

GUTTMACHER INSTITUTE, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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.

Loeb & Troper LLP

June 28, 2018

GUTTMACHER INSTITUTE, INC.

BALANCE SHEET

DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,804,117 | \$ 937,896 |
| Investments | 33,112,913 | 26,765,713 |
| Grants receivable | 48,275,821 | 13,813,736 |
| Other receivables | 34,725 | 158,416 |
| Prepaid expenses and other assets | 128,065 | 251,929 |
| Security deposits | 157,019 | 157,019 |
| Fixed assets - net | <u>10,834,747</u> | <u>11,151,665</u> |
| Total assets | <u>\$ 94,347,407</u> | <u>\$ 53,236,374</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,361,270 | \$ 1,410,910 |
| Postretirement benefits payable | 627,134 | 510,554 |
| Deferred rent payable | 234,372 | 245,549 |
| New York City Industrial Development Agency bonds - net | <u>8,541,691</u> | <u>8,780,466</u> |
| Total liabilities | <u>10,764,467</u> | <u>10,947,479</u> |
| Net assets (Exhibit B) | | |
| Unrestricted | | |
| Undesignated | 4,889,062 | 4,864,140 |
| Board-designated fund | 8,269,833 | 6,726,788 |
| Net investment in property and equipment | <u>2,293,056</u> | <u>2,371,199</u> |
| Total unrestricted | 15,451,951 | 13,962,127 |
| Temporarily restricted | 63,275,751 | 23,471,530 |
| Permanently restricted | <u>4,855,238</u> | <u>4,855,238</u> |
| Total net assets | <u>83,582,940</u> | <u>42,288,895</u> |
| Total liabilities and net assets | <u>\$ 94,347,407</u> | <u>\$ 53,236,374</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | | | | 2016 | | | |
|---|---------------|------------------------|------------------------|---------------|---------------|------------------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Public support, revenues and other support | | | | | | | | |
| Contributions | \$ 2,587,344 | | | \$ 2,587,344 | \$ 2,361,374 | | | \$ 2,361,374 |
| Contributions - bequest | | | | | 20,519 | | | 20,519 |
| Grants and contracts from U.S. government agencies | 728,218 | | | 728,218 | 1,112,684 | | | 1,112,684 |
| Grants from U.S. private organizations | | \$ 50,686,617 | | 50,686,617 | | \$ 7,461,005 | | 7,461,005 |
| Grants from foreign governments | | 8,245,554 | | 8,245,554 | | 12,497,526 | | 12,497,526 |
| Publication income and other revenue | 105,462 | | | 105,462 | 40,389 | | | 40,389 |
| Investment income - operating | 26,090 | | | 26,090 | 17,782 | | | 17,782 |
| Net assets released from restriction | 21,064,564 | (21,064,564) | | | 19,959,317 | (19,959,317) | | |
| Total public support, revenues and other support | 24,511,678 | 37,867,607 | | 62,379,285 | 23,512,065 | (786) | | 23,511,279 |
| Expenses (Exhibit C) | | | | | | | | |
| Program services | | | | | | | | |
| Research | 12,633,365 | | | 12,633,365 | 11,998,764 | | | 11,998,764 |
| Public education | 4,980,810 | | | 4,980,810 | 4,421,374 | | | 4,421,374 |
| Public policy | 2,169,513 | | | 2,169,513 | 2,095,387 | | | 2,095,387 |
| Total program services | 19,783,688 | | | 19,783,688 | 18,515,525 | | | 18,515,525 |
| Supporting services | | | | | | | | |
| Management and general | 3,514,266 | | | 3,514,266 | 3,255,936 | | | 3,255,936 |
| Fundraising | 1,207,093 | | | 1,207,093 | 1,012,911 | | | 1,012,911 |
| Total supporting services | 4,721,359 | | | 4,721,359 | 4,268,847 | | | 4,268,847 |
| Total expenses | 24,505,047 | | | 24,505,047 | 22,784,372 | | | 22,784,372 |
| Change in net assets before foreign exchange loss, postretirement benefit plan adjustment and investment income - non-operating | 6,631 | 37,867,607 | | 37,874,238 | 727,693 | (786) | | 726,907 |
| Foreign exchange gain | | 766,787 | | 766,787 | (74,782) | (1,784,706) | | (1,859,488) |
| Postretirement benefit plan adjustment | (59,852) | | | (59,852) | 31,600 | | | 31,600 |
| Investment income - non-operating | 1,543,045 | 1,169,827 | | 2,712,872 | 608,706 | 237,739 | | 846,445 |
| Change in net assets (Exhibit D) | 1,489,824 | 39,804,221 | | 41,294,045 | 1,293,217 | (1,547,753) | | (254,536) |
| Net assets - beginning of year | 13,962,127 | 23,471,530 | \$ 4,855,238 | 42,288,895 | 12,668,910 | 25,019,283 | \$ 4,855,238 | 42,543,431 |
| Net assets - end of year (Exhibit A) | \$ 15,451,951 | \$ 63,275,751 | \$ 4,855,238 | \$ 83,582,940 | \$ 13,962,127 | \$ 23,471,530 | \$ 4,855,238 | \$ 42,288,895 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | | | | | | | |
|---|------------------|------------------|---------------|---------------|------------------------|--------------|--------------|---------------|
| | Program Services | | | | Supporting Services | | | |
| | Research | Public Education | Public Policy | Total | Management and General | Fundraising | Total | Total |
| Salaries | \$ 5,956,833 | \$ 2,881,248 | \$ 1,329,120 | \$ 10,167,201 | \$ 1,787,774 | \$ 572,323 | \$ 2,360,097 | \$ 12,527,298 |
| Payroll taxes and employee benefits | 1,746,787 | 842,168 | 388,507 | 2,977,462 | 464,137 | 167,562 | 631,699 | 3,609,161 |
| Total salaries and related expenses | 7,703,620 | 3,723,416 | 1,717,627 | 13,144,663 | 2,251,911 | 739,885 | 2,991,796 | 16,136,459 |
| Printing and artwork | 7,697 | 45,131 | 231 | 53,059 | 8,244 | 469 | 8,713 | 61,772 |
| Data processing | 34,470 | 26,031 | 9 | 60,510 | 35,121 | 5,967 | 41,088 | 101,598 |
| Professional fees | 2,804,040 | 297,926 | 11,104 | 3,113,070 | 296,751 | 208,170 | 504,921 | 3,617,991 |
| Occupancy and office costs (includes interest on bonds of \$540,338) | 862,921 | 449,036 | 211,637 | 1,523,594 | 361,651 | 112,182 | 473,833 | 1,997,427 |
| Information technology | 150,196 | 76,222 | 25,915 | 252,333 | 83,812 | 14,541 | 98,353 | 350,686 |
| Postage and shipping | 3,520 | 1,444 | 55 | 5,019 | 3,708 | 5,113 | 8,821 | 13,840 |
| Conferences, meetings and travel | 643,612 | 174,860 | 87,280 | 905,752 | 291,660 | 49,434 | 341,094 | 1,246,846 |
| Dues, subscriptions and publications | 56,296 | 3,384 | 31,596 | 91,276 | 8,904 | 36,057 | 44,961 | 136,237 |
| Miscellaneous | 22,019 | 4,484 | 1,010 | 27,513 | 31,958 | 13,170 | 45,128 | 72,641 |
| Total expenses before depreciation and amortization | 12,288,391 | 4,801,934 | 2,086,464 | 19,176,789 | 3,373,720 | 1,184,988 | 4,558,708 | 23,735,497 |
| Depreciation and amortization | 344,974 | 178,876 | 83,049 | 606,899 | 140,546 | 22,105 | 162,651 | 769,550 |
| Total expenses reported by function on the statement of activities (Exhibit B) | 12,633,365 | 4,980,810 | 2,169,513 | 19,783,688 | 3,514,266 | 1,207,093 | 4,721,359 | 24,505,047 |
| Add: Investment fees deducted directly from revenues on statement of activities | | | | | 116,208 | | 116,208 | 116,208 |
| | \$ 12,633,365 | \$ 4,980,810 | \$ 2,169,513 | \$ 19,783,688 | \$ 3,630,474 | \$ 1,207,093 | \$ 4,837,567 | \$ 24,621,255 |

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STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2016 | | | | | | | |
|---|------------------|------------------|---------------|---------------|------------------------|--------------|--------------|---------------|
| | Program Services | | | | Supporting Services | | | |
| | Research | Public Education | Public Policy | Total | Management and General | Fundraising | Total | Total |
| Salaries | \$ 5,607,095 | \$ 2,413,500 | \$ 1,286,711 | \$ 9,307,306 | \$ 1,612,059 | \$ 488,007 | \$ 2,100,066 | \$ 11,407,372 |
| Payroll taxes and employee benefits | 1,593,385 | 685,852 | 365,649 | 2,644,886 | 481,718 | 138,678 | 620,396 | 3,265,282 |
| Total salaries and related expenses | 7,200,480 | 3,099,352 | 1,652,360 | 11,952,192 | 2,093,777 | 626,685 | 2,720,462 | 14,672,654 |
| Printing and artwork | 3,251 | 55,519 | 28 | 58,798 | | 1,127 | 1,127 | 59,925 |
| Data processing | 5,817 | 19,573 | 14,146 | 39,536 | 41,265 | 5,053 | 46,318 | 85,854 |
| Professional fees | 2,703,899 | 477,332 | 7,785 | 3,189,016 | 366,127 | 187,656 | 553,783 | 3,742,799 |
| Occupancy and office costs (includes interest on bonds of \$552,938) | 924,258 | 402,863 | 220,023 | 1,547,144 | 282,682 | 81,030 | 363,712 | 1,910,856 |
| Information technology | 118,537 | 48,683 | 19,705 | 186,925 | 71,052 | 8,509 | 79,561 | 266,486 |
| Postage and shipping | 12,842 | 2,632 | 207 | 15,681 | 6,893 | 5,476 | 12,369 | 28,050 |
| Conferences, meetings and travel | 592,185 | 156,960 | 93,382 | 842,527 | 262,088 | 50,898 | 312,986 | 1,155,513 |
| Dues, subscriptions and publications | 42,547 | 7,843 | 7,555 | 57,945 | 4,710 | 200 | 4,910 | 62,855 |
| Miscellaneous | 52,526 | 3,226 | 1,617 | 57,369 | 45,119 | 16,475 | 61,594 | 118,963 |
| Total expenses before depreciation and amortization | 11,656,342 | 4,273,983 | 2,016,808 | 17,947,133 | 3,173,713 | 983,109 | 4,156,822 | 22,103,955 |
| Depreciation and amortization | 342,422 | 147,391 | 78,579 | 568,392 | 82,223 | 29,802 | 112,025 | 680,417 |
| Total expenses reported by function on the statement of activities (Exhibit B) | 11,998,764 | 4,421,374 | 2,095,387 | 18,515,525 | 3,255,936 | 1,012,911 | 4,268,847 | 22,784,372 |
| Add: Investment fees deducted directly from revenues on statement of activities | | | | | 101,252 | | 101,252 | 101,252 |
| | \$ 11,998,764 | \$ 4,421,374 | \$ 2,095,387 | \$ 18,515,525 | \$ 3,357,188 | \$ 1,012,911 | \$ 4,370,099 | \$ 22,885,624 |

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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 41,294,045 | \$ (254,536) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Depreciation and amortization | 769,550 | 680,417 |
| Amortization of debt issuance costs (included in interest expense) | 16,225 | 16,225 |
| Gain on investments | (2,492,005) | (596,661) |
| Foreign exchange (gain) loss | (766,787) | 1,859,488 |
| Change in discount on long-term receivables | 637,628 | 92,154 |
| Decrease (increase) in assets | | |
| Grants receivable | (34,332,926) | (3,876,970) |
| Other receivables | 123,691 | (41,782) |
| Prepaid expenses and other assets | 123,864 | (71,648) |
| Security deposits | | (22,434) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | (49,640) | 426,508 |
| Postretirement benefits payable | 116,580 | 27,187 |
| Deferred rent payable | (11,177) | 565 |
| Net cash provided (used) by operating activities | <u>5,429,048</u> | <u>(1,761,487)</u> |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (452,632) | (764,479) |
| Proceeds from sales of investments | 7,103,170 | 49,098,228 |
| Purchases of investments | <u>(10,958,365)</u> | <u>(48,047,565)</u> |
| Net cash provided (used) by investing activities | <u>(4,307,827)</u> | <u>286,184</u> |
| Cash flows from financing activities | | |
| Principal payments on bonds | <u>(255,000)</u> | <u>(240,000)</u> |
| Net change in cash and cash equivalents | 866,221 | (1,715,303) |
| Cash and cash equivalents - beginning of year | <u>937,896</u> | <u>2,653,199</u> |
| Cash and cash equivalents - end of year | <u>\$ 1,804,117</u> | <u>\$ 937,896</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | <u>\$ 524,113</u> | <u>\$ 536,713</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, 2017 AND 2016

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 grants.

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

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 money market accounts included 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.

Grants receivable - Grants 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.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for doubtful accounts - The Institute determines whether an allowance for uncollectibles should be provided for grants receivable and other receivables. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions, subsequent receipts and historical information. Grants receivable and other receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. If no allowance is established, then the receivable is written off directly as bad debt. Interest is not charged on outstanding receivables. As of December 31, 2017 and 2016, the Institute had no allowance for doubtful accounts.

Fixed assets - Fixed assets are reported 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 \$1,000 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 is 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 | 10 years |

Debt issuance costs - Debt issuance costs are reflected as a reduction of the carrying amount of the related debt, and are amortized on the straight-line basis over the life of the associated debt. Amortization of debt issuance costs is included in interest expense.

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 for future use.

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.

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GUTTMACHER INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contributions and grants - Unconditional contributions and grants, 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 or permanently 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. Revenues from U.S. government agencies are recognized when reimbursable expenses are incurred or when performance goals are met under the terms of the grant or contract.

Contract income - Contract income is recorded when services are rendered or qualifying expenses are incurred in accordance with the terms of the contract.

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.

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

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 and excludes foreign exchange gain (loss), postretirement benefit plan adjustment and investment income (losses) earned on endowment funds and board designated funds from its measure of operations.

Exchange rates - Non-U.S. assets are translated into U.S. dollars at year-end exchange rates. Revenues are translated at approximate rates prevailing at the time of the transaction.

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:

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GUTTMACHER INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

- 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, 2017 as compared to those used at December 31, 2016.

Equities, exchange traded funds, real estate investment trust and master limited partnerships - 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.

Corporate debt and U.S. Government securities - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the creditworthiness of the issuers.

Limited partnership and alternative fund - Valued at the NAV or its equivalent of the investments, as a practical expedient.

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GUTTMACHER INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****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 3 sets forth by level, within the fair value hierarchy, the assets at fair value at December 31, 2017 and 2016.

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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 28, 2018, which is the date the financial statements were issued.

GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 3 - INVESTMENTS

The table below summarizes, by level within the fair value hierarchy, the Institute's investments:

| | 2017 | | Total |
|--|--------------------------|-------------------------|--------------------------|
| | Level 1 | Level 2 | |
| Equities - domestic | \$ 2,497,199 | \$ - | \$ 2,497,199 |
| Equities - international | 513,893 | - | 513,893 |
| Mutual funds - domestic | 3,057,654 | - | 3,057,654 |
| Mutual funds - international | 3,437,011 | - | 3,437,011 |
| Exchange traded funds - stock index | 4,758,005 | - | 4,758,005 |
| Real estate investment trusts | 35,838 | - | 35,838 |
| Corporate debt | - | 4,088,013 | 4,088,013 |
| U.S. Government securities | - | <u>3,410,035</u> | <u>3,410,035</u> |
| Total assets reported on the fair value hierarchy | <u>\$ 14,299,600</u> | <u>\$ 7,498,048</u> | 21,797,648 |
| *Investments measured using NAV or its equivalent as a practical expedient - alternative fund and limited partnership | | | <u>1,502,826</u> |
| Total investments at fair value | | | 23,300,474 |
| Money market accounts | | | <u>9,812,439</u> |
| Total investments | | | <u>\$ 33,112,913</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 3 - INVESTMENTS (continued)

| | <u>2016</u> | | |
|--|--------------------------|-------------------------|--------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
| Equities - domestic | \$ 2,810,690 | \$ - | \$ 2,810,690 |
| Equities - international | 474,466 | - | 474,466 |
| Mutual funds - domestic | 1,718,272 | - | 1,718,272 |
| Mutual funds - international | 2,836,820 | - | 2,836,820 |
| Exchange traded funds - stock index | 4,333,863 | - | 4,333,863 |
| Real estate investment trusts | 48,099 | - | 48,099 |
| Master limited partnerships | 38,706 | - | 38,706 |
| Corporate debt | - | 3,259,979 | 3,259,979 |
| U.S. Government securities | <u>-</u> | <u>1,211,289</u> | <u>1,211,289</u> |
| Total assets reported on the fair value hierarchy | <u>\$ 12,260,916</u> | <u>\$ 4,471,268</u> | 16,732,184 |
| *Investments measured using NAV or its equivalent as a practical expedient - alternative fund and limited partnership | | | <u>1,273,685</u> |
| Total investments at fair value | | | 18,005,869 |
| Money market accounts | | | <u>8,759,844</u> |
| Total investments | | | <u>\$ 26,765,713</u> |

* In accordance with ASU 2015-07, certain investments that were measured using the practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line item presented in the statement of financial position.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 3 - INVESTMENTS (continued)

Fair Value of Investments Reported at Net Asset Value as a Practical Expedient

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2017 and 2016:

| <u>2017 Value</u> | <u>2016 Value</u> | <u>Description of Fund</u> | <u>Unfunded Commitments</u> | <u>Redemption Period</u> | <u>Notice Period</u> |
|---------------------|---------------------|--|-----------------------------|--------------------------|----------------------|
| \$ 312,411 | \$ 261,103 | Abbey Capital ACL Alternative Fund SAC Limited - Diversification is achieved through trading styles, timeframes, markets and geographic regions. The fund's due diligence includes both quantitative and qualitative analysis of managers. | None | Daily | Daily |
| <u>1,190,415</u> | <u>1,012,582</u> | Iridian Private Business Value Equity Funds, L.P. - 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. | None | Monthly | 15 days |
| <u>\$ 1,502,826</u> | <u>\$ 1,273,685</u> | | | | |

Investment income consists of the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|---------------------|-------------------|
| Interest and dividends | \$ 363,165 | \$ 368,818 |
| Unrealized gain on investments - net | 1,948,113 | 483,554 |
| Realized gain on investments - net | 543,892 | 113,107 |
| Investment fees | <u>(116,208)</u> | <u>(101,252)</u> |
| Net investment income | <u>\$ 2,738,962</u> | <u>\$ 864,227</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 4 - GRANTS RECEIVABLE

The grants to be received after one year are discounted to fair value using discount rates ranging from 1.7% to 1.9%.

Grants are due as follows at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|----------------------|----------------------|
| Less than one year | \$ 21,777,002 | \$ 5,518,008 |
| One to five years | <u>27,289,917</u> | <u>8,449,198</u> |
| Total | 49,066,919 | 13,967,206 |
| Less: discount to present value | <u>(791,098)</u> | <u>(153,470)</u> |
| Net | <u>\$ 48,275,821</u> | <u>\$ 13,813,736</u> |

Approximately 70% of the 2017 and 2016 grants receivable are due from one organization.

NOTE 5 - FIXED ASSETS

Fixed assets consist of the following:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Commercial condominium | \$ 11,966,673 | \$ 11,966,673 |
| Furniture and fixtures | 1,716,805 | 1,683,518 |
| Computer hardware and software | 2,577,519 | 2,266,537 |
| Leasehold improvements | <u>2,210,111</u> | <u>2,101,748</u> |
| Total cost | 18,471,108 | 18,018,476 |
| Less accumulated depreciation and amortization | <u>(7,636,361)</u> | <u>(6,866,811)</u> |
| Net book value | <u>\$ 10,834,747</u> | <u>\$ 11,151,665</u> |

As of December 31, 2017 and 2016, the cost of the commercial condominium purchased with the proceeds of the New York City Industrial Development Bonds was \$11,966,673. Accumulated amortization thereon was \$3,377,966 and \$3,062,799, respectively.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 6 - NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY BONDS

In May 2007, the Institute borrowed \$11,000,000 through the issuance of two 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. Series 2007A bond had an original face amount of \$1,885,000, had an interest rate of 5.25% and matured on December 1, 2016. Series 2007B bond with an original face amount of \$9,115,000, bears interest at rate 5.75% and matures December 1, 2036. The bonds are collateralized by the purchased property.

Future minimum payments are as follows:

| <u>Year Ending December 31,</u> | |
|---|---------------------|
| 2018 | \$ 779,450 |
| 2019 | 778,925 |
| 2020 | 777,538 |
| 2021 | 780,288 |
| 2022 | 776,888 |
| Thereafter | <u>10,900,336</u> |
| | 14,793,425 |
| Less amounts representing interest | <u>(5,933,425)</u> |
| Present value of net minimum lease payments | 8,860,000 |
| Less: Unamortized debt issuance costs | <u>(318,309)</u> |
| | <u>\$ 8,541,691</u> |

The unamortized debt issuance cost was \$318,309 and \$334,534 as of December 31, 2017 and 2016.

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

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 6 - NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY BONDS
(continued)

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 interest on the outstanding bonds.

Interest expense was \$540,338 and \$552,938 for the years ended December 31, 2017 and 2016, respectively, which includes amortization of debt issuance costs of \$16,225 in each of the years then ended.

The loan agreements contain various covenants, which among other things, place restrictions on the Institute's ability to incur additional indebtedness. As of the date the financial statements were issued, the Institute was in compliance with all loan covenants.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Time restricted for periods ending after year end | \$ 8,506,664 | \$ 3,520,855 |
| Time restricted - earnings on endowment | <u>2,296,599</u> | <u>1,345,489</u> |
| | <u>10,803,263</u> | <u>4,866,344</u> |
| Restricted by time and for the following purposes: | | |
| Public education | 2,783,776 | 1,029,124 |
| Public policy | 5,161,126 | 298,031 |
| Research | <u>44,527,586</u> | <u>17,278,031</u> |
| | <u>52,472,488</u> | <u>18,605,186</u> |
| | <u>\$ 63,275,751</u> | <u>\$ 23,471,530</u> |

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|----------------------|----------------------|
| Time restrictions lapsed | \$ 5,295,541 | \$ 4,752,000 |
| Appropriation of endowment earnings | <u>218,717</u> | <u>207,066</u> |
| | 5,514,258 | 4,959,066 |
| Purpose restrictions satisfied: | | |
| Research | 11,333,275 | 12,549,235 |
| Public education | 3,301,905 | 2,060,231 |
| Public policy | <u>915,126</u> | <u>390,785</u> |
| | <u>15,550,306</u> | <u>15,000,251</u> |
| | <u>\$ 21,064,564</u> | <u>\$ 19,959,317</u> |

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. For the years ended December 31, 2017 and 2016, the Institute's expense related to contributions to the 401(k) plan was \$1,149,122 and \$1,017,302, 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.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 8 - EMPLOYEE BENEFIT PLANS (continued)

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>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Accumulated postretirement benefit obligation | \$ (627,134) | \$ (510,554) |
| Plan assets at fair value | <u>-</u> | <u>-</u> |
| Funded status | \$ <u>(627,134)</u> | \$ <u>(510,554)</u> |
| Accrued postretirement benefit cost | \$ (627,134) | \$ (510,554) |
| Net periodic postretirement benefit cost | 61,188 | 58,787 |
| Employer contributions | 4,460 | 4,330 |
| Benefits paid | 4,460 | 4,330 |
| Weighted average assumptions | | |
| Discount rate | 4.14% | 4.35% |
| Expected return on plan assets | N/A | N/A |
| Health cost trend rate | 3.00% | 3.00% |

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 3% for 2017 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 \$7,000 to its postretirement health insurance plan in fiscal year 2018.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 8 - EMPLOYEE BENEFIT PLANS (continued)***Employee Postretirement Benefit Plan (continued)***

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

| | | |
|-------------------|----|---------|
| 2018 | \$ | 7,000 |
| 2019 | | 8,000 |
| 2020 | | 9,000 |
| 2021 | | 10,000 |
| 2022 | | 14,000 |
| 2023 through 2027 | | 125,000 |

NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. The Institute leases office space in New York and for its regional office in Washington DC. The Institute is obligated under non-cancelable operating lease agreements expiring 2024 and 2030.

Future minimum lease payments are as follows:

| | | |
|------------|----|------------------|
| 2018 | \$ | 717,970 |
| 2019 | | 735,491 |
| 2020 | | 753,905 |
| 2021 | | 798,430 |
| 2022 | | 817,930 |
| Thereafter | | <u>5,813,897</u> |
| | \$ | <u>9,637,623</u> |

Rent expense for the years ended December 31, 2017 and 2016 was \$683,002 and \$489,683, respectively. The deferred rent liability was \$234,372 and \$245,549 for the years ended December 31, 2017 and 2016, respectively.

- B. Government-funded activities are subject to audit by the applicable granting agencies. As of December 31, 2017 and 2016, 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.

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GUTTMACHER INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

- C. The Institute may be party to possible claims which, in the opinion of management and legal counsel, will not have a material adverse impact on the financial position of the organization.

NOTE 10 - 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.

Approximately 70% and 50% of the Institute's support came from one agency for the year ended December 31, 2017 and 2016, respectively.

NOTE 11 - BOARD-DESIGNATED FUND

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Board-designated net assets, beginning of the year | \$ 6,726,788 | \$ 6,118,082 |
| Investment income | <u>1,543,045</u> | <u>608,706</u> |
| Board-designated net assets, end of the year | <u>\$ 8,269,833</u> | <u>\$ 6,726,788</u> |

NOTE 12 - ENDOWMENT FUNDS**General**

The Institute's endowment consists of a single donor-restricted endowment fund to be used for general operations. 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, 2017 AND 2016****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 governed by the NYPMIFA spending policy, which establishes a standard 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. 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 12 quarters through the year end preceding the year in which the distribution is planned. During 2017 and 2016, the Institute appropriated 3% of the average fair value of the funds for distribution.

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, 2017 AND 2016

NOTE 12 - ENDOWMENT FUNDS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

The endowment net asset composition consists of permanently donor-restricted funds of \$4,855,238 for 2017 and 2016 and unappropriated earnings on donor-restricted endowments of \$2,296,599 and \$1,345,489 for 2017 and 2016.

Changes in Endowment Net Assets for the Year Ended December 31, 2017

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 1,345,489 | \$ 4,855,238 | \$ 6,200,727 |
| Interest and dividends | 128,387 | | 128,387 |
| Net realized and unrealized gain | 1,041,440 | | 1,041,440 |
| Amounts appropriated for expenditure | <u>(218,717)</u> | | <u>(218,717)</u> |
| Endowment net assets, end of year | <u>\$ 2,296,599</u> | <u>\$ 4,855,238</u> | <u>\$ 7,151,837</u> |

Changes in Endowment Net Assets for the Year Ended December 31, 2016

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 1,314,816 | \$ 4,855,238 | \$ 6,170,054 |
| Interest and dividends | 76,720 | | 76,720 |
| Net realized and unrealized gain | 161,019 | | 161,019 |
| Amounts appropriated for expenditure | <u>(207,066)</u> | | <u>(207,066)</u> |
| Endowment net assets, end of year | <u>\$ 1,345,489</u> | <u>\$ 4,855,238</u> | <u>\$ 6,200,727</u> |

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GUTTMACHER INSTITUTE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 2016****NOTE 13 - FOREIGN EXCHANGE GAIN/LOSS**

In April 2016, the Institute received a four-year, £8,659,611 grant extension from the UK Department for International Development to conduct research on sexual and reproductive health needs and services in developing regions. At the time the grant was awarded, the exchange rate for the British pound to US dollar was over \$1.40 and the total value of the award was approximately \$12,500,000. However, the value of the pound declined significantly, to around \$1.20, following the June 2016 referendum that triggered the process of the UK leaving the European Union. As a result, the Institute realized a foreign exchange loss of approximately \$1,680,000 in 2016 for the four-year period of the grant. As of December 31, 2017, the Institute had a receivable of approximately £4.8 million which was valued at \$1.35 (exchange rate prevailing as of December 31, 2017) resulting in an unrealized foreign exchange gain of approximately \$613,000 for the year ended December 31, 2017.

In addition, the Institute realized an almost \$105,000 exchange rate loss in its payments from a Swedish International Development Corporation Agency grant in 2016. As of December 31, 2017, the Institute had a receivable of SEK 5,000,000 which was valued at \$0.12 (exchange rate prevailing as of December 31, 2017) resulting in an unrealized foreign exchange gain of approximately \$136,000.

NOTE 14 - SIGNIFICANT MULTI-YEAR GRANTS

In December 2017, the Institute was awarded \$32.45 million in grants, most of which is to be spent in future years. A five-year, \$14.55 million grant from a private foundation to support a six-state study to track changes in reproductive health financing and service provision and their impact on women's health; and a three-year, \$17.9 million grant from a private foundation to support general operating expenses as well as a range of research projects, policy-tracking efforts and communications activities in the United States. In September 2017, the Institute was awarded a five-year, \$7.5 million grant from the Dutch Ministry of Foreign Affairs to support international research and communications activities. While the total amounts of these grants were counted as income in 2017, the temporarily restricted net assets from these grants will be released beginning in 2017 and continuing over the next 3 to 5 years.