



**THE POPULATION COUNCIL, INC.**

Financial Statements

December 31, 2008

(with comparative financial information as of and  
for the year ended December 31, 2007)

(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, 2008, 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 2007 financial statements, and, in our report dated May 12, 2008, we expressed an unqualified opinion on these statements. Our report referred to the adoption of the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2007.

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, 2008, 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 11, 2009

**THE POPULATION COUNCIL, INC.**

Balance Sheet

December 31, 2008

(with comparative financial information as of December 31, 2007)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 10,068,412	6,702,247
Grants and contributions receivable, net (note 4):		
U.S. government agencies	37,681,299	43,204,631
Other	26,507,905	15,872,014
Other receivables	2,057,128	2,437,558
Prepaid expenses and other assets (notes 8 and 9)	6,347,007	7,416,347
Investments (note 3)	77,323,646	107,847,582
Fixed assets, net (note 5)	8,309,555	9,406,724
Total assets	\$ 168,294,952	192,887,103
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities (note 8)	\$ 3,303,657	4,808,098
Awards, contracts, and fellowships payable	7,705,636	9,211,840
Loan payable (note 10)	1,506,000	1,506,000
Deferred rent credit (note 8)	919,302	889,207
Accrued lease obligation (note 8)	2,263,004	2,680,888
Postretirement medical benefits payable (note 9)	7,237,411	6,969,420
Total liabilities	22,935,010	26,065,453
Commitments and contingencies (notes 3, 8, 9, and 13)		
Net assets:		
Unrestricted:		
General undesignated	3,814,704	5,736,151
The John D. Rockefeller 3rd Memorial Fund and others (note 7)	55,772,559	80,695,779
	59,587,263	86,431,930
Temporarily restricted (note 6 and 7)	80,286,903	74,903,944
Permanently restricted (note 6 and 7)	5,485,776	5,485,776
Total net assets	145,359,942	166,821,650
Total liabilities and net assets	\$ 168,294,952	192,887,103

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Activities

Year ended December 31, 2008

(with summarized financial information for the year ended December 31, 2007)

	Unrestricted		Total	Temporarily restricted	Permanently restricted	Total	
	General undesignated	The John D. Rockefeller 3rd Memorial Fund and others				2008	2007
Operating revenue:							
Grants and contributions (notes 2(k) and 11)	\$ 1,876,667	—	1,876,667	74,646,556	—	76,523,223	62,558,865
Royalties	5,470,209	—	5,470,209	—	—	5,470,209	4,669,474
Interest and dividends	62,986	2,700,439	2,763,425	798,164	—	3,561,589	6,767,033
Net depreciation in fair value of investments	(237,292)	(24,472,935)	(24,710,227)	(4,330,558)	—	(29,040,785)	(2,940,836)
Other	70,917	—	70,917	—	—	70,917	38,902
Net assets released from restrictions	64,385,249	—	64,385,249	(64,385,249)	—	—	—
Total operating revenue	71,628,736	(21,772,496)	49,856,240	6,728,913	—	56,585,153	71,093,438
Operating expenses:							
Program services:							
HIV and AIDS	16,718,671	—	16,718,671	—	—	16,718,671	21,824,330
Poverty, Gender, and Youth	11,052,360	—	11,052,360	—	—	11,052,360	7,614,388
Reproductive Health	33,286,420	—	33,286,420	—	—	33,286,420	30,466,758
Distinguished Colleagues	647,603	—	647,603	—	—	647,603	549,961
Publications	1,010,326	—	1,010,326	—	—	1,010,326	927,539
Program development	1,416,563	—	1,416,563	—	—	1,416,563	1,466,959
Total program services	64,131,943	—	64,131,943	—	—	64,131,943	62,849,935
Supporting services:							
Management and general	10,823,933	698,887	11,522,820	—	—	11,522,820	10,859,653
Fund-raising	200,531	—	200,531	—	—	200,531	528,844
Total supporting services	11,024,464	698,887	11,723,351	—	—	11,723,351	11,388,497
Total operating expenses	75,156,407	698,887	75,855,294	—	—	75,855,294	74,238,432
(Deficiency) excess of operating revenue over operating expenses	(3,527,671)	(22,471,383)	(25,999,054)	6,728,913	—	(19,270,141)	(3,144,994)
Other changes in net assets:							
Gain on lease obligation (note 8)	417,884	—	417,884	—	—	417,884	400,092
Loss on settlement of claims	(100,929)	—	(100,929)	—	—	(100,929)	(478,000)
Write-off of contributions receivable	—	—	—	(1,345,954)	—	(1,345,954)	—
Pension and other postretirement changes other than net periodic benefit cost (note 9)	(1,162,568)	—	(1,162,568)	—	—	(1,162,568)	—
Transfer to (from) board designated endowment	2,451,837	(2,451,837)	—	—	—	—	—
(Decrease) increase in net assets before effect of SFAS 158 adoption	(1,921,447)	(24,923,220)	(26,844,667)	5,382,959	—	(21,461,708)	(3,222,902)
Effect of adoption of SFAS 158 (note 9)	—	—	—	—	—	—	(1,028,563)
(Decrease) increase in net assets	(1,921,447)	(24,923,220)	(26,844,667)	5,382,959	—	(21,461,708)	(4,251,465)
Net assets at beginning of year	5,736,151	80,695,779	86,431,930	74,903,944	5,485,776	166,821,650	171,073,115
Net assets at end of year	\$ 3,814,704	55,772,559	59,587,263	80,286,903	5,485,776	145,359,942	166,821,650

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Functional Expenses

Year ended December 31, 2008

(with summarized financial information for the year ended December 31, 2007)

	Program services							Supporting services			Total expenses 2008	Total expenses 2007
	HIV and AIDS	Poverty, Gender, and Youth	Reproductive Health	Distinguished Colleagues	Publications	Program development	Total	Management and general	Fund-raising	Total		
Awards, contracts, and fellowships	\$ 4,254,657	1,668,795	7,000,309	—	—	29,323	12,953,084	—	—	—	12,953,084	13,068,338
Salaries and allowances	5,329,464	3,500,777	10,558,277	402,686	614,477	637,058	21,042,739	5,155,056	85,951	5,241,007	26,283,746	27,130,331
Pensions and other employee benefits (note 9)	1,760,148	1,110,060	3,365,336	150,782	230,069	184,383	6,800,778	1,882,571	32,308	1,914,879	8,715,657	8,751,093
Consultants and professional fees	234,441	602,739	1,067,236	10,792	931	127,957	2,044,096	1,159,659	9,458	1,169,117	3,213,213	2,916,473
Research and related services	647,972	1,000,939	2,293,444	32	550	78,458	4,021,395	45,261	1,319	46,580	4,067,975	3,314,902
Laboratory supplies, equipment, and maintenance	636,889	16,837	917,787	1,064	1,661	2,328	1,576,566	—	—	—	1,576,566	1,643,199
Travel and meetings	1,203,588	1,476,097	3,160,611	4,419	8,209	156,669	6,009,593	409,343	10,142	419,485	6,429,078	5,520,762
Occupancy, net (note 8)	1,228,763	938,477	2,337,331	65,420	187,238	124,888	4,882,117	1,231,198	24,172	1,255,370	6,137,487	5,854,377
Telecommunications, postage, and supplies	364,351	168,197	626,561	1,311	20,756	36,044	1,217,220	335,371	4,190	339,561	1,556,781	1,690,564
Office equipment and maintenance	345,781	310,259	308,275	1,665	2,597	12,698	981,275	405,825	—	405,825	1,387,100	1,002,633
Printing, publications, books, and journals	240,399	58,450	479,420	517	62,879	3,263	844,928	62,834	—	62,834	907,762	1,025,921
Insurance	109,613	3,537	339,915	139	218	495	453,917	139,141	—	139,141	593,058	621,696
Publication costs charged to other departments	43,416	32,259	16,253	23	(134,015)	317	(41,747)	10,353	31,394	41,747	—	—
Bad debt expense	—	—	—	—	—	—	—	238,559	—	238,559	238,559	—
Other	31,923	12,301	206,732	351	1,649	2,827	255,783	51,659	1,597	53,256	309,039	183,927
2008 total expenses before depreciation and amortization	16,431,405	10,899,724	32,677,487	639,201	997,219	1,396,708	63,041,744	11,126,830	200,531	11,327,361	74,369,105	72,724,216
Depreciation and amortization of leasehold improvements, equipment, and other	287,266	152,636	608,933	8,402	13,107	19,855	1,090,199	395,990	—	395,990	1,486,189	1,514,216
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	
2007 total	\$ 21,824,330	7,614,388	30,466,758	549,961	927,539	1,466,959	62,849,935	10,859,653	528,844	11,388,497		74,238,432

See accompanying notes to financial statements.

**THE POPULATION COUNCIL, INC.**

Statement of Cash Flows

Year ended December 31, 2008

(with comparative financial information for the year ended December 31, 2007)

	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Decrease in net assets	\$ (21,461,708)	(4,251,465)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Effect of adoption of SFAS 158	—	1,028,563
Pension and other postretirement changes other than net periodic benefit cost	1,162,568	—
Depreciation and amortization	1,486,189	1,514,216
Gain on lease obligation	(417,884)	(400,092)
Loss on settlement of claims	100,929	478,000
Deferred rent credit	30,095	(26,967)
Write-off of contributions receivable	1,345,954	—
Net depreciation in fair value of investments	29,040,785	2,940,836
Net gain on sale of fixed assets	(32,766)	(9,786)
Permanently restricted contributions classified as financing activities	—	(700)
Changes in assets and liabilities:		
Grants and contributions receivable	(6,458,513)	1,181,885
Other receivables	380,430	(138,653)
Prepaid expenses and other assets	174,763	(787,887)
Accounts payable, accrued expenses, and other liabilities	(1,605,370)	849,328
Awards, contracts, and fellowships payable	(1,506,204)	888,660
Postretirement medical benefits payable	—	403,019
Net cash provided by operating activities	2,239,268	3,668,957
Cash flows from investing activities:		
Purchase of investments	(117,947,137)	(104,156,315)
Proceeds from sale of investments	119,430,288	99,548,084
Purchases of fixed assets	(392,393)	(746,953)
Proceeds from sale of fixed assets	36,139	18,220
Net cash provided by (used in) investing activities	1,126,897	(5,336,964)
Cash flows from financing activities:		
Payment on loans payable	—	(170,000)
Permanently restricted contributions	—	700
Net cash used in financing activities	—	(169,300)
Net increase (decrease) in cash and cash equivalents	3,366,165	(1,837,307)
Cash and cash equivalents at beginning of year	6,702,247	8,539,554
Cash and cash equivalents at end of year	\$ 10,068,412	6,702,247

See accompanying notes to financial statements.

# THE POPULATION COUNCIL, INC.

## Notes to Financial Statements

December 31, 2008

(with comparative financial information as of and  
for the year ended December 31, 2007)

### (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.

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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 policy makers, 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.

Pioneer in reproductive health, 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 our work. The relationships the Council has cultivated enable us to take on sensitive issues and to maximize technical and financial resources. They enable us to improve people's 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.

### (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

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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 (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) *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.

**(d) *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.

**(e) *Royalties***

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

**(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. The fair value of the limited partnership is provided by the general partner based on the underlying net assets of the partnership and is reviewed and evaluated by management of the Council.

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**(g) *Recently Adopted Accounting Standards***

Effective January 1, 2008, the Council adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the financial statements on a recurring basis. The FSP did not defer the recognition and disclosure requirements for financial or nonfinancial assets and liabilities that are measured at least annually. In February 2008, the Council adopted FSP No. FAS 157-2. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*. FSP No. FAS 157-3 was effective upon issuance. The FSP's guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions.

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. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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 level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In August 2008, FSP No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds*, was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. New York State has not yet adopted UPMIFA. For the year ended December 31, 2008, the Council adopted the disclosure requirements of the FSP (note 7).

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**(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) 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 approximately \$595,000 in foreign exchange losses in 2008 and a \$216,000 gain in 2007.

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

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

**(k) Concentration of Support**

In 2008 and 2007, approximately \$24 million and \$32 million, respectively, of the Council's grants and contributions are funded by the United States Agency for International Development (USAID). As of December 31, 2008 and 2007, \$21 million and \$29 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 are funded by one foundation. As of December 31, 2008, \$4.8 million of the Council's grants and contributions receivable are also from that foundation.

**(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 that such changes could materially affect the amounts reported in the balance sheet.

**(m) 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

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information should be read in conjunction with the Council's financial statements as of and for the year ended December 31, 2007, from which the summarized information was derived.

**(n) New Accounting Pronouncement Not Yet Adopted – Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes**

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes— an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is currently effective for the Council's December 31, 2009 financial statements. The adoption of FIN 48 is not expected to have a significant impact on the Council's financial statements.

**(3) Investments**

The fair value of investments at December 31, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Short-term investments	\$ 10,693,743	3,552,800
Fixed-income securities	33,454,159	32,472,409
Equity securities	—	12,727,385
Mutual funds – equity	29,072,215	56,179,930
Limited partnership and liquidating trust	4,103,529	2,915,058
	<u>\$ 77,323,646</u>	<u>107,847,582</u>

Short-term investments at December 31, 2008 and 2007 include a certificate of deposit for \$308,833, held as collateral in conjunction with the sublease agreement entered into by the Council in 2001.

Under the terms of the limited partnership agreement, the Council is obligated to periodically advance additional funding for its limited partnership investments. At December 31, 2008 and 2007, the Council had commitments of approximately \$17.8 million and \$10 million, respectively. This amount has 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.

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The following table presents the Council's fair value hierarchy for those assets measured at fair value as of December 31, 2008. At December 31, 2008, Level 3 assets comprised approximately 2% of the Council's total investment portfolio at fair value:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
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 partnership and liquidating trust	<u>4,103,529</u>	<u>2,267,836</u>	<u>—</u>	<u>1,835,693</u>
Total	<u>\$ 77,323,646</u>	<u>75,487,953</u>	<u>—</u>	<u>1,835,693</u>

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2008 to December 31, 2008:

	<u>Level 3</u>
Financial assets:	
Beginning balance January 1, 2008	\$ 195,233
Total net unrealized losses	(354,986)
Purchases	<u>1,995,446</u>
End balance December 31, 2008	<u>\$ 1,835,693</u>

**(4) Grants and Contributions Receivable**

At December 31, 2008 and 2007, grants and contributions receivable are expected to be collected as follows:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 51,345,710	55,194,460
One to five years	<u>13,337,820</u>	<u>4,038,500</u>
	64,683,530	59,232,960
Less discount (at rates ranging from 1.07% to 4.58%)	(259,326)	(156,315)
Less allowance for uncollectible amounts	<u>(235,000)</u>	<u>—</u>
Total grants and contributions receivable, net	<u>\$ 64,189,204</u>	<u>59,076,645</u>

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**(5) Fixed Assets**

Fixed assets at December 31, 2008 and 2007 consist of the following:

	<b>2008</b>	<b>2007</b>
Leasehold improvements	\$ 17,071,360	16,941,392
Furniture and equipment	3,391,570	3,880,463
Computer equipment	2,438,687	2,377,945
Automobiles	525,334	457,759
Office condominium	538,293	538,293
	23,965,244	24,195,852
Less accumulated depreciation and amortization	(15,655,689)	(14,789,128)
	\$ 8,309,555	9,406,724

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

At December 31, 2008 and 2007, temporarily restricted net assets relate principally to grants and contributions receivable, and are to be used for the following purposes:

	<b>2008</b>	<b>2007</b>
HIV and AIDS	\$ 17,254,134	17,189,796
Poverty, gender, and youth	24,563,626	17,794,320
Reproductive health	36,345,775	35,880,160
Publications	—	75,392
Program development	879,411	752,406
Future periods	1,243,957	3,211,870
	\$ 80,286,903	74,903,944

Permanently restricted net assets support operations as follows:

	<b>2008</b>	<b>2007</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

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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.

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, 2008 and 2007:

<u>2008</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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)
Contributions	—	—	—	—
Appropriation of endowment assets for expenditures and other costs	(2,993,315)	(211,051)	—	(3,204,366)
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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<u>2007</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 71,697,142	2,568,752	5,485,076	79,750,970
Investment return:				
Interest, dividend, and realized gain	9,368,339	623,763	—	9,992,102
Unrealized loss	(6,924,846)	(461,768)	—	(7,386,614)
Investment fees	(276,870)	(13,211)	—	(290,081)
Contributions	612,801	700	700	614,201
Appropriation of endowment assets for expenditures and other costs	<u>(719,065)</u>	<u>(97,395)</u>	<u>—</u>	<u>(816,460)</u>
Net assets, end of year	<u>\$ 73,757,501</u>	<u>2,620,841</u>	<u>5,485,776</u>	<u>81,864,118</u>
Donor-restricted endowment funds	\$ —	2,620,841	5,485,776	8,106,617
Board-designated endowment funds	<u>73,757,501</u>	<u>—</u>	<u>—</u>	<u>73,757,501</u>
Total funds	<u>\$ 73,757,501</u>	<u>2,620,841</u>	<u>5,485,776</u>	<u>81,864,118</u>

**(8) Leases**

**(a) Headquarters Office**

The Council occupies its New York headquarters office under a noncancelable operating lease for two floors expiring February 28, 2017, one floor expiring February 29, 2012, and for one additional floor expiring December 30, 2014. The lease agreements include rental abatements and other concessions totaling \$2,261,666, which have been deferred and are being amortized over the term of the lease. The unamortized balance of the deferred rent credit as of December 31, 2008 and 2007 was \$919,302 and \$889,207, respectively.

Future minimum lease payments by the Council are as follows:

	<u>Amount</u>
Year ending December 31:	
2009	\$ 2,915,713
2010	2,950,830
2011	2,956,280
2012	2,627,888
2013	2,550,220
2014 and thereafter	<u>5,784,880</u>
	<u>\$ 19,785,811</u>

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

	<u>Amount</u>
Year ending December 31:	
2009	\$ 1,261,859
2010	1,323,558
2011	1,385,752
2012	900,579
2013	802,300
2014	802,300
	<u>\$ 6,476,348</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, 2008 and 2007 was \$704,829 and \$767,249, respectively, which is included in prepaid expenses and other assets in the balance sheet.

Rent expense for the headquarters office was \$2,377,870 and \$2,346,962 in 2008 and 2007, respectively, net of sublease income of \$1,462,906 and \$1,389,110 in 2008 and 2007, respectively. Cash and cash equivalents and accounts payable and accrued expenses include approximately \$258,902 and \$256,255 at December 31, 2008 and 2007, respectively, related to sublease tenant security deposits.

The Council's headquarters lease includes certain unused space. A liability totaling \$2,263,004 and \$2,680,888, in 2008 and 2007, 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 on the accompanying balance sheet. This estimated liability was reduced by \$417,884 and \$400,092 in 2008 and 2007, 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 \$1,831,248 and \$1,778,966 in 2008 and 2007, 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 commenced on March 1, 1998 and was renewed during

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2007, extending the termination date to March 31, 2014. Rent expense for this lease was \$268,649 and \$271,006 in 2008 and 2007, respectively. Future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2009	\$ 232,519
2010	237,166
2011	241,915
2012	246,755
2013	251,690
2014	63,228
	<u>\$ 1,273,273</u>

**(d) Overseas Offices**

The Council also has operating lease agreements at its various overseas locations. Rent expense under these leases was \$1,228,876 and \$1,140,720 in 2008 and 2007, respectively. Future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2009	\$ 404,795
2010	442,676
2011	321,467
2012	119,365
2013	6,337
	<u>\$ 1,294,640</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 2008 and 2007 was approximately \$2,899,000 and \$2,986,000, 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 \$4,123,264 and \$5,017,842, are included in prepaid expenses and other assets in the balance sheets as of December 31, 2008 and 2007, respectively. The plan is contributory, with retiree contributions adjusted periodically.

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Effective December 31, 2007, the Council adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). The effect of the adoption was to decrease net assets by \$1,028,563.

The following table presents the information of postretirement medical benefits payable at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Benefit obligation at December 31	\$ 7,237,411	6,969,420
Fair value of plan assets at December 31 included in prepaid expenses and other assets	<u>4,123,264</u>	<u>5,017,842</u>
Funded status	<u>\$ (3,114,147)</u>	<u>(1,951,578)</u>
Postretirement medical benefits payable	\$ 7,237,411	6,969,420
Benefit cost	431,280	474,760
Employer contribution	431,280	474,760
Plan participants' contributions	132,047	110,298
Benefits paid	(563,327)	(505,675)
Return on assets	(894,578)	323,637
Benefit obligation weighted average discount rate at December 31	6.25%	6.25%
Benefit cost weighted average discount rate for the year ended December 31	6.25	6.00

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2008 and 2007 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, 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Short-term investments	15%	9%
Fixed-income securities	29	28
Equity securities	11	24
Mutual funds – fixed income	22	17
Mutual funds – equity	23	22
	<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:		
2009	\$	394,070
2010		396,925
2011		390,306
2012		400,436
2013		409,735
2014 – 2018		2,236,650
Projected contributions for 2009	\$	596,564

At December 31, 2008, the net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost, totaled \$2,191,131. Amortization of the net actuarial loss in 2009 will be \$117,946.

**(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 2008 and 2007 includes contributions of \$1,030,043 and \$1,171,303, respectively, remitted from the Danish Ministry of Foreign Affairs on January 26, 2009 and November 20, 2007, respectively.

**(12) Fair Value of Financial Instruments**

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 based upon either quoted market prices for marketable securities or, for the limited partnership, estimates of fair value as discussed in note 2(f); and for grants and contributions receivable, the amounts reported on the balance sheet reflect their net realizable value. Fair value of accounts payable and accrued expenses; awards, contracts, and fellowships payable; and loans payable approximates their respective carrying amounts.

**(13) Contingencies**

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