NATIONAL CENTER FOR POLICY ANALYSIS

FINANCIAL STATEMENTS

September 30, 2014

NATIONAL CENTER FOR POLICY ANALYSIS

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SMITH, JACKSON, BOYER & BOVARD
A Professional Limited Liability Company
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
National Center for Policy Analysis

We have audited the accompanying financial statements of National Center for Policy Analysis (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor considers 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Center for Policy Analysis as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Smith, Jackson, Boyer & Bovard

SMITH, JACKSON, BOYER & BOVARD
A Professional Limited Liability Company

Dallas, Texas
January 29, 2015

NATIONAL CENTER FOR POLICY ANALYSIS
STATEMENT OF FINANCIAL POSITION

September 30, 2014

ASSETS	
Cash and cash equivalents	$ 36,050
Receivables:	
Unconditional promises to give, net	1,183,021
Claim settlements and insurance reimbursements	528,256
	1,711,277
Investments, at fair value	392,142
Property and equipment, net	467,143
Prepaid expenses and other assets	92,653
Total assets	$ 2,699,265
LIABILITIES	
Accounts payable and accrued liabilities	$ 474,583
Capital lease obligations	47,471
Deferred retirement obligations	335,000
Deferred rent	408,283
Total liabilities	1,265,337
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Unrestricted	1,043,928
Temporarily restricted	200,000
Permanently restricted	190,000
Total net assets	1,433,928
Total liabilities and net assets	$ 2,699,265

The accompanying notes are an integral part of the financial statements.

NATIONAL CENTER FOR POLICY ANALYSIS
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Support income:				
Contributions	$ 3,484,733	$ 1,652,500	$ -	$ 5,137,233
Research study sales	3,287	-	-	3,287
Event income	147,250	-	-	147,250
Other miscellaneous	1,870	-	-	1,870
Investment income:				
Interest and dividend income	-	-	35,844	35,844
Realized gains (losses)	-	-	1,013	1,013
Unrealized gains (losses)	-	-	23,172	23,172
Net assets released from restrictions	1,722,085	(1,462,056)	(260,029)	-
Total revenues	5,359,225	190,444	(200,000)	5,349,669
FUNCTIONAL EXPENSES				
Research and publications	2,642,994	-	-	2,642,994
Conferences	847,526	-	-	847,526
Marketing	53,888	-	-	53,888
Internet	475,600	-	-	475,600
Management and general	377,630	-	-	377,630
Fundraising	215,071	-	-	215,071
Total expenses	4,612,709	-	-	4,612,709
INCREASE (DECREASE) IN NET ASSETS	746,516	190,444	(200,000)	736,960
NET ASSETS, beginning of year	297,412	9,556	390,000	696,968
NET ASSETS, end of year	$ 1,043,928	$ 200,000	$ 190,000	$ 1,433,928

The accompanying notes are an integral part of the financial statements.

NATIONAL CENTER FOR POLICY ANALYSIS
STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	$ 736,960
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities	
Depreciation and amortization	68,471
Realized (gains) losses from investments in securities	(1,013)
Unrealized (gains) losses from investments in securities	(23,172)
Retirement costs	71,302
Deferred rent	53,380
Donated securities	50,638
(Increase) decrease in:	
Receivables	(1,704,681)
Prepaid expenses and other assets	75,165
Increase (decrease) in:	
Accounts payable and accrued liabilities	27,448
Net cash provided by (used in) operating activities	(645,502)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments in securities	(94,020)
Proceeds from sale of securities	391,579
Purchases of property and equipment	(27,979)
Net cash provided by (used in) investing activities	269,580
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital lease obligations	(12,245)
Net cash provided by (used in) financing activities	(12,245)
NET INCREASE (DECREASE) IN CASH	(388,167)
CASH AND CASH EQUIVALENTS, beginning of year	424,217
CASH AND CASH EQUIVALENTS, end of year	$ 36,050
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	$ 2,397
SUPPLEMENTAL NONCASH FLOW INFORMATION	
Leasehold improvements and furniture financed through office lease	$ 342,919

The accompanying notes are an integral part of the financial statements.

1. DESCRIPTION OF ORGANIZATION

The National Center for Policy Analysis (NCPA) was incorporated in 1982 as a nonprofit Texas corporation classified by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) and as a nonprivate foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. NCPA is an educational organization, which primarily conducts research on political and economic issues and disseminates its results to the public through conferences, seminars and the media.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recorded when earned and expenses are recorded when incurred.

Classifications of Net Assets

The financial position and activities of NCPA is presented according to three classes of net assets as follows:

Permanently Restricted Net Assets – Contributions whose use is limited by donor or Board of Directors imposed stipulations that the resources must be maintained permanently.

Temporarily Restricted Net Assets – Contributions and other inflows of assets whose use is limited by donor-imposed stipulations that will expire by donor payment of pledge, passage of time, or can be fulfilled and removed by actions of the entity.

Unrestricted Net Assets – Contributions, return on investments, and other inflows of assets whose use is not limited by donor-imposed restrictions. To the extent authorized by the donor, earnings from permanently restricted net assets are available to support the unrestricted activities of NCPA.

When a donor-stipulated restriction ends or the restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with an original maturity at the date of purchase of three months or less. At September 30, 2014, cash and cash equivalents included cash deposits and a money market fund.

Promises to Give

Unconditional promises to give are recognized as revenue in the period earned. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for uncollectible promises to give is provided by management when promises are not considered collectible. All unconditional promises to give, which are expected to be received beyond one year, are discounted to their net present value.

Investments

Investments are valued at their estimated fair values in the statement of financial position. Interest and dividend income are recorded when earned. Realized gains or losses from the sale of marketable securities are determined on the specific identification method for investments in common stocks and the first-in, first-out method for investments in mutual funds. NCPA records security transactions on the trade date basis. Unrealized gains and losses are recorded for the change in fair value.

Securities are held in custodial investment accounts administered by financial institutions in accordance with investment policies adopted by members of the Board of Directors.

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such change could be material.

Fair Value Measurements

NCPA accounts for its financial instruments as well as certain assets and liabilities at fair value. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Accounting standards establish a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

> *Level 1* - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 assets and liabilities include investments in a money market fund and mutual funds.
>
> *Level 2* - Observable inputs other than quoted prices in active markets. Level 2 assets and liabilities include unconditional promises to give and capital lease obligations. The fair value of level 2 assets and liabilities is based on observable interest and discount rates from contracts or notes with similar maturities and credit qualities.
>
> *Level 3* - Unobservable inputs for which there is little or no market data available. NCPA did not have any assets and liabilities valued under level 3 inputs.

The carrying amounts of cash and cash equivalents, claim settlements and insurance reimbursements, accounts payable, and accrued liabilities approximate fair value because of the short-term maturity of these instruments.

Property and Equipment

Property and equipment are stated at cost at date of purchase, net of accumulated depreciation and amortization. When NCPA disposes of assets, the cost and related accumulated depreciation and amortization are removed, and any resulting gain or loss is reflected in income for the period. Maintenance and repairs are charged to expense as incurred; significant betterments and renewals, which extend the useful life of a particular asset, are capitalized. Depreciation and amortization is calculated using the straight-line method over an estimated useful life of five years.

Management periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To date, no impairment has occurred.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by NCPA. For the year ended September 30, 2014, NCPA received donated services of $4,313 that were recorded as contribution revenues.

Income Taxes

NCPA is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income. NCPA has evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. No provision for income tax is required for 2014.

NCPA's tax returns are subject to review and examination by federal and state authorities. Tax returns since 2011 are open to examination by federal and state authorities.

Functional Expense Allocation

Expenses are allocated to programs and support services on the basis of time records and periodic expense studies.

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the financial statements include the determination of the allowance for uncollectable promises to give, fair value of assets and liabilities, the functional expense allocation, the fulfillment and release of donor stipulated restrictions, the provision for contingent gains and losses arising from litigation and claims, and unrecognized tax benefits. Actual results could differ from those estimates.

Subsequent Events

NCPA evaluates events occurring subsequent to the end of the fiscal year to determine whether they require recognition, disclosure or both in the financial statements. Events that provide additional evidence about conditions that existed at the balance sheet date are recognized in the financial statements during the current period presented. Nonrecognized subsequent events are events that provide evidence about conditions that arose after the balance sheet date but are not recognized in the financial statements. Both types of subsequent events require disclosure in the financial statements if nondisclosure of such events causes the financial statements to be misleading. NCPA has evaluated subsequent events through January 29, 2015, the date the financial statements were available to be issued.

3. UNCONDITIONAL PROMISES TO GIVE

At September 30, 2014, unconditional promises to give consisted of the following:

	Due in Year	Amount
	2015	$ 767,500
	2016	500,000
Total unconditional promises to give		1,267,500
Allowance for doubtful accounts		(67,500)
Discount to present value		(16,979)
		$ 1,183,021

For the year ended September 30, 2014, the effective discount rate used in determining the present value of unconditional promises to give was 1.57%.

At September 30, 2014, conditional promises to give consisted of a donor pledge in the amount of $200,000 which stipulates a matching requirement and is due on October 1, 2015.

4. INVESTMENTS

At September 30, 2014, investments consisted of the following:

	Fair Value	Cost
Mutual funds	$ 392,142	$ 314,545

For the year ended September 30, 2014, investment return consisted of the following:

Interest and dividend income	$ 35,844
Realized gains (losses)	1,013
Unrealized gains (losses)	23,172
	$ 60,029

5. PROPERTY AND EQUIPMENT

At September 30, 2014, property and equipment consisted of the following:

Office furniture and equipment	$ 1,115,267
Leasehold improvements	235,204
	1,350,471
Accumulated depreciation and amortization	(883,328)
	$ 467,143

Total depreciation and amortization expense related to property and equipment was $68,471 for the year ended September 30, 2014.

6. REVOLVING LINE OF CREDIT

NCPA has a promissory note with LegacyTexas Bank providing for a $125,000 revolving line of credit, which matures on December 14, 2014. The promissory note was not renewed. The promissory note bears interest based on the Wall Street Journal prime rate plus 1.00% and interest is payable monthly. The outstanding principal advanced under the revolving line of credit is payable on the maturity date. The promissory note is unsecured. There were no borrowings outstanding under the revolving line of credit at September 30, 2014.

7. EMPLOYEE BENEFIT PLAN

NCPA has a tax-deferred annuity plan ("Plan") qualified under Section 403(b) of the Internal Revenue Code. All full-time employees may make contributions to the Plan up to the maximum allowed by the Internal Revenue Code. Effective January 1, 2010, the Plan discontinued employer matching contributions.

8. DEFERRED RETIREMENT OBLIGATIONS

NCPA has entered into deferred retirement agreement with a key employee. The deferred retirement agreement provides for the employee to receive two years of salary in the amount of $365,000 upon being employed with NCPA on the employee's retirement date of April 1, 2015. The deferred retirement obligations are payable over a 48 month period. The deferred retirement agreement is unfunded. Retirement service costs are charged ratably over the remaining service life of the employee through March 2015. For the year ended September 30, 2014, activities in deferred retirement obligations consisted of the following:

	Unfunded Obligations
Obligations - beginning of year	$ 263,698
Retirement service costs	71,302
Payments to retired employee	-
Obligations - end of year	$ 335,000

Future payments required under the fully accrued deferred retirement obligations of $365,000 are as follows:

	Year Ended September 30,	Payments
	2015	$ 130,365
	2016	66,250
	2017	66,250
	2018	66,250
	2019	35,885
Total payments		$ 365,000

9. COMMITMENTS AND CONTINGENCIES

Litigation and Claims

During 2014, NCPA became a party to various litigation matters and claims related to employment and contract matters. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and NCPA's view of these matters may change in the future as the litigation and events related thereto unfold. NCPA expenses legal fees as incurred. NCPA records a provision for contingent gains or losses when it is both probable that a receivable or liability has been incurred and the amount of the gain or loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on NCPA's operations or its financial position, liquidity or results of operations.

NCPA entered into four settlement agreements related to claims and counterclaims filed in 2014 involving various employment and contract matters. All legal expenses, insurance reimbursements, obligations, and recovery of damages related to these settlement agreements were recognized in the accompanying financial statements. At September 30, 2014, a receivable was recognized in the amount of $528,256 related to insurance reimbursements and settlement proceeds collected after September 30, 2014.

At September 30, 2014, there are two claims pending against NCPA involving employment matters. NCPA intends to defend the claims vigorously and pursue settlement options. In the opinion of management, the ultimate disposition of these claims will not have a material adverse effect on the on the financial position, liquidity or results of operations of NCPA.

In addition, NCPA is a plaintiff in a pending lawsuit against a business at September 30, 2014. Due to the inherent uncertainty in the preliminary stage of this case, NCPA cannot accurately predict the outcome or recovery of damages from this claim. Accordingly, this claim has not been recorded in the accompanying financial statements.

Concentration of Risks

Financial instruments, which potentially subject NCPA to concentrations of credit risk, consist primarily of cash deposits, money market fund, and investments. NCPA maintains its cash deposits with balances, at times, in excess of federally insured limits. At September 30, 2014, cash deposit balances did not exceed federally insured limits. NCPA maintains cash deposits and investments with high credit quality financial institutions and has established guidelines relative to the diversification and maturities of its investments. NCPA has not incurred any losses due to the credit risk on these financial instruments.

For the year ended September 30, 2014, contributions from one donor represented 37% of total contribution revenues and 100% of promises to give receivables.

Capital and Operating Leases

NCPA leases certain office equipment under capital lease arrangements expiring March 2018. Included in property and equipment in the accompanying statement of financial position, are assets under capital leases with costs of $77,615 and accumulated depreciation of $35,365 at September 30, 2014. Total amount of depreciation charged to expense was $17,357 for the year ended September 30, 2014.

NCPA leases its Dallas and Washington office facilities under noncancelable lease agreements. The Dallas office lease has a 130 month lease term expiring January 2025. The Washington office lease has a 6 month lease term expiring February 2015. Rent expense under these leases was $354,100 for the year ended September 30, 2014.

Future minimum rental payments required under capital leases and operating leases at September 30, 2014, were as follows:

	Year Ended September 30,	Capital Leases	Operating Leases
	2015	$ 15,021	$ 117,400
	2016	14,220	161,068
	2017	14,220	165,522
	2018	7,110	169,975
	2019	-	174,429
	Thereafter	-	982,739
Total minimum rental payments		50,571	$ 1,771,133
Less amount representing interest		3,100	
Present value of future lease payments		$ 47,471	

NCPA received certain tenant allowances and rent concessions for its Dallas office facility. These concessions have been deferred and are being amortized over the term of the related lease, which expires in January 2025.

10. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of future year pledges that are available for specific programs and restricted to time. At September 30, 2014, temporarily restricted net assets totaled $200,000.

NCPA has received contributions totaling $190,000 at September 30, 2014, with donor stipulations that permanently limit the use of assets. Under terms of the contributions, the amount of each contribution is to establish a permanently restricted fund. The return on the investments from the funds is to be used for the support of a specified program. These contributions are combined with other unrestricted contributions and invested using NCPA investment policies. At September 30, 2014, permanently restricted net assets are held indefinitely in the investments of mutual funds.

For the year ended September 30, 2014, activities in permanently restricted net assets consisted of the following:

	Donor Restricted Funds	Board Restricted Funds	Total
Beginning of year	$ 190,000	$ 200,000	$ 390,000
Contributions	-	-	-
Investment income	35,763	1,094	36,857
Appreciation of investments	23,172	-	23,172
Amounts released from restrictions	(58,935)	(201,094)	(260,029)
End of Year	$ 190,000	$ -	$ 190,000

For the year ended September 30, 2014, permanently restricted funds of $201,094 were appropriated for expenditure by the Board of Directors. The Board of Directors had imposed a restriction on these funds for cash reserve purposes. These restricted funds were invested in a money market fund and certificate of deposit.

11. FAIR VALUE MEASUREMENTS

The following table presents assets and liabilities carried on the statement of financial position by level within the valuation hierarchy as described in Note 2 at September 30, 2014:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Level 1	Level 2	Total
Assets			
Money market fund	$ 18,880	$ -	$ 18,880
Unconditional promises to give	-	1,183,021	1,183,021
Mutual funds	392,142	-	392,142
	$ 411,022	$ 1,183,021	$ 1,594,043
Liabilities			
Capital lease obligations	$ -	$ 47,471	$ 47,471

Assets Measured at Fair Value on a Non-Recurring Basis

NCPA assesses potential impairments to long-lived assets, including property and equipment, whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if one or more is determined to be impaired. For the year ended September 30, 2014, NCPA had no impairments related to these assets.

12. RELATED PARTY TRANSACTIONS

Members of the Board of Directors are significant contributors to NCPA. For the year ended September 30, 2014, members of the Board of Directors and their affiliated organizations contributed $345,738 to NCPA.