available to be issued and determined that no additional disclosures are required.