



**THE POPULATION COUNCIL, INC.**

Financial Statements

December 31, 2010

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

The Board of Trustees  
The Population Council, Inc.:

We have audited the accompanying balance sheet of The Population Council, Inc. (the Council) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

May 31, 2011

**THE POPULATION COUNCIL, INC.**

Balance Sheet

December 31, 2010

**Assets**

Cash and cash equivalents	\$ 11,530,713
Grants and contributions receivable, net (note 4):	
U.S. government agencies	14,705,470
Other	14,480,197
Other receivables	2,778,796
Prepaid expenses and other assets (notes 8 and 9)	7,581,311
Investments (note 3)	99,708,416
Fixed assets, net (note 5)	7,211,691
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Total assets	\$ 157,996,594
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**Liabilities and Net Assets**

Liabilities:	
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 5,140,570
Awards, contracts, and fellowships payable	10,038,223
Program advances	5,187,925
Loan payable (note 10)	1,506,000
Deferred rent credit (note 8)	979,492
Accrued lease obligation (note 8)	1,296,759
Postretirement medical benefits payable (note 9)	6,535,726
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Total liabilities	30,684,695
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Commitments and contingencies (notes 3, 8, 9, and 12)	
Net assets:	
Unrestricted:	
General undesignated	8,370,340
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	74,626,427
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	82,996,767
Temporarily restricted (note 6)	38,829,356
Permanently restricted (notes 6 and 7)	5,485,776
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Total net assets	127,311,899
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Total liabilities and net assets	\$ 157,996,594
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See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2010

	<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>
<b>Operating revenue:</b>						
Grants and contributions (notes 2(k), 11, and 12)	\$ 36,503,110	1,700	36,504,810	6,340,740	—	42,845,550
Royalties	11,111,729	—	11,111,729	—	—	11,111,729
Interest and dividends (net of \$252,082 investment fees)	917	809,132	810,049	254,930	—	1,064,979
Net appreciation (depreciation) in fair value of investments	17,629	7,653,035	7,670,664	1,567,209	—	9,237,873
Other	56,861	—	56,861	—	—	56,861
Net assets released from restrictions	43,653,717	—	43,653,717	(43,653,717)	—	—
<b>Total operating revenue</b>	<b>91,343,963</b>	<b>8,463,867</b>	<b>99,807,830</b>	<b>(35,490,838)</b>	<b>—</b>	<b>64,316,992</b>
<b>Operating expenses:</b>						
<b>Program services:</b>						
HIV and AIDS	20,719,619	—	20,719,619	—	—	20,719,619
Poverty, Gender, and Youth	11,814,223	—	11,814,223	—	—	11,814,223
Reproductive health	42,939,393	—	42,939,393	—	—	42,939,393
Distinguished colleagues	308,479	—	308,479	—	—	308,479
Publications	1,285,823	—	1,285,823	—	—	1,285,823
Program development	69,162	—	69,162	—	—	69,162
<b>Total program services</b>	<b>77,136,699</b>	<b>—</b>	<b>77,136,699</b>	<b>—</b>	<b>—</b>	<b>77,136,699</b>
<b>Supporting services:</b>						
Management and general	11,708,509	654,305	12,362,814	—	—	12,362,814
Fund-raising	535,029	—	535,029	—	—	535,029
<b>Total supporting services</b>	<b>12,243,538</b>	<b>654,305</b>	<b>12,897,843</b>	<b>—</b>	<b>—</b>	<b>12,897,843</b>
<b>Total operating expenses</b>	<b>89,380,237</b>	<b>654,305</b>	<b>90,034,542</b>	<b>—</b>	<b>—</b>	<b>90,034,542</b>
<b>Excess (deficiency) of operating revenue over operating expenses</b>	<b>1,963,726</b>	<b>7,809,562</b>	<b>9,773,288</b>	<b>(35,490,838)</b>	<b>—</b>	<b>(25,717,550)</b>
<b>Other changes in net assets:</b>						
Gain on lease obligation and other, net (note 8)	525,418	—	525,418	—	—	525,418
Pension and other postretirement charges other than net periodic benefit cost (note 9)	824,066	—	824,066	—	—	824,066
Write-off of contribution receivable	(642,981)	—	(642,981)	—	—	(642,981)
Net asset reclassification based on adoption of ASC 958-205 (notes 2(m) and 7)	—	(282,103)	(282,103)	282,103	—	—
Transfer to board-designated endowment	(1,630,482)	1,630,482	—	—	—	—
Transfer from endowments	2,203,842	(1,768,415)	435,427	(435,427)	—	—
<b>Increase (decrease) in net assets</b>	<b>3,243,589</b>	<b>7,389,526</b>	<b>10,633,115</b>	<b>(35,644,162)</b>	<b>—</b>	<b>(25,011,047)</b>
<b>Net assets at beginning of year</b>	<b>5,126,751</b>	<b>67,236,901</b>	<b>72,363,652</b>	<b>74,473,518</b>	<b>5,485,776</b>	<b>152,322,946</b>
<b>Net assets at end of year</b>	<b>\$ 8,370,340</b>	<b>74,626,427</b>	<b>82,996,767</b>	<b>38,829,356</b>	<b>5,485,776</b>	<b>127,311,899</b>

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2010

	Program services						Supporting services			Total expenses	
	HIV and AIDS	Poverty, Gender, and Youth	Reproductive health	Distinguished colleagues	Publications	Program development	Total	Management and general	Fund-raising		Total
Awards, contracts, and fellowships	\$ 4,023,567	2,262,929	9,576,799	—	—	4,556	15,867,851	—	—	—	15,867,851
Salaries and allowances	6,860,657	4,032,339	12,395,839	197,023	742,236	8,895	24,236,989	5,971,457	292,666	6,264,123	30,501,112
Pensions and other employee benefits (note 9)	2,219,997	1,243,565	3,816,226	73,065	275,300	1,701	7,629,854	2,236,667	107,618	2,344,285	9,974,139
Consultants and professional fees	511,664	904,007	1,518,154	574	13,725	12,248	2,960,372	917,400	14,285	931,685	3,892,057
Research and related services	1,477,072	253,576	5,919,539	12	50	2,375	7,652,624	3,104	—	3,104	7,655,728
Laboratory supplies, equipment, and maintenance	1,619,528	86,368	1,064,640	189	789	109	2,771,623	8,935	—	8,935	2,780,558
Travel and meetings	1,579,153	1,270,970	3,760,819	2,380	15,813	18,998	6,648,133	366,938	21,213	388,151	7,036,284
Occupancy, net (note 8)	1,245,882	1,065,287	2,481,400	31,444	219,393	4,825	5,048,231	1,469,385	51,989	1,521,374	6,569,605
Telecommunications, postage, and supplies	339,623	204,986	616,748	608	3,705	5,813	1,171,483	284,554	10,697	295,251	1,466,734
Office equipment and maintenance	357,737	177,374	447,438	897	3,737	357	987,540	410,187	—	410,187	1,397,727
Printing, publications, books, and journals	202,646	198,026	532,877	154	2,116	8,743	944,562	117,422	33,472	150,894	1,095,456
Insurance	25,893	2,245	318,943	8	35	2	347,126	152,240	—	152,240	499,366
Other fees	33,243	10,101	41,382	48	268	75	85,117	47,332	3,089	50,421	135,538
Other	4,378	1,441	1,499	23	96	5	7,442	3,677	—	3,677	11,119
Total expenses before depreciation and amortization	20,501,040	11,713,214	42,492,303	306,425	1,277,263	68,702	76,358,947	11,989,298	535,029	12,524,327	88,883,274
Depreciation and amortization of leasehold improvements, equipment, and other	218,579	101,009	447,090	2,054	8,560	460	777,752	373,516	—	373,516	1,151,268
Total	\$ 20,719,619	11,814,223	42,939,393	308,479	1,285,823	69,162	77,136,699	12,362,814	535,029	12,897,843	90,034,542

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Cash Flows

Year ended December 31, 2010

Cash flows from operating activities:	
Decrease in net assets	\$ (25,011,047)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,151,268
Gain on lease obligation and other, net	(525,418)
Deferred rent credit	30,095
Net appreciation in fair value of investments	(9,237,873)
Net gain on sale of fixed assets	(11,508)
Changes in assets and liabilities:	
Grants and contributions receivable	39,135,208
Other receivables	(738,781)
Prepaid expenses and other assets	(513,112)
Accounts payable, accrued expenses, and other liabilities	753,571
Awards, contracts, and fellowships payable	(3,436,798)
Program advances	4,977,925
Postretirement medical benefits payable	(411,562)
Net cash provided by operating activities	<u>6,161,968</u>
Cash flows from investing activities:	
Purchase of investments	(67,208,037)
Proceeds from sale of investments	66,515,638
Purchases of fixed assets	(593,363)
Proceeds from sale of fixed assets	11,508
Net cash used in investing activities	<u>(1,274,254)</u>
Net increase in cash and cash equivalents	4,887,714
Cash and cash equivalents at beginning of year	<u>6,642,999</u>
Cash and cash equivalents at end of year	<u>\$ 11,530,713</u>

See accompanying notes to financial statements.

## THE POPULATION COUNCIL, INC.

### Notes to Financial Statements

December 31, 2010

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

The Population Council, Inc. (the Council), an international not-for-profit, nongovernmental research organization established in 1952, seeks 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 analyzes population issues and trends; conducts research in reproductive biology and immunology; develops new health products; works with public and private agencies to improve the quality and outreach of family planning, reproductive health services, and HIV/AIDS services; helps governments design and implement effective population policies; communicates the results of research in the population field to diverse audiences; and helps strengthen professional resources in developing countries through collaborative research and programs, technical exchange, awards, and fellowships.

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 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 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'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.

- The Council examines the range of urban and rural poverty.
- The Council researches ways of using community-based programs to reduce childhood mortality and fertility in impoverished settings.
- The Council studies the best ways to reach adolescent girls, who are among the most isolated and vulnerable populations, around the world.

Drawing on what the Council learns, it develops, evaluates, and expands innovative programs – particularly related to empowerment, health, education, and livelihoods – to address the needs of the poor, especially women and young people.

## THE POPULATION COUNCIL, INC.

### Notes to Financial Statements

December 31, 2010

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 has worked over the years to strengthen the capacity of local researchers and service providers. The Council has cooperated with other organizations to combine strengths and expand the impact of its work. The relationships the Council has cultivated enable it to take on sensitive issues and to maximize technical and financial resources. They enable it to improve peoples' lives.

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, D.C., as well as regional and country offices overseas. 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 2010.

## (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 of grants and contributions receivable, the determination of postretirement benefit cost and the related liability, and the functionalization of expenses.

### (b) *Basis of Presentation*

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

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



## THE POPULATION COUNCIL, INC.

### Notes to Financial Statements

December 31, 2010

*Temporarily restricted net assets* are subject to donor-imposed stipulations that will be met either by 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 prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 also includes investments in its limited partnership investments measured at net asset value, which are redeemable, in part or total, on or near the balance sheet date.
- Level 3 inputs are unobservable inputs for the asset or liability, and includes investments in its limited partnership investments measured at net asset value, which are not redeemable near the balance sheet date.

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

The Council measures the fair value of its limited partnership investments, which do not have readily determinable fair values, using net asset value per share or its equivalent, as provided by the investment managers. The Council reviews and evaluates the value provided by the general partner, as well as the valuation methods and assumptions used in determining the net asset value of the

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2010

limited partnership investments. The estimated fair value may differ significantly from the value that would have been used had a ready market for this investment existed.

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

**(d) Cash Equivalents**

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

**(e) Grants and Contributions**

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

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, 2010, the Council had conditional commitments from funding agencies approximating \$50,700,000.

**(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 net asset value 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.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2010

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

The Council records, as expense, awards, contracts, and fellowships authorized during the year. A liability for unpaid amounts is included in the balance sheet.

**(i) 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 gains of approximately \$89,000 in 2010.

**(j) Royalties**

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

**(k) Concentration of Support**

During 2010, approximately \$19 million of the Council's grants were funded by the United States Agency for International Development (USAID). As of December 31, 2010, approximately \$9 million of the Council's grants receivable are also from USAID.

The three largest funding sources, being two U.S. government agencies and one private foundation, constitute 64% of the Council's revenue in 2010.

**(l) 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 sheet.

**(m) Recently Adopted Accounting Standards**

In 2010, New York State adopted the *New York Prudent Management of Institutional Funds Act* (NYPMIFA). In accordance with the provisions of NYPMIFA, 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 ASC 958-205, *Not-for-Profit Entities*.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2010

**(3) Investments**

The following table presents the Council's fair value hierarchy for its investments as of December 31, 2010:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 2,970,256	2,970,256	—	—
Fixed income securities:				
Domestic corporate bonds	1,624,046	—	1,624,046	—
Domestic real estate related	19,047,595	—	19,047,595	—
U.S. government bonds	8,562,792	8,562,792	—	—
Mutual funds:				
Large growth equity	11,263,800	11,263,800	—	—
Small cap equity	10,876,467	10,876,467	—	—
Large cap equity	18,391,952	18,391,952	—	—
International equity	8,992,875	8,992,875	—	—
High-yield equity	1,599,677	1,599,677	—	—
Alternative investments:				
Limited partnerships	16,325,873	—	14,882,315	1,443,558
Liquidating trust	53,083	—	—	53,083
Total	<u>\$ 99,708,416</u>	<u>62,657,819</u>	<u>35,553,956</u>	<u>1,496,641</u>

Domestic corporate bonds and domestic real estate related fixed income securities were transferred from Level 1 to Level 2 investments during 2010.

The following table presents the activity for all Level 3 assets measured at fair value for the period January 1 to December 31:

Financial assets:	
Beginning balance, January 1, 2010	\$ 444,812
Transfers into Level 3	53,083
Total net unrealized gains	95,461
Purchases and sales, net	<u>903,285</u>
Ending balance, December 31, 2010	<u>\$ 1,496,641</u>

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2010

The following table presents the strategies and related redemption information with respect to the Council's investments measured at net asset value:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Distressed debt securities	\$ 4,909,207	7,106,300	Semiannual	90 – 120 days
Diversified private equity fund-of-funds	1,443,558	1,694,037	No redemptions	Not applicable
Senior loan fund	<u>9,973,108</u>	<u>—</u>	Quarterly	90 days
	<u>\$ 16,325,873</u>	<u>8,800,337</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 sheet. 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, 2010, grants and contributions receivable are expected to be collected as follows:

Less than one year	\$ 26,846,429
One to five years	<u>2,500,399</u>
	29,346,828
Less discount (at rates ranging from 0.99% to 1.07%)	(27,161)
Less allowance for uncollectible amounts	<u>(134,000)</u>
Total grants and contributions receivable, net	<u>\$ 29,185,667</u>

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Notes to Financial Statements

December 31, 2010

**(5) Fixed Assets**

Fixed assets at December 31, 2010 consist of the following:

Leasehold improvements	\$ 17,446,568
Furniture and equipment	3,553,157
Computer equipment	2,620,144
Automobiles	588,467
Office condominium	538,293
	<u>24,746,629</u>
Less accumulated depreciation and amortization	<u>(17,534,938)</u>
	<u>\$ 7,211,691</u>

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

At December 31, 2010, temporarily restricted net assets are to be used for the following purposes:

HIV and AIDS	\$ 4,425,372
Poverty, Gender, and Youth	12,098,777
Reproductive health	21,635,805
Publications	21,893
Program development	37,745
Future periods	609,764
	<u>\$ 38,829,356</u>

Permanently restricted net assets support operations as follows:

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

**(7) Endowment Funds**

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

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

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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.

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; and
- (7) The investment policies of the Council.

The annual 2010 spending authorizations from the endowment funds was calculated at 6% 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. 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 by special board appropriation and may be considered available for 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 objective of 6% cumulative annual real return after adjustment for the consumer price index over rolling five-year periods. To achieve the goals of growth and income, the endowment portfolio is divided into growth and fixed income components.

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The following table presents the changes in the Council's donor-restricted endowment funds and funds designated by the board of trustees to function as endowments for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 60,718,092	1,916,444	5,485,776	68,120,312
Contributions	1,700	—	—	1,700
Investment return:				
Interest, dividends, and realized gains	1,499,360	186,840	—	1,686,200
Unrealized gains	6,398,604	810,141	—	7,208,745
Investment fees	(186,655)	(23,199)	—	(209,854)
Net asset reclassification based on adoption of ASC 958-205	(282,103)	282,103	—	—
Transfers in	8,900,149	5,770,834	—	14,670,983
Appropriation of endowment assets for expenditures and other costs	(2,422,720)	(11,740)	—	(2,434,460)
Endowment net assets, end of year	<u>\$ 74,626,427</u>	<u>8,931,423</u>	<u>5,485,776</u>	<u>89,043,626</u>
Donor-restricted endowment funds	\$ —	8,931,423	5,485,776	14,417,199
Board-designated endowment funds	<u>74,626,427</u>	<u>—</u>	<u>—</u>	<u>74,626,427</u>
Total funds	<u>\$ 74,626,427</u>	<u>8,931,423</u>	<u>5,485,776</u>	<u>89,043,626</u>

**(8) Leases**

**(a) Headquarters Office**

The Council occupies its New York headquarters office under a noncancelable operating lease for two floors expiring February 28, 2017, one floor expiring February 29, 2012, and for one additional floor expiring December 30, 2014. The lease agreements include rental abatements and other concessions totaling \$2,261,666, 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, 2010 was \$979,492.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2011	\$ 2,956,000
2012	2,628,000
2013	2,550,000
2014	2,550,000
2015	1,493,000
2016 and thereafter	<u>1,742,000</u>
	<u>\$ 13,919,000</u>



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The Council has subleased a portion of its headquarters office space. Future minimum lease payments by current sublease tenants are as follows:

	<u>Amount</u>
Year ending December 31:	
2011	\$ 1,386,000
2012	901,000
2013	802,000
2014	802,000
	<u>\$ 3,891,000</u>

The sublease agreements include rental abatements and escalations that are being recognized over the term of the lease. The unamortized balance as of December 31, 2010 was \$486,251, which is included in prepaid expenses and other assets in the balance sheet.

Rent expense for the headquarters office was \$2,682,021 in 2010, net of sublease income of \$1,651,145. Cash and cash equivalents, and accounts payable and accrued expenses include \$260,270 at December 31, 2010 related to sublease tenant security deposits.

The Council's headquarters lease includes certain unused space. A liability totaling \$1,296,759 in 2010, which reflects the Council's estimated loss related to current lease obligations for unused space, net of current and estimated sublease rentals, is included in the accompanying balance sheet. This estimated liability was reduced by \$508,729 in 2010, which is reported as a nonoperating gain on the accompanying statement of activities.

**(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 \$1,973,270 in 2010. 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.

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**(c) Washington, D.C. Regional Office**

During 1997, the Council entered into an operating lease agreement for office space located in Washington, D.C. 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 extends through March 31, 2014. Net rent expense for this lease was \$275,837 in 2010. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2011	\$ 215,000
2012	247,000
2013	252,000
2014	63,000
	<u>\$ 777,000</u>

**(d) Overseas Offices**

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,205,178 in 2010. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2011	\$ 497,000
2012	229,000
2013	13,000
2014	7,000
	<u>\$ 746,000</u>

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

The Council has a noncontributory defined contribution pension plan, covering substantially all of its U.S. employees. Contributions of 15% of the U.S. paid employees' base salaries are funded annually up to a maximum of \$29,000 per employee. Total pension expense for 2010 was approximately \$3,074,000.

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 \$5,557,092 are included in prepaid expenses and other assets in the balance sheet as of December 31, 2010. Assets of the trust primarily consisting of domestic equity and fixed income securities (80%) and international equity and fixed income securities (20%) are considered Level 1 under the Council's fair value hierarchy. The plan is contributory, with retiree contributions adjusted periodically.

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The following table presents the information regarding the postretirement medical benefits plan at December 31, 2010:

Benefit obligation at December 31	\$	6,535,726
Fair value of plan assets at December 31 included in prepaid expenses and other assets		<u>5,557,092</u>
Funded status	\$	<u><u>(978,634)</u></u>
Postretirement medical benefits payable	\$	6,535,726
Benefit cost		245,684
Employer contribution		345,088
Plan participants' contributions		139,569
Benefits paid		(484,657)
Return on assets		511,908
Benefit obligation weighted average discount rate at December 31		5.80%
Benefit cost weighted average discount rate for the year ended December 31		6.19

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2010 and all future years. This annual rate of increase is net of participant contributions; the Council adjusts participant contributions for any increases in health costs above 5.0%.

The asset allocations of postretirement plan assets at December 31, 2010 are summarized as follows:

Short-term investments		6%
Fixed income securities:		
Domestic		33
International		18
Equity securities:		
Domestic		36
International		2
Other assets		<u>5</u>
		<u><u>100%</u></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:		
2011	\$	358,700
2012		365,400
2013		374,200
2014		362,800
2015		388,100
2016 – 2020		2,173,300
Projected contributions for 2011	\$	358,700

At December 31, 2010, the net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost totaled \$155,021. Amortization of the net actuarial gain in 2011 will be \$15,857.

**(10) Loan Payable**

Funding in the form of a noninterest-bearing loan of \$1,506,000 was obtained in 1994 for program-related expenditures. Currently, there is no repayment schedule for the loan, which is to be repaid after the Council recoups its costs related to the program.

**(11) UK Department of International Development**

Grants and contributions revenue in 2010 includes contributions of \$856,861 and \$115,568 remitted from the UK Department of International Development during 2010 against grant agreement AG 5267 and purchase order number 40021306, respectively. Expenditures incurred in the same period for grant agreement AG 5267 and purchase order number 40021306 received from the UK Department of International Development total \$1,264,238 and \$153,609, respectively.

**(12) 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.

**(13) Subsequent Events**

In connection with the preparation of the financial statements, the Council evaluated subsequent events from the balance sheet date of December 31, 2010 through May 31, 2011, which was the date the financial statements were available to be issued and determined that no additional disclosures are required.