



**THE POPULATION COUNCIL, INC.**

Financial Statements

December 31, 2009

(with comparative financial information as of and  
for the year ended December 31, 2008)

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154

## **Independent Auditors' Report**

The Board of Trustees  
The Population Council, Inc.:

We have audited the accompanying balance sheet of The Population Council, Inc. (the Council) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Council's 2008 financial statements, and in our report dated May 11, 2009, we expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Population Council, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

May 21, 2010

**THE POPULATION COUNCIL, INC.**

Balance Sheet

December 31, 2009

(with comparative financial information as of December 31, 2008)

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 6,642,999	10,068,412
Grants and contributions receivable, net (note 4):		
U.S. government agencies	45,223,559	37,681,299
Other	23,097,316	26,507,905
Other receivables	2,040,015	2,057,128
Prepaid expenses and other assets (notes 8 and 9)	7,068,199	6,347,007
Investments (note 3)	89,778,144	77,323,646
Fixed assets, net (note 5)	<u>7,769,596</u>	<u>8,309,555</u>
Total assets	<u>\$ 181,619,828</u>	<u>168,294,952</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 4,403,688	3,303,657
Awards, contracts, and fellowships payable	13,475,021	7,705,636
Program advances	210,000	—
Loan payable (note 10)	1,506,000	1,506,000
Deferred rent credit (note 8)	949,397	919,302
Accrued lease obligation (note 8)	1,805,488	2,263,004
Postretirement medical benefits payable (note 9)	<u>6,947,288</u>	<u>7,237,411</u>
Total liabilities	<u>29,296,882</u>	<u>22,935,010</u>
Commitments and contingencies (notes 3, 8, 9, and 14)		
Net assets (note 7):		
Unrestricted:		
General undesignated	5,126,751	3,814,704
The John D. Rockefeller 3rd Memorial Fund and others	<u>67,236,901</u>	<u>55,772,559</u>
	72,363,652	59,587,263
Temporarily restricted (note 6)	74,473,518	80,286,903
Permanently restricted (note 6)	<u>5,485,776</u>	<u>5,485,776</u>
Total net assets	<u>152,322,946</u>	<u>145,359,942</u>
Total liabilities and net assets	<u>\$ 181,619,828</u>	<u>168,294,952</u>

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2009

(with summarized financial information for the year ended December 31, 2008)

	Unrestricted		Temporarily restricted	Permanently restricted	Total		
	General undesignated	The John D. Rockefeller 3rd Memorial Fund and others			Total	2009	2008
Operating revenue:							
Grants and contributions (notes 2(l), 11, 12, and 13)	\$ 513,242	1,600	514,842	76,273,813	—	76,788,655	76,523,223
Royalties	6,251,836	—	6,251,836	—	—	6,251,836	5,470,209
Interest and dividends (net of \$148,940 investment fees in 2009 and \$215,295 in 2008)	(12,578)	911,067	898,489	327,081	—	1,225,570	3,561,589
Net appreciation (depreciation) in fair value of investments	(53,483)	13,825,710	13,772,227	2,266,261	—	16,038,488	(29,040,785)
Other	63,696	—	63,696	—	—	63,696	70,917
Net assets released from restrictions	84,680,540	—	84,680,540	(84,680,540)	—	—	—
<b>Total operating revenue</b>	<b>91,443,253</b>	<b>14,738,377</b>	<b>106,181,630</b>	<b>(5,813,385)</b>	<b>—</b>	<b>100,368,245</b>	<b>56,585,153</b>
Operating expenses:							
Program services:							
HIV and AIDS	21,288,339	—	21,288,339	—	—	21,288,339	16,718,671
Poverty, Gender, and Youth	14,498,462	—	14,498,462	—	—	14,498,462	11,052,360
Reproductive Health	44,556,942	—	44,556,942	—	—	44,556,942	33,286,420
Distinguished Colleagues	335,185	—	335,185	—	—	335,185	647,603
Publications	1,229,820	—	1,229,820	—	—	1,229,820	1,010,326
Program development	1,088,381	—	1,088,381	—	—	1,088,381	1,416,563
<b>Total program services</b>	<b>82,997,129</b>	<b>—</b>	<b>82,997,129</b>	<b>—</b>	<b>—</b>	<b>82,997,129</b>	<b>64,131,943</b>
Supporting services:							
Management and general	11,003,252	640,467	11,643,719	—	—	11,643,719	11,522,820
Fund-raising	450,320	—	450,320	—	—	450,320	200,531
<b>Total supporting services</b>	<b>11,453,572</b>	<b>640,467</b>	<b>12,094,039</b>	<b>—</b>	<b>—</b>	<b>12,094,039</b>	<b>11,723,351</b>
<b>Total operating expenses</b>	<b>94,450,701</b>	<b>640,467</b>	<b>95,091,168</b>	<b>—</b>	<b>—</b>	<b>95,091,168</b>	<b>75,855,294</b>
(Deficiency) excess of operating revenue over operating expenses	(3,007,448)	14,097,910	11,090,462	(5,813,385)	—	5,277,077	(19,270,141)
Other changes in net assets:							
Gain on lease obligation (note 8)	457,516	—	457,516	—	—	457,516	417,884
Gain (loss) on settlement of claims	16,368	—	16,368	—	—	16,368	(100,929)
Write-off of contributions receivable	—	—	—	—	—	—	(1,345,954)
Pension and other postretirement charges other than net periodic benefit cost	1,212,043	—	1,212,043	—	—	1,212,043	(1,162,568)
Transfer to (from) board-designated endowment	2,633,568	(2,633,568)	—	—	—	—	—
<b>Increase (decrease) in net assets</b>	<b>1,312,047</b>	<b>11,464,342</b>	<b>12,776,389</b>	<b>(5,813,385)</b>	<b>—</b>	<b>6,963,004</b>	<b>(21,461,708)</b>
Net assets at beginning of year	3,814,704	55,772,559	59,587,263	80,286,903	5,485,776	145,359,942	166,821,650
Net assets at end of year	\$ 5,126,751	67,236,901	72,363,652	74,473,518	5,485,776	152,322,946	145,359,942

See accompanying notes to financial statements.

THE POPULATION COUNCIL, INC.

Statement of Functional Expenses

Year ended December 31, 2009

(with summarized financial information for the year ended December 31, 2008)

	Program services							Supporting services			Total expenses 2009	Total expenses 2008
	HIV and AIDS	Poverty, Gender, and Youth	Reproductive Health	Distinguished Colleagues	Publications	Program development	Total	Management and general	Fund-raising	Total		
Awards, contracts, and fellowships	\$ 5,071,606	2,755,212	16,976,639	—	—	—	24,803,457	—	—	—	24,803,457	12,953,084
Salaries and allowances	6,419,625	4,211,093	10,669,827	212,002	715,419	573,408	22,801,374	5,680,422	222,880	5,903,302	28,704,676	26,283,746
Pensions and other employee benefits (note 9)	2,111,475	1,257,550	3,378,571	78,926	266,246	149,385	7,242,153	2,086,178	78,419	2,164,597	9,406,750	8,715,657
Consultants and professional fees	505,576	738,336	1,342,567	491	10,203	35,162	2,632,335	743,961	11,333	755,294	3,387,629	3,213,213
Research and related services	959,144	775,457	2,770,155	17	62	71,214	4,576,049	4,856	—	4,856	4,580,905	4,067,975
Laboratory supplies, equipment, and maintenance	1,991,101	682,906	845,334	272	998	898	3,521,509	14,130	—	14,130	3,535,639	1,576,566
Travel and meetings	1,832,865	1,518,377	3,600,063	6,815	12,359	107,999	7,078,478	284,391	37,093	321,484	7,399,962	6,429,078
Occupancy, net (note 8)	1,308,328	1,082,491	2,007,385	31,753	202,045	72,777	4,704,779	1,303,738	38,781	1,342,519	6,047,298	6,137,487
Telecommunications, postage, and supplies	298,629	201,317	523,739	790	5,563	37,327	1,067,365	341,393	6,960	348,353	1,415,718	1,556,781
Office equipment and maintenance	315,516	421,209	1,074,812	1,319	4,841	20,403	1,838,100	378,210	4,024	382,234	2,220,334	1,387,100
Printing, publications, books, and journals	156,467	709,576	538,622	139	2,318	(573)	1,406,549	117,870	44,942	162,812	1,569,361	907,762
Insurance	38,321	8,569	396,507	108	396	1,342	445,243	151,887	—	151,887	597,130	593,058
Other fees	28,984	11,147	35,610	68	249	2,397	78,455	63,730	5,888	69,618	148,073	238,559
Other	2,949	3,915	7,886	35	130	111	15,026	64,193	—	64,193	79,219	309,038
2009 total expenses before depreciation and amortization	21,040,586	14,377,155	44,167,717	332,735	1,220,829	1,071,850	82,210,872	11,234,959	450,320	11,685,279	93,896,151	74,369,104
Depreciation and amortization of leasehold improvements, equipment, and other	247,753	121,307	389,225	2,450	8,991	16,531	786,257	408,760	—	408,760	1,195,017	1,486,190
2009 Total	\$ 21,288,339	14,498,462	44,556,942	335,185	1,229,820	1,088,381	82,997,129	11,643,719	450,320	12,094,039	95,091,168	
2008 Total	\$ 16,718,671	11,052,360	33,286,420	647,603	1,010,326	1,416,563	64,131,943	11,522,820	200,531	11,723,351		\$ 75,855,294

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statements of Cash Flows

Year ended December 31, 2009

(with comparative financial information for the year ended December 31, 2008)

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 6,963,004	(21,461,708)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Pension and other postretirement changes other than net periodic benefit costs	(1,212,043)	1,162,568
Depreciation and amortization	1,195,017	1,486,189
Gain on lease obligation	(457,516)	(417,884)
(Gain) loss on settlement of claims	(16,368)	100,929
Deferred rent credit	30,095	30,095
Write-off of contributions receivable	—	1,345,954
Net (appreciation) depreciation in fair value of investments	(16,038,488)	29,040,785
Net gain on sale of fixed assets	(2,249)	(32,766)
Changes in assets and liabilities:		
Grants and contributions receivable	(4,131,671)	(6,458,513)
Other receivables	17,113	380,430
Prepaid expenses and other assets	(721,192)	174,763
Accounts payable, accrued expenses, and other liabilities	1,116,399	(1,605,370)
Awards, contracts, and fellowships payable	5,769,385	(1,506,204)
Program advances	210,000	—
Postretirement medical benefits payable	921,920	—
Net cash (used in) provided by operating activities	(6,356,594)	2,239,268
Cash flows from investing activities:		
Purchase of investments	(72,422,038)	(117,947,137)
Proceeds from sale of investments	76,006,028	119,430,288
Purchases of fixed assets	(655,058)	(392,393)
Proceeds from sale of fixed assets	2,249	36,139
Net cash provided by investing activities	2,931,181	1,126,897
Net (decrease) increase in cash and cash equivalents	(3,425,413)	3,366,165
Cash and cash equivalents at beginning of year	10,068,412	6,702,247
Cash and cash equivalents at end of year	\$ 6,642,999	10,068,412

See accompanying notes to financial statements.

# THE POPULATION COUNCIL, INC.

## Notes to Financial Statements

December 31, 2009

(with comparative financial information as of and  
for the year ended December 31, 2008)

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

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

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

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

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

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

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

# THE POPULATION COUNCIL, INC.

## Notes to Financial Statements

December 31, 2009

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

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

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

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

The Council derives its support and revenue from governments, foundations and other not-for-profit organizations, multilateral organizations, corporations, individuals, and internal sources such as investments, publications, and royalty income. The Council's headquarters and the Center for Biomedical Research are located in New York City. The Council also has an office in Washington, D.C., as well as regional and country offices overseas. The Council has been classified by the Internal Revenue Service as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

## (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.

## THE POPULATION COUNCIL, INC.

### Notes to Financial Statements

December 31, 2009

(with comparative financial information as of and  
for the year ended December 31, 2008)

#### (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.

*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 3 inputs are unobservable inputs for the asset or liability.

**THE POPULATION COUNCIL, INC.**

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

In 2009, the Council adopted the provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), in accounting for its limited partnership investments. ASU 2009-12 allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value 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 and agrees with 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 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(g); and for grants and contributions receivable, the amounts reported on the balance sheet reflect their net realizable value. Fair value of accounts payable and accrued expenses; awards, contracts, and fellowships payable; and loans payable approximates their respective carrying amounts.

**(d) *Prior Year Summarized Financial Information***

The financial statements include certain prior year summarized comparative information in total but not by net asset class or function in the accompanying statement of activities and the statement of functional expenses, respectively. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Council's financial statements as of and for the year ended December 31, 2008, from which the summarized information was derived.

**(e) *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.

**(f) *Grants and Contributions***

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.

**THE POPULATION COUNCIL, INC.**

Notes to Financial Statements

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**(g) 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 alternative investments are based on net asset value and are provided by the general partner based on the underlying net assets of the investment vehicle.

**(h) 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.

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

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

**(j) Foreign Currency Translation**

The Council has determined that the functional currency of its foreign offices is the U.S. dollar. Accordingly, assets and liabilities are translated using the current exchange rates in effect on the balance sheet date. Revenue and expense accounts are translated at the average rate in effect during the year. Grants and contributions revenue includes foreign exchange losses of approximately \$18,000 and \$595,000 in 2009 and 2008, respectively.

**(k) Royalties**

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

**(l) Concentration of Support**

In 2009 and 2008, approximately \$45 million and \$24 million, respectively, of the Council's grants and contributions are funded by the United States Agency for International Development (USAID). As of December 31, 2009 and 2008, \$32 million and \$21 million, respectively, of the Council's grants and contributions receivable are also from USAID.

In 2008, approximately \$10 million of the Council's grants and contributions were funded by one foundation. As of December 31, 2009 and 2008, \$4.8 million of the Council's grants and contributions receivable are also from that foundation.

**THE POPULATION COUNCIL, INC.**

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**(m) Risks and Uncertainties**

The Council invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and such changes could materially affect the amounts reported in the balance sheet.

**(n) Recently Adopted Accounting Standards**

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10, *Generally Accepted Accounting Principles – Overall*. ASC 105-10 brings together and organizes all GAAP and designates GAAP into two levels, authoritative and nonauthoritative. New FASB accounting standards are now issued as amendments to the ASC and referred to as Accounting Standards Updates. The adoption of ASC 105-10 did not have a significant impact on the Council's financial statements.

In 2009, the Council adopted Accounting Standards Update No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (now included in Accounting Standards Codification (ASC Subtopic 740-10)). The Council recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. There was no significant impact on the Council's financial statements as a result of the adoption of this standard.

**(3) Investments**

The fair value of investments at December 31, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Short-term investments	\$ 4,911,047	10,693,743
Fixed income securities	28,401,837	33,454,159
Mutual funds – equity	41,905,497	29,072,215
Limited partnerships and liquidating trust	14,559,763	4,103,529
	<u>\$ 89,778,144</u>	<u>77,323,646</u>

**THE POPULATION COUNCIL, INC.**

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for the year ended December 31, 2008)

Fixed income securities consist of U.S. Treasury and government agency obligations. Mutual funds consist of funds that invest in the stocks of either domestic or international companies, or a combination of the two.

The following tables present the Council's fair value hierarchy for its investments as of December 31, 2009 and 2008:

<u>2009</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 4,911,047	4,911,047	—	—
Fixed income securities	28,401,837	28,401,837	—	—
Mutual funds – equity	41,905,497	41,905,497	—	—
Limited partnerships	13,911,488	—	13,466,676	444,812
Liquidating trust	648,275	—	648,275	—
2009 total	<u>\$ 89,778,144</u>	<u>75,218,381</u>	<u>14,114,951</u>	<u>444,812</u>
<u>2008</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 10,693,743	10,693,743	—	—
Fixed income securities	33,454,159	33,454,159	—	—
Mutual funds – equity	29,072,215	29,072,215	—	—
Limited partnerships	1,835,693	—	—	1,835,693
Liquidating trust	2,267,836	2,267,836	—	—
2008 total	<u>\$ 77,323,646</u>	<u>75,487,953</u>	<u>—</u>	<u>1,835,693</u>

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

	<u>2009</u>	<u>2008</u>
Financial assets:		
Beginning balance January 1	\$ 1,835,693	195,233
Transfers out	(1,835,693)	—
Total net unrealized gains (losses)	119,777	(354,986)
Purchases and sales, net	325,035	1,995,446
End balance December 31	<u>\$ 444,812</u>	<u>1,835,693</u>

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The following table presents the nature of investments in entities that calculate net asset value per share:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Distressed debt securities	\$ 4,250,070	7,106,300	Semi-annual	90 – 120 days
Diversified private equity fund-of-funds	444,812	—	No redemptions	Not applicable
Senior loan fund	<u>9,216,606</u>	<u>2,674,965</u>	Quarterly	90 days
	<u>\$ 13,911,488</u>	<u>9,781,265</u>		

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

**(4) Grants and Contributions Receivable**

At December 31, 2009 and 2008, grants and contributions receivable are expected to be collected as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	\$ 60,325,540	51,345,710
One to five years	<u>8,316,945</u>	<u>13,337,820</u>
	68,642,485	64,683,530
Less discount (at rates ranging from 1.07% to 4.58%)	(115,610)	(259,326)
Less allowance for uncollectible amounts	<u>(206,000)</u>	<u>(235,000)</u>
Total grants and contributions receivable, net	<u>\$ 68,320,875</u>	<u>64,189,204</u>

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**(5) Fixed Assets**

Fixed assets at December 31, 2009 and 2008 consist of the following:

	<b>2009</b>	<b>2008</b>
Leasehold improvements	\$ 17,341,307	17,071,360
Furniture and equipment	3,500,702	3,391,570
Computer equipment	2,601,891	2,438,687
Automobiles	571,016	525,334
Office condominium	538,293	538,293
	24,553,209	23,965,244
Less accumulated depreciation and amortization	(16,783,613)	(15,655,689)
	\$ 7,769,596	8,309,555

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

At December 31, 2009 and 2008, temporarily restricted net assets relate principally to grants and contributions receivable, and are to be used for the following purposes:

	<b>2009</b>	<b>2008</b>
HIV and AIDS	\$ 11,248,521	17,254,134
Poverty, gender, and youth	25,304,189	24,563,626
Reproductive health	37,333,168	36,345,775
Publications	464,843	—
Program development	122,797	879,411
Future periods	—	1,243,957
	\$ 74,473,518	80,286,903
	\$ 74,473,518	80,286,903

Permanently restricted net assets support operations as follows:

	<b>2009</b>	<b>2008</b>
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
	\$ 5,485,776	5,485,776
	\$ 5,485,776	5,485,776

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**(7) Endowment Funds**

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

The Council classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either unrestricted or temporarily restricted net assets depending upon donor's intent.

Annual spending authorizations from the endowment funds are calculated at 6% of the average market value of the endowment over the previous eight quarters ended September 30 unless an endowment fund's spending rate is specifically designated otherwise by a donor. The calculation is performed during the budgeting process and the withdrawal request is proposed to the board of trustees for use in support of the subsequent year's budget. The authorized withdrawal is drawn down as funds are needed, during, or immediately subsequent to, the budget year for which funds were authorized. Actual withdrawals may be less than the authorized amount. When less is needed, the unused amount is carried forward and may be considered available for future budget periods.

The goal of the Council's endowment investment policy is to maximize long-term total return through a combination of income and capital appreciation, in a prudent manner consistent with sound investment practice, to achieve a return objective of 6% cumulative annual real return after adjustment for the consumer price index over rolling five-year periods. To achieve the goals of growth and income, the endowment portfolio is divided into growth and fixed income components.

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The following table presents the changes in the Council's donor-restricted endowment funds and funds designated by the board of trustees to function as endowments for the years ended December 31, 2009 and 2008:

<b>2009</b>	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 50,130,848	1,157,884	5,485,776	56,774,508
Investment return:				
Interest, dividend, and realized gain	2,207,341	145,511	—	2,352,852
Unrealized gain	11,636,540	758,456	—	12,394,996
Investment fees	(114,603)	(7,557)	—	(122,160)
Transfers	931,837	—	—	931,837
Appropriation of endowment assets for expenditures and other costs	<u>(4,073,871)</u>	<u>(137,850)</u>	<u>—</u>	<u>(4,211,721)</u>
Net assets, end of year	\$ <u>60,718,092</u>	<u>1,916,444</u>	<u>5,485,776</u>	<u>68,120,312</u>
Donor-restricted endowment funds	\$ —	1,916,444	5,485,776	7,402,220
Board-designated endowment funds	<u>60,718,092</u>	<u>—</u>	<u>—</u>	<u>60,718,092</u>
Total funds	\$ <u>60,718,092</u>	<u>1,916,444</u>	<u>5,485,776</u>	<u>68,120,312</u>
<b>2008</b>	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 73,757,501	2,620,841	5,485,776	81,864,118
Investment return:				
Interest, dividend, and realized loss	(1,936,317)	(127,861)	—	(2,064,178)
Unrealized loss	(18,532,913)	(1,113,052)	—	(19,645,965)
Investment fees	(164,108)	(10,993)	—	(175,101)
Appropriation of endowment assets for expenditures and other costs	<u>(2,993,315)</u>	<u>(211,051)</u>	<u>—</u>	<u>(3,204,366)</u>
Net assets, end of year	\$ <u>50,130,848</u>	<u>1,157,884</u>	<u>5,485,776</u>	<u>56,774,508</u>
Donor-restricted endowment funds	\$ (114,479)	1,157,884	5,485,776	6,529,181
Board-designated endowment funds	<u>50,245,327</u>	<u>—</u>	<u>—</u>	<u>50,245,327</u>
Total funds	\$ <u>50,130,848</u>	<u>1,157,884</u>	<u>5,485,776</u>	<u>56,774,508</u>

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**(8) Leases**

**(a) Headquarters Office**

The Council occupies its New York headquarters office under a noncancelable operating lease for two floors expiring February 28, 2017, one floor expiring February 29, 2012, and for one additional floor expiring December 30, 2014. The lease agreements include rental abatements and other concessions totaling \$2,261,666, which have been deferred and are being amortized over the term of the lease. The unamortized balance of the deferred rent credit as of December 31, 2009 and 2008 was \$949,397 and \$919,302, respectively.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2010	\$ 2,950,830
2011	2,956,280
2012	2,627,888
2013	2,550,220
2014	2,550,220
2015 and thereafter	<u>3,234,660</u>
	<u>\$ 16,870,098</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:	
2010	\$ 1,323,558
2011	1,385,752
2012	900,579
2013	802,300
2014	<u>802,300</u>
	<u>\$ 5,214,489</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, 2009 and 2008 was \$626,389 and \$704,829, respectively, which is included in prepaid expenses and other assets in the balance sheet.

Rent expense for the headquarters office was \$2,446,244 and \$2,377,870 in 2009 and 2008, respectively, net of sublease income of \$1,572,215 and \$1,462,906 in 2009 and 2008, respectively.

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Cash and cash equivalents, and accounts payable and accrued expenses include \$259,664 and \$258,902 at December 31, 2009 and 2008, respectively, related to sublease tenant security deposits.

The Council's headquarters lease includes certain unused space. A liability totaling \$1,805,488 and \$2,263,004, in 2009 and 2008, 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 sheet. This estimated liability was reduced by \$457,516 and \$417,884 in 2009 and 2008, respectively, which is reported as a nonoperating gain on the accompanying statement of activities.

**(b) Center for Biomedical Research**

The Council's Center for Biomedical Research occupies three floors of office and laboratory space at Rockefeller University (the University) under a noncancelable operating lease expiring June 30, 2021. Rent expense was \$1,899,201 and \$1,831,248 in 2009 and 2008, 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 \$293,695 and \$268,649 in 2009 and 2008, respectively. Future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2010	\$ 210,667
2011	241,914
2012	246,753
2013	251,685
2014	63,231
	<u>\$ 1,014,250</u>

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**(d) Overseas Offices**

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,039,497 and \$1,228,876 in 2009 and 2008, respectively. Future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2010	\$ 568,621
2011	418,145
2012	183,966
2013	14,687
2014	7,384
	<u>\$ 1,192,803</u>

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

The Council has a noncontributory defined contribution pension plan covering substantially all of its employees. Contributions of 15% of the employees' base salaries are funded annually up to a maximum of \$29,000 per employee. Total pension expense for 2009 and 2008 was approximately \$3,023,000 and \$2,899,000, 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 \$5,045,184 and \$4,123,264, are included in prepaid expenses and other assets in the balance sheets as of December 31, 2009 and 2008, respectively. Assets of the trust primarily consisting of equity and fixed income securities 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Benefit obligation at December 31	\$ 6,947,288	7,237,411
Fair value of plan assets at December 31 included in prepaid expenses and other assets	<u>5,045,184</u>	<u>4,123,264</u>
Funded status	<u>\$ (1,902,104)</u>	<u>(3,114,147)</u>
Postretirement medical benefits payable	\$ 6,947,288	7,237,411
Benefit cost	428,478	431,280
Employer contribution	428,478	431,280
Plan participants' contributions	123,465	132,047
Benefits paid	(458,366)	(563,327)
Return on assets	828,343	(894,578)
Benefit obligation weighted average discount rate at December 31	6.19%	6.25%
Benefit cost weighted average discount rate for the year ended December 31	6.25	6.25

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2009 and 2008 and all future years. This annual rate of increase is net of participant contributions; the Council adjusts participant contributions for any increases in health costs above 5.0%.

The asset allocations of postretirement plan assets at December 31, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Short-term investments	9%	15%
Fixed income securities	34	29
Equity securities	56	11
Mutual funds – fixed income	—	22
Mutual funds – equity	—	23
Other assets	<u>1</u>	<u>—</u>
	<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 ending December 31:		
2010	\$	390,880
2011		374,713
2012		383,864
2013		409,306
2014		401,068
2015 – 2019		2,376,229
Projected contributions for 2010	\$	390,880

At December 31, 2009, the net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost totaled \$979,088. Amortization of the net actuarial loss in 2010 will be \$35,370.

**(10) Loan Payable**

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

**(11) Danish Ministry of Foreign Affairs Contributions**

Grants and contributions revenue in 2009 and 2008 includes contributions of \$1,162,791 and \$1,030,043, respectively, remitted from the Danish Ministry of Foreign Affairs on September 11, 2009 and January 26, 2009, respectively.

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

Grants and contributions revenue in 2009 includes contributions of \$502,562 remitted from the UK Department of International Development during 2009 against grant agreement AG 5267. Expenditures incurred in the same period for grant agreement AG 5267 and purchase order number 40021306 received from the UK Department of International Development total \$734,099 and \$16,677, respectively.

**(13) Swedish International Development Cooperation Agency**

Grants and contributions revenue in 2008 includes contributions of \$1,269,500 remitted from the Swedish International Development Cooperative Agency on December 23, 2008 for agreement number 82030003. The total amount of expenditures incurred during the years ended December 31, 2009 and 2008 was \$216,958 and \$1,052,542, respectively.

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**(14) Contingencies**

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

**(15) Subsequent Events**

In connection with the preparation of the financial statements and in accordance with the recently issued FASB ASC 855-10, *Subsequent Events – Overall*, the Council evaluated subsequent events from the balance sheet date of December 31, 2009 through May 21, 2010, which was the date the financial statements were issued and determined that no additional disclosures are required.