WASHINGTON POLICY CENTER

FINANCIAL STATEMENTS

(see independent accountant's review report)

YEARS ENDED DECEMBER 31, 2013 AND 2012

Johnson & Shute, P.S.

CERTIFIED PUBLIC ACCOUNTANTS/CONSULTANTS

Johnson & Shute, P.S.

CONTENTS

(see independent accountant's review report)

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

July 25, 2014

Board of Directors
Washington Policy Center
Seattle, Washington

We have reviewed the accompanying statement of financial position of Washington Policy Center (a nonprofit organization) as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Center management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Johnson & Shute, P.S.

Certified Public Accountants

WASHINGTON POLICY CENTER

STATEMENT OF FINANCIAL POSITION

(see independent accountant's review report)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 444,907	$ 273,466
Short-term investments (Note C)		177,516
Receivables, less allowance for doubtful accounts of $10,000 in 2012	39,480	91,217
Unconditional promises to give (Note B)	675,311	451,096
Inventory	15,690	18,237
Prepaid expenses	7,507	1,604
Investments - long-term (Note C)	1,187,030	1,024,497
Property, office equipment and software, at cost	186,256	167,247
Less accumulated depreciation	(127,188)	(110,758)
	59,068	56,489
TOTAL ASSETS	$ 2,428,993	$ 2,094,122
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	$ 46,864	$ 27,382
Deferred revenues	329,200	242,500
TOTAL LIABILITIES	376,064	269,882
NET ASSETS:		
Unrestricted		
Undesignated	1,097,848	962,388
Board designated for program enhancement	657,705	657,705
Total unrestricted	1,755,553	1,620,093
Temporarily restricted	221,965	128,736
Permanently restricted	75,411	75,411
TOTAL NET ASSETS	2,052,929	1,824,240
TOTAL LIABILITIES AND NET ASSETS	$ 2,428,993	$ 2,094,122

See notes to financial statements.

Johnson&Shute, P.S.

WASHINGTON POLICY CENTER

STATEMENT OF ACTIVITIES
(see independent accountant's review report)

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions	$ 1,363,505	$ 189,089	$ -	$ 1,552,594	$ 1,454,763	$ (1,131)	$ -	$ 1,453,632
Pillar Society contributions	557,682			557,682	369,346			369,346
Program revenue	101,237			101,237	117,145			117,145
In-kind contributions (Note H)	61,425			61,425	67,382			67,382
Interest and dividend income	34,126			34,126	50,626			50,626
Net assets released from restriction (Note E)	95,860	(95,860)			19,879	(19,879)		
TOTAL REVENUES AND SUPPORT	2,213,835	93,229		2,307,064	2,079,141	(21,010)		2,058,131
EXPENSES:								
Salaries and contract services	1,037,578			1,037,578	1,015,420			1,015,420
Program expense	416,845			416,845	438,541			438,541
Annual dinner expense	297,843			297,843	249,920			249,920
Payroll taxes and employee benefits	159,181			159,181	159,981			159,981
Rent expense	109,714			109,714	107,844			107,844
Professional fees	40,687			40,687	28,508			28,508
Travel	38,101			38,101	38,692			38,692
Bad debt expense	29,750			29,750				
Depreciation	22,657			22,657	20,564			20,564
Office expense	19,999			19,999	23,445			23,445
Printing, mailing, and postage	16,165			16,165	30,225			30,225
Bank charges	13,758			13,758	12,955			12,955
Telephone expense	9,674			9,674	8,454			8,454
Insurance expense	6,256			6,256	5,848			5,848
Internet expense	3,108			3,108	7,172			7,172
Repair and maintenance	1,867			1,867	2,037			2,037
Miscellaneous expense	7,194			7,194	7,419			7,419
TOTAL EXPENSES	2,230,377			2,230,377	2,157,025			2,157,025
Net realized and unrealized gains on marketable equity securities (Note C)	152,002			152,002	112,617			112,617
INCREASE (DECREASE) IN NET ASSETS	135,460	93,229		228,689	34,733	(21,010)		13,723
NET ASSETS, BEGINNING OF YEAR	1,620,093	128,736	75,411	1,824,240	1,585,360	149,746	75,411	1,810,517
NET ASSETS, END OF YEAR	$ 1,755,553	$ 221,965	$ 75,411	$ 2,052,929	$ 1,620,093	$ 128,736	$ 75,411	$ 1,824,240

See notes to financial statements.

WASHINGTON POLICY CENTER

STATEMENT OF CASH FLOWS

(see independent accountant's review report)

	Year Ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 228,689	$ 13,723
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	22,657	20,564
Loss on disposal of fixed assets	219	
Contributions of investments	(15,562)	(5,346)
Provision for bad debts	29,750	
Realized and unrealized gain on investments	(152,002)	(112,617)
Changes in assets and liabilities providing (using) cash:		
Receivables	38,987	(56,017)
Unconditional promises to give	(241,215)	(379,846)
Inventory	2,547	14,714
Prepaid expenses	(5,903)	3,819
Accounts payable and other liabilities	19,482	(45,503)
Deferred revenues	86,700	242,500
Net cash provided by (used in) operating activities	14,349	(304,009)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	635,962	940,999
Purchase of investments	(453,415)	(636,728)
Property and equipment additions	(25,455)	(3,373)
Net cash provided by investing activities	157,092	300,898
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	171,441	(3,111)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	273,466	276,577
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 444,907	$ 273,466

See notes to financial statements.

WASHINGTON POLICY CENTER

NOTES TO FINANCIAL STATEMENTS
(see independent accountant's review report)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of organization -

Washington Policy Center (the Center) is an independent, Washington State 501(c)(3) nonprofit corporation that promotes free-market solutions to state and local issues through research and education. The Center serves citizens, policymakers, and the media in Washington through media outreach, publications, conferences, and forums on both national and local issues.

During the year ended December 31, 2005, the Center began a fundraising initiative to collect $4,260,000 which was used to establish Research Centers focused on the following areas: Education Reform, Environmental Policy, Health Care Policy, Government Reform, Small Business and Entrepreneurship, and Transportation Policy. Also, the Center develops and maintains a free legislative website, WashingtonVotes.org, for citizens to track legislative activity. The campaign was completed in 2011; raising $4.22 million and bringing in $4.13 million. Overall the campaign had over 100 donors, with 19 donors giving $50,000 or more. The Center experienced a very low 2.3% pledge write-off rate over the term of the capital campaign, especially impressive given the economic downturn occurring during the duration of the campaign. In addition, the plan in 2005 was that the campaign funds would be exhausted in about five years; however, the Center carefully used these funds without compromising its research plan and they are still being used eight years later to further the organization's mission. Further, WPC created a 15% board designated reserve to be used only in cases of emergency as voted by the board.

The capital campaign allowed the Center to open seven Research Centers, each with its own full-time director and advisory board. The Center now has 17 employees and a $2.18 million annual budget, making it one of the largest state-based think tanks in the country. In addition, the Center has maintained a full-time Olympia office since 2007, which is located just five blocks from the State Capitol. In 2009, the Center opened an office in Eastern Washington with a full-time director. The organization also opened a Tri-Cities office last year and it houses one of WPC's research centers.

In 2012, Washington Policy Center launched its Pillar Society/Major Gifts Initiative, which is the natural continuation of the Center's capital campaign. As noted above, the prior campaign is complete and the last of these pledges expired in 2012. In order to continue to increase revenue year-over-year to support its expanded activity and impact, the Center needs the increased and stable income that come from these pledges. The Initiative asks Washington Policy Center supporters for a three-year pledge of support at different giving levels. This provides our most loyal donors a fair and transparent plan of what benefits they can expect to receive from Washington Policy Center each year and provides convenience, recognition, and relief to donors from multiple requests. At the end of 2013, the Pillar Society/Major Gifts Initiative had raised almost $1.3 million from 39 donors, each pledging a minimum of $5,000 per year.

The Center's support and revenue come primarily from sources in Washington State.

NOTE A - CONTINUED:

Contributions -

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, unless the donor explicitly stipulates the contribution is to support current activities, or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same period in which the contribution is received, the organization reports the support as unrestricted.

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. These amounts have been reported as both in-kind contribution revenue and related expense categories on the statements of activities. The Center recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

Cash and cash equivalents -

Cash and cash equivalents include all cash and short-term debt instruments, including certificates of deposit, purchased with an original maturity of three months or less, unless designated for a long-term purpose or received with a long-term donor restriction. The Center maintains cash balances at one bank. Accounts at the institution are insured up to the applicable limits by the Federal Deposit Insurance Corporation.

Inventory -

Inventory, which consists of various books and policy guides, is stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property and equipment -

Property and equipment are recorded at cost on the date of acquisition, or at fair market value as of the donation date of gifts. Depreciation of property and equipment is provided on the basis of the estimated useful lives of the individual assets, primarily three to ten years, on the straight-line method. It is the Center's policy to capitalize property and equipment over $500. Lesser amounts are expensed.

(see independent accountant's review report)

NOTE A - CONTINUED:

Estimates -

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used.

Date of management review -

Management has evaluated subsequent events through July 25, 2014, which is the date the financial statements were available to be issued.

NOTE B - UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give are as follows:

	December 31,	
	2013	**2012**
Receivable in less than one year	$ 441,833	$ 241,750
Receivable in one to five years	241,250	221,500
Total unconditional promises to give	683,083	463,250
Less discounts to net present value	(7,772)	(12,154)
Net unconditional promises to give	$ 675,311	$ 451,096

NOTE C - INVESTMENTS:

Investments are comprised of unrestricted and permanently restricted funds and include cash and cash equivalents held temporarily until suitable long-term investment opportunities are identified and marketable securities with readily determinable fair values. Management intends to utilize these investments primarily for long-term purposes. Short-term investments represent management's budgets near term cash needs. If necessary, management may liquidate a portion of the investment portfolio in order to cover estimated operating shortfalls.

NOTE C - CONTINUED:

Marketable debt and equity securities are reported at their fair values in the statement of financial position. Investments held by the Center had the following aggregate fair market value and aggregate cost:

	December 31,			
	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	$ 1,179,930	$ 925,962	$ 999,162	$ 889,170
Municipal obligations			79,569	50,715
U.S. Government obligations			52,208	78,727
Corporate obligations			31,809	31,327
Equities			1,069	1,057
Cash and cash equivalents	7,100	7,100	38,196	38,196
Total investments	$ 1,187,030	$ 933,062	$ 1,202,013	$ 1,089,192

The Center maintains accounts with two investment firms. The accounts contain cash and securities. Balances are insured up to the applicable limits by the Securities Investor Protection Corporation.

The marketable securities portfolio held by the Center at December 31, 2013 and 2012 consists of publicly traded mutual funds, and, according to management, due to diversification of these investments, there is no significant concentration of market risk or risk of physical loss.

Fair Value Measurements – Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions for identical assets (referred to as Level 1 inputs). Fair values of the marketable securities have been measured on a recurring basis at December 31, 2013 and 2012, respectively and utilizing Level 1 inputs.

NOTE D - LINE-OF-CREDIT:

In 2013, the Center obtained a $200,000, unsecured line-of-credit with Wells Fargo Bank, expiring September 1, 2014. Amounts borrowed under this agreement bear interest at the greater of the bank's prime rate plus 1.75%, or the Floor Rate of 5%. At December 31, 2013, there was no outstanding balance on the line-of-credit.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets in the amount of $221,965 and $128,736 for the year ended December 31, 2013 and 2012, respectively, represent donor-imposed stipulations for the development and enhancement of various Research Centers and scholarships. Net assets totaling $95,860 and $19,879 were released from restriction in 2013 and 2012, respectively, and became available for use in general operations.

NOTE F - ENDOWMENTS:

Endowments in Washington State are governed by the "Uniform Prudent Management of Institutional Funds Act" as stated in the Revised Code of Washington (RCW) 24.44. The Center's Board of Directors has interpreted this regulation as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Center's spending policy is to appropriate investment earnings on endowment assets to be expended as received. The Center's endowment income distribution policies are designed to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The Center's donor-designated endowments totaled $75,411 at December 31, 2013 and 2012.

NOTE G - CONDITIONAL PROMISES TO GIVE:

During the year ended December 31, 2005, the Center received a conditional promise to give for the Center for Environmental Policy for $25,000 from a board member. This $25,000 contribution represents a bequest, and does not meet the criteria for recognition under generally accepted principles and, therefore, will not be recognized as an asset or contribution until such time as the conditions are perfected.

NOTE H - IN-KIND CONTRIBUTIONS:

In-kind contributions consisted of the following:

	Year Ended December 31,	
	2013	2012
Professional services	$ 28,105	$ 23,093
Advertising	9,086	3,063
Rent (Note K)	6,375	16,380
Other	17,859	24,846
	$ 61,425	$ 67,382

NOTE I - FEDERAL INCOME TAXES:

The Center qualifies as a nonprofit organization and, accordingly, is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision has been made for Federal income taxes. The Center has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability if the Center has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Center, and has concluded that as of December 31, 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Center files a federal Return of Organization Exempt from Income Tax (Form 990). With few exceptions, the Center is no longer subject to U.S. federal tax examinations by the Internal Revenue Service for fiscal years prior to 2010.

NOTE J - RELATED PARTY TRANSACTIONS:

During the years ended December 31, 2013 and 2012, the Center recorded related party transactions with various members of its Board of Directors.

The accompanying statements include the following amounts pertaining to related party transactions not disclosed elsewhere:

	Year Ended December 31,	
	2013	**2012**
Contributions	$ 263,521	$ 244,425
Pillar Society contributions	214,000	121,500
Contributed rent	4,100	12,600
	$ 481,621	$ 378,525

NOTE K - LEASE AGREEMENTS:

The Center leases office space in Seattle from Gull Industries, Inc. (a related party), under the terms of a three year lease which expired on December 31, 2013. For the years ended December 31, 2013 and 2012, the landlord agreed to contribute a portion of the office rent to the Center which had a fair market value of $600 in 2013 and $12,600 in 2012 (Note H). For December 31, 2013, the landlord has made conditional contributions of $50 per month of the office rent to the Center. Subsequent to year end, the Center negotiated a lease renewal with Gull Industries, Inc., under the terms of a three year lease expiring on December 31, 2016.

NOTE K - CONTINUED:

The Center leases office space in Olympia under the terms of a six month lease expiring January 1, 2014. The landlord is National Federation of Independent Business. The lease calls for current monthly rents totaling $250. Subsequent to year end, the Center continued to lease the same space under a month-to-month agreement.

The Center leases office space in Spokane under a month-to-month agreement. For the year ended December 31, 2013, the landlord has agreed to contribute office rent to the Center which had a fair market value of $1,200 in 2013 and 2012 (Note H). The landlord has made conditional contributions of $100 per month of the office rent to the Center.

The Center leased office space in Tri-Cities under a month-to-month agreement. For the years ended December 31, 2013 and 2012, the landlord agreed to contribute office rent to the Center which had a fair market value of $1,075 and $2,580 in 2013 and 2012 (Note H). The landlord has made conditional contributions of $215 per month of the office rent to the Center.

In June 2013, the Center negotiated the lease of a new office space in Tri-Cities with Tippett Company (a related party), under the terms of a three year lease expiring on May 31, 2016. For the year ended December 31, 2013, the landlord agreed to contribute office rent to the Center which had a fair market value of $3,500 (Note H). The landlord has made conditional contributions of $500 per month of the office rent to the Center.

The Center leases various pieces of office equipment under operating lease agreements which expire from January 2015 to April 2019.

Remaining minimum payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2013 are as follows:

Year Ended December 31,	
2014	$ 109,776
2015	107,943
2016	106,584
2017	4,728
2018	4,728
Thereafter	1,182
	$ 334,941

NOTE L - FUNCTIONAL EXPENSES:

The following is a summary of the Center's functional expenses determined by management on a percentage basis. The direct fundraising expenses listed below represent expenses related to the organization's Annual Dinners in Western and Eastern Washington. The organization uses the revenue raised by its Annual Dinners to invest in programs to further its mission. See Note M for detail of Annual Dinner revenue raised.

	Year Ended December 31,			
		2013		2012
Program expenses		$ 1,414,168		$ 1,462,131
General and administrative		112,161		102,799
Fundraising				
Indirect	406,205		342,175	
Direct	297,843		249,920	
		704,048		592,095
		$ 2,230,377		$ 2,157,025

NOTE M - SPECIAL EVENTS - FUNDRAISING:

The Center holds an annual fundraising dinner. The following is a summary of the support and direct expenses for this event:

	Year Ended December 31,	
	2013	2012
Contributions	$ 840,071	$ 708,018
Direct fundraising expense	(297,843)	(249,920)
	$ 542,228	$ 458,098