WASHINGTON POLICY CENTER

FINANCIAL STATEMENTS
(see independent accountant's review report)

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

August 21, 2013

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, 2012 and 2011, 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 review 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

Johnson & Shute, P.S.

WASHINGTON POLICY CENTER

STATEMENT OF FINANCIAL POSITION

(see independent accountant's review report)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 273,466	$ 276,577
Short-term investments (Note C)	177,516	251,267
Receivables, less allowance for doubtful accounts of $10,000 in 2012 and 2011	91,217	35,200
Unconditional promises to give (Note B)	451,096	71,250
Inventory	18,237	32,951
Prepaid expenses	1,604	5,423
Property, office equipment and software, at cost	167,247	163,874
Less accumulated depreciation	(110,758)	(90,194)
	56,489	73,680
Investments - long-term (Note C)	1,024,497	1,137,054
TOTAL ASSETS	$ 2,094,122	$ 1,883,402
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	$ 27,382	$ 62,635
Deferred revenues	242,500	10,250
TOTAL LIABILITIES	269,882	72,885
NET ASSETS:		
Unrestricted		
Undesignated	962,388	927,655
Board designated for program enhancement	657,705	657,705
Total unrestricted	1,620,093	1,585,360
Temporarily restricted	128,736	149,746
Permanently restricted	75,411	75,411
TOTAL NET ASSETS	1,824,240	1,810,517
TOTAL LIABILITIES AND NET ASSETS	$ 2,094,122	$ 1,883,402

See notes to financial statements.

WASHINGTON POLICY CENTER

STATEMENT OF ACTIVITIES

(see independent accountant's review report)

	Year Ended December 31, 2012				Year Ended December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions	$ 1,454,763	$ (1,131)	$ -	$ 1,453,632	$ 1,508,804	$ 25,000	$ -	$ 1,533,804
Campaign contributions	369,346			369,346		981		981
Program revenue	117,145			117,145	126,857			126,857
In-kind contributions (Note G)	67,382			67,382	95,050			95,050
Interest and dividend income	50,626			50,626	50,494			50,494
Net assets released from restriction (Note D)	19,879	(19,879)			19,843	(19,843)		
TOTAL REVENUES AND SUPPORT	2,079,141	(21,010)		2,058,131	1,801,048	6,138		1,807,186
EXPENSES:								
Salaries and contract services	1,015,420			1,015,420	989,229			989,229
Program expense	438,541			438,541	424,821			424,821
Annual dinner expense	249,920			249,920	228,320			228,320
Payroll taxes and employee benefits	159,981			159,981	157,223			157,223
Rent expense	107,844			107,844	106,980			106,980
Travel	38,692			38,692	48,824			48,824
Printing, mailing, and postage	30,225			30,225	27,016			27,016
Professional fees	28,508			28,508	36,601			36,601
Office expense	23,445			23,445	27,166			27,166
Depreciation	20,564			20,564	20,763			20,763
Bank charges	12,955			12,955	13,655			13,655
Telephone expense	8,454			8,454	8,010			8,010
Internet and website expense	7,172			7,172	6,224			6,224
Insurance expense	5,848			5,848	5,576			5,576
Repair and maintenance	2,037			2,037				
Bad debt expense					19,250			19,250
Miscellaneous expense	7,419			7,419	7,042			7,042
TOTAL EXPENSES	2,157,025			2,157,025	2,126,700			2,126,700
Net realized and unrealized gains (losses) on marketable equity securities (Note C)	112,617			112,617	(73,311)			(73,311)
INCREASE (DECREASE) IN NET ASSETS	34,733	(21,010)		13,723	(398,963)	6,138		(392,825)
NET ASSETS, BEGINNING OF YEAR	1,585,360	149,746	75,411	1,810,517	1,984,323	143,608	75,411	2,203,342
NET ASSETS, END OF YEAR	$ 1,620,093	$ 128,736	$ 75,411	$ 1,824,240	$ 1,585,360	$ 149,746	$ 75,411	$ 1,810,517

See notes to financial statements.

WASHINGTON POLICY CENTER

STATEMENT OF CASH FLOWS

(see independent accountant's review report)

	Year Ended December 31, 2012	Year Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 13,723	$ (392,825)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	20,564	20,763
Contributions of investments and fixed assets	(5,346)	(73,393)
Provision for bad debts		19,250
Realized and unrealized (gain) loss on investments	(112,617)	73,311
Changes in assets and liabilities providing (using) cash:		
Receivables	(56,017)	(30,300)
Unconditional promises to give	(379,846)	83,871
Inventory	14,714	(32,951)
Prepaid expenses	3,819	7,343
Accounts payable and other liabilities	(45,503)	31,313
Deferred revenues	242,500	
Net cash used in operating activities	(304,009)	(293,618)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	940,999	750,873
Purchase of investments	(636,728)	(580,291)
Property and equipment additions	(3,373)	(26,635)
Net cash provided by investing activities	300,898	143,947
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,111)	(149,671)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	276,577	426,248
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 273,466	$ 276,577

See notes to financial statements.

WASHINGTON POLICY CENTER

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

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of organization -

The Washington Policy Center (the Center) is a Washington 501(c)(3) nonprofit organization 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 focusing 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 seven 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 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 million dollar annual budget, making it one of the largest state-based think tanks in the country. In addition, the Center opened a full-time office in Olympia, three blocks from the State Capitol, where one of its centers is located and, in 2009, the Center opened an office in Eastern Washington with a full-time director.

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 our 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.

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.

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 August 21, 2013, 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,	
	2012	**2011**
Receivable in less than one year	$ 241,750	$ 71,250
Receivable in one to five years	221,500	
Total unconditional promises to give	463,250	71,250
Less discounts to net present value	(12,154)	
Net unconditional promises to give	$ 451,096	$ 71,250

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 are comprised of marketable securities and represent management's budgeted near term cash needs. 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,			
	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	$ 999,162	$ 889,170	$ 1,088,049	$ 955,976
Municipal obligations	79,569	50,715	127,028	131,044
U.S. Government obligations	52,208	78,727	78,941	78,355
Corporate obligations	31,809	31,327	67,361	65,052
Equities	1,069	1,057	841	648
Cash and cash equivalents	38,196	38,196	26,101	26,101
Total investments	$ 1,202,013	$ 1,089,192	$ 1,388,321	$ 1,257,176

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, 2012 and 2011 consists of publicly traded mutual funds, stocks, and bonds 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, 2012 and 2011, respectively and utilizing Level 1 inputs.

NOTE D - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets in the amount of $128,736 and $149,746 for the year ended December 31, 2012 and 2011, respectively, represent donor-imposed stipulations for the development and enhancement of various Research Centers and scholarships. Net assets totaling $19,879 and $19,843 were released from restriction in 2012 and 2011, respectively, and became available for use in general operations.

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NOTE E - ENDOWMENTS:

As of December 31, 2012, 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, 2012 and 2011.

NOTE F - 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 G - IN-KIND CONTRIBUTIONS:

In-kind contributions consisted of the following:

	Year Ended December 31,	
	2012	**2011**
Professional services	$ 23,093	$ 7,004
Rent (Note J)	16,380	22,390
Advertising	3,063	4,006
Software		52,781
Other	24,846	8,869
	$ 67,382	$ 95,050

NOTE H - 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.

NOTE H - CONTINUED:

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, 2012, 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 before 2009.

NOTE I - RELATED PARTY TRANSACTIONS:

During the years ended December 31, 2012 and 2011, 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,	
	2012	**2011**
Contributions	$ 244,425	$ 315,330
Campaign contributions	121,500	78,500
Contributed rent	12,600	18,610
	$ 378,525	$ 412,440

NOTE J - LEASE AGREEMENTS:

The Center leases office space in Seattle from Gull Industries, Inc. (a related party), under the terms of a three year lease expiring on December 31, 2013. For the years ended December 31, 2012 and 2011, the landlord agreed to contribute a portion of the office rent to the Center which had a fair market value of $12,600 in 2012 and $18,610 in 2011 (Note G). For December 31, 2012, the landlord has made conditional contributions of $1,050 per month of the office rent to the Center. The Center is currently in negotiations with Gull Industries, Inc. to extend the office lease.

The Center leases office space in Olympia under the terms of a six month lease expiring January 31, 2013. The landlord is the Washington State Grange. The lease calls for current monthly rents totaling $510. Subsequent to year end, the Center negotiated the lease of a new space in Olympia.

The Center leases office space in Spokane under a month-to-month agreement. For the year ended December 31, 2012, the landlord has agreed to contribute office rent to the Center which had a fair market value of $1,200 in 2012 and 2011 (Note G). The landlord has made conditional contributions of $100 per month of the office rent to the Center.

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NOTE J - CONTINUED:

The Center leases office space in Tri-Cities under a month-to-month agreement. For the years ended December 31, 2012 and 2011, the landlord agreed to contribute office rent to the Center which had a fair market value of $2,580 in 2012 and 2011 (Note G). The landlord has made conditional contributions of $215 per month of the office rent to the Center. Subsequent to year end, the Center negotiated the lease of a new space in Pasco.

The Center leases various pieces of office equipment under operating lease agreements which expire from December 2013 to January 2015.

Remaining minimum payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2012 are as follows:

Year Ended December 31,	
2013	$ 105,126
2014	3,060
2015	255
	$ 108,441

NOTE K - FUNCTIONAL EXPENSES:

The following is the summary of the Center's functional expenses determined by management on a percentage basis:

	Year Ended December 31,			
		2012		2011
Program expenses		$ 1,462,131		$ 1,451,892
General and administrative		102,799		103,149
Fundraising				
Indirect	342,175		343,339	
Direct	249,920		228,320	
		592,095		571,659
		$ 2,157,025		$ 2,126,700

NOTE L - SPECIAL EVENTS - FUNDRAISING:

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

	Year Ended December 31,	
	2012	2011
Contributions	$ 708,018	$ 630,329
Direct fundraising expense	(249,920)	(228,320)
	$ 458,098	$ 402,009