WASHINGTON POLICY CENTER

FINANCIAL STATEMENTS

(see independent accountant's review report)

YEARS ENDED DECEMBER 31, 2015 AND 2014

Johnson & Shute, P.S.

CERTIFIED PUBLIC ACCOUNTANTS/CONSULTANTS

CONTENTS

(see independent accountant's review report)

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

August 24, 2016

Board of Directors
Washington Policy Center
Seattle, Washington

We have reviewed the accompanying financial statements of Washington Policy Center (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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's Responsibility for the Financial Statements

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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
Bellevue, Washington

Johnson & Shute, P.S.

WASHINGTON POLICY CENTER

STATEMENT OF FINANCIAL POSITION

(see independent accountant's review report)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 377,270	$ 382,233
Receivables	3,754	11,486
Unconditional promises to give (Note B)	1,193,764	691,886
Inventory	2,056	14,448
Prepaid expenses	7,722	38,153
Investments - long-term (Note C)	1,218,547	1,255,919
Property, office equipment and software, at cost	162,775	174,356
Less accumulated depreciation	(126,232)	(126,337)
	36,543	48,019
TOTAL ASSETS	$ 2,839,656	$ 2,442,144
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	$ 51,332	$ 67,000
Deferred revenues	577,000	285,100
TOTAL LIABILITIES	628,332	352,100
NET ASSETS:		
Unrestricted		
Undesignated	1,284,956	1,090,929
Board designated for program enhancement	745,705	657,705
Total unrestricted	2,030,661	1,748,634
Temporarily restricted	105,252	265,999
Permanently restricted	75,411	75,411
TOTAL NET ASSETS	2,211,324	2,090,044
TOTAL LIABILITIES AND NET ASSETS	$ 2,839,656	$ 2,442,144

See notes to financial statements.

WASHINGTON POLICY CENTER

Johnson & Shute, P.S.

STATEMENT OF ACTIVITIES

(see independent accountant's review report)

	Year Ended December 31, 2015				Year Ended December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions	$ 1,717,093	$ 39,676	$ -	$ 1,756,769	$ 1,409,426	$ 140,574	$ -	$ 1,550,000
Pillar Society contributions	849,875			849,875	596,748			596,748
Program revenue	127,164			127,164	98,983			98,983
In-kind contributions (Note H)	42,581			42,581	52,503			52,503
Interest and dividend income	41,829			41,829	37,422			37,422
Net assets released from restriction (Note E)	200,423	(200,423)			96,540	(96,540)		
TOTAL REVENUES AND SUPPORT	2,978,965	(160,747)		2,818,218	2,291,622	44,034		2,335,656
EXPENSES:								
Salaries and contract services	1,185,905			1,185,905	1,121,641			1,121,641
Program expense	579,049			579,049	375,823			375,823
Annual dinner expense	335,147			335,147	356,603			356,603
Payroll taxes and employee benefits	203,612			203,612	170,832			170,832
Rent expense	114,429			114,429	113,456			113,456
Travel	42,058			42,058	45,960			45,960
Professional fees	35,396			35,396	32,311			32,311
Printing, mailing, and postage	23,156			23,156	22,011			22,011
Office expense	22,200			22,200	19,594			19,594
Bad debt expense	21,304			21,304	5,000			5,000
Bank charges	15,785			15,785	15,577			15,577
Depreciation	13,783			13,783	23,725			23,725
Telephone expense	8,290			8,290	8,619			8,619
Insurance expense	6,736			6,736	6,410			6,410
Internet expense	2,957			2,957	2,532			2,532
Miscellaneous expense	8,769			8,769	8,936			8,936
TOTAL EXPENSES	2,618,576			2,618,576	2,329,030			2,329,030
Net realized and unrealized gains (loss) on marketable equity securities (Note C)	(78,362)			(78,362)	30,489			30,489
INCREASE (DECREASE) IN NET ASSETS	282,027	(160,747)		121,280	(6,919)	44,034		37,115
NET ASSETS, BEGINNING OF YEAR	1,748,634	265,999	75,411	2,090,044	1,755,553	221,965	75,411	2,052,929
NET ASSETS, END OF YEAR	$ 2,030,661	$ 105,252	$ 75,411	$ 2,211,324	$ 1,748,634	$ 265,999	$ 75,411	$ 2,090,044

See notes to financial statements.

Johnson & Shute, P.S.

WASHINGTON POLICY CENTER

STATEMENT OF CASH FLOWS

(see independent accountant's review report)

	Year Ended December 31, 2015	Year Ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 121,280	$ 37,115
Adjustments to reconcile net assets to net cash provided by (used in) operating activities:		
Depreciation	13,783	23,725
Loss on disposal of fixed assets		309
Contributions of investments		(26,747)
Provision for bad debts	21,304	5,000
Realized and unrealized loss (gain) on investments	78,362	(30,489)
Changes in assets and liabilities providing (using) cash:		
Receivables	7,732	27,994
Unconditional promises to give	(501,878)	(16,575)
Inventory	12,392	1,242
Prepaid expenses	30,431	(30,646)
Accounts payable and other liabilities	(15,668)	20,136
Deferred revenues	291,900	(44,100)
Net cash provided by (used in) operating activities	59,638	(33,036)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(74,172)	(224,921)
Proceeds from sale of investments	11,879	208,267
Property and equipment additions	(2,308)	(12,984)
Net cash provided by (used in) investing activities	(64,601)	(29,638)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,963)	(62,674)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	382,233	444,907
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 377,270	$ 382,233

See notes to financial statements.

WASHINGTON POLICY CENTER

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

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of organization -

Washington Policy Center (the Center) is an independent, Washington State 501(c)(3) non-profit 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, a young professionals group, 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 developed and still 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 were invested 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 a staff of 18 and a $2.7 million annual budget, making it one of the largest state-based think tanks in the country. In addition, the Center has maintained an 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 in 2013. The office houses one of its research centers and in 2016 added its latest project, WPC's Initiative on Agriculture Policy.

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. This donor program asks Washington Policy Center supporters for a three-year pledge of support at different high dollar 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 2015, the Pillar Society/Major Gifts Initiative had raised over $3.5 million from 80 donors, each pledging a minimum of $5,000 per year.

Over 95% of the Center's support and revenue come 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 24, 2016, 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,	
	2015	**2014**
Receivable in less than one year	$ 725,000	$ 447,493
Receivable in one to five years	485,833	255,917
Total unconditional promises to give	1,210,833	703,410
Less discounts to net present value	(17,069)	(11,524)
Net unconditional promises to give	$ 1,193,764	$ 691,886

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,			
	2015		2014	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	$ 1,211,784	$ 999,979	$ 1,248,284	$ 963,589
Cash and cash equivalents	6,763	6,763	7,635	7,635
Total investments	$ 1,218,547	$ 1,006,742	$ 1,255,919	$ 971,224

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, 2015 and 2014 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, 2015 and 2014, respectively and utilizing Level 1 inputs.

NOTE D - LINE-OF-CREDIT:

In 2015, the Center renewed a $200,000, unsecured line-of-credit with Wells Fargo Bank, expiring October 14, 2015. 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, 2015, there was no outstanding balance on the line-of-credit.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets in the amount of $105,252 and $265,999 for the year ended December 31, 2015 and 2014, respectively, represent donor-imposed stipulations for the development and enhancement of various Research Centers and scholarships. Net assets totaling $200,423 and $96,540 were released from restriction in 2015 and 2014, 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, 2015 and 2014.

NOTE G - CONDITIONAL PROMISES TO GIVE:

The Center has a Legacy Partners program which recognizes those who have made or indicated they have included the Center in their estate plans. Legacy Partners enjoy all the benefits as our highest level of membership and the satisfaction of knowing their legacy will live on through Center's important work. As of December 31, 2015, the Center knew of 11 Legacy Partner members totaling an undisclosed future contribution amount which represent 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 an emeritus board member.

This $25,000 contribution and the undisclosed future contributions from the Legacy Partners represent bequests, and do 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,	
	2015	2014
Professional services	$ 9,094	$ 15,657
Advertising	5,235	11,400
Rent (Note K)	7,200	7,200
Other	21,052	18,246
	$ 42,581	$ 52,503

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, 2015, 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).

NOTE J - RELATED PARTY TRANSACTIONS:

During the years ended December 31, 2015 and 2014, 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,	
	2015	**2014**
Pillar Society contributions	$ 375,109	$ 333,024
Contributions	252,401	134,909
Contributed rent	6,000	6,000
	$ 633,510	$ 473,933

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 expires on December 31, 2016.

The Center leases office space in Olympia under a month-to-month agreement. The landlord is National Federation of Independent Business. The lease calls for current monthly rents totaling $250.

The Center leases office space in Spokane under a month-to-month agreement. For the years ended December 31, 2015 and 2014, the landlord agreed to contribute office rent to the Center which had a fair market value of $1,200 in 2015 and 2014 (Note H). The landlord has made conditional contributions of $100 per month of the office rent to the Center.

NOTE K – CONTINUED:

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 years ended December 31, 2015 and 2014, the landlord agreed to contribute office rent to the Center which had a fair market value of $6,000 in 2015 and $6,000 in 2014 (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, 2015 are as follows:

Year Ended December 31,	
2016	$ 110,334
2017	8,516
2018	8,556
2019	5,051
2020	358
	$ 132,815

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,			
		2015		2014
Program expenses		$1,774,671		$1,480,513
General and administrative		100,218		92,443
Fundraising				
Indirect	408,540		399,471	
Direct	335,147		356,603	
		743,687		756,074
		$2,618,576		$2,329,030

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,	
	2015	2014
Contributions	$ 946,993	$ 856,951
Direct fundraising expense	(335,147)	(356,603)
	$ 611,846	$ 500,348

NOTE N – PROFIT SHARING PLAN:

Effective January 1, 2015, the Center, having received approval from the Board of Directors, maintains a profit-sharing, 401(k) savings (defined contribution) plan providing benefits for substantially all employees. Participating employees may elect to reduce their compensation by a specific percentage or dollar amount and have the amount contributed to the plan as a salary deferral. Management determines annually the amounts, if any, they will match or contribute to the plan. Employer contributions totaled $13,133 for the year ended December 31, 2015. By the nature of the plan, there are no past service costs or unfunded vested benefits.