Cato Institute

Financial Statements
and Independent Auditor's Report

March 31, 2015 and 2014

CohnReznick
Accounting • Tax • Advisory

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Independent Auditor's Report

To the Board of Directors
Cato Institute
Washington, DC

We have audited the accompanying financial statements of Cato Institute (Cato), which comprise the statement of financial position as of March 31, 2015, the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Cato Institute as of March 31, 2014 were audited by other auditors, whose report dated October 1, 2014 expressed an unmodified opinion on these statements.

CohnReznick LLP

Bethesda, Maryland
September 9, 2015

CATO INSTITUTE

STATEMENTS OF FINANCIAL POSITION

ASSETS

	March 31, 2015	March 31, 2014
CURRENT ASSETS		
Cash and Cash Equivalents	$ 22,048,544	$ 19,136,030
Investments, Short-Term	2,000,511	-
Pledges, Bequests and Accounts Receivable, Current Portion, Net	5,107,172	2,181,343
Inventory	344,562	239,011
Prepaid Expenses, Deposits and Other Current Assets	123,846	295,828
Total Current Assets	29,624,635	21,852,212
PROPERTY AND EQUIPMENT, Net	36,993,246	37,656,873
PLEDGES RECEIVABLE, Net of Discount and Current Portion	2,742,213	1,656,990
INVESTMENTS, Long-Term	3,488,730	3,268,672
REMAINDER INTERESTS	85,504	85,504
	$ 72,934,328	$ 64,520,251

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Capital Lease Obligations, Current Portion	$ 137,762	$ 64,869
Accounts Payable and Accrued Expenses	1,897,885	1,415,588
Deferred Revenue	46,223	72,918
Annuities Payable, Current Portion	54,479	54,479
Total Current Liabilities	2,136,349	1,607,854
LONG-TERM LIABILITIES		
Annuities Payable, Net of Current Portion	192,330	213,205
Capital Lease Obligations, Net of Current Portion	304,430	87,962
Other Accrued Expenses	31,250	156,250
Total Liabilities	2,664,359	2,065,271
NET ASSETS		
Unrestricted	58,708,736	50,374,102
Temporarily Restricted	8,551,136	9,070,781
Permanently Restricted	3,010,097	3,010,097
Total Net Assets	70,269,969	62,454,980
	$ 72,934,328	$ 64,520,251

CATO INSTITUTE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED MARCH 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	$ 28,451,427	$ 7,403,232	$ -	$ 35,854,659
Books and Other Publications	374,454	-	-	374,454
Conference Fees	775,021	-	-	775,021
Change in Split-Interest Agreements	(33,604)	-	-	(33,604)
Interest and Dividends	27,086	56,739	-	83,825
Realized and Unrealized Gain on Investments	11,500	20,362	-	31,862
Other Loss, Net	(29,131)	-	-	(29,131)
Net Assets Released from Restrictions – Satisfaction of Program Restrictions	7,999,978	(7,999,978)	-	-
Total Public Support and Revenue	37,576,731	(519,645)	-	37,057,086
EXPENSES				
Program Services	21,973,469	-	-	21,973,469
Supporting Services:				
Management and General	2,162,178	-	-	2,162,178
Fundraising	5,106,450	-	-	5,106,450
Total Expenses	29,242,097	-	-	29,242,097
CHANGE IN NET ASSETS	8,334,634	(519,645)	-	7,814,989
NET ASSETS, Beginning of Year	50,374,102	9,070,781	3,010,097	62,454,980
NET ASSETS, End of Year	$ 58,708,736	$ 8,551,136	$ 3,010,097	$ 70,269,969

CATO INSTITUTE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED MARCH 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	$ 23,694,551	$ 4,383,104	$ -	$ 28,077,655
Books and Other Publications	380,566	-	-	380,566
Conference Fees	661,801	-	-	661,801
Change in Split-Interest Agreements	(33,789)	-	-	(33,789)
Interest and Dividends	25,172	63,944	-	89,116
Realized and Unrealized Gain (Loss) on Investments	26,746	(12,858)	-	13,888
Other Loss, Net	(34,543)	-	-	(34,543)
Net Assets Released from Restrictions – Satisfaction of Program Restrictions	6,068,269	(6,068,269)	-	-
Total Public Support and Revenue	30,788,773	(1,634,079)	-	29,154,694
EXPENSES				
Program Services	19,816,770	-	-	19,816,770
Supporting Services:				
Management and General	2,507,053	-	-	2,507,053
Fundraising	3,107,586	-	-	3,107,586
Total Expenses	25,431,409	-	-	25,431,409
CHANGE IN NET ASSETS	5,357,364	(1,634,079)	-	3,723,285
NET ASSETS, Beginning of Year	45,016,738	10,704,860	3,010,097	58,731,695
NET ASSETS, End of Year	$ 50,374,102	$ 9,070,781	$ 3,010,097	$ 62,454,980

CATO INSTITUTE

STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 7,814,989	$ 3,723,285
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,556,386	1,478,055
Realized and Unrealized Gain on Investments, Net	(31,862)	(13,888)
Loss on Write-Off of Pledge Receivable	-	105,000
Bad Debt Expense	61	29
Change in Discount on Pledges Receivable	114,777	(44,253)
Annuities Payable	33,604	33,789
Changes in:		
Pledges and Accounts Receivable	(4,325,890)	1,811,690
Inventory	(105,551)	(8,202)
Prepaid Expenses, Deposits and Other Current Assets	171,982	(132,075)
Accounts Payable and Accrued Expenses	482,297	367,501
Grants Payable	-	(10,000)
Deferred Revenue	(26,695)	42,495
Deferred Rent and Lease Incentives	-	(16,220)
Other Accrued Expenses	(125,000)	(125,000)
Net Cash Provided by Operating Activities	5,559,098	7,212,206
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(464,792)	(156,864)
Proceeds from Sales of Investments	2,488,186	583,693
Purchases of Investments	(4,676,893)	(802,239)
Net Cash Used in Investing Activities	(2,653,499)	(375,410)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(138,606)	(80,237)
Payments on Annuities	(54,479)	(54,479)
Contributions Restricted for Long-Term Purposes – Endowment	200,000	200,000
Net Cash Provided by Financing Activities	6,915	65,284
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,912,514	6,902,080
CASH AND CASH EQUIVALENTS, Beginning of Year	19,136,030	12,233,950
CASH AND CASH EQUIVALENTS, End of Year	$ 22,048,544	$ 19,136,030
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	$ (13,667)	$ (4,929)
NONCASH INVESTING ACTIVITIES		
Equipment Acquired under Capital Lease Obligation	$ 427,967	$ -

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, 2015 and 2014 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.

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. 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 $336,710 and $231,205, and merchandise totaling $7,852 and $7,806, at March 31, 2015 and 2014, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Leasehold improvements are amortized over the remaining lease term. 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 certificates of deposit with original maturities over 90 days, 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 several 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 6 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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 (loss) 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 financial statements 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the organization 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, 2015 and 2014; 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, 2015 and 2014. Tax years prior to 2011 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 September 9, 2015, 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, 2015 and 2014 consist of the following:

	March 31, 2015	March 31, 2014
Accounts and Other Receivables	$ 2,707,172	$ 111,643
Bequests Receivable	1,200,000	725,000
Pledges Receivable	4,205,000	3,149,700
Total Accounts, Bequests and Pledges Receivable	8,112,172	3,986,343
Less: Allowance for Uncollectible Pledges	(105,000)	(105,000)
Less: Discounts to Net Present Value	(157,787)	(43,010)
Net Receivables	7,849,385	3,838,333
Less: Long-Term Pledges Receivable Due in One to Five Years	2,742,213	1,656,990
Current Accounts, Bequests and Pledges Receivable	$ 5,107,172	$ 2,181,343

Pledges receivable due in excess of one year were discounted by $157,787 and $43,010, respectively, at March 31, 2015 and 2014 based on discount rates ranging from 1 to 3 percent. For the year ended March 31, 2014, management established an allowance for uncollectible pledges of $105,000. The $105,000 in uncollectible pledges for the year ended March 31, 2014 was included in fundraising expenses and net assets released from restrictions on the statement of activities and change in net assets.

Conditional promises to give are recognized as contribution revenue when the conditions are substantially met. Total combined unpaid conditional grants for Cato were $650,000 and $0, as of March 31, 2015 and 2014, respectively. In fiscal year 2015, Cato received two conditional grants. One grant is for $1,000,000 to support the Center for Monetary & Financial Alternatives' research, outreach, and communications emphasizing a rule-based approach to monetary policy and engaging young monetary scholars. The grant is conditioned upon demonstration of the Center's activities and achievements. As of March 31, 2015, $500,000 has been received and recognized as temporarily restricted revenue. The other grant is for $300,000 to support the creation of the Deepbills tool, which produces enhanced XML markup of federal legislation with the aim of making more information available to the public about how bills affect existing law, federal agencies and spending. The grant is conditioned upon the Institute and external fundraising contributions and expenditures of $195,000. Additionally, the project must have succeeded in making 97 percent of published bills available via Deepbills in rich XML within two weeks of publication and three media or significant platforms must have adopted the Deepbills tool. As of March 31, 2015, $150,000 has been received and recognized as temporarily restricted revenue.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	March 31, 2015	March 31, 2014
Land	$ 9,656,037	$ 9,656,037
Buildings and Improvements	34,986,372	34,736,961
Audio Visual Systems	1,491,539	1,491,539
Office Furniture and Equipment	3,809,461	3,254,814
	49,943,409	49,139,351
Accumulated Depreciation and Amortization	(12,950,163)	(11,482,478)
Property and Equipment, Net	$ 36,993,246	$ 37,656,873

In June 2009, Cato purchased land and a building in Washington, DC for $7.1 million. Cato demolished the purchased building during the year ended March 31, 2011 to expand its headquarters. Cato has solicited contributions to fund the construction of the new building, which was completed as of March 31, 2012 and placed in service. The contributions are reported as temporarily restricted net assets within the Liberating the Future Capital Campaign fund and are released from restrictions to cover the costs of maintaining the building and other qualifying expenses. Cash restricted to the Liberating the Future Capital Campaign fund totaled $0 and $3,645,058 at March 31, 2015 and 2014, respectively.

NOTE 5 – INVESTMENTS

Investments are stated at fair value and consist of the following:

	March 31, 2015	March 31, 2014
Short-Term Investments:		
Certificates of Deposit	$ 2,000,511	$ -

	March 31, 2015	March 31, 2014
Long-Term Investments:		
Money Market Funds	$ 16,423	$ 7,544
Exchange-Traded Funds – Equity	256,767	235,657
Exchange-Traded Funds – Fixed Income	163,572	111,278
Mutual Funds – Equity	145,093	200,228
Mutual Funds – Fixed Income	2,906,875	2,713,965
Investments, Long-Term	$ 3,488,730	$ 3,268,672

Endowments had a fair value of $2,897,752 and $2,653,825 at March 31, 2015 and 2014, respectively.

NOTE 5 – INVESTMENTS (Continued)

Investment income is as follows:

	Year Ended March 31, 2015	Year Ended March 31, 2014
Interest and Dividends – Investments	$ 75,640	$ 89,116
Interest and Dividends – Cash and Cash Equivalents	8,185	-
	83,825	89,116
Realized and Unrealized Gain on Investments, Net	31,862	13,888
	$ 115,687	$ 103,004

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 $590,978 and $614,847 at March 31, 2015 and 2014, 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 10.6 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:

	Year Ended March 31, 2015	Year Ended March 31, 2014
Beginning Balance	$ 267,684	$ 288,374
Payments Made to Annuitants	(54,479)	(54,479)
Adjustments to Liability Relating to Passage of Time and Other Factors	33,604	33,789
	246,809	267,684
Less: Current Portion	54,479	54,479
	$ 192,330	$ 213,205

NOTE 7 – LINE OF CREDIT

Cato has a $5,000,000 unsecured line of credit with a bank. The line of credit is subject to an annual renewal by the bank with interest due monthly at the LIBOR rate plus 1 percent and outstanding principal due at maturity. The line of credit matures on October 31, 2015. There was no amount outstanding on the line of credit at March 31, 2015 and 2014.

NOTE 8 – CAPITAL LEASES

Cato leases certain equipment under capital leases that expire at various dates through 2020. The future minimum lease payments under capital leases are as follows:

Year Ending March 31,	
2016	$ 148,736
2017	124,411
2018	93,528
2019	92,280
2020	7,687
Minimum Lease Payments	466,642
Less Amounts Representing Interest	24,450
Present Value of Net Minimum Lease Payments	442,192
Less Current Portion	137,762
Long-Term Portion	$ 304,430

Capitalized leased equipment is included with property and equipment at March 31, 2015 and 2014 in the amount of $726,459 and $383,745, with accumulated depreciation of $290,035 and $232,791, respectively. Interest expense incurred totaled $13,667 and $4,929 at March 31, 2015 and 2014, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the unexpended portion of restricted contributions received by Cato. These contributions are restricted for the following programs:

	March 31, 2015	March 31, 2014
Academic Research and Programs	$ 297,503	$ 399,968
Center for Constitutional Studies	56,480	-
Center for Global Liberty and Prosperity	43,884	156,129
Center for Monetary and Financial Alternatives	4,806,945	1,083,557
Center for Representative Government	25,000	32,000
Center for the Study of Science	-	71,666
Conference and Events	20,897	-
Criminal Justice Project	37,500	-
Defense and Foreign Policy Studies	60,931	21,407
Documentary Series – School, Inc.	209,734	302,853
Friedman Prize	437,588	586,763
Health and Welfare Studies	185,000	-
Herbert A. Stiefel Center for Trade Policy Studies	903,198	973,876
Information Policy Studies	-	74,000
Liberating the Future Capital Campaign	399,339	5,283,058
Remainder Interests	85,504	85,504
Student Programs	38,213	-
Time Restricted	943,420	-
	$ 8,551,136	$ 9,070,781

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

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 as follows:

	Year Ended March 31,	
	2015	2014
Academic Research and Programs	$ 539,551	$ 339,573
Center for Constitutional Studies	136,298	31,223
Center for Educational Freedom	65,000	51,000
Center for Global Liberty and Prosperity	246,245	574,755
Center for Monetary and Financial Alternatives	848,702	420,259
Center for Representative Government	7,000	5,500
Center for the Study of Science	191,666	31,861
Herbert A. Stiefel Center for Trade Policy Studies	110,679	101,124
Conference and Events	57,159	71,402
Criminal Justice Project	7,148	-
Defense and Foreign Policy Studies	70,477	174,993
Documentary Series – School, Inc.	93,120	151,272
Fiscal Policy Studies	50,000	50,000
Friedman Prize	263,874	-
Health and Welfare Studies	2,500	-
Information Policy Studies	274,000	326,710
Liberating the Future Capital Campaign	4,884,716	3,466,125
Libertarianism.org	-	33,657
Media Communications	5,000	-
Student Programs	146,843	238,815
	$ 7,999,978	$ 6,068,269

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 and the Richard C. and Deborah L. Young Endowment must be used for student programs, and, therefore, are considered temporarily restricted until expenses have been incurred, thus releasing the income from restriction.

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Permanently Restricted Net Assets – Interpretation of Relevant Law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), 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 the organization in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 7 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 1 percent of the endowment's total asset value, whichever is higher, for the first five years. After the initial five-year period, the $10,000 or 1 percent requirement is suspended and spending will be managed in a way that will preserve the purchasing power of the principal over the long-term.

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

The changes in the donor-restricted endowment net assets for the years ended March 31, 2015 and 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment Net Assets, April 1, 2013	$ -	$ -	$ 3,010,097
Dividend Income	-	63,944	-
Unrealized Loss	-	(12,858)	-
Total Investment Return	-	51,086	3,010,097
Appropriation Based on Spending Policy	-	(51,086)	-
Endowment Net Assets, March 31, 2014	-	-	3,010,097
Dividend Income	-	56,739	-
Realized and Unrealized Gain, Net	-	20,362	-
Total Investment Return	-	77,101	3,010,097
Appropriation Based on Spending Policy	-	(71,280)	-
Endowment Net Assets, March 31, 2015	$ -	$ 5,821	$ 3,010,097

NOTE 11 – EMPLOYEE BENEFIT PLANS

Cato maintains 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.

In addition, Cato maintains a 401(k) profit-sharing plan that allows employees to defer a portion of their wages. Cato matches 25 percent of each employee's contributions, up to 8 percent of participants' compensation. The plan provides for an annual discretionary contribution by Cato. Total match and discretionary contributions amounted to $554,405 and $444,478, respectively, for the years ended March 31, 2015 and 2014, respectively. During 2009, the Cato Board of Directors approved a safe-harbor amendment to Cato's 401(k) retirement plan, effective January 1, 2009. Under the amendment, Cato will make a safe-harbor non-elective contribution each year to each employee's account equal to 3 percent of the participant's compensation.

Effective January 1, 2014, Cato maintains a self-insurance program for its employees' health care costs. Cato is liable for losses on claims up to $40,000 per claim for 2015 and $35,000 per claim for 2014. 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, 2015 and 2014, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was $64,488 and $58,640 at March 31, 2015 and 2014, respectively, and is reported as accounts payable and accrued expenses in the statements of financial position.

NOTE 12 – OFFICE LEASE

In November 2008, Cato entered into a lease for space in Washington, DC. The lease term was 66 months. Base monthly rental payments were $15,021 for the first year, and increased approximately 3 percent per year. Cato also paid its share of operating expenses and real estate taxes over a base year. The lease commencement date was in February 2009. The lease was to expire on July 31, 2014. Under a termination agreement entered into as of July 30, 2013, the lease was terminated effective August 31, 2013, with a termination fee payment of $69,093.

Rent expense paid by Cato was $0 and $137,469 for the years ended March 31, 2015 and 2014, respectively.

NOTE 13 – COMMITMENTS

Cato has contracts through 2016 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, 2015 range from approximately $0 to $105,000 depending on the nature, timing, and number of conference cancellations. As of September 9, 2015, Cato had not canceled and had no intentions to cancel any future conferences.

Cato is obligated under certain agreements 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. The expense and related liability under one agreement have been recognized in full at March 31, 2013. Under a second agreement, Cato has recognized an expense and liability at March 31, 2015 and 2014 for the proportionate share of the total obligation that will be accrued and paid over the term of the agreement. Another agreement to provide services over a five-year period ending in December 2017 is being expensed and paid as incurred and no liability is recorded at March 31, 2015 or 2014.

NOTE 14 – 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, 2015 and two mailings during the year ended March 31, 2014. Total costs allocated were $1,268,319 in 2015 and $659,064 in 2014. Of the total costs allocated, $942,289 in 2015 and $519,472 in 2014 were recorded in program services, and $326,030 in 2015 and $139,592 in 2014 were recorded in fundraising expenses in the statements of activities and change in net assets.

NOTE 15 – 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, 2015 amounted to approximately $22,178,000.

NOTE 16 – DONATED SERVICES

For the years ended March 31, 2015 and 2014, Cato received benefit from donated advertising services of approximately $450,000 and $480,000, respectively. Additionally, for the years ended March 31, 2015 and 2014, Cato received other in-kind donations of approximately $436,000 and $211,000, 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 17 – 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, 2015 and 2014 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, 2015				
Assets				
Money Market Funds	$ 16,423	$ -	$ 16,423	$ -
Certificates of Deposit	2,000,511	-	2,000,511	
Exchange-Traded Funds – Equity	256,767	256,767	-	-
Exchange-Traded Funds – Fixed Income	163,572	163,572	-	-
Mutual Funds – Equity	145,093	145,093	-	-
Mutual Funds – Fixed Income	2,906,875	2,906,875	-	-
Total Investments	$ 5,489,241	$ 3,472,307	$ 2,016,934	$ -
March 31, 2014				
Assets				
Money Market Funds	$ 7,544	$ -	$ 7,544	$ -
Exchange-Traded Funds – Equity	235,657	235,657	-	-
Exchange-Traded Funds – Fixed Income	111,278	111,278	-	-
Mutual Funds – Equity	200,228	200,228	-	-
Mutual Funds – Fixed Income	2,713,965	2,713,965	-	-
Total Investments	$ 3,268,672	$ 3,261,128	$ 7,544	$ -

NOTE 17 – FAIR VALUE MEASUREMENTS (Continued)

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 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. Level 2 investments consists of certificates of deposits and are valued using a market approach from pricing sources utilized by investment managers.

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