

GUTTMACHER INSTITUTE, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2012 AND 2011

GUTTMACHER INSTITUTE, INC.

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Independent Auditor's Report

**Board of Directors
Guttmacher Institute, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Guttmacher Institute, Inc., which comprise the balance sheet as of December 31, 2012 and 2011, and the related statements of activities, functional expenses 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.

Auditor's 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 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 auditor's 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 Guttmacher Institute, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb + Troper LLP

June 20, 2013

GUTTMACHER INSTITUTE, INC.

BALANCE SHEET

DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 468,739 | \$ 1,094,845 |
| Investments | 17,778,274 | 18,233,898 |
| Grants receivable | 17,464,078 | 8,628,618 |
| Other receivables | 109,787 | 77,400 |
| Prepaid expenses and other assets | 164,956 | 218,794 |
| Security deposits | 68,807 | 19,163 |
| Deferred debt issuance costs - net | 399,614 | 415,928 |
| Fixed assets - net | <u>11,280,446</u> | <u>11,510,236</u> |
| Total assets | <u>\$ 47,734,701</u> | <u>\$ 40,198,882</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 712,577 | \$ 607,990 |
| Postretirement benefits payable | 511,069 | |
| Deferred rent payable | 173,983 | |
| Note payable | | 700,003 |
| New York City Industrial Development Agency bonds | <u>10,015,000</u> | <u>10,210,000</u> |
| Total liabilities | <u>11,412,629</u> | <u>11,517,993</u> |
| Net assets (Exhibit B) | | |
| Unrestricted | | |
| Undesignated | 2,380,061 | 3,563,882 |
| Board-designated endowment fund | 4,826,076 | 3,522,968 |
| Net investment in property and equipment | <u>1,665,060</u> | <u>1,016,161</u> |
| Total unrestricted | 8,871,197 | 8,103,011 |
| Temporarily restricted | 22,595,637 | 15,722,640 |
| Permanently restricted | <u>4,855,238</u> | <u>4,855,238</u> |
| Total net assets | <u>36,322,072</u> | <u>28,680,889</u> |
| Total liabilities and net assets | <u>\$ 47,734,701</u> | <u>\$ 40,198,882</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | | | | 2011 | | | |
|---|--------------|------------------------|------------------------|---------------|--------------|------------------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Public support, revenues and other support | | | | | | | | |
| Contributions | \$ 709,965 | | | \$ 709,965 | \$ 481,902 | | | \$ 481,902 |
| Grants and contracts from government agencies | 1,525,996 | | | 1,525,996 | 1,537,782 | | | 1,537,782 |
| Grants from private organizations | | \$ 13,370,030 | | 13,370,030 | | \$ 14,838,548 | | 14,838,548 |
| Grants from global organizations | | 6,290,282 | | 6,290,282 | | 2,350,903 | | 2,350,903 |
| Publication income and other revenue | 132,266 | | | 132,266 | 167,618 | | | 167,618 |
| Investment income - operating | 47,586 | | | 47,586 | 68,924 | | | 68,924 |
| Net assets released from restriction | 12,787,315 | (12,787,315) | | | 11,429,780 | (11,429,780) | | |
| Total public support, revenues and other support | 15,203,128 | 6,872,997 | | 22,076,125 | 13,686,006 | 5,759,671 | | 19,445,677 |
| Expenses (Exhibit C) | | | | | | | | |
| Program services | | | | | | | | |
| Research | 6,797,527 | | | 6,797,527 | 6,349,198 | | | 6,349,198 |
| Public education | 3,485,310 | | | 3,485,310 | 3,192,039 | | | 3,192,039 |
| Public policy | 1,778,055 | | | 1,778,055 | 1,454,188 | | | 1,454,188 |
| Total program services | 12,060,892 | | | 12,060,892 | 10,995,425 | | | 10,995,425 |
| Supporting services | | | | | | | | |
| Management and general | 2,581,062 | | | 2,581,062 | 2,102,434 | | | 2,102,434 |
| Fund raising | 658,030 | | | 658,030 | 486,241 | | | 486,241 |
| Total supporting services | 3,239,092 | | | 3,239,092 | 2,588,675 | | | 2,588,675 |
| Total expenses | 15,299,984 | | | 15,299,984 | 13,584,100 | | | 13,584,100 |
| Change in net assets before investment income (loss) - endowment and postretirement benefit plan adjustment | (96,856) | 6,872,997 | | 6,776,141 | 101,906 | 5,759,671 | | 5,861,577 |
| Postretirement benefit plan adjustment | (438,066) | | | (438,066) | | | | |
| Investment income (loss) - endowment | 1,303,108 | | | 1,303,108 | (464,745) | | | (464,745) |
| Change in net assets (Exhibit D) | 768,186 | 6,872,997 | | 7,641,183 | (362,839) | 5,759,671 | | 5,396,832 |
| Net assets - beginning of year | 8,103,011 | 15,722,640 | \$ 4,855,238 | 28,680,889 | 8,465,850 | 9,962,969 | \$ 4,855,238 | 23,284,057 |
| Net assets - end of year (Exhibit A) | \$ 8,871,197 | \$ 22,595,637 | \$ 4,855,238 | \$ 36,322,072 | \$ 8,103,011 | \$ 15,722,640 | \$ 4,855,238 | \$ 28,680,889 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | | | | | | | |
|---|------------------|------------------|---------------|---------------|------------------------|--------------|--------------|---------------|
| | Program Services | | | | Supporting Services | | | |
| | Research | Public Education | Public Policy | Total | Management and General | Fund Raising | Total | Total |
| Salaries | \$ 3,196,997 | \$ 1,892,844 | \$ 1,083,243 | \$ 6,173,084 | \$ 1,221,310 | \$ 313,980 | \$ 1,535,290 | \$ 7,708,374 |
| Payroll taxes and employee benefits | 902,006 | 534,050 | 305,628 | 1,741,684 | 344,582 | 88,587 | 433,169 | 2,174,853 |
| Total salaries and related expenses | 4,099,003 | 2,426,894 | 1,388,871 | 7,914,768 | 1,565,892 | 402,567 | 1,968,459 | 9,883,227 |
| Printing and artwork | | 100,198 | 150 | 100,348 | | 10,683 | 10,683 | 111,031 |
| Data processing | 5,351 | 6,743 | 11,862 | 23,956 | 20,778 | 2,016 | 22,794 | 46,750 |
| Professional fees | 1,407,472 | 255,786 | 17,203 | 1,680,461 | 212,266 | 129,922 | 342,188 | 2,022,649 |
| Occupancy and office costs (includes interest of \$584,758) | 610,358 | 364,530 | 209,428 | 1,184,316 | 330,384 | 59,896 | 390,280 | 1,574,596 |
| Information technology | 102,139 | 61,381 | 25,117 | 188,637 | 44,249 | 7,444 | 51,693 | 240,330 |
| Postage and shipping | 12,941 | 54,765 | 365 | 68,071 | 12,340 | 7,653 | 19,993 | 88,064 |
| Conferences, meetings and travel | 294,364 | 47,191 | 28,735 | 370,290 | 261,688 | 4,772 | 266,460 | 636,750 |
| Dues, subscriptions and publications | 13,665 | 21,069 | 11,611 | 46,345 | 6,620 | 1,434 | 8,054 | 54,399 |
| Miscellaneous | 5,020 | 385 | 949 | 6,354 | 32,405 | 7,364 | 39,769 | 46,123 |
| Total expenses before depreciation and amortization | 6,550,313 | 3,338,942 | 1,694,291 | 11,583,546 | 2,486,622 | 633,751 | 3,120,373 | 14,703,919 |
| Depreciation and amortization | 247,214 | 146,368 | 83,764 | 477,346 | 94,440 | 24,279 | 118,719 | 596,065 |
| Total expenses (Exhibit B) | \$ 6,797,527 | \$ 3,485,310 | \$ 1,778,055 | \$ 12,060,892 | \$ 2,581,062 | \$ 658,030 | \$ 3,239,092 | \$ 15,299,984 |

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STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2011 | | | | | | | |
|---|------------------|------------------|---------------|---------------|------------------------|--------------|--------------|---------------|
| | Program Services | | | | Supporting Services | | | |
| | Research | Public Education | Public Policy | Total | Management and General | Fund Raising | Total | Total |
| Salaries | \$ 3,335,572 | \$ 1,698,400 | \$ 860,367 | \$ 5,894,339 | \$ 988,686 | \$ 203,878 | \$ 1,192,564 | \$ 7,086,903 |
| Payroll taxes and employee benefits | 917,886 | 467,367 | 236,757 | 1,622,010 | 272,068 | 56,103 | 328,171 | 1,950,181 |
| Total salaries and related expenses | 4,253,458 | 2,165,767 | 1,097,124 | 7,516,349 | 1,260,754 | 259,981 | 1,520,735 | 9,037,084 |
| Printing and artwork | 841 | 88,416 | 88 | 89,345 | 11 | 759 | 770 | 90,115 |
| Data processing | 6,961 | 7,828 | 12,225 | 27,014 | 15,613 | 1,467 | 17,080 | 44,094 |
| Professional fees | 735,532 | 208,761 | 9,322 | 953,615 | 138,980 | 75,493 | 214,473 | 1,168,088 |
| Occupancy and office costs (includes interest of \$606,575) | 684,570 | 348,745 | 178,533 | 1,211,848 | 277,345 | 41,938 | 319,283 | 1,531,131 |
| Information technology | 107,593 | 51,073 | 22,605 | 181,271 | 5,329 | 22,593 | 27,922 | 209,193 |
| Postage and shipping | 7,066 | 77,137 | 133 | 84,336 | 7,973 | 26,918 | 34,891 | 119,227 |
| Conferences, meetings and travel | 254,734 | 77,916 | 54,313 | 386,963 | 264,369 | 4,214 | 268,583 | 655,546 |
| Dues, subscriptions and publications | 11,006 | 31,088 | 9,659 | 51,753 | 10,780 | 3,580 | 14,360 | 66,113 |
| Miscellaneous | 23,181 | 755 | 2,025 | 25,961 | 42,953 | 33,146 | 76,099 | 102,060 |
| Total expenses before depreciation and amortization | 6,084,942 | 3,057,486 | 1,386,027 | 10,528,455 | 2,024,107 | 470,089 | 2,494,196 | 13,022,651 |
| Depreciation and amortization | 264,256 | 134,553 | 68,161 | 466,970 | 78,327 | 16,152 | 94,479 | 561,449 |
| Total expenses (Exhibit B) | \$ 6,349,198 | \$ 3,192,039 | \$ 1,454,188 | \$ 10,995,425 | \$ 2,102,434 | \$ 486,241 | \$ 2,588,675 | \$ 13,584,100 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GUTTMACHER INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 7,641,183 | \$ 5,396,832 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Depreciation and amortization | 596,065 | 561,449 |
| Loss (gain) on investments | (976,275) | 567,861 |
| Decrease (increase) in assets | | |
| Grants receivable | (8,835,460) | (3,777,284) |
| Other receivables | (32,387) | 2,436 |
| Prepaid expenses and other assets | 53,838 | (87,238) |
| Security deposits | (49,644) | (70) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | 104,587 | (75,258) |
| Postretirement benefits payable | 511,069 | |
| Deferred rent payable | 173,983 | |
| Net cash provided (used) by operating activities | <u>(813,041)</u> | <u>2,588,728</u> |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (349,961) | (285,061) |
| Purchases of investments | (6,961,838) | (14,324,813) |
| Proceeds from sales of investments | 8,393,737 | 11,887,235 |
| Net cash provided (used) by investing activities | <u>1,081,938</u> | <u>(2,722,639)</u> |
| Cash flows from financing activities | | |
| Repayment of note payable | (700,003) | (66,666) |
| Repayment of bonds | (195,000) | (190,000) |
| Net cash used by financing activities | <u>(895,003)</u> | <u>(256,666)</u> |
| Net decrease in cash and cash equivalents | (626,106) | (390,577) |
| Cash and cash equivalents - beginning of year | 1,094,845 | 1,485,422 |
| Cash and cash equivalents - end of year | \$ <u>468,739</u> | \$ <u>1,094,845</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ <u>584,758</u> | \$ <u>606,575</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GUTTMACHER INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ORGANIZATION

Guttmacher Institute, Inc. (the "Institute"), incorporated in New York in 1977, with offices in New York City and Washington, D.C., advances sexual and reproductive health in the United States and worldwide through an interrelated program of social science research, policy analysis and public education. The Institute conducts its activities through revenue generated from the United States and foreign government grants and contracts, private organization grants, individual contributions and the sale of publications.

The Institute is a not-for-profit tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Institute is primarily supported by grants and contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis accounting.

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 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. Actual results could differ from those estimates.

Cash and cash equivalents - The Institute considers all highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents, except for cash and money market funds contained in the Institute's investment portfolio.

Investments - Investments are recorded at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Institute's financial statements.

GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and grants receivable - Unconditional promises to give (pledges) are recorded as income when the Institute is formally notified of the grants or contributions by the respective donors. 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. The Institute does not charge interest on outstanding receivables.

Allowance for doubtful accounts - The Institute determines whether an allowance for uncollectibles should be provided for contributions and grants receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions, subsequent events and historical information. Contributions and grants receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. If no allowance is established, then it is written off directly against the receivable. As of December 31, 2012 and 2011, the Institute had no allowance for doubtful accounts.

Fixed assets - Fixed assets are recorded at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. The Institute capitalizes all property and equipment having a cost in excess of \$500 and a useful life of greater than one year. Leasehold improvements are amortized on the straight-line basis over the lesser of their useful lives or the term of the lease. Depreciation and amortization are provided on the straight-line basis over the following estimated useful lives of the assets:

| | |
|--------------------------------|-------------------|
| Commercial condominium | 40 years |
| Furniture and fixtures | 3-10 years |
| Computer hardware and software | 3-5 years |
| Leasehold improvements | Life of the lease |

Deferred debt issuance costs - Financing costs are amortized over the term of the related debt.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the 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 as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Board designated net assets - Unrestricted net assets designated by the Board of Directors to function as endowments.

Temporarily and permanently restricted net assets - Temporarily restricted net assets are those whose use by the Institute has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Institute in perpetuity.

Measure of operations - The Institute includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, except for investment income (losses) earned from the board-designated endowment fund and postretirement benefit plan adjustment.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Lease - Operating lease payments are charged to rental expense. Operating lease expenses are recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 as compared to those used at December 31, 2011.

Money market funds, equities, certificates of deposit, U.S. Government bonds - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held at year end.

Limited partnership and alternative investment - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. The securities are valued based on the current value provided by investment managers of the underlying funds.

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GUTTMACHER INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 4 sets forth by level, within the fair value hierarchy, the assets at fair value at December 31, 2012 and 2011.

Uncertainty in income taxes - The Institute has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 20, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - GRANTS RECEIVABLE

The grants to be received after one year are discounted to fair value using interest rates ranging from 0.16% to 2% for the year ended December 31, 2012.

Grants receivable consist of the following as of December 31, 2012:

| | |
|--|----------------------|
| 2013 | \$ 9,404,837 |
| 2014 | 4,902,098 |
| 2015 | 1,853,612 |
| 2016 | <u>1,345,278</u> |
| | 17,505,825 |
| Less unamortized discount to present value | <u>(41,747)</u> |
| | <u>\$ 17,464,078</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 - INVESTMENTS

The fair value hierarchy of investments is:

| | 2012 | | Total |
|-------------------------|------------------|----------|------------------|
| | Level 1 | Level 3 | |
| Money market | \$ 1,978,374 | \$ - | \$ 1,978,374 |
| Equities | | | |
| Common stock | | | |
| Basic materials | 113,926 | - | 113,926 |
| Communication services | 46,116 | - | 46,116 |
| Consumer cyclical | 280,269 | - | 280,269 |
| Consumer defensive | 389,112 | - | 389,112 |
| Energy | 113,455 | - | 113,455 |
| Financial services | 150,054 | - | 150,054 |
| Healthcare | 273,744 | - | 273,744 |
| Industrials | 339,401 | - | 339,401 |
| Real estate | 48,222 | - | 48,222 |
| Technology | 299,597 | - | 299,597 |
| Utilities | 28,521 | - | 28,521 |
| | <u>2,082,417</u> | <u>-</u> | <u>2,082,417</u> |
| Certificates of deposit | <u>4,695,284</u> | <u>-</u> | <u>4,695,284</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 - INVESTMENTS (continued)

| | 2012 | | Total |
|---|----------------------|---------------------|----------------------|
| | Level 1 | Level 3 | |
| Mutual funds | | | |
| Foreign large value | \$ 1,101,783 | \$ - | \$ 1,101,783 |
| Large growth | 271,840 | - | 271,840 |
| Large blend | 952,631 | - | 952,631 |
| Diversified emerging markets | 464,258 | - | 464,258 |
| Short-term bond | 2,691,053 | - | 2,691,053 |
| World bond | 833,949 | - | 833,949 |
| Large value | <u>1,557,455</u> | <u>-</u> | <u>1,557,455</u> |
| | <u>7,872,969</u> | <u>-</u> | <u>7,872,969</u> |
| Limited partnership and alternative investment | <u>-</u> | <u>1,149,230</u> | <u>1,149,230</u> |
| | <u>\$ 16,629,044</u> | <u>\$ 1,149,230</u> | <u>\$ 17,778,274</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 - INVESTMENTS (continued)

| | 2011 | | Total |
|---|----------------------|---------------------|----------------------|
| | Level 1 | Level 3 | |
| Money market | \$ 5,912,251 | \$ - | \$ 5,912,251 |
| Equities | | | |
| Common stock | | | |
| Basic materials | 108,275 | - | 108,275 |
| Communication services | 69,347 | - | 69,347 |
| Consumer cyclical | 192,585 | - | 192,585 |
| Consumer defensive | 395,282 | - | 395,282 |
| Energy | 119,841 | - | 119,841 |
| Financial services | 127,796 | - | 127,796 |
| Healthcare | 268,429 | - | 268,429 |
| Industrials | 348,186 | - | 348,186 |
| Real estate | 49,875 | - | 49,875 |
| Technology | 278,876 | - | 278,876 |
| Utilities | 48,394 | - | 48,394 |
| | <u>2,006,886</u> | <u>-</u> | <u>2,006,886</u> |
| Certificates of deposit | <u>1,685,322</u> | <u>-</u> | <u>1,685,322</u> |
| U.S. Government bonds | <u>800,584</u> | <u>-</u> | <u>800,584</u> |
| Mutual funds | | | |
| Foreign large value | 933,800 | - | 933,800 |
| Large growth | 789,476 | - | 789,476 |
| Large blend | 794,648 | - | 794,648 |
| Diversified emerging markets | 396,267 | - | 396,267 |
| Short-term bond | 2,632,020 | - | 2,632,020 |
| World bond | 747,511 | - | 747,511 |
| Large value | 460,595 | - | 460,595 |
| | <u>6,754,317</u> | <u>-</u> | <u>6,754,317</u> |
| Limited partnership and alternative investment | <u>-</u> | <u>1,074,538</u> | <u>1,074,538</u> |
| | <u>\$ 17,159,360</u> | <u>\$ 1,074,538</u> | <u>\$ 18,233,898</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 - INVESTMENTS (continued)

Level 3 Investments

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the years ended December 31:

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------------|---------------------|
| Balance, beginning of year | \$ 1,074,538 | \$ - |
| Total gains or losses (realized/unrealized) included in changes in net assets relating to instruments still held at the reporting date | 74,692 | (112,247) |
| Purchases | <u> </u> | <u>1,186,785</u> |
| Balance, end of year | <u>\$ 1,149,230</u> | <u>\$ 1,074,538</u> |

| | | |
|---|-------------------|---------------------|
| The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date | <u>\$ 171,930</u> | <u>\$ (112,247)</u> |
|---|-------------------|---------------------|

| | <u>2012</u> <u>Amount</u> | <u>2011</u> <u>Amount</u> | <u>Redemption</u> <u>Frequency</u> | <u>Redemption</u> <u>Notice Period</u> |
|------------------------|------------------------------|------------------------------|---------------------------------------|---|
| Alternative investment | <u>\$ 561,456</u> | <u>\$ 530,376</u> | Quarterly | 65 days |

The alternative investment seeks capital appreciation while targeting a portfolio level volatility of 3% to 5% over a market cycle by typically investing in 15-35 hedge funds. The underlying hedge funds utilize various investment strategies including relative value, event driven, long/short equity and tactical trading strategies.

| | | | | |
|---------------------|-------------------|-------------------|---------|---------|
| Limited partnership | <u>\$ 587,774</u> | <u>\$ 544,162</u> | Monthly | 15 days |
|---------------------|-------------------|-------------------|---------|---------|

The limited partnership seeks to provide long-term capital appreciation by investing primarily in U.S. companies in the medium market capitalization segment. These companies generally have a capitalization at the time of purchase of \$1-10 billion.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 - INVESTMENTS (continued)

Investment income (loss) consists of the following:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Interest and dividends | \$ 430,720 | \$ 225,632 |
| Unrealized income (loss) on investments - net | 1,060,312 | (128,720) |
| Realized loss on investments - net | (84,037) | (439,141) |
| Investment fees | <u>(56,301)</u> | <u>(53,592)</u> |
| Net investment income (loss) | <u>\$ 1,350,694</u> | <u>\$ (395,821)</u> |

NOTE 5 - FIXED ASSETS

Fixed assets consist of the following:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Commercial condominium | \$ 11,966,673 | \$ 11,966,673 |
| Furniture and fixtures | 1,263,838 | 1,214,835 |
| Computer hardware and software | 1,554,195 | 1,455,439 |
| Leasehold improvements | <u>895,749</u> | <u>693,547</u> |
| Total cost | 15,680,455 | 15,330,494 |
| Less accumulated depreciation and amortization | <u>(4,400,009)</u> | <u>(3,820,258)</u> |
| Net book value | <u>\$ 11,280,446</u> | <u>\$ 11,510,236</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 6 - LONG-TERM DEBT

New York City Industrial Development Agency Bonds

In May 2007, the Institute borrowed \$11,000,000 through the issuance of Civic Facility Revenue Bonds, Series 2007 (the "bonds") by the New York City Industrial Development Agency ("IDA") to finance the acquisition of office space to be used as the Institute's place of operations. The bonds, in an aggregate original face amount of \$11,000,000, mature at December 1, 2016 and December 1, 2036 and bear interest at rates of 5.25% and 5.75%. The bonds are collateralized by the purchased property.

Future minimum payments are as follows:

| <u>Year Ending December 31</u> | |
|--|----------------------|
| 2013 | \$ 781,363 |
| 2014 | 780,338 |
| 2015 | 778,788 |
| 2016 | 776,713 |
| 2017 | 779,113 |
| Thereafter | <u>14,793,423</u> |
| | 18,689,738 |
| Less amounts representing interest | <u>(8,674,738)</u> |
| Present value of net minimum lease payments | <u>\$ 10,015,000</u> |

In connection with the issuance of the bonds, the Institute transferred leasehold title to its property to the IDA.

IDA has leased the property back to the Institute for a term concurrent with the bond repayment schedule. At the conclusion of the lease term, the Institute has the option to purchase IDA's leasehold interest in the property for \$1.

The bonds are the obligation of IDA. The Institute has the obligation under the lease agreement to make payments equal to the amounts payable as principal and interests on the outstanding bonds.

Interest expense was \$581,600 and \$591,575 for the years ended December 31, 2012 and 2011, respectively.

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GUTTMACHER INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 6 - LONG-TERM DEBT (continued)

Note Payable

In May 2007, the Institute entered into an unsecured loan agreement with an unrelated organization for \$1,000,000 to finance a portion of the acquisition of office space. The loan matured and was repaid on March 31, 2012 and bore interest at a rate of 2%. Interest expense was \$3,158 and \$15,000 for the year ended December 31, 2012 and 2011, respectively.

NOTE 7 - NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Time restricted for periods ending after year end | \$ <u>4,488,334</u> | \$ <u>4,021,667</u> |
| Restricted by time and for the following purposes: | | |
| Public education | 4,495,274 | 1,652,602 |
| Public policy | 257,981 | 501,854 |
| Research | <u>13,354,048</u> | <u>9,546,517</u> |
| | <u>18,107,303</u> | <u>11,700,973</u> |
| | <u>\$ 22,595,637</u> | <u>\$ 15,722,640</u> |

Temporarily restricted net assets were released from restrictions by the passage of time and by incurring expenses satisfying the following:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|----------------------|----------------------|
| Time restrictions satisfied | \$ <u>4,158,833</u> | \$ <u>4,135,650</u> |
| Purpose restrictions satisfied: | | |
| Research | 6,552,513 | 4,668,381 |
| Public education | 1,682,096 | 1,963,361 |
| Public policy | <u>393,873</u> | <u>662,388</u> |
| | <u>8,628,482</u> | <u>7,294,130</u> |
| | <u>\$ 12,787,315</u> | <u>\$ 11,429,780</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 8 - EMPLOYEE BENEFIT PLANS

401(k) Plan

The Institute maintains a defined-contribution retirement plan established under Section 401(k) of the Internal Revenue Code that covers substantially all employees, each of whom must meet certain eligibility requirements as to age and length of service. During 2012 and 2011, the Institute's expense related to contributions to the 401(k) plan was approximately \$690,000 and \$626,000, respectively.

Deferred Compensation Plan

In April 2004, the Institute established a deferred compensation plan under Section 457(b) of the Internal Revenue Code for certain eligible employees, defined by the Institute as its executive team. Under the terms of the 457(b) Plan, eligible employees may contribute amounts through a salary-reduction agreement. The Institute does not contribute to this plan.

Employee Postretirement Benefit Plan

The Institute currently offers eligible retirees the opportunity to participate in a medical plan. Substantially all employees may become eligible for these benefits provided that the employee was 65 years of age and has at least 10 consecutive full years of service prior to retirement. The following table sets forth the plan's unfunded status and amounts recognized in the balance sheet at December 31:

| | <u>2012</u> |
|---|---------------------|
| Accumulated postretirement benefit obligation | \$ (511,069) |
| Plan assets at fair value | <u>-</u> |
| Funded status | \$ <u>(511,069)</u> |
| Accrued postretirement benefit cost | \$ (511,069) |
| Net periodic postretirement benefit cost | \$ 73,003 |
| Weighted average assumptions | |
| Discount rate | 4.05% |
| Expected return on plan assets | N/A |
| Health cost trend rate | 3.00% |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 8 - EMPLOYEE BENEFIT PLANS (continued)

Employee Postretirement Benefit Plan (continued)

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 4.95% for 2012 and is assumed to increase at a rate of 3% each year. The health care cost trend rate assumption has a significant effect on the amounts reported.

The Institute expects to contribute approximately \$4,000 to its postretirement health insurance plan in fiscal year 2013.

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

| <u>Year Ending June 30</u> | | |
|--------------------------------|----|--------|
| 2013 | \$ | 4,000 |
| 2014 | | 5,000 |
| 2015 | | 7,000 |
| 2016 | | 9,000 |
| 2017 | | 12,000 |
| 2018 through 2022 | | 88,000 |

NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. The Institute is obligated under a noncancelable operating lease for its regional office in Washington, D.C. expiring 2024.

Future minimum lease payments are as follows:

| | | |
|------------|----|---------------------|
| 2013 | \$ | 245,483 |
| 2014 | | 251,605 |
| 2015 | | 257,872 |
| 2016 | | 264,335 |
| 2017 | | 276,076 |
| Thereafter | | <u>1,867,920</u> |
| | | <u>\$ 3,163,291</u> |

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GUTTMACHER INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

A. (continued)

Rent expense for the years ended December 31, 2012 and 2011 was approximately \$261,000 and \$239,000, respectively.

- B. Government-funded activities are subject to audit by the applicable granting agencies. As of December 31, 2012 and 2011, no such audits had been undertaken at the Institute, and management has no reason to believe that unaudited projects would result in any material obligations.

NOTE 10 - RENTAL INCOME AGREEMENT

The Institute entered into a three-year lease agreement to lease approximately 1,800 square feet of its condominium to an unrelated not-for-profit organization. The agreement was terminated by the Institute on May 31, 2012. The rental income recognized for the fiscal years ended December 31, 2012 and 2011 was \$19,688 and \$60,000, respectively.

NOTE 11 - CONCENTRATIONS

Financial instruments that potentially subject the Institute to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in financial institutions, the balances of which, from time to time, may exceed federal insurance limits.

NOTE 12 - ENDOWMENT FUNDS

General

The Institute's endowment consists of two individual funds, a donor-restricted endowment fund to be used for general operations and a fund designated by the Board of Directors to function as an endowment. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 12 - ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law

The Board of Directors of the Institute has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Institute is now governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7%. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity, as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce acceptable rates of return, with a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Institute 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 Institute targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and Investment Objectives

The Institute has a policy for appropriating for distribution each year, depending on fiscal need, up to 5.5% of the permanently restricted endowment funds' average fair value over the prior 20 quarters through the year end preceding the year in which the distribution is planned.

Funds with Deficiencies

The Institute does not have any funds with deficiencies.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 12 - ENDOWMENT FUNDS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2012

The endowment net asset composition consists of permanently donor-restricted funds of \$4,855,238 and board-designated endowment funds of \$4,826,076. Earnings on the permanently restricted funds are appropriated for expenditures and released from temporary restriction and subsequently designated by the Board of Directors as board-designated endowment funds.

Changes in Endowment Net Assets for the Year Ended December 31, 2012

| | Board Designated Endowment Fund | Permanently Restricted | Total |
|--|--|---------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 3,522,968 | \$ 4,855,238 | \$ 8,378,206 |
| Interest and dividends | 194,597 | | 194,597 |
| Net realized and unrealized gain | 361,503 | | 361,503 |
| Designation by the Board of Directors | <u>747,008*</u> | | <u>747,008</u> |
| Endowment net assets, end of year | <u>\$ 4,826,076</u> | <u>\$ 4,855,238</u> | <u>\$ 9,681,314</u> |

* Based on average fair value over the prior 5 years.

Changes in Endowment Net Assets for the Year Ended December 31, 2011

| | Board Designated Endowment Fund | Permanently Restricted | Total |
|--|--|---------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 3,987,713 | \$ 4,855,238 | \$ 8,842,951 |
| Interest and dividends | 106,061 | | 106,061 |
| Net realized and unrealized losses | <u>(570,806)</u> | | <u>(570,806)</u> |
| Endowment net assets, end of year | <u>\$ 3,522,968</u> | <u>\$ 4,855,238</u> | <u>\$ 8,378,206</u> |