# INSTITUTE FOR POLICY STUDIES

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2013 and 2012

HAN GROUP
Certified Public Accountants and Consultants

INSTITUTE FOR POLICY STUDIES
Financial Statements
December 31, 2013 and 2012

Contents

# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Institute for Policy Studies

We have audited the accompanying financial statements of Institute for Policy Studies, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

## 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.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HAN GROUP
Certified Public Accountants and Consultants

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Institute for Policy Studies as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HAN GROUP LLC

HAN GROUP LLC
McLean, Virginia
August 26, 2014

INSTITUTE FOR POLICY STUDIES
Statements of Financial Position
December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 135,262 | $ 304,184 |
| Contributions and grants receivable | 376,275 | 174,829 |
| Other receivables | 32,896 | 22,063 |
| Investments | 1,476,157 | 1,602,907 |
| Prepaid expenses and deposits | 63,115 | 61,758 |
| Property and equipment, net | 59,784 | 81,708 |
| Artwork | 15,900 | 15,900 |
| Total assets | $ 2,159,389 | $ 2,263,349 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 154,251 | $ 98,429 |
| Accrued vacation | 44,145 | 38,597 |
| Annuity liability | 125,721 | 149,781 |
| Capital lease obligation | 59,323 | 77,600 |
| Deferred rent liability | 28,435 | 32,062 |
| Total liabilities | 411,875 | 396,469 |
| **Net Assets** | | |
| Unrestricted | 857,749 | 1,022,872 |
| Temporarily restricted | 889,765 | 844,008 |
| Total net assets | 1,747,514 | 1,866,880 |
| Total liabilities and net assets | $ 2,159,389 | $ 2,263,349 |

*See accompanying notes.*

INSTITUTE FOR POLICY STUDIES
Statement of Activities
Year Ended December 31, 2013

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenue and Support** | | | |
| Contributions and grants | $ 897,846 | $ 1,862,112 | $ 2,759,958 |
| Seminar and special event income | 172,302 | - | 172,302 |
| Investment income | 140,847 | - | 140,847 |
| Contract income | 68,983 | - | 68,983 |
| Rent income | 47,866 | - | 47,866 |
| Royalty | 5,715 | - | 5,715 |
| Change in value of split-interest agreements | 3,370 | - | 3,370 |
| Other | 20,254 | - | 20,254 |
| Net assets released from restrictions: | | | |
| Satisfaction of purpose restrictions | 1,816,355 | (1,816,355) | - |
| Total revenue and support | 3,173,538 | 45,757 | 3,219,295 |
| **Expenses** | | | |
| Program services: | | | |
| New Economy | 1,637,266 | - | 1,637,266 |
| Common Security | 690,214 | - | 690,214 |
| Special Projects | 234,003 | - | 234,003 |
| Fiscal Sponsors | 41,327 | - | 41,327 |
| Other programs | 165,744 | - | 165,744 |
| Total program services | 2,768,554 | - | 2,768,554 |
| Supporting services: | | | |
| Administrative | 139,366 | - | 139,366 |
| Fundraising | 430,741 | - | 430,741 |
| Total supporting services | 570,107 | - | 570,107 |
| Total expenses | 3,338,661 | - | 3,338,661 |
| **Change in Net Assets** | (165,123) | 45,757 | (119,366) |
| **Net Assets**, beginning of year | 1,022,872 | 844,008 | 1,866,880 |
| **Net Assets**, end of year | $ 857,749 | $ 889,765 | $ 1,747,514 |

*See accompanying notes.*

INSTITUTE FOR POLICY STUDIES
Statement of Activities
Year Ended December 31, 2012

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenue and Support** | | | |
| Contributions and grants | $ 1,116,386 | $ 2,490,161 | $ 3,606,547 |
| Seminar and special event income | 29,994 | - | 29,994 |
| Investment income | 52,965 | - | 52,965 |
| Contract income | 17,482 | - | 17,482 |
| Rent income | 37,748 | - | 37,748 |
| Royalty | 36,788 | - | 36,788 |
| Change in value of split-interest agreements | (9,808) | - | (9,808) |
| Other | 1,594 | - | 1,594 |
| Net assets released from restrictions: | | | |
| Satisfaction of purpose restrictions | 2,680,831 | (2,680,831) | - |
| Total revenue and support | 3,963,980 | (190,670) | 3,773,310 |
| **Expenses** | | | |
| Program services: | | | |
| New Economy | 1,629,974 | - | 1,629,974 |
| Common Security | 756,414 | - | 756,414 |
| Special Projects | 201,692 | - | 201,692 |
| Fiscal Sponsors | 477,383 | - | 477,383 |
| Other programs | 30,113 | - | 30,113 |
| Total program services | 3,095,576 | - | 3,095,576 |
| Supporting services: | | | |
| Administrative | 310,365 | - | 310,365 |
| Fundraising | 152,547 | - | 152,547 |
| Total supporting services | 462,912 | - | 462,912 |
| Total expenses | 3,558,488 | - | 3,558,488 |
| **Change in Net Assets** | 405,492 | (190,670) | 214,822 |
| **Net Assets**, beginning of year | 617,380 | 1,034,678 | 1,652,058 |
| **Net Assets**, end of year | $ 1,022,872 | $ 844,008 | $ 1,866,880 |

*See accompanying notes.*

INSTITUTE FOR POLICY STUDIES
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (119,366) | $ 214,822 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Unrealized and realized gain on investments | (119,374) | (31,270) |
| Fair value of donated stock | (5,010) | (25,272) |
| Loss from capital lease termination | - | 4,445 |
| Depreciation | 23,373 | 23,769 |
| Change in value of split-interest agreement | (3,370) | 9,808 |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in contributions and grants receivable | (201,446) | 708,388 |
| Increase in other receivables | (10,833) | (15,086) |
| (Increase) decrease in prepaid expenses and deposits | (1,357) | 5,380 |
| Increase (decrease) in accounts payable | 55,543 | (7,460) |
| Increase (decrease) in accrued vacation | 5,548 | (37,217) |
| (Decrease) increase in annuity liability | (20,690) | 92,596 |
| (Decrease) increase in deferred rent liability | (3,627) | 2,168 |
| Net cash (used in) provided by operating activities | (400,609) | 945,071 |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sales of investments | 1,077,621 | 785,275 |
| Purchases of investments | (826,487) | (1,509,465) |
| Purchases of property and equipment | (1,449) | - |
| Net cash provided by (used in) investing activities | 249,685 | (724,190) |
| **Cash Flows from Financing Activities** | | |
| Payments on capital lease obligation | (18,277) | (12,221) |
| Net cash used in financing activities | (18,277) | (12,221) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (169,201) | 208,660 |
| **Cash and Cash Equivalents,** beginning of year | 304,184 | 95,524 |
| **Cash and Cash Equivalents,** end of year | $ 134,983 | $ 304,184 |

*See accompanying notes.*

## 1. Nature of Operations

Institute for Policy Studies (the Institute), founded in 1963, is a transnational center for research, education and social invention. The Institute sponsors critical examination of the assumptions and policies that define America's posture on domestic and international issues and offers alternative strategies and visions. Areas of focus include domestic policy, national security, international economics and human rights. A tax-exempt, nonprofit organization that accepts no government funds, the Institute guards the freedom of its scholars to be both critical and creative.

The work of the Institute reflects the realization that the social and political problems facing the United States – militarism, environmental decay and economic injustice – are all part of a larger global context. In an effort to seek alternatives to these problems, in 1973, the Institute established its international program, which addresses the fundamental disparity between the rich and poor and nations of the world, investigates its causes and develops alternatives for its remedy. The activities of the Institute are funded primarily through contributions and grants from other organizations and foundations.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The Institute prepares its financial statements on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

### Cash and Cash Equivalents

Cash and cash equivalents consist of monies held in demand deposit accounts and highly liquid investments with initial maturity dates of three months or less. However, cash equivalents exclude money market funds and other cash held within investment accounts, which are normally held for a longer period of time.

### Contributions and Grants Receivable

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-free interest rates appropriate for the expected term of the promise to give. Amortization of the discount is included in contributions and grants revenue in the accompanying statements of activities.

## 2. Summary of Significant Accounting Policies (continued)

Contributions and Grants Receivable (continued)

The Institute uses the allowance method to determine uncollectible contributions and grants receivable. The allowance is based on management's analysis of specific contributions. As a result, it is possible that the Institute's estimate of the carrying amount of contributions and grants receivable could change in the near term. At December 31, 2013 and 2012, there was no allowance for doubtful accounts or discount as the entire balance has been deemed by management to be fully collectible within one year.

Investments

Investments consist of cash and money market funds, government securities, equity securities, municipal bonds and corporate fixed income. Investments in cash and money market funds, government securities, equity securities, municipal bonds and corporate fixed income are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Interest, dividends and realized and unrealized gains or losses are recorded as investment income when earned.

Property and Equipment

Property and equipment over $1,000 with a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term and their estimated useful lives.

The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation and any gain or loss is reflected in income or expense in the accompanying statements of activities. Major additions are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Artwork

Artwork consists of donated photographs and sketches and is carried at its recorded value, which is the estimated fair market value at the time of donation. The artwork is not being depreciated.

## 2. Summary of Significant Accounting Policies (continued)

Gift Annuities

The Institute has received irrevocable gift annuities from several donors. The donors give the Institute a cash contribution and, in return, the Institute agrees to make payments to the donor for the remaining life of the donor or the donor's designated beneficiary. A liability is recorded in the accompanying statements of financial position at the present value of the expected future payments owed by the Institute under these agreements based on current rates in the Internal Revenue Service's actuarial tables for annuities.

Actuarial gains or losses resulting from changes in assumptions used to calculate the liability for the present value of future annuity payments are recorded as increases or decreases in the respective net asset class on the accompanying statements of activities. Upon the donor's death, the remaining liability is eliminated and recognized as revenue.

Classification of Net Assets

The net assets of the Institute are reported as follows:

- *Unrestricted net assets* represent the portion of expendable funds that are available for support of the Institute's operations and are not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.

Revenue Recognition

Unconditional contributions and grants are recognized as revenue when received or promised and are reported as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Conditional contributions and grants are not recognized as revenue until the conditions are substantially met.

## 2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contribution revenue from charitable gift annuities is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors or other beneficiaries. The present value of payments to beneficiaries of charitable gift annuities is calculated using discount rates, which represent the risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in assumptions used to calculate the discount are recorded as change in value of split interest of agreements in the accompanying statements of activities.

Revenue from all other sources is recognized when earned.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain indirect costs have been allocated among the programs and supporting services benefited based on management's estimate of shared costs.

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.

Reclassifications

Certain amounts from the 2012 financial statements have been reclassified to conform to the 2013 financial statement presentation.

## 3. Concentrations of Credit Risks

The Institute maintains cash deposits with various financial institutions that may, from time to time, exceed insurable limits. Management periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

The Institute also invests funds in a professionally managed portfolio. Such investments are exposed to market and credit risks. Therefore, the Institute's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

## 4. Investments

The Institute's investments consist of the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| Government securities | $ 649,231 | $ 550,305 |
| Equity securities | 575,990 | 388,589 |
| Cash and money market funds | 230,131 | 642,507 |
| Municipal bonds | 10,788 | 11,489 |
| Corporate fixed income | 10,017 | 10,017 |
| Total | $ 1,476,157 | $ 1,602,907 |

Investment income consists of the following for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Unrealized gain | $ 86,208 | $ 23,727 |
| Interest and dividends | 21,473 | 21,695 |
| Realized gain | 33,166 | 7,543 |
| Total | $ 140,847 | $ 52,965 |

## 5. Fair Value of Financial Instruments

The Institute adopted the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements,* for financial assets and liabilities measured on a recurring basis. ASC defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and requires disclosures about fair value measurements.

ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability.

These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

## 5. Fair Value of Financial Instruments (continued)

The three levels of fair value hierarchy are described as follows:

- *Level 1* - Inputs based on unadjusted, quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.
- *Level* 2 - Inputs based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability, such as quoted prices for similar assets or liabilities in active markets.
- *Level* 3 - Unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining the fair value measurement.

The following tables summarize the Institute's investments which are measured at fair value on a recurring basis, aggregated by type and the fair value hierarchy level which those measurements were made.

December 31, 2013:

| | Total Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments: | | | | |
| Government securities | $ 649,231 | $ 649,231 | $ - | $ - |
| Equity securities | 575,990 | 575,990 | - | - |
| Cash and money market funds | 230,131 | 230,131 | - | - |
| Municipal bonds | 10,788 | - | 10,788 | - |
| Corporate fixed income | 10,017 | - | 10,017 | - |
| Total | $ 1,476,157 | $ 1,455,352 | $ 20,805 | $ - |

## 5. Fair Value of Financial Instruments (continued)

December 31, 2012:

| | Total Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments: | | | | |
| Government securities | $ 550,305 | $ 550,305 | $ - | $ - |
| Equity securities | 388,589 | 388,589 | - | - |
| Cash and money market funds | 642,507 | 642,507 | - | - |
| Municipal bonds | 11,489 | - | 11,489 | - |
| Corporate fixed income | 10,017 | - | 10,017 | - |
| Total | $ 1,602,907 | $ 1,581,401 | $ 21,506 | $ - |

## 6. Property and Equipment

The Institute held the following property and equipment at December 31:

| | 2013 | 2012 |
|---|---|---|
| Furniture and equipment | $ 105,002 | $ 103,553 |
| Equipment under capital leases | 95,791 | 95,791 |
| Total property and equipment | 200,793 | 199,344 |
| Less: accumulated depreciation | (141,009) | (117,636) |
| Property and equipment, net | $ 59,784 | $ 81,708 |

## 7. Annuity Liability

The Institute is a beneficiary of several charitable gift annuity trusts. Under the terms of the agreements, the Institute is obligated to pay fixed annual amounts ranging from $300 to $11,000 to the original donor or designated beneficiary as long as the beneficiaries are living. The net present value of the obligation under charitable gift annuities, using actuarial tables based on the beneficiaries' expected life, amounted to $125,721 and $149,781 at December 31, 2013 and 2012, respectively.

## 8. Commitments

Operating Leases

The Institute has entered into non-cancellable operating lease agreements for its office spaces that expire through October 2017. Under the terms of these leases, base rent is subject to annual increases ranging from 1.5% to 3.0% over the previous year's adjusted rent.

Under accounting principles generally accepted in the United States of America, all fixed-rent increases are recognized on a straight-line basis over the term of the lease. Total rent expense was $274,391 and $283,795 for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, future minimum lease payments required under these operating leases are as follows:

| | |
|---|---|
| For the years ending December 31: | |
| 2014 | $ 280,025 |
| 2015 | 287,139 |
| 2016 | 80,557 |
| 2017 | 32,750 |
| Total future minimum lease payments | $ 680,471 |

Capital Leases

The Institute leases office equipment under long-term capital lease agreements that expire through November 2017. The capital lease assets are included in property and equipment at a total cost of $95,791 at December 31, 2013 and 2012. The accumulated amortization for the capital lease assets was $37,915 and $18,758 at December 31, 2013 and 2012, respectively. The future minimum lease payments required under these capital leases are as follows at December 31, 2013:

| | |
|---|---|
| For the years ending December 31: | |
| 2014 | $ 22,512 |
| 2015 | 15,065 |
| 2016 | 14,388 |
| 2017 | 13,189 |
| Total future minimum lease payments | 65,154 |
| Less: amount representing interest | (5,831) |
| Capital lease obligation | $ 59,323 |

## 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| Global Economy | $ 529,125 | $ 310,732 |
| Climate Justice | 272,697 | 178,942 |
| New Mexico Fellowship | 54,025 | 41,238 |
| FPIF-Right Web | 18,819 | 25,931 |
| Break the Chain | 8,822 | 77,939 |
| Letelier/Moffitt | 4,504 | 4,504 |
| Lessons of the 60’s | 1,183 | 6,774 |
| New Priorities Network | 581 | 329 |
| American Exceptionalism | 9 | - |
| Newman Fellowship | - | 105,202 |
| Inequality Boston | - | 64,841 |
| New Economy Working Group | - | 14,841 |
| Economic Hardship Project | - | 7,808 |
| Cuba Film | - | 4,001 |
| Resource Rights | - | 926 |
| Total temporarily restricted net assets | $ 889,765 | $ 844,008 |

## 10. Conditional Contribution for the Raskin Freedom Fund

On April 30, 2007, the HKH Foundation awarded the Institute a conditional gift of $1,000,000 for the Raskin Freedom Fund. The gift is conditional upon the Institute's satisfaction of a two-to-one matching requirement and is to be released in $100,000 increments every time the Institute receives $200,000 in other support for the endowment. The Institute met the matching requirement throughout 2011 and 2012 and recorded $1,000,000 in contribution revenue from the HKH Foundation during these years.

## 11. Pension Plan

The Institute sponsors a 403(b) tax-deferred annuity plan for its employees. Employees are eligible to participate in the plan immediately upon commencement of employment. Participating employees may contribute a portion of their income on a tax-deferred basis and the Institute matches 100% of the employee elective deferrals up to a maximum of 4% of each employee's compensation after the employee has completed two years of service. Employees are fully vested in the plan at the time of enrollment. Pension expenses were $23,178 and $29,724 for the years ended December 31, 2013 and 2012, respectively.

## 12. Income Taxes

The Institute is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes except for taxes on unrelated business income. No tax expense was recorded in the accompanying financial statements for the years ended December 31, 2013 and 2012 as there were no unrelated business income.

ASC topic 740-10, *Income Taxes*, provides guidance for reporting uncertainty in income taxes. The Institute has performed an evaluation of uncertain tax positions for the years ended December 31, 2013 and 2012, and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. Information returns for the years ended December 31, 2010 or later remain subject to examination by various taxing authorities.

## 13. Supplemental Cash Flow Information

| | 2013 | 2012 |
|---|---|---|
| Interest paid | $ 5,104 | $ 3,206 |
| Noncash Investing and Financing Activities: | | |
| Equipment acquired through capital lease | $ - | $ 63,611 |

## 14. Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through August 26, 2014, the date the financial statements were available to be issued.