Cato Institute

Financial Statements
and Independent Auditor's Report

March 31, 2018 and 2017

CohnReznick
Accounting • Tax • Advisory

Cato Institute

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Independent Auditor's Report

To the Board of Directors
Cato Institute
Washington, D.C.

We have audited the accompanying financial statements of Cato Institute ("Cato"), which comprise the statements of financial position as of March 31, 2018 and 2017, the related statements of activities and change in net assets 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Cato Institute as of March 31, 2018 and 2017, 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.

CohnReznick LLP

Bethesda, Maryland
August 2, 2018

Cato Institute

Statements of Financial Position
March 31, 2018 and 2017

Assets

	2018	2017
Current assets		
Cash and cash equivalents	$ 12,173,496	$ 8,336,551
Investments, short-term	27,723,594	27,493,916
Pledges, bequests and accounts receivable, current portion, net	5,830,586	1,653,407
Inventory	163,197	258,707
Prepaid expenses, deposits and other current assets	551,832	699,428
Total current assets	46,442,705	38,442,009
Property and equipment, net	33,574,881	34,332,073
Pledges receivable, net of discount and current portion	1,422,723	1,989,460
Investments, long-term	3,412,347	3,769,040
Remainder interests	1,875	1,832
	$ 84,854,531	$ 78,534,414

Liabilities and Net Assets

	2018	2017
Current liabilities		
Capital lease obligations, current portion	$ 163,628	$ 117,081
Accounts payable and accrued expenses	2,462,137	2,383,826
Deferred revenue	512,536	83,166
Annuities payable, current portion	17,224	20,954
Total current liabilities	3,155,525	2,605,027
Long-term liabilities		
Annuities payable, net of current portion	84,989	92,587
Capital lease obligations, net of current portion	193,527	122,199
Total liabilities	3,434,041	2,819,813
Net assets		
Unrestricted	71,788,865	65,617,999
Temporarily restricted	6,621,528	7,086,505
Permanently restricted	3,010,097	3,010,097
Total net assets	81,420,490	75,714,601
	$ 84,854,531	$ 78,534,414

See Notes to Financial Statements.

Cato Institute

Statement of Activities and Change in Net Assets
Year Ended March 31, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue				
Contributions	$ 32,420,358	$ 3,047,475	$ -	$ 35,467,833
Books and other publications	282,486	-	-	282,486
Conference fees	638,963	-	-	638,963
Change in split-interest agreements	(4,526)	-	-	(4,526)
Interest and dividends	560,907	86,363	-	647,270
Realized and unrealized loss on investments	(297,244)	(57,647)	-	(354,891)
Other income	259,387	-	-	259,387
Loss on write-off of pledge receivable	-	(225,000)	-	(225,000)
Net assets released from restrictions - satisfaction of program restrictions	3,316,168	(3,316,168)	-	-
Total public support and revenue	37,176,499	(464,977)	-	36,711,522
Expenses				
Program services	24,242,027	-	-	24,242,027
Supporting services				
Management and general	2,275,403	-	-	2,275,403
Fundraising	4,488,203	-	-	4,488,203
Total expenses	31,005,633	-	-	31,005,633
Change in net assets	6,170,866	(464,977)	-	5,705,889
Net assets, beginning of year	65,617,999	7,086,505	3,010,097	75,714,601
Net assets, end of year	$ 71,788,865	$ 6,621,528	$ 3,010,097	$ 81,420,490

Cato Institute

Statement of Activities and Change in Net Assets
Year Ended March 31, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue				
Contributions	$ 33,313,006	$ 3,250,522	$ -	$ 36,563,528
Books and other publications	405,574	-	-	405,574
Conference fees	586,846	-	-	586,846
Change in split-interest agreements	(18,879)	-	-	(18,879)
Interest and dividends	300,826	74,397	-	375,223
Realized and unrealized gain on investments	7,284	8,723	-	16,007
Other income	276,904	-	-	276,904
Net assets released from restrictions - satisfaction of program restrictions	4,027,501	(4,027,501)	-	-
Total public support and revenue	38,899,062	(693,859)	-	38,205,203
Expenses				
Program services	24,720,811	-	-	24,720,811
Supporting services				
Management and general	2,237,241	-	-	2,237,241
Fundraising	4,507,241	-	-	4,507,241
Total expenses	31,465,293	-	-	31,465,293
Change in net assets	7,433,769	(693,859)	-	6,739,910
Net assets, beginning of year	58,184,230	7,780,364	3,010,097	68,974,691
Net assets, end of year	$ 65,617,999	$ 7,086,505	$ 3,010,097	$ 75,714,601

See Notes to Financial Statements.

Cato Institute

Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 5,705,889	$ 6,739,910
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on disposal of property and equipment	37,890	13,645
Depreciation and amortization	1,184,393	1,523,886
Realized and unrealized (gain) loss on investments, net	354,891	(16,007)
Loss on write-off of pledge receivable	225,000	-
Change in discount on pledges receivable	(61,946)	61,568
Annuities payable	9,738	16,935
Changes in		
Pledges, bequests and accounts receivable	(3,773,496)	826,574
Inventory	95,510	(44,889)
Prepaid expenses, deposits and other current assets	147,596	(417,152)
Remainder Interests	(43)	27,639
Accounts payable and accrued expenses	78,311	783,886
Grants payable	-	(125,000)
Deferred revenue	429,370	21,999
Net cash provided by operating activities	4,433,103	9,412,994
Cash flows from investing activities		
Purchases of property and equipment	(250,342)	(97,912)
Proceeds from sales of investments	429,311	721,388
Purchases of investments	(657,187)	(11,057,422)
Net cash used in investing activities	(478,218)	(10,433,946)
Cash flows from financing activities		
Principal payments on capital lease obligations	(96,874)	(149,172)
Payments on annuities	(21,066)	(20,954)
Contributions restricted for long-term purposes - endowment	-	200,000
Net cash provided by (used in) financing activities	(117,940)	29,874
Net increase (decrease) in cash and cash equivalents	3,836,945	(991,078)
Cash and cash equivalents, beginning of year	8,336,551	9,327,629
Cash and cash equivalents, end of year	$ 12,173,496	$ 8,336,551
Supplemental cash flow information		
Interest paid	$ (5,771)	$ (7,379)
Noncash investing activities		
Equipment acquired under capital lease obligation	$ 214,749	$ 84,024

See Notes to Financial Statements.

Note 1 - Organization

Cato Institute ("Cato") is a nonpartisan public policy research organization incorporated under the laws of the State of Kansas. During 2013, Cato underwent a change in the composition of its board and was reorganized from a stock-based corporation to a member organization, incorporated under the laws of the State of Kansas. The mission of Cato Institute is to originate, disseminate and increase understanding of public policies based on the principles of individual liberty, limited government, free markets and peace. Cato's vision is to create societies that are civil, free, open and founded on libertarian principles.

Note 2 - Summary of significant accounting policies

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB Accounting Standards Codification ("FASB ASC") Topic 958, *Not-for-Profit Entities*.

Cash and cash equivalents

Cash equivalents at March 31, 2018 and 2017 consist of short-term investments with original maturities of 90 days or less, except for funds held within the investment portfolios. Cato occasionally receives contributions of marketable securities. It is the policy of Cato to convert such securities to cash as soon as practical, always within 30 days. Consequently, all such securities are included in cash and cash equivalents and to the extent they are not donor restricted for long-term purposes they are classified as operating cash flows.

Pledges and accounts receivable

Cato records pledges and accounts receivable, which include bequests receivable, net of an allowance for doubtful accounts when necessary. The allowance is determined based on a review of the estimated collectibility of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be worthless. During the year ended March 31, 2018, Cato wrote off a pledge receivable of $225,000.

Unconditional promises to give that are expected to be collected within one year are recorded as current pledges receivable at their net realizable values in the period in which Cato is notified by the donor of his or her commitment to make a contribution. Unconditional promises to give that are expected to be collected in future years are reflected as long-term pledges in temporarily restricted net assets at the net present value of their estimated future cash flows using risk-adjusted interest rates (2.5 to 3.5 percent). Amortization of the discount on long-term pledges receivable are reflected as contribution revenue. Conditional promises to give are recognized when conditions on which they depend are substantially met.

Inventory

Inventory, which consists of published books totaling $155,301 and $248,656, and merchandise totaling $7,896 and $10,051, at March 31, 2018 and 2017, respectively, is stated at the lower of cost or estimated net realizable value on a first-in, first-out basis. Obsolete inventory is expensed and recorded to program expenses on the statements of activities and changes in net assets.

Property and equipment
Cato capitalizes all property and equipment with a cost of $2,500 and an expected useful life of greater than one year. Property and equipment are recorded at historical cost and depreciated on the straight-line method over estimated useful lives as follows:

Building	25 - 40 years
Building improvements	5 - 25 years
Office furniture and equipment	3 - 10 years

Investments
Short-term investments consist of money market funds, and short-term investment-grade fixed income securities, and are held for operating purposes.

Long-term investments, which consist of charitable gift annuities and permanently restricted funds, are recorded at fair value. The investments, including the money market funds within the portfolio, are restricted and, therefore, are presented as long-term on the accompanying statements of financial position.

Remainder interests
Cato is the remainder beneficiary of trusts. Upon the death of the donor, remaining trust assets will be distributed to Cato. Remainder interests are classified as temporarily restricted assets and values are stated at the net present value of future benefits expected to be received, based upon the life expectancy of the donor, fair value of the trust assets and a discount rate of six percent.

Deferred revenue
Revenue received in advance for certain functions is recorded as deferred revenue. In addition, revenue received in advance for monthly subscriptions to various publications and recordings is recorded as deferred revenue based on the time period remaining on the subscription.

Net assets
Cato's net assets are classified into three categories: unrestricted, temporarily restricted and permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law.

Temporarily restricted net assets are contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or when the contributions are used for their restricted purposes, at which time they are reported in the statements of activities and change in net assets as net assets released from restrictions.

Permanently restricted net assets are contributions with donor-imposed restrictions that do not expire with the passage of time and cannot be removed or fulfilled by Cato's actions. However, income earned on permanently restricted net assets is used for temporarily restricted purposes, based upon the donors' specifications. Temporarily restricted endowment income is reclassified to unrestricted net assets upon appropriation for expenditure by the Board of Directors and satisfaction of timing or purpose restrictions, whichever occurs later.

Contributions

Contributions and pledges of cash and other assets are recorded at estimated fair value as unrestricted, temporarily restricted or permanently restricted support depending on the existence or absence of donor-imposed restrictions. Contributions and pledges reported as temporarily restricted are reclassified to unrestricted upon expiration of the stipulated time restriction or accomplishment of the purpose restriction.

Donated securities are recorded at fair value as of the date of the contribution. Gains or losses on sale of donated securities converted to cash nearly immediately upon receipt are recorded as other income on the statements of activities and change in net assets since the donated securities are not investments but are considered cash flows from operating activities.

Donated property and equipment is recorded at fair value as of the date of contribution.

Donated services

Contributions of services are recognized in the financial statements as in-kind contributions if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. These services are recorded at their estimated fair values at the date of donation and are recognized in the statements of activities and change in net assets as donated services expense with an offsetting credit to contributions revenue.

Allocations

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Certain costs have been allocated among the program and supporting service categories based on various methods, including time spent.

Tax status

Cato has been granted tax-exempt status as a public charity within the meaning of Section 501(c)(3) of the Internal Revenue Code ("IRC"). Although Cato is generally exempt from income tax, Cato is subject to unrelated business income taxes under Section 512 of the IRC, as well as subject to excise tax on excess lobbying expenses. There was no unrelated business income or excess lobbying expenses for the years ended March 31, 2018 and 2017; therefore, no provision for income tax has been recorded in the financial statements. Cato believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the financial statements. Cato recognizes interest expense and penalties related to income taxes on uncertain tax positions in management and general expenses on the statements of activities and change in net assets and accounts payable and accrued expenses in the statements of financial position. No interest expense and penalties related to income taxes on uncertain tax positions were recognized for the years ended March 31, 2018 and 2017. Tax years prior to 2014 are no longer subject to examination by the Internal Revenue Service or the tax jurisdictions of Kansas and the District of Columbia.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent events
Cato has evaluated events and transactions for potential recognition or disclosure through August 2, 2018, the date the financial statements were available to be issued.

Note 3 - Pledges, bequests and accounts receivable

Pledges, bequests and accounts receivable at March 31, 2018 and 2017 consist of the following:

	2018	2017
Accounts, contributions and other receivables	$ 487,586	$ 523,161
Bequests receivable	2,000,000	-
Pledges receivable	4,849,317	3,265,246
Total pledges, bequests and accounts receivable	7,336,903	3,788,407
Less: Discounts to net present value	(83,594)	(145,540)
Net receivables	7,253,309	3,642,867
Less: Long-term pledges receivable due in one to five years	1,422,723	1,989,460
Current pledges, bequests and accounts receivable	$ 5,830,586	$ 1,653,407

Note 4 - Property and equipment

Property and equipment at March 31, 2018 and 2017 and are summarized as follows:

	2018	2017
Land	$ 9,656,037	$ 9,656,037
Buildings and improvements	35,127,318	35,147,850
Audio visual systems	1,568,860	1,564,387
Office furniture and equipment	4,021,669	3,713,207
	50,373,884	50,081,481
Accumulated depreciation and amortization	(16,799,003)	(15,749,408)
Property and equipment, net	$ 33,574,881	$ 34,332,073

Depreciation and amortization expense for the years ended March 31, 2018 and 2017 was $1,184,393 and $1,523,886, respectively.

Note 5 - Investments

Investments are stated at fair value and consist of the following at March 31, 2018 and 2017:

	2018	2017
Short-term investments		
Money market funds	$ 5,077,454	$ 5,026,272
Mutual funds - fixed income	22,646,140	22,467,644
Investments, short-term	$ 27,723,594	$ 27,493,916

	2018	2017
Long-term investments		
Money market funds	$ 13,361	$ 5,165
Exchange-traded funds - equity	362,546	383,258
Exchange-traded funds - fixed income	95,000	90,744
Mutual funds - equity	366,638	297,029
Mutual funds - fixed income	2,574,802	2,992,844
Investments, long-term	$ 3,412,347	$ 3,769,040

Investments include endowments which had a fair value of $3,000,079 and $3,029,956 at March 31, 2018 and 2017, respectively.

Investment income for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Interest and dividends - investments	$ 642,261	$ 367,438
Interest and dividends - cash and cash equivalents	5,009	7,785
	647,270	375,223
Realized and unrealized gain (loss) on investments, net	(354,891)	16,007
	$ 292,379	$ 391,230

Note 6 - Annuities payable

As part of a planned giving program, Cato has a charitable gift annuity arrangement in which donors contribute assets to Cato in exchange for a promise by Cato to pay a fixed amount for a specified period of time to the donor, individuals or organizations designated by the donor. The assets received by Cato are held in a separate investment account, with a fair value of $390,547 and $367,712 at March 31, 2018 and 2017, respectively. The annuity liability is a general obligation of Cato. The unrestricted net assets of Cato are available for payment of annuity liabilities.

Contributions received under the charitable gift annuity arrangement are recognized as unrestricted revenue in the year the annuity contract is executed. Assets received are recorded at fair value when received, and the annuity payment liability is recognized at the present value of estimated future payments to the annuitant. Contribution revenue is recognized as the difference between the fair value of the assets received and the annuity payment liability.

Annuities are based on interest rates ranging from 5.8 percent to 11.0 percent, and the payment term is the annuitant's life expectancy. The adjustments to the annuity liability relating to the decrease in liability due to a deceased annuitant and the passage of time and other factors have been recorded as change in split-interest agreements income in the accompanying statements of activities and change in net assets. Following is a summary of the changes in the annuities payable for the years ended March 31, 2018 and 2017:

	2018	2017
Beginning balance	$ 113,541	$ 117,560
New Charitable Gift Annuities Received	5,212	-
Payments made to annuitants	(21,066)	(20,954)
Decrease in liability due to deceased annuitant	(9,925)	-
Adjustments to liability relating to passage of time and other factors	14,451	16,935
	102,213	113,541
Less: Current portion	17,224	20,954
	$ 84,989	$ 92,587

Note 7 - Line of credit

Cato had a $5,000,000 unsecured guidance line of credit with a bank. The line of credit was subject to an annual renewal by the bank with interest due monthly at the LIBOR rate plus one percent and outstanding principal due at maturity. The line of credit matured on February 28, 2018 and was not renewed. There was no amount outstanding on the line of credit at March 31, 2018 and 2017.

Note 8 - Capital leases

Cato leases certain equipment under capital leases that expire at various dates through 2023. The future minimum lease payments under capital leases in each of the years subsequent to March 31, 2018 are as follows:

2019	$ 170,872
2020	68,376
2021	46,019
2022	45,496
2023	41,707
Minimum lease payments	372,470
Less amounts representing interest	15,315
Present value of net minimum lease payments	357,155
Less current portion	163,628
Long-term portion	$ 193,527

Capitalized leased equipment of $753,812 and $546,714 is included with property and equipment at March 31, 2018 and 2017, with accumulated depreciation of $396,159 and $316,124, respectively. Interest expense incurred totaled $5,771 and $7,379 at March 31, 2018 and 2017, respectively.

Note 9 - Temporarily restricted net assets

Temporarily restricted net assets consist of the unexpended portion of restricted contributions received by Cato. Contributions restricted for the following programs at March 31, 2018 and 2017 is as follows:

	2018	2017
Academic Research and Programs	$ 15,064	$ 96,456
Center for Constitutional Studies	1,191,029	1,493,469
Center for Educational Freedom	100,804	94,752
Center for Global Liberty and Prosperity	218,470	151,327
Center for Monetary and Financial Alternatives	2,907,583	3,426,637
Center for Representative Government	144,541	41,500
Center for the Study of Science	-	125,000
Conference and Events	4,952	-
Criminal Justice Project	97,851	-
Defense and Foreign Policy Studies	146,184	46,184
Economic Studies	208,115	145,346
Friedman Prize	407,466	397,466
Herbert A. Stiefel Center for Trade Policy Studies	189,288	375,898
Remainder interests	1,875	1,832
Student programs	3,387	80,090
Time restricted	984,919	610,548
	$ 6,621,528	$ 7,086,505

Net assets were released from donor restrictions when expenses satisfying the restricted purposes were incurred or by occurrence of other events specified by the donor for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Academic Research and Programs	$ 90,610	$ 259,147
Center for Constitutional Studies	150,606	129,033
Center for Educational Freedom	138,998	161,979
Center for Global Liberty and Prosperity	565,857	365,543
Center for Monetary and Financial Alternatives	1,224,267	1,365,938
Center for Representative Government	66,959	-
Center for the Study of Science	335,000	100,200
Conference and Events	28,595	44,550
Criminal Justice Project	2,149	10,000
Defense and Foreign Policy Studies	91,109	-
Economic Studies	171,231	51,504
Fiscal Policy Studies	12,801	25,000
Friedman Prize	-	422,916
Herbert A. Stiefel Center for Trade Policy Studies	221,600	352,430
Information Policy Studies	-	133,279
Liberating the Future Capital Campaign	-	200,000
Remainder Interests	-	27,639
Student programs	177,386	184,169
Time Restricted	39,000	194,174
	$ 3,316,168	$ 4,027,501

Note 10 - Permanently restricted net assets

Permanently restricted net assets consist of the B. Kenneth Simon Endowment, and the Richard C. and Deborah L. Young Endowment. Use of the assets by Cato is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Cato. The income earned from the B. Kenneth Simon Endowment must be used for Constitutional Studies. Through December 2016, the Richard C. and Deborah L. Young Endowment must have been used for student programs, and starting January 2017 the funds must be used for Cato's Defense and Foreign Policy Studies. The earnings are considered temporarily restricted until expenses have been incurred, thus releasing the income from restriction.

Permanently restricted net assets - interpretation of relevant law

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA"), which became effective in Kansas in July 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Cato classifies as permanently restricted net assets (a) the original value of gifts 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 Cato in a manner consistent with the standard prudence prescribed by SPMIFA. In accordance with SPMIFA, Cato considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the funds
(2) The purposes of Cato and the donor-restricted endowment funds
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of Cato
(7) The investment policies of Cato

Permanently restricted net assets - return objectives and risk parameters
Cato has adopted a conservative investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments. The investment objectives of managing endowment assets are the preservation of capital, liquidity, and to optimize the investment return within the constraints of the previously mentioned objectives. Endowment assets include those assets of donor-restricted funds that Cato must hold in perpetuity or for a donor-specified period.

Permanently restricted net assets - strategies employed for achieving objectives
To satisfy its long-term rate-of-return objectives, Cato 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).

Spending policy and how the investment objectives relate to spending policy
Cato has a policy of appropriating for expenditure each year the earnings of the endowments. For the B. Kenneth Simon Endowment, spending is not to exceed seven percent of the endowment's total asset value. In establishing this policy, Cato considered the long-term expected return on its endowment net assets and operating costs of the Constitutional Studies program. For the Richard C. and Deborah L. Young Endowment, spending per quarter is not to exceed $10,000, or one percent of the endowment's total asset value, whichever is higher.

Underwater endowment funds
From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. Cato considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. For the year ended March 31, 2018, donor required appropriations and unfavorable market fluctuations resulted in $10,018 of deficiencies for one endowment fund. There were no deficiencies in the endowment funds at March 31, 2017.

The changes in the donor-restricted endowment net assets for the years ended March 31, 2018 and 2017 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, April 1, 2016	$ -	$ 10,813	$ 3,010,097
Dividend income	-	74,397	-
Realized and unrealized gain, net	-	8,722	-
Total investment return	-	93,932	3,010,097
Appropriation based on spending policy	-	(74,073)	-
Endowment net assets, March 31, 2017	-	19,859	3,010,097
Dividend income	-	86,363	-
Realized and unrealized loss, net	-	(57,647)	-
Total investment return	-	48,575	3,010,097
Appropriation based on spending policy	(10,018)	(48,575)	-
Endowment net assets, March 31, 2018	$ (10,018)	$ -	$ 3,010,097

Note 11 - Employee benefit plans

Cato maintained a 403(b) plan (defined-contribution plan) that allows employees to defer a portion of their wages. Employees are eligible for the 403(b) plan upon hiring. Cato does not match employee contributions. The 403(b) plan was terminated effective December 31, 2016.

In addition, Cato maintains a 401(k) plan that allows employees to defer a portion of their wages. Cato matches 25 percent of each employee's contributions, up to eight percent of participants' compensation. The plan provides for an annual discretionary contribution by Cato. Cato will make a safe-harbor non-elective contribution each year to each employee's account equal to three percent of the participant's compensation. Total match and discretionary contributions amounted to $733,353 and $713,157, respectively, for the years ended March 31, 2018 and 2017, respectively.

Cato maintains a self-insurance program for its employees' health care costs. Cato is liable for losses on claims up to $45,000 per claim for 2018 and 2017. Cato has third-party insurance coverage for any losses in excess of such amounts. Self-insurance costs are accrued based on claims reported as of March 31, 2018 and 2017, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was $75,000 and $104,501 at March 31, 2018 and 2017, respectively, and is reported as accounts payable and accrued expenses in the statements of financial position.

Note 12 - Commitments

Cato has contracts through 2019 for hotels for future conferences. In the event of cancellation, Cato may be required to pay various costs as stipulated in the contracts, the amounts of which are dependent upon the respective dates of cancellation. Due to the numerous variables involved, Cato's ultimate liability under these contracts cannot be determined; however, the estimated costs as of March 31, 2018 range from approximately $0 to $200,000 depending on the nature, timing, and number of conference cancellations. As of August 2, 2018, Cato had not canceled and had no intentions to cancel any future conferences.

Cato was obligated under an agreement to provide payments to its former president each year through December 2016 at the dates specified in the agreements, provided the terms of the specific agreements are met. Cato had recognized an expense and liability at March 31, 2017 for the proportionate share of the total obligation that will be accrued and paid over the term of the agreement. There was no liability outstanding at March 31, 2018. Another agreement to provide services over a five-year period ended in December 2017 was being expensed and paid as incurred and no liability is recorded at March 31, 2018 or 2017.

Note 13 - Joint activities

Cato has incurred and allocated joint costs of fundraising in disseminating information to the general public and supporters in four direct mailings during the year ended March 31, 2018 and three direct mailings during the year ended March 31, 2017. Total costs allocated were $806,652 in 2018 and $674,264 in 2017. Of the total costs allocated, $550,296 in 2018 and $519,935 in 2017 were recorded in program services, and $256,356 in 2018 and $154,329 in 2017 were recorded in fundraising expenses in the statements of activities and change in net assets.

Note 14 - Concentration of credit risk

Cato maintained balances at banks in excess of Federal Deposit Insurance Corporation ("FDIC") coverage. The amount of uninsured deposits at March 31, 2018 amounted to approximately $11,905,000.

Note 15 - Donated services

For the years ended March 31, 2018 and 2017, Cato received benefit from donated advertising services of approximately $429,000 and $483,000, respectively. Additionally, for the years ended March 31, 2018 and 2017, Cato received other in-kind donations of approximately $71,000 and $573,000, respectively. The value of these in-kind donations has been reflected on the accompanying statements of activities and change in net assets as contributions revenue and program expenses.

Note 16 - Fair value measurements

Cato has determined the fair value of certain assets through application of FASB ASC Topic 820, *Fair Value Measurement*. Fair values of assets measured on a recurring basis at March 31, 2018 and 2017 are as follows:

		Fair value measurements at reporting date using		
	Fair value	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
March 31, 2018				
Assets				
Money Market Funds	$ 5,090,815	$ 5,090,815	$ -	$ -
Exchange-Traded Funds - equity	362,546	362,546	-	-
Exchange-Traded Funds - fixed income	95,000	95,000	-	-
Mutual Funds - equity	366,638	366,638	-	-
Mutual Funds - fixed income	25,220,942	25,220,942	-	-
Total investments	$ 31,135,941	$ 31,135,941	$ -	$ -
March 31, 2017				
Assets				
Money Market Funds	$ 5,031,437	$ 5,031,437	$ -	$ -
Exchange-Traded Funds - equity	383,258	383,258	-	-
Exchange-Traded Funds - fixed income	90,744	90,744	-	-
Mutual Funds - equity	297,029	297,029	-	-
Mutual Funds - fixed income	25,460,488	25,460,488	-	-
Total investments	$ 31,262,956	$ 31,262,956	$ -	$ -

This FASB ASC topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide highest quality inputs. Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets or other significant observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. Cato uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Cato measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies during the current year. Money market funds reported as Level 1 inputs have been valued at the closing price reported by the fund sponsor from an actively traded exchange. Exchange-traded funds have been valued at the closing price reported on the active market in which the individual securities are traded. Mutual funds have been valued at the reported net asset value of the fund, which is the price at which additional shares can be obtained.

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