



THE POPULATION COUNCIL, INC.

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
The Population Council, Inc.:

We have audited the accompanying financial statements of The Population Council, Inc., which comprise the balance sheets as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 18, 2015

THE POPULATION COUNCIL, INC.

Balance Sheets

December 31, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents	\$ 6,004,074	8,120,314
Grants and contributions receivable, net (note 4):		
U.S. government agencies	8,858,061	5,441,378
Other	5,130,264	6,702,768
Other receivables	1,706,815	709,963
Prepaid expenses and other assets (note 8)	2,074,648	2,260,470
Postretirement medical benefits trust (note 9)	5,460,734	5,606,816
Investments (note 3)	105,102,873	105,023,952
Fixed assets, net (note 5)	4,509,000	5,458,490
	<hr/>	<hr/>
Total assets	\$ 138,846,469	139,324,151
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Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 5,548,751	6,394,104
Awards, contracts, and fellowships payable	3,975,176	3,326,091
Program advances	13,049,634	11,418,681
Deferred rent credit (note 8)	846,631	542,599
Accrued lease obligation (note 8)	—	252,604
Postretirement medical benefits payable (note 9)	9,371,779	7,983,283
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Total liabilities	32,791,971	29,917,362
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Commitments and contingencies (notes 3, 8, 9, and 14)		
Net assets:		
Unrestricted:		
General undesignated	3,970,778	5,428,414
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	83,617,598	85,264,578
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	87,588,376	90,692,992
Temporarily restricted (notes 6 and 7)	12,980,346	13,228,021
Permanently restricted (notes 6 and 7)	5,485,776	5,485,776
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Total net assets	106,054,498	109,406,789
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Total liabilities and net assets	\$ 138,846,469	139,324,151
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See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Activities

Year ended December 31, 2014

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

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Activities

Year ended December 31, 2013

	<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), 10, 11, 12 and 13)	\$ 72,985,551	4,000	72,989,551	1,830,494	—	74,820,045
Royalties	2,234,709	—	2,234,709	—	—	2,234,709
Interest and dividends (net of \$188,459 investment fees)	4,033	1,997,320	2,001,353	419,293	—	2,420,646
Net (depreciation) appreciation in fair value of investments	(1,421)	13,268,395	13,266,974	2,514,956	—	15,781,930
Other	75,719	—	75,719	—	—	75,719
Net assets released from restrictions	6,339,254	—	6,339,254	(6,339,254)	—	—
Total operating revenue	<u>81,637,845</u>	<u>15,269,715</u>	<u>96,907,560</u>	<u>(1,574,511)</u>	<u>—</u>	<u>95,333,049</u>
Operating expenses:						
Program services:						
HIV and AIDS	24,744,460	—	24,744,460	—	—	24,744,460
Poverty, gender, and youth	17,630,651	186,797	17,817,448	—	—	17,817,448
Reproductive health	28,683,054	883,979	29,567,033	—	—	29,567,033
Distinguished colleagues	237,168	—	237,168	—	—	237,168
Publications	1,636,905	—	1,636,905	—	—	1,636,905
Total program services	<u>72,932,238</u>	<u>1,070,776</u>	<u>74,003,014</u>	<u>—</u>	<u>—</u>	<u>74,003,014</u>
Supporting services:						
Management and general	12,287,115	324,856	12,611,971	—	—	12,611,971
Fund-raising	546,151	—	546,151	—	—	546,151
Total supporting services	<u>12,833,266</u>	<u>324,856</u>	<u>13,158,122</u>	<u>—</u>	<u>—</u>	<u>13,158,122</u>
Total operating expenses	<u>85,765,504</u>	<u>1,395,632</u>	<u>87,161,136</u>	<u>—</u>	<u>—</u>	<u>87,161,136</u>
(Deficiency) excess of operating revenue over operating expenses	(4,127,659)	13,874,083	9,746,424	(1,574,511)	—	8,171,913
Other changes in net assets:						
Gain on lease obligation and other, net (note 8)	189,546	—	189,546	—	—	189,546
Pension and other postretirement changes other than net periodic benefit cost (note 9)	1,896,638	—	1,896,638	—	—	1,896,638
Transfer from endowments (note 7)	3,323,069	(2,625,438)	697,631	(697,631)	—	—
Increase (decrease) in net assets	<u>1,281,594</u>	<u>11,248,645</u>	<u>12,530,239</u>	<u>(2,272,142)</u>	<u>—</u>	<u>10,258,097</u>
Net assets at beginning of year	4,146,820	74,015,933	78,162,753	15,500,163	5,485,776	99,148,692
Net assets at end of year	\$ <u>5,428,414</u>	<u>85,264,578</u>	<u>90,692,992</u>	<u>13,228,021</u>	<u>5,485,776</u>	<u>109,406,789</u>

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2014

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

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2013

	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	\$ 4,585,191	2,972,123	2,685,087	—	—	10,242,401	2,700	—	2,700	10,245,101
Salaries and allowances	9,011,742	5,445,683	11,128,605	155,437	916,978	26,658,445	6,240,461	268,983	6,509,444	33,167,889
Pensions and other employee benefits (note 9)	2,814,490	1,620,542	3,494,685	56,357	332,727	8,318,801	2,243,059	96,329	2,339,388	10,658,189
Consultants and professional fees	626,061	796,156	1,241,424	200	51,686	2,715,527	1,210,562	20,889	1,231,451	3,946,978
Research and related services	1,966,538	965,180	5,037,001	37	255	7,969,011	2,100	—	2,100	7,971,111
Laboratory supplies, equipment, and maintenance	1,118,264	370,530	502,889	626	4,322	1,996,631	—	—	—	1,996,631
Travel and meetings	1,964,417	3,029,139	1,956,989	1,329	31,271	6,983,145	493,004	31,925	524,929	7,508,074
Occupancy, net (note 8)	1,688,545	1,287,325	2,112,629	20,583	227,818	5,336,900	1,035,809	32,001	1,067,810	6,404,710
Telecommunications, postage, and supplies	387,029	457,722	404,158	553	9,866	1,259,328	321,996	49,400	371,396	1,630,724
Office equipment and maintenance	188,225	409,823	201,247	318	2,193	801,806	416,928	5,954	422,882	1,224,688
Printing, publications, books, and journals	74,228	233,025	118,153	75	48,376	473,857	129,475	36,554	166,029	639,886
Insurance	16,888	20,992	277,598	17	119	315,614	160,699	—	160,699	476,313
Other	44,610	30,196	30,188	53	367	105,414	141,958	4,116	146,074	251,488
Total expenses before depreciation and amortization	24,486,228	17,638,436	29,190,653	235,585	1,625,978	73,176,880	12,398,751	546,151	12,944,902	86,121,782
Depreciation and amortization of leasehold improvements, equipment, and other	258,232	179,012	376,380	1,583	10,927	826,134	213,220	—	213,220	1,039,354
Total	\$ 24,744,460	17,817,448	29,567,033	237,168	1,636,905	74,003,014	12,611,971	546,151	13,158,122	87,161,136

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (3,352,291)	10,258,097
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization	1,031,327	1,039,354
Gain on lease obligation and other, net	(237,008)	(189,546)
Deferred rent credit	304,032	(248,538)
Net appreciation in fair value of investments	(2,455,765)	(15,781,930)
Pension and other postretirement changes other than net periodic benefit cost	1,386,542	(1,896,638)
Net (gain) loss on sale of fixed assets	(13,039)	13,827
Conversion of loan payable to grant	—	(1,506,000)
Changes in assets and liabilities:		
Grants and contributions receivable	(1,844,179)	2,036,961
Other receivables	(996,852)	1,744,342
Prepaid expenses and other assets	185,822	(197,232)
Postretirement medical benefits trust	146,082	(283,465)
Accounts payable, accrued expenses, and other liabilities	(860,949)	142,568
Awards, contracts, and fellowships payable	649,085	(271,927)
Program advances	1,630,953	1,576,028
Postretirement medical benefits payable	1,954	507,583
Net cash used in operating activities	(4,424,286)	(3,056,516)
Cash flows from investing activities:		
Purchase of investments	(46,038,241)	(17,530,480)
Proceeds from sale of investments	48,415,085	22,742,893
Purchases of fixed assets	(97,987)	(414,818)
Proceeds from sale of fixed assets	29,189	18,293
Net cash provided by investing activities	2,308,046	4,815,888
Net (decrease) increase in cash and cash equivalents	(2,116,240)	1,759,372
Cash and cash equivalents at beginning of year	8,120,314	6,360,942
Cash and cash equivalents at end of year	\$ 6,004,074	8,120,314

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2014 and 2013

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

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

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

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

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

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

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

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2014 and 2013

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

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

The Council derives its support and revenue from governments, foundations and other not-for-profit organizations, multilateral organizations, corporations, individuals, and internal sources such as investments, publications, and royalty income. The Council's headquarters and the Center for Biomedical Research are located in New York City. The Council also has an office in Washington, DC, as well as 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 2014 or 2013.

(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 by either actions of the Council and/or the passage of time.

THE POPULATION COUNCIL, INC.

Notes to Financial Statements

December 31, 2014 and 2013

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

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

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

(c) *Fair Value Measurements*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 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 (within 90 days).
- 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, 2014 and 2013

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. The inputs to these fair value measurements are considered Level 3 in the fair value hierarchy.

(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, 2014 and 2013, the Council had unexpended awards from funding agencies approximating \$99,923,540 and \$116,842,000, 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.

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(h) Awards, Contracts, and Fellowships Payable

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

(i) Foreign Currency Translation

The Council has determined that the functional currency of its foreign offices is the U.S. dollar. Accordingly, assets and liabilities are translated using the current exchange rates in effect on the balance sheet date. Revenue and expense accounts are translated at the average rate in effect during the year. Grants and contributions revenue includes foreign exchange losses of approximately \$179,000 and \$12,000 in 2014 and 2013, respectively.

(j) Royalties

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

(k) Concentration of Support

During 2014 and 2013, approximately \$26 million of the Council's grants were funded directly by the United States Agency for International Development (USAID). As of December 31, 2014 and 2013, approximately \$6 million and \$3 million, respectively, of the Council's grants receivable were also from USAID.

The three largest funding sources, being one U.S. government agency, one foreign agency and one private foundation constitute 55% of the Council's revenue in 2014 while two U.S. government agencies and one private foundation constitute 54% of the Council's revenue in 2013.

(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.

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(3) Investments

The following tables present the Council's fair value hierarchy for its investments as of December 31, 2014 and 2013:

	2014			
	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 10,329,969	10,329,969	—	—
Short-term investments	6,966,603	6,966,603	—	—
Mutual funds:				
Large growth equity	18,429,201	18,429,201	—	—
Small cap equity	7,381,390	7,381,390	—	—
Large cap equity	27,361,324	27,361,324	—	—
International equity	11,561,421	11,561,421	—	—
Short duration equity	706,920	706,920	—	—
High-yield equity	1,362,389	1,362,389	—	—
International emerging	2,705,526	2,705,526	—	—
Alternative investments:				
Fixed income	12,434,068	—	12,434,068	—
Limited partnerships	5,864,062	—	4,698,183	1,165,879
Total	\$ 105,102,873	86,804,743	17,132,251	1,165,879

	2013			
	Fair value	Level 1	Level 2	Level 3
Short-term investments	\$ 2,732,753	2,732,753	—	—
Mutual funds:				
Large growth equity	16,625,801	16,625,801	—	—
Small cap equity	10,487,882	10,487,882	—	—
Large cap equity	25,073,745	25,073,745	—	—
International equity	11,552,526	11,552,526	—	—
Short duration equity	987,363	987,363	—	—
High-yield equity	1,579,257	1,579,257	—	—
Alternative investments:				
Fixed income	14,141,750	—	14,141,750	—
Limited partnerships	21,842,875	—	18,285,988	3,556,887
Total	\$ 105,023,952	69,039,327	32,427,738	3,556,887

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

	2014		
	Distressed debt equities	Diversified private equity fund- of-funds	Total
Ending balance, December 31, 2013	\$ 1,576,642	1,980,245	3,556,887
Net appreciation in fair value of investments	165,600	184,295	349,895
Sales/redemptions	—	(998,661)	(998,661)
Purchases	1,279,100	—	1,279,100
Transfer from Level 3 to Level 2	(3,021,342)	—	(3,021,342)
Ending balance, December 31, 2014	<u>\$ —</u>	<u>1,165,879</u>	<u>1,165,879</u>
	2013		
	Distressed debt equities	Diversified private equity fund- of-funds	Total
Ending balance, December 31, 2012	\$ —	2,367,467	2,367,467
Net appreciation in fair value of investments	12,160	256,490	268,650
Sales/redemptions	—	(735,522)	(735,522)
Purchases	1,564,482	91,810	1,656,292
Ending balance, December 31, 2013	<u>\$ 1,576,642</u>	<u>1,980,245</u>	<u>3,556,887</u>

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

2014				
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Distressed debt securities	\$ 1,131,102	—	Semiannual	90–120 days
Distressed debt securities	3,021,344	7,156,418	Semiannual	90–120 days
Diversified private equity fund-of-funds	1,165,879	360,976	No redemptions	Not applicable
Investment-driven fund	545,737	—	Quarterly	95 days
Fixed income	12,434,068	—	Daily	3 days
	<u>\$ 18,298,130</u>	<u>7,517,394</u>		

2013				
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Distressed debt securities	\$ 1,919,442	—	Semiannual	90–120 days
Distressed debt securities	1,576,642	8,435,518	No redemption*	No redemption*
Diversified private equity fund-of-funds	1,980,245	360,976	No redemptions	Not applicable
Investment-driven fund	10,417,785	—	Quarterly	95 days
Senior loan fund	5,948,761	—	Quarterly	60 days
Fixed income	14,141,750	—	Daily	3 days
	<u>\$ 35,984,625</u>	<u>8,796,494</u>		

* As of December 31, 2013, one of the distressed debt securities had no redemptions for the first year and is then redeemable with 90 to 120 days notice. The first year no redemption period expired on August 12, 2014 and the investment was transferred to Level 2. There were no other transfers between levels in fiscal years 2014 and 2013.

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

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(4) Grants and Contributions Receivable

At December 31, 2014 and 2013, grants and contributions receivable are expected to be collected as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 14,029,325	11,861,339
One to five years	—	320,000
	<u>14,029,325</u>	<u>12,181,339</u>
Less discount (at 0.69%)	—	(2,193)
Less allowance for uncollectible amounts	<u>(41,000)</u>	<u>(35,000)</u>
Total grants and contributions receivable, net	<u>\$ 13,988,325</u>	<u>12,144,146</u>

(5) Fixed Assets

Fixed assets at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 16,377,918	16,363,555
Furniture and equipment	2,239,891	2,351,899
Computer equipment	2,142,498	2,152,445
Automobiles	600,504	709,375
Office condominium	<u>513,894</u>	<u>513,894</u>
	21,874,705	22,091,168
Less accumulated depreciation and amortization	<u>(17,365,705)</u>	<u>(16,632,678)</u>
	<u>\$ 4,509,000</u>	<u>5,458,490</u>

(6) Temporarily Restricted and Permanently Restricted Net Assets

At December 31, 2014 and 2013, temporarily restricted net assets are to be used for the following purposes:

	<u>2014</u>	<u>2013</u>
HIV and AIDS	\$ 1,461,661	1,628,850
Poverty, gender, and youth	3,888,622	4,395,398
Reproductive health	6,249,602	5,988,932
Future periods	<u>1,380,461</u>	<u>1,214,841</u>
	<u>\$ 12,980,346</u>	<u>13,228,021</u>

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Permanently restricted net assets support operations as follows:

	<u>2014</u>	<u>2013</u>
DeWitt Wallace Fellowship Fund	\$ 450,000	450,000
Policy Research Endowment Fund	2,035,776	2,035,776
New Capital Campaign General Fund	<u>3,000,000</u>	<u>3,000,000</u>
	<u>\$ 5,485,776</u>	<u>5,485,776</u>

(7) Endowment Funds

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

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

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

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

The annual 2014 and 2013 spending authorizations, including special appropriations from the endowment funds were calculated at 11% and 5%, respectively, of the average market value of the endowment over the

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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 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, 2014 and 2013:

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

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	2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 74,015,933	8,562,343	5,485,776	88,064,052
Contributions	4,000	—	—	4,000
Investment return:				
Interest, dividends, and realized gains	3,824,997	730,305	—	4,555,302
Unrealized gains	11,597,255	2,214,799	—	13,812,054
Investment fees	(156,537)	(29,892)	—	(186,429)
Appropriation of endowment assets for expenditures and other costs	(4,021,070)	(697,631)	—	(4,718,701)
Endowment net assets, end of year	\$ <u>85,264,578</u>	<u>10,779,924</u>	<u>5,485,776</u>	<u>101,530,278</u>
Donor-restricted endowment funds	\$ —	10,779,924	5,485,776	16,265,700
Board-designated endowment funds	<u>85,264,578</u>	—	—	<u>85,264,578</u>
Total funds	\$ <u>85,264,578</u>	<u>10,779,924</u>	<u>5,485,776</u>	<u>101,530,278</u>

(8) Leases

(a) Headquarters Office

The Council occupies its New York headquarters office under a noncancelable operating lease for two floors expiring February 28, 2017, and one floor that expired on December 30, 2014. During November 2013, the Council entered into a new 15 year lease agreement for the New York headquarters office to commence on June 1, 2015. As part of the new agreement, the existing lease for the two floors expiring in February 2017 will terminate ten days after the Council commences business operations in the new space. The existing lease agreement includes rental escalations, which have been deferred and are being amortized over the term of the lease. The unamortized balance of the deferred rent credit as of December 31, 2014 and 2013 was \$294,060 and \$542,599, respectively.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2015	\$ 690,000
2016	1,927,000
2017	1,927,000
2018	1,927,000
2019	1,927,000
Thereafter	<u>24,660,000</u>
	\$ <u>33,058,000</u>

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

The sublease agreements included rental abatements and escalations that are being recognized over the term of the lease. The unamortized balance as of December 31, 2013 was \$87,939, which is included in prepaid expenses and other assets in the balance sheets.

Rent expense for the headquarters office was \$2,285,048 and \$2,191,352 in 2014 and 2013, net of sublease income of \$905,807 and \$888,138, respectively. Cash and cash equivalents, and accounts payable and accrued expenses include \$127,285 and \$127,095 at December 31, 2014 and 2013, respectively, related to sublease tenant security deposits.

The Council's headquarters lease includes certain unused space. A liability totaling \$252,604 in 2013, 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 \$252,604 and \$240,462 in 2014 and 2013, 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 \$1,811,018 and \$2,272,822 in 2014 and 2013, respectively. Annual rent expense is adjusted based upon the Council's pro rata share of actual expenses incurred by the University and the annual percentage increase in the New York area's Consumer Price Index.

(c) *Washington, DC Regional Office*

During 1997, the Council entered into an operating lease agreement for office space located in Washington, DC. The agreement contains a special cancellation right in the event that specific cooperative agreements between the Council and the USAID are either not renewed or are otherwise terminated. The term of the lease agreement expired on March 31, 2014. During 2014, the Council entered into a second amendment to the current agreement to expand the premises and extend the lease term through February 29, 2028. The new lease agreement includes rental abatements and other allowances totaling \$728,750, which have been deferred and is being amortized over the term of the lease. The unamortized balance of the deferred rent credit as of December 31, 2014 was \$552,571. The net rent expense for this lease was \$325,977 and \$291,098 in 2014 and 2013, respectively.

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Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2015	\$ 182,000
2016	369,000
2017	379,000
2018	388,000
2019	398,000
Thereafter	<u>3,645,000</u>
	<u>\$ 5,361,000</u>

(d) Overseas Offices

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,279,016 and \$1,276,486 in 2014 and 2013, respectively. Approximated future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2015	\$ 369,000
2016	189,000
2017	<u>62,000</u>
	<u>\$ 620,000</u>

(9) Pension and Other Retirement Benefits

The Council has a noncontributory defined contribution pension plan, covering substantially all of its U.S. employees with at least one year of service and who work at least 20 hours per week. Contributions of 15% of the U.S. paid employees' base salaries are funded annually up to a maximum of \$30,000 per employee until April 1, 2014 when the contribution was reduced to 12% up to a maximum of \$24,000. Total pension expense for 2014 and 2013 was approximately \$2,712,785 and \$3,172,000, 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 \$5,460,734 and \$5,606,816 are included in the balance sheets as of December 31, 2014 and 2013, respectively. Assets of the trust primarily consisting of domestic equity and fixed-income securities (71%) and international equity and fixed-income securities (29%) 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Benefit obligation at December 31	\$ 9,371,779	7,983,283
Fair value of plan assets at December 31	<u>5,460,734</u>	<u>5,606,816</u>
Funded status	<u>\$ (3,911,045)</u>	<u>(2,376,467)</u>
Postretirement medical benefits payable	\$ 9,371,779	7,983,283
Benefit cost	151,986	215,481
Employer contribution	3,950	(8,636)
Plan participants' contributions	206,202	199,819
Benefits paid	(528,590)	(542,273)
Return on assets	172,357	634,555
Benefit obligation weighted average discount rate at December 31	4.10%	4.85%
Benefit cost weighted average discount rate for the year ended December 31	4.85%	4.30%

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2014 and 2013 and all future years. This annual rate of increase is net of participant contributions.

The asset allocations of postretirement plan assets at December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Short-term investments	8%	4%
Fixed-income securities:		
Domestic	22	25
International		2
Equity securities:		
Domestic	28	26
International	27	27
Other assets:		
Domestic	13	13
International	2	3
	<u>100%</u>	<u>100%</u>

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

Year(s) ending December 31:			
2015	\$	384,896	
2016		403,598	
2017		423,344	
2018		423,091	
2019		425,475	
2020–2024		2,384,656	
Projected contributions for 2015	\$	384,896	

The net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost increased from \$945,800 in 2013 to \$2,332,342 in 2014, 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 loss in 2015 will be \$0.

(10) Loan Payable

Funding in the form of a noninterest-bearing loan of \$1,506,000 was obtained in 1994 for program-related expenditures. This loan was converted to a grant during 2013 with repayment no longer required.

(11) U.K. Department of International Development

The Council incurred expenses and received remittances from the U.K. Department of International Development during 2014 against purchase order numbers 5246, 40054814, 40071412, and 6171.

Total remittances received during 2014 are as follows:

		2014
Purchase order number 5246	\$	1,639,341
Purchase order number 40054814		4,358,560
Purchase order number 40071412		1,165,328
Purchase order number 6171		2,386,929

Total expenditures incurred during 2014 are as follows:

		2014
Purchase order number 5246	\$	1,075,358
Purchase order number 40054814		4,475,396
Purchase order number 40071412		1,062,073
Purchase order number 6171		1,186,746

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(12) Danish Ministry of Foreign Affairs

Grants and contributions revenue in 2014 includes contributions of \$1,469,890 remitted from the Danish Ministry of Foreign Affairs on September 25, 2014 for the award File No. 104.N.151.PC/UMF no. 627.0020.34/Development Policy and Global Cooperation.

(13) International HIV/AIDS Alliance

The Council incurred expenses and received remittances from the International HIV/AIDS Alliance during 2014 against sub grant BUZASRH.POPU.1.

	<u>2014</u>
Receivable balance at December 31, 2013	\$ 266,369
Receipt of funds	1,274,359
Expenditures incurred	<u>1,443,840</u>
Receivable balance at December 31, 2014	<u>\$ 435,850</u>

(14) Contingencies

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

(15) Subsequent Events

In connection with the preparation of the financial statements, the Council evaluated subsequent events from the balance sheet date of December 31, 2014 through May 18, 2015, which was the date the financial statements were available to be issued and determined that no additional disclosures are required.