

WASHINGTON POLICY CENTER

Reviewed Financial Statements
December 31, 2022 and 2021

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the 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 statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, 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 company 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 these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement 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.

We are required to be independent of Washington Policy Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

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

Greenwood Ohlund

Seattle, Washington
June 20, 2023

WASHINGTON POLICY CENTER

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

ASSETS	2022	2021
Current Assets		
Cash and cash equivalents	\$ 1,087,830	\$ 1,165,624
Contributions receivable	1,805,710	1,587,903
Prepaid expenses and other assets	55,194	82,075
Total current assets	2,948,734	2,835,602
Endowment Investments	2,212,287	2,593,263
Contributions Receivable, net of current portion	742,500	903,334
Property and Equipment, net	2,041	19,226
Total assets	<u>\$ 5,905,562</u>	<u>\$ 6,351,425</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other liabilities	\$ 177,491	\$ 135,428
Net Assets		
Without donor restrictions	3,079,050	3,624,449
With donor restrictions	2,649,021	2,591,548
Total net assets	5,728,071	6,215,997
Total liabilities and net assets	<u>\$ 5,905,562</u>	<u>\$ 6,351,425</u>

See independent accountant's review report and accompanying notes to financial statements.

WASHINGTON POLICY CENTER

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Contributions	\$ 1,402,819	\$ 2,214,500	\$ 3,617,319	\$ 2,582,847	\$ 1,813,667	\$ 4,396,514
Special events revenue	688,374	-	688,374	700,781	-	700,781
Special events - direct benefit to donors	(629,242)	-	(629,242)	(536,782)	-	(536,782)
In-kind contributions	38,259	-	38,259	60,818	-	60,818
Program service revenue	12,780	-	12,780	8,314	-	8,314
Net assets released from restrictions	2,157,027	(2,157,027)	-	938,263	(938,263)	-
Total support and revenue	3,670,017	57,473	3,727,490	3,754,241	875,404	4,629,645
Expenses						
Program services	2,687,827	-	2,687,827	2,441,935	-	2,441,935
Management and general	494,491	-	494,491	403,240	-	403,240
Fundraising	651,488	-	651,488	651,005	-	651,005
Total expenses	3,833,806	-	3,833,806	3,496,180	-	3,496,180
Change in net assets before investment return	(163,789)	57,473	(106,316)	258,061	875,404	1,133,465
Investment Return	(381,610)	-	(381,610)	339,383	14,995	354,378
Change in net assets	(545,399)	57,473	(487,926)	597,444	890,399	1,487,843
Net Assets, beginning of year	3,624,449	2,591,548	6,215,997	3,027,005	1,701,149	4,728,154
Net Assets, end of year	<u>\$ 3,079,050</u>	<u>\$ 2,649,021</u>	<u>\$ 5,728,071</u>	<u>\$ 3,624,449</u>	<u>\$ 2,591,548</u>	<u>\$ 6,215,997</u>

See independent accountant's review report and accompanying notes to financial statements.

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STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2022 and 2021

	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries, benefits, and taxes	\$ 1,812,835	\$ 261,320	\$ 461,918	\$ 2,536,073	\$ 1,649,067	\$ 240,830	\$ 388,296	\$ 2,278,193
Event rooms, meals and other	211,779	-	638,504	850,283	34,660	-	611,532	646,192
Advertising and promotion	348,426	-	-	348,426	439,749	-	-	439,749
Miscellaneous	37,402	124,161	29,225	190,788	25,230	78,394	41,405	145,029
Printing and postage	30,616	1,127	94,476	126,219	56,601	844	97,086	154,531
Occupancy	100,582	12,573	12,573	125,728	101,125	12,641	12,641	126,407
Travel	54,859	-	10,940	65,799	33,877	-	6,239	40,116
Bad debt expense	-	59,000	-	59,000	-	25,150	-	25,150
Office expense	41,899	3,594	7,121	52,614	41,178	2,924	6,239	50,341
Professional fees	8,944	24,756	15,926	49,626	10,258	35,236	16,309	61,803
Depreciation and amortization	14,613	2,088	4,175	20,876	8,661	1,292	2,111	12,064
Insurance	5,872	5,872	5,872	17,616	5,929	5,929	5,929	17,787
Grants	17,500	-	-	17,500	20,000	-	-	20,000
Contract services	2,500	-	-	2,500	15,600	-	-	15,600
Total expenses	2,687,827	494,491	1,280,730	4,463,048	2,441,935	403,240	1,187,787	4,032,962
Less: direct benefit to donors	-	-	(629,242)	(629,242)	-	-	(536,782)	(536,782)
	\$ 2,687,827	\$ 494,491	\$ 651,488	\$ 3,833,806	\$ 2,441,935	\$ 403,240	\$ 651,005	\$ 3,496,180

See independent accountant's review report and accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (487,926)	\$ 1,487,843
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Endowment contributions	(500)	(16,500)
Depreciation and amortization	20,876	12,064
Bad debt expense	59,000	25,150
Realized and unrealized losses (gains) on investments	436,190	(306,279)
Changes in operating assets and liabilities:		
Contributions receivable	(115,973)	(899,049)
Prepaid expenses and other assets	26,881	9,353
Accounts payable and other liabilities	42,063	14,066
	(19,389)	326,648
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Purchases of investments	(55,214)	(306,242)
Purchase of property and equipment	(3,691)	(1,375)
	(58,905)	(307,617)
Net cash flows from investing activities		
Cash Flows from Financing Activity		
Endowment contributions	500	16,500
	500	16,500
Net change in cash and cash equivalents	(77,794)	35,531
Cash and Cash Equivalents, beginning of the year	1,165,624	1,130,093
	1,165,624	1,130,093
Cash and Cash Equivalents, end of the year	<u>\$ 1,087,830</u>	<u>\$ 1,165,624</u>

See independent accountant's review report and accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

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. The Center has eight research centers focused on agriculture policy, education reform, environmental policy, health care policy, government reform, small business, worker rights, and transportation policy. Almost all of these research centers have their own full-time director to focus on their policy area. The Center also developed and maintains a free legislative website, WashingtonVotes.org, for citizens to track legislative activity.

The Center has a staff of 24 and an annual budget of approximately \$4.3 million, making it one of the largest state-based think tanks in the country. The Center has a presence across the state with staff in Seattle, Olympia, Vancouver, Moses Lake, Tri-Cities, and Spokane.

The Center is on sound financial footing as well. In 2012, the Center launched its highly successful Pillar Society/Major Gifts Initiative, which asks the Center supporters for a three-year pledge of support at different high dollar giving levels. This provides its most loyal donors a fair and transparent plan of what benefits they can expect to receive from the Center each year and provides convenience, recognition, and relief to donors from multiple requests. Contributions from Pillar Society members were \$1,904,000 and \$2,813,000 during the years ended December 31, 2022 and 2021, respectively. At the end of 2022, the Pillar Society/Major Gifts Initiative had raised over \$16 million from over 282 donors, each pledging a minimum of \$5,000 per year for three years. Over 95% of the Center's support and revenue come from sources in Washington State.

In 2022, the Center's board hired Michael Gallagher as the organization's new President & CEO, and he headed the effort to develop a new, three-year strategic plan, which started in January 2023. The plan has three main phases: build, deploy, and win. The plan is boosting internal infrastructure, modernizing the organization for the future, and broadening WPC's reach across the state – all with the effect of delivering the uplifting benefits of free-market policy to the families and businesses of Washington State.

Financial Statement Presentation

The Center reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are available without restriction for support of the Center's operations. The Center has designated \$2,111,476 and \$2,492,952 of net assets without donor restrictions at December 31, 2022 and 2021, respectively, for program enhancement (a quasi-endowment, see Note 4).

WASHINGTON POLICY CENTER

NOTES TO FINANCIAL STATEMENTS

Some net assets with donor restrictions are temporary in nature and consist of unexpended contributions restricted for particular purposes or future time periods. Other net assets have perpetual donor restrictions, where the principal of the contributions is restricted in perpetuity and the income from which is utilized for the purposes specified by the donors. Net assets with temporary donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as the time restrictions are met.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of restrictions on net assets (the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions and investment gains are reported as without donor restrictions if donor restrictions are met in the year the contribution or the investment gain is earned.

Net assets with donor restrictions are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Net Assets with Time and Purpose Restrictions		
Time restricted	\$ 2,218,210	\$ 2,491,237
Young Professionals	330,000	-
	<u>2,548,210</u>	<u>2,491,237</u>
Net Assets with Perpetual Endowment Restrictions		
General endowment	100,811	100,311
	<u>\$ 2,649,021</u>	<u>\$ 2,591,548</u>

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Center considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents (unless those funds are held for long-term purposes and classified as investments). The Center holds cash and cash equivalents in excess of federally insured limits. The Center has not experienced any losses in these accounts, and management does not believe it is exposed to any significant risk.

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NOTES TO FINANCIAL STATEMENTS

Contributions Receivable

Contributions receivable consist of pledges from various entities, but not yet received. Short-term contributions are recorded at net realizable value. Long-term contributions receivable are recognized at fair value (at the time of donation) and are measured at the present value of their expected cash flow. In arriving at fair value, management considers discounting these contributions using an estimated risk-adjusted discount rate and an allowance for doubtful accounts. Management has determined that a discount and allowance for doubtful accounts was not necessary at December 31, 2022 and 2021.

Contributions receivable consist of the following and are included in the statements of financial position as follows at December 31:

	<u>2022</u>	<u>2021</u>
Contributions receivable in less than one year (current)	\$ 1,805,710	\$ 1,587,903
Contributions receivable in one to five years (noncurrent)	<u>742,500</u>	<u>903,334</u>
	<u>\$ 2,548,210</u>	<u>\$ 2,491,237</u>

At December 31, 2022, 13% of contributions receivable were due from one donor. There were no concentrations of contributions receivable at December 31, 2021.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable market inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments

The Center records its investments in marketable securities at their fair values in the statements of financial position. The fair value of investments was determined using Level 1 observable market inputs, within the fair value hierarchy, consisting of quoted prices in active markets (such as national exchanges) for identical assets. Certain cash and cash equivalents are classified as investments based on their inclusion in investment portfolios. Investments are classified as long-term assets, as they are held for the endowment (see Note 4 for further discussion).

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NOTES TO FINANCIAL STATEMENTS

Investments consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 26,340	\$ 112,469
Equity mutual funds	1,641,976	1,908,461
Bond mutual funds	<u>543,971</u>	<u>572,333</u>
	<u>\$ 2,212,287</u>	<u>\$ 2,593,263</u>

Investment return is reported on the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

Property and Equipment

Property and equipment are stated at cost, or fair value if donated. All purchases greater than \$500 with a useful life of three years or longer are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Computers and equipment are depreciated over five to ten years, and software is amortized over three years. The cost of maintenance and repairs is charged to expense as incurred.

Property and equipment are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Computers and equipment	\$ 76,312	\$ 77,499
Software	<u>76,545</u>	<u>90,770</u>
	152,857	168,269
Less: accumulated depreciation and amortization	<u>(150,816)</u>	<u>(149,043)</u>
	<u>\$ 2,041</u>	<u>\$ 19,226</u>

Revenue Recognition

Contributions (including those received through special events) are recorded when unconditionally pledged as without donor restrictions and with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Program service revenue are derived from fees earned from customers who participate in conferences and other programmatic events, speaking engagements, policy reviews, and other. Program service revenue is recognized when the performance obligation is satisfied at the time the services are provided, and no contract assets or liabilities are recognized. The transaction price for each service is based on published rates.

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NOTES TO FINANCIAL STATEMENTS

In-Kind Contributions

Donated goods are recorded at their estimated fair value at the date of donation. A substantial number of volunteers have made significant contributions of time to the Center. The value of this contributed time does not meet the criteria for recognition under accounting standards and, accordingly, is not reflected in the accompanying financial statements.

In-kind contributions were received for the following services during the years ended December 31:

	<u>2022</u>	<u>2021</u>
Event goods and other	\$ 32,814	\$ 35,664
Advertising	5,445	24,885
Professional services	<u>-</u>	<u>269</u>
	<u>\$ 38,259</u>	<u>\$ 60,818</u>

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Center have been summarized on a functional basis in the statements of activities and functional expenses. Certain expenses are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an estimate of personnel time and usage for the related activities. The majority of expenses are allocated based on payroll costs, which are tracked using time and effort reporting by employees. Event rooms, meals and other, miscellaneous, printing and postage, occupancy and other are allocated based on time and effort.

Advertising and Promotion

The Center uses advertising to promote its programs among the audiences it serves and its fundraising events. Advertising and promotion costs are expensed as incurred. Advertising and promotion expense for the years ended December 31, 2022 and 2021 totaled \$348,426 and \$439,749, respectively.

Income Taxes

The Internal Revenue Service has determined that the Center is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). As such, it is subject to income taxes only on unrelated business income. During the years ended December 31, 2022 and 2021, the Center had no unrelated business income and, accordingly, no provision for federal income taxes has been reported in the accompanying financial statements.

Reclassifications

Certain prior year balances have been reclassified in order to conform to the current year presentation.

WASHINGTON POLICY CENTER

NOTES TO FINANCIAL STATEMENTS

Subsequent Events

The Center has evaluated subsequent events through the date these financial statements were available to be issued, which was June 20, 2023.

Note 2 – Liquidity and Availability of Resources

The Center regularly monitors its current and future needs for operations to ensure it has sufficient funds on hand to cover its operating expenses. In addition to financial assets disclosed below, the Center has an unsecured line-of-credit in the amount of \$200,000, which it could draw upon in the event of an unanticipated liquidity need. There was no outstanding balance or any draws/repayments on this line of credit as of and for the years ended December 31, 2022 and 2021.

The Center intends to invest cash in excess of anticipated needs for one year in its board-designated endowment fund to increase investment yields.

The following table reflects the Center's financial assets as of December 31, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions with donors or internal board designations. Amounts not available include board-designated funds that are intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

	<u>2022</u>	<u>2021</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,087,830	\$ 1,165,624
Contributions receivable	2,548,210	2,491,237
Investments	<u>2,212,287</u>	<u>2,593,263</u>
	5,848,327	6,250,124
Amounts Not Available to be Used Within One Year:		
Contributions receivable not collectible within the next year	(742,500)	(903,334)
Net assets with board designations	(2,111,476)	(2,492,952)
Net assets with donor restrictions	<u>(430,811)</u>	<u>(100,311)</u>
	<u>\$ 2,563,540</u>	<u>\$ 2,753,527</u>

Note 3 – Related Party Transactions

The Center leases its primary office space in Seattle from a company owned by a board member under a month-to-month agreement. Total expense incurred under the lease was \$116,028 for each of the years ending December 31, 2022 and 2021.

Board members made contributions to the Center of \$748,625 and \$932,460 during the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, contributions receivable from board members were \$768,000 and \$696,060, respectively.

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NOTES TO FINANCIAL STATEMENTS

Note 4 – Endowment

The Center’s endowment includes one individual perpetual fund for the purpose of providing general support as well as funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Center has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. As a result of this interpretation, the Center classifies as net assets with perpetual donor restrictions as (a) the original value of gifts donated to the perpetual endowment, plus (b) the original value of subsequent gifts to the perpetual endowment and accumulations to the perpetual 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 net assets with perpetual donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Center considers the following factors in deciding to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the Center and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center
- The investment policies of the Center

Changes in endowment net assets are as follows for the years ended December 31:

	2022			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Endowment net assets, beginning of year	\$ 2,492,952	\$ -	\$ 100,311	\$ 2,593,263
Investment return	(381,476)			(381,476)
Contributions received	-	-	500	500
Endowment net assets, end of year	<u>\$ 2,111,476</u>	<u>\$ -</u>	<u>\$ 100,811</u>	<u>\$ 2,212,287</u>

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	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Endowment net assets, beginning of year	\$ 1,896,931	\$ -	\$ 83,811	\$ 1,980,742
Investment return	339,383	14,995	-	354,378
Contributions received	-	-	16,500	16,500
Transfers in	250,000	-	-	250,000
Appropriation of endowment earnings for expenditure, net of reinvestment in endowment	6,638	(14,995)	-	(8,357)
Endowment net assets, end of year	\$ 2,492,952	\$ -	\$ 100,311	\$ 2,593,263

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period, as well as quasi-endowment funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to protect principal while maximizing returns within parameters of reasonable and prudent risk. The Center's goal is to manage the funds to provide a total return over a five-year rolling period exceeding the Consumer Price Index plus administrative costs. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center makes available for spending an amount equal to the sum of the assumed long-term future net investment returns minus the sum of the assumed long-term rate of inflation plus net of investment fees. The Center shall annually analyze the spending guideline in light of various factors to determine the actual amount to be distributed.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. There were no deficiencies of this nature at December 31, 2022 or 2021.