



**THE POPULATION COUNCIL, INC.**

Financial Statements

December 31, 2012 and 2011

(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 financial statements of The Population Council, Inc. (the Council), which comprise the balance sheets as of December 31, 2012 and 2011, 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

May 22, 2013

**THE POPULATION COUNCIL, INC.**

Balance Sheets

December 31, 2012 and 2011

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 6,360,942	10,670,195
Grants and contributions receivable, net (note 4):		
U.S. government agencies	7,256,178	6,912,110
Other	6,924,929	9,197,473
Other receivables	2,454,305	3,158,237
Prepaid expenses and other assets (note 8)	2,063,238	2,278,024
Postretirement medical benefits trust (note 9)	5,323,351	5,128,662
Investments (note 3)	94,454,435	92,056,882
Fixed assets, net (note 5)	6,115,146	6,546,028
	<b>\$ 130,952,524</b>	<b>135,947,611</b>
	<b>\$ 130,952,524</b>	<b>135,947,611</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 6,200,620	4,895,120
Awards, contracts, and fellowships payable	3,598,018	5,915,559
Program advances	9,842,653	8,708,840
Loan payable (note 10)	1,506,000	1,506,000
Deferred rent credit (note 8)	791,137	1,004,137
Accrued lease obligation (note 8)	493,066	773,118
Postretirement medical benefits payable (note 9)	9,372,338	9,252,499
	<b>31,803,832</b>	<b>32,055,273</b>
	<b>31,803,832</b>	<b>32,055,273</b>
Commitments and contingencies (notes 3, 8, 9, and 12)		
Net assets:		
Unrestricted:		
General undesignated	4,146,820	4,703,557
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	74,015,933	70,460,681
	<b>78,162,753</b>	<b>75,164,238</b>
Temporarily restricted (notes 6 and 7)	15,500,163	23,242,324
Permanently restricted (notes 6 and 7)	5,485,776	5,485,776
	<b>99,148,692</b>	<b>103,892,338</b>
	<b>99,148,692</b>	<b>103,892,338</b>
Total net assets	<b>99,148,692</b>	<b>103,892,338</b>
Total liabilities and net assets	<b>\$ 130,952,524</b>	<b>135,947,611</b>
	<b>\$ 130,952,524</b>	<b>135,947,611</b>

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2012

	<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(k) and 11)	\$ 54,214,914	3,800	54,218,714	1,018,073	—	55,236,787
Royalties	6,549,529	—	6,549,529	—	—	6,549,529
Interest and dividends (net of \$189,112 investment fees)	19,393	2,097,771	2,117,164	498,326	—	2,615,490
Net appreciation (depreciation) in fair value of investments	(58,887)	6,967,192	6,908,305	1,256,033	—	8,164,338
Other	68,416	—	68,416	—	—	68,416
Net assets released from restrictions	9,729,750	—	9,729,750	(9,729,750)	—	—
Total operating revenue	<u>70,523,115</u>	<u>9,068,763</u>	<u>79,591,878</u>	<u>(6,957,318)</u>	<u>—</u>	<u>72,634,560</u>
Operating expenses:						
Program services:						
HIV and AIDS	23,677,392	—	23,677,392	—	—	23,677,392
Poverty, Gender, and Youth	11,891,507	21,399	11,912,906	—	—	11,912,906
Reproductive health	26,730,095	567,015	27,297,110	—	—	27,297,110
Distinguished colleagues	374,867	—	374,867	—	—	374,867
Publications	1,584,530	—	1,584,530	—	—	1,584,530
Total program services	<u>64,258,391</u>	<u>588,414</u>	<u>64,846,805</u>	<u>—</u>	<u>—</u>	<u>64,846,805</u>
Supporting services:						
Management and general	12,416,818	384,760	12,801,578	—	—	12,801,578
Fund-raising	544,165	—	544,165	—	—	544,165
Total supporting services	<u>12,960,983</u>	<u>384,760</u>	<u>13,345,743</u>	<u>—</u>	<u>—</u>	<u>13,345,743</u>
Total operating expenses	<u>77,219,374</u>	<u>973,174</u>	<u>78,192,548</u>	<u>—</u>	<u>—</u>	<u>78,192,548</u>
(Deficiency) excess of operating revenue over operating expenses	(6,696,259)	8,095,589	1,399,330	(6,957,318)	—	(5,557,988)
Other changes in net assets:						
Gain on lease obligation and other, net (note 8)	390,555	—	390,555	—	—	390,555
Pension and other postretirement charges other than net periodic benefit cost (note 9)	423,787	—	423,787	—	—	423,787
Transfer from endowments (note 7)	5,325,180	(4,540,337)	784,843	(784,843)	—	—
(Decrease) increase in net assets	(556,737)	3,555,252	2,998,515	(7,742,161)	—	(4,743,646)
Net assets at beginning of year	4,703,557	70,460,681	75,164,238	23,242,324	5,485,776	103,892,338
Net assets at end of year	\$ <u>4,146,820</u>	<u>74,015,933</u>	<u>78,162,753</u>	<u>15,500,163</u>	<u>5,485,776</u>	<u>99,148,692</u>

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2011

	<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(k) and 11)	\$ 56,317,571	3,600	56,321,171	3,019,250	—	59,340,421
Royalties	8,037,748	—	8,037,748	—	—	8,037,748
Interest and dividends (net of \$192,770 investment fees)	15,870	1,098,645	1,114,515	393,584	—	1,508,099
Net appreciation (depreciation) in fair value of investments	68,237	(3,782,646)	(3,714,409)	(867,587)	—	(4,581,996)
Other	142,607	—	142,607	—	—	142,607
Net assets released from restrictions	17,322,635	—	17,322,635	(17,322,635)	—	—
Total operating revenue	<u>81,904,668</u>	<u>(2,680,401)</u>	<u>79,224,267</u>	<u>(14,777,388)</u>	<u>—</u>	<u>64,446,879</u>
Operating expenses:						
Program services:						
HIV and AIDS	22,505,317	—	22,505,317	—	—	22,505,317
Poverty, Gender, and Youth	11,731,872	—	11,731,872	—	—	11,731,872
Reproductive health	36,477,107	—	36,477,107	—	—	36,477,107
Distinguished colleagues	320,300	—	320,300	—	—	320,300
Publications	1,286,563	—	1,286,563	—	—	1,286,563
Total program services	<u>72,321,159</u>	<u>—</u>	<u>72,321,159</u>	<u>—</u>	<u>—</u>	<u>72,321,159</u>
Supporting services:						
Management and general	11,505,314	569,435	12,074,749	—	—	12,074,749
Fund-raising	549,029	—	549,029	—	—	549,029
Total supporting services	<u>12,054,343</u>	<u>569,435</u>	<u>12,623,778</u>	<u>—</u>	<u>—</u>	<u>12,623,778</u>
Total operating expenses	<u>84,375,502</u>	<u>569,435</u>	<u>84,944,937</u>	<u>—</u>	<u>—</u>	<u>84,944,937</u>
Deficiency of operating revenue over operating expenses	(2,470,834)	(3,249,836)	(5,720,670)	(14,777,388)	—	(20,498,058)
Other changes in net assets:						
Gain on lease obligation and other, net (note 8)	520,763	—	520,763	—	—	520,763
Pension and other postretirement charges other than net periodic benefit cost (note 9)	(3,111,204)	—	(3,111,204)	—	—	(3,111,204)
Write-off of contribution receivable	(331,062)	—	(331,062)	—	—	(331,062)
Transfer from endowments (note 7)	1,725,554	(915,910)	809,644	(809,644)	—	—
Decrease in net assets	<u>(3,666,783)</u>	<u>(4,165,746)</u>	<u>(7,832,529)</u>	<u>(15,587,032)</u>	<u>—</u>	<u>(23,419,561)</u>
Net assets at beginning of year	8,370,340	74,626,427	82,996,767	38,829,356	5,485,776	127,311,899
Net assets at end of year	\$ <u>4,703,557</u>	<u>70,460,681</u>	<u>75,164,238</u>	<u>23,242,324</u>	<u>5,485,776</u>	<u>103,892,338</u>

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2012

	Program services					Supporting services			Total expenses	
	HIV and AIDS	Poverty, Gender, and Youth	Reproductive health	Distinguished colleagues	Publications	Total	Management and general	Fund-raising		Total
Awards, contracts, and fellowships	\$ 2,866,166	1,523,638	971,559	—	—	5,361,363	—	—	—	5,361,363
Salaries and allowances	8,926,511	4,656,843	11,107,819	233,909	903,215	25,828,297	6,409,883	253,633	6,663,516	32,491,813
Pensions and other employee benefits (note 9)	2,748,793	1,460,657	3,443,216	86,863	334,566	8,074,095	2,326,444	94,326	2,420,770	10,494,865
Consultants and professional fees	705,609	690,537	1,328,529	705	42,759	2,768,139	998,548	28,080	1,026,628	3,794,767
Research and related services	1,597,912	509,153	3,671,356	12	52	5,778,485	1,400	—	1,400	5,779,885
Laboratory supplies, equipment, and maintenance	1,844,034	95,804	523,541	991	4,190	2,468,560	—	—	—	2,468,560
Travel and meetings	2,012,735	1,214,408	2,593,267	11,976	34,340	5,866,726	514,765	25,509	540,274	6,407,000
Occupancy, net (note 8)	1,885,504	1,199,606	2,347,869	36,358	231,949	5,701,286	1,054,988	33,012	1,088,000	6,789,286
Telecommunications, postage, and supplies	353,889	168,835	385,871	738	10,314	919,647	278,598	37,861	316,459	1,236,106
Office equipment and maintenance	176,863	108,963	156,384	488	2,062	444,760	500,244	7	500,251	945,011
Printing, publications, books, and journals	117,287	116,403	202,758	141	9,561	446,150	165,381	67,307	232,688	678,838
Insurance	130,796	12,431	149,026	9	36	292,298	154,727	—	154,727	447,025
Other	41,290	20,903	34,238	74	484	96,989	150,181	4,430	154,611	251,600
Total expenses before depreciation and amortization	23,407,389	11,778,181	26,915,433	372,264	1,573,528	64,046,795	12,555,159	544,165	13,099,324	77,146,119
Depreciation and amortization of leasehold improvements, equipment, and other	270,003	134,725	381,677	2,603	11,002	800,010	246,419	—	246,419	1,046,429
Total	\$ 23,677,392	11,912,906	27,297,110	374,867	1,584,530	64,846,805	12,801,578	544,165	13,345,743	78,192,548

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2011

	Program services						Supporting services			Total expenses
	HIV and AIDS	Poverty, Gender, and Youth	Reproductive health	Distinguished colleagues	Publications	Total	Management and general	Fund-raising	Total	
Awards, contracts, and fellowships	\$ 4,343,543	1,289,753	5,629,845	—	—	11,263,141	—	—	—	11,263,141
Salaries and allowances	7,892,307	4,250,422	12,357,704	204,584	756,094	25,461,111	6,073,113	293,915	6,367,028	31,828,139
Pensions and other employee benefits (note 9)	2,411,596	1,312,775	3,714,031	72,879	269,301	7,780,582	2,197,496	104,896	2,302,392	10,082,974
Consultants and professional fees	424,131	959,323	1,485,440	1,089	7,353	2,877,336	875,868	12,714	888,582	3,765,918
Research and related services	1,744,697	548,120	4,688,669	26	105	6,981,617	—	—	—	6,981,617
Laboratory supplies, equipment, and maintenance	1,432,485	113,625	695,896	887	3,565	2,246,458	—	—	—	2,246,458
Travel and meetings	1,743,068	1,321,962	3,828,061	7,133	12,654	6,912,878	299,252	35,475	334,727	7,247,605
Occupancy, net (note 8)	1,422,300	1,114,936	2,389,318	29,705	192,111	5,148,370	1,218,666	42,537	1,261,203	6,409,573
Telecommunications, postage, and supplies	374,182	247,832	537,798	695	6,752	1,167,259	304,199	21,590	325,789	1,493,048
Office equipment and maintenance	197,708	106,131	188,915	819	1,606	495,179	434,203	—	434,203	929,382
Printing, publications, books, and journals	161,316	330,338	261,801	140	27,611	781,206	134,390	33,409	167,799	949,005
Insurance	85,364	4,650	225,698	10	39	315,761	157,992	—	157,992	473,753
Other	51,138	18,292	62,115	153	616	132,314	50,169	4,493	54,662	186,976
Total expenses before depreciation and amortization	22,283,835	11,618,159	36,065,291	318,120	1,277,807	71,563,212	11,745,348	549,029	12,294,377	83,857,589
Depreciation and amortization of leasehold improvements, equipment, and other	221,482	113,713	411,816	2,180	8,756	757,947	329,401	—	329,401	1,087,348
Total	\$ 22,505,317	11,731,872	36,477,107	320,300	1,286,563	72,321,159	12,074,749	549,029	12,623,778	84,944,937

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Decrease in net assets	\$ (4,743,646)	(23,419,561)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	1,046,429	1,087,348
Gain on lease obligation and other, net	(390,555)	(520,763)
Deferred rent credit	(213,000)	24,645
Net (appreciation) depreciation in fair value of investments	(8,164,338)	4,581,996
Pension and other postretirement charges other than net periodic benefit cost	(423,787)	3,111,204
Write-off of contribution receivable	—	331,062
Net gain on sale of fixed assets	(1,995)	(51,592)
Changes in assets and liabilities:		
Grants and contributions receivable	1,928,476	12,745,022
Other receivables	703,932	(379,441)
Prepaid expenses and other assets	214,786	(253,805)
Postretirement medical benefits trust	(194,689)	428,430
Accounts payable, accrued expenses, and other liabilities	1,416,003	(248,328)
Awards, contracts, and fellowships payable	(2,317,541)	(4,122,664)
Program advances	1,133,813	3,520,915
Postretirement medical benefits payable	543,626	(394,431)
Net cash used in operating activities	(9,462,486)	(3,559,963)
Cash flows from investing activities:		
Purchase of investments	(48,632,021)	(104,708,420)
Proceeds from sale of investments	54,398,806	107,777,958
Purchases of fixed assets	(654,940)	(447,227)
Proceeds from sale of fixed assets	41,388	77,134
Net cash provided by investing activities	5,153,233	2,699,445
Net decrease in cash and cash equivalents	(4,309,253)	(860,518)
Cash and cash equivalents at beginning of year	10,670,195	11,530,713
Cash and cash equivalents at end of year	\$ 6,360,942	10,670,195

See accompanying notes to financial statements.



## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

### (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 50 countries, we work with our partners to deliver solutions that lead to more effective policies, programs, and technologies that improve lives around the world. Established in 1952 and headquartered in New York, the Council is a nongovernmental, nonprofit organization governed by an international board of trustees. It focuses on three program areas: prevention of HIV and AIDS; poverty, gender, and youth; and reproductive health.

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

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

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

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

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

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

## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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

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

The Council derives its support and revenue from governments, foundations and other not-for-profit organizations, multilateral organizations, corporations, individuals, and internal sources such as investments, publications, and royalty income. The Council's headquarters and the Center for Biomedical Research are located in New York City. The Council also has an office in Washington, D.C., as well as 15 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 2012 or 2011.

### (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.

*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.

## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

*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 include 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 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 POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

The following methods and assumptions were used by the Council in estimating its fair value disclosures for financial instruments: for cash and cash equivalents, the respective amounts reported on the balance sheet equal or approximate fair value; for investments, fair values are discussed in note 2(f); and for grants and contributions receivable, the amounts reported on the balance sheets reflect their net realizable value. The fair values of accounts payable and accrued expenses; awards, contracts, and fellowships payable; and loans payable approximate 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 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, 2012 and 2011, the Council had unexpended awards from funding agencies approximating \$93,116,000 and \$75,580,000, respectively.

**(f) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices. Fair values of the limited partnership investments are based on 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.

**(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.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

**(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 \$1,700 and \$16,500 in 2012 and 2011, respectively.

**(j) Royalties**

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

**(k) Concentration of Support**

During 2012 and 2011, approximately \$26 million and \$31 million, respectively, of the Council's grants were funded by the United States Agency for International Development (USAID). As of December 31, 2012 and 2011, approximately \$4 million of the Council's grants receivable are also from USAID for both years.

The three largest funding sources, being two U.S. government agencies and one private foundation, constitute 58% and 57% of the Council's revenue in 2012 and 2011, respectively.

**(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 sheets.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

**(3) Investments**

The following tables present the Council's fair value hierarchy for its investments as of December 31, 2012 and 2011:

	<b>2012</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Short-term investments	\$ 3,912,313	3,912,313	—	—
Fixed-income securities:				
U.S. government bonds	2,490,545	2,490,545	—	—
Mutual funds:				
Large growth equity	12,212,675	12,212,675	—	—
Small cap equity	7,299,160	7,299,160	—	—
Large cap equity	19,030,069	19,030,069	—	—
International equity	9,145,893	9,145,893	—	—
High-yield equity	1,798,034	1,798,034	—	—
Alternative investments:				
Fixed income	16,926,855	—	16,926,855	—
Limited partnerships	21,638,891	—	19,271,424	2,367,467
Total	<u>\$ 94,454,435</u>	<u>55,888,689</u>	<u>36,198,279</u>	<u>2,367,467</u>

	<b>2011</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Short-term investments	\$ 1,766,316	1,766,316	—	—
Fixed-income securities:				
Domestic real estate related	2,129,773	—	2,129,773	—
U.S. government bonds	3,554,621	3,554,621	—	—
Mutual funds:				
Large growth equity	11,034,761	11,034,761	—	—
Small cap equity	9,477,250	9,477,250	—	—
Large cap equity	17,512,193	17,512,193	—	—
International equity	7,556,718	7,556,718	—	—
High-yield equity	1,652,981	1,652,981	—	—
Alternative investments:				
Fixed income	16,192,308	—	16,192,308	—
Limited partnerships	21,179,961	—	10,062,641	11,117,320
Total	<u>\$ 92,056,882</u>	<u>52,554,840</u>	<u>28,384,722</u>	<u>11,117,320</u>

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

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

Beginning balance, January 1, 2012	\$	11,117,320
Transfer to Level 2		(9,228,494)
Total net unrealized gain		280,110
Purchases		832,835
Sales		(634,304)
Ending balance, December 31, 2012	\$	<u>2,367,467</u>
Beginning balance, January 1, 2011	\$	1,496,641
Total net unrealized loss		(503,429)
Total net realized gain		12,106
Purchases		10,435,867
Sales		(323,865)
Ending balance, December 31, 2011	\$	<u>11,117,320</u>

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

	<b>2012</b>			
Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period	
Distressed debt securities	\$ 4,112,393	—	Semiannual	90 – 120 days
Diversified private equity fund-of-funds	2,367,467	432,436	No redemptions	Not applicable
Investment driven fund	9,505,377	—	Quarterly	95 days
Senior loan fund	5,653,654	—	Quarterly	60 days
Fixed income	16,926,855	—	Daily	3 days
	<u>\$ 38,565,746</u>	<u>432,436</u>		

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

	<b>2011</b>			
	<b>Fair value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Distressed debt securities	\$ 4,829,250	7,106,300	Semiannual	90 – 120 days
Diversified private equity fund-of-funds	1,888,826	1,258,170	No redemptions	Not applicable
Investment driven fund	9,228,494	—	No redemptions*	Not applicable*
Senior loan fund	5,233,391	—	Quarterly	60 days
Fixed income	16,192,308	—	Daily	3 days
	<u>\$ 37,372,269</u>	<u>8,364,470</u>		

\* The investment driven fund has no redemptions for the first year and is then redeemable quarterly with 95 days notice. The first year nonredemption period expired February 29, 2012.

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, 2012 and 2011, grants and contributions receivable are expected to be collected as follows:

	<b>2012</b>	<b>2011</b>
Less than one year	\$ 14,223,107	15,341,443
One to five years	—	822,265
	<u>14,223,107</u>	<u>16,163,708</u>
Less discount (at rates ranging from 0.39% to 1.07%)	—	(6,125)
Less allowance for uncollectible amounts	(42,000)	(48,000)
Total grants and contributions receivable, net	<u>\$ 14,181,107</u>	<u>16,109,583</u>



**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

**(5) Fixed Assets**

Fixed assets at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 16,243,487	17,503,155
Furniture and equipment	2,275,725	2,095,432
Computer equipment	2,069,622	1,997,769
Automobiles	638,311	591,663
Office condominium	513,894	513,894
	<u>21,741,039</u>	<u>22,701,913</u>
Less accumulated depreciation and amortization	<u>(15,625,893)</u>	<u>(16,155,885)</u>
	<u>\$ 6,115,146</u>	<u>6,546,028</u>

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

At December 31, 2012 and 2011, temporarily restricted net assets are to be used for the following purposes:

	<u>2012</u>	<u>2011</u>
HIV and AIDS	\$ 498,928	2,361,220
Poverty, Gender, and Youth	6,375,600	7,813,135
Reproductive health	7,979,929	12,547,947
Program development	—	22,744
Future periods	645,706	497,278
	<u>\$ 15,500,163</u>	<u>23,242,324</u>

Permanently restricted net assets support operations as follows:

	<u>2012</u>	<u>2011</u>
DeWitt Wallace Fellowship Fund	\$ 450,000	450,000
Policy Research Endowment Fund	2,035,776	2,035,776
New Capital Campaign General Fund	3,000,000	3,000,000
	<u>\$ 5,485,776</u>	<u>5,485,776</u>

**(7) Endowment Funds**

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

## THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

In 2010, New York State adopted 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; and
- (7) The investment policies of the Council.

The annual 2012 and 2011 spending authorizations from the endowment funds were calculated at 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. 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 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 POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011:

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 70,460,681	7,614,917	5,485,776	83,561,374
Contributions	3,800	—	—	3,800
Investment return:				
Interest, dividends, and realized gains	3,579,559	666,734	—	4,246,293
Unrealized gains	5,641,037	1,094,829	—	6,735,866
Investment fees	(155,633)	(29,294)	—	(184,927)
Appropriation of endowment assets for expenditures and other costs	<u>(5,513,511)</u>	<u>(784,843)</u>	<u>—</u>	<u>(6,298,354)</u>
Endowment net assets, end of year	\$ <u>74,015,933</u>	<u>8,562,343</u>	<u>5,485,776</u>	<u>88,064,052</u>
Donor-restricted endowment funds	\$ —	8,562,343	5,485,776	14,048,119
Board-designated endowment funds	<u>74,015,933</u>	<u>—</u>	<u>—</u>	<u>74,015,933</u>
Total funds	\$ <u>74,015,933</u>	<u>8,562,343</u>	<u>5,485,776</u>	<u>88,064,052</u>
	<b>2011</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 74,626,427	8,931,423	5,485,776	89,043,626
Contributions	3,600	—	—	3,600
Investment return:				
Interest, dividends, and realized gains	2,676,913	518,205	—	3,195,118
Unrealized losses	(5,204,483)	(994,645)	—	(6,199,128)
Investment fees	(156,431)	(30,422)	—	(186,853)
Appropriation of endowment assets for expenditures and other costs	<u>(1,485,345)</u>	<u>(809,644)</u>	<u>—</u>	<u>(2,294,989)</u>
Endowment net assets, end of year	\$ <u>70,460,681</u>	<u>7,614,917</u>	<u>5,485,776</u>	<u>83,561,374</u>
Donor-restricted endowment funds	\$ —	7,614,917	5,485,776	13,100,693
Board-designated endowment funds	<u>70,460,681</u>	<u>—</u>	<u>—</u>	<u>70,460,681</u>
Total funds	\$ <u>70,460,681</u>	<u>7,614,917</u>	<u>5,485,776</u>	<u>83,561,374</u>

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

**(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 December 30, 2014, and one additional floor, which expired February 29, 2012 and was not renewed. 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, 2012 and 2011 was \$791,137 and \$1,004,137, respectively.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2013	\$ 2,550,000
2014	2,550,000
2015	1,493,000
2016	1,493,000
2017	249,000
	<u>8,335,000</u>

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:	
2013	\$ 802,000
2014	802,000
	<u>1,604,000</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, 2012 and 2011 was \$175,878 and \$283,920, respectively, which is included in prepaid expenses and other assets in the balance sheets.

Rent expense for the headquarters office was \$2,211,448 and \$2,406,158 in 2012 and 2011, net of sublease income of \$1,045,740 and \$1,736,767, respectively. Cash and cash equivalents, and accounts payable and accrued expenses include \$126,905 and \$260,824 at December 31, 2012 and 2011, respectively, related to sublease tenant security deposits.

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The Council's headquarters lease includes certain unused space. A liability totaling \$493,066 and \$773,118 in 2012 and 2011, respectively, 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 sheets. This estimated liability was reduced by \$280,052 and \$523,641 in 2012 and 2011, respectively, which is reported as a nonoperating gain on the accompanying statements 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 \$2,705,885 and \$1,993,593 in 2012 and 2011, respectively. Annual rent expense is adjusted based upon the Council's pro rata share of actual expenses incurred by the University and the annual percentage increase in the New York area's Consumer Price Index.

**(c) Washington, 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 \$325,126 and \$311,242 in 2012 and 2011, respectively. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2013	\$ 237,192
2014	<u>63,231</u>
	<u>\$ 300,423</u>

**(d) Overseas Offices**

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,162,777 and \$1,259,051 in 2012 and 2011, respectively. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2013	\$ 447,593
2014	287,695
2015	252,866
2016	190,094
2017	<u>61,650</u>
	<u>\$ 1,239,898</u>

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

**(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 \$29,100 per employee. Total pension expense for 2012 and 2011 was approximately \$3,288,000 and \$3,105,000, respectively.

In addition to providing pension benefits, the Council sponsors a defined benefit postretirement healthcare plan that provides medical and dental benefits for retired employees who meet certain minimum age and length of service requirements. During 1998, the Council established a trust to fund a portion of its postretirement medical benefit plan. Assets of the trust amounting to \$5,323,351 and \$5,128,662 are included in prepaid expenses and other assets in the balance sheets as of December 31, 2012 and 2011, respectively. Assets of the trust primarily consisting of domestic equity and fixed-income securities (77%) and international equity and fixed-income securities (23%) 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Benefit obligation at December 31	\$ 9,372,338	9,252,499
Fair value of plan assets at December 31 included in prepaid expenses and other assets	<u>5,323,351</u>	<u>5,128,662</u>
Funded status	<u>\$ (4,048,987)</u>	<u>(4,123,837)</u>
Postretirement medical benefits payable	\$ 9,372,338	9,252,449
Benefit cost	356,067	127,729
Employer contribution	7,130	93,729
Plan participants' contributions	182,127	161,768
Benefits paid	(540,898)	(536,409)
Return on assets	546,330	(147,518)
Benefit obligation weighted average discount rate at December 31	4.30%	4.95%
Benefit cost weighted average discount rate for the year ended December 31	4.95	5.80

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2012 and 2011, respectively, and all future years. This annual rate of increase is net of participant contributions.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

The asset allocations of postretirement plan assets at December 31, 2012 and 2011 are summarized as follows:

	<b>2012</b>	<b>2011</b>
Short-term investments	3%	5%
Fixed-income securities:		
Domestic	35	36
International	3	5
Equity securities:		
Domestic	30	30
International	19	12
Other assets:		
Domestic	9	11
International	1	1
	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:	
2013	\$ 432,655
2014	409,200
2015	432,788
2016	448,568
2017	477,659
2018 – 2022	2,465,184
Projected contributions for 2013	\$ 432,655

At December 31, 2012 and 2011, the net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost decreased from \$3,266,225 in 2011 to \$2,842,438 in 2012, primarily due to the change in certain actuarial assumptions, including the reduction of the benefit obligation-weighted average discount rate, and a change in the mortality table used in the actuarial valuation. Amortization of the net actuarial gain in 2013 will be \$41,841.

**(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.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

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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 2012 and 2011 against purchase order number 40041508, and purchase order number 40054814.

Total remittances received during 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Purchase order number 40041508	\$ 45,471	67,148
Purchase order number 40054814	1,085,081	328,918

Expenditures incurred in the same period for purchase order number 40041508, and purchase order number 40054814 received from the U.K. Department of International Development total:

	<u>2012</u>	<u>2011</u>
Purchase order number 40041508	\$ —	113,245
Purchase order number 40054814	1,627,471	65,296

**(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, 2012 through May 22, 2013, which was the date the financial statements were available to be issued and determined that no additional disclosures are required.