# Cato Institute

## Financial Statements
## and Independent Auditor's Report

## March 31, 2016 and 2015

**Cato Institute**

Index

# 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 statements of financial position as of March 31, 2016 and 2015, 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, 2016 and 2015, 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
September 27, 2016

**Cato Institute**

**Statements of Financial Position**
**March 31, 2016 and 2015**

Assets

| | 2016 | 2015 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 9,327,629 | $ 22,048,544 |
| Investments, short-term | 17,208,751 | 2,000,511 |
| Pledges, bequests and accounts receivable, current portion, net | 3,019,981 | 5,107,172 |
| Inventory | 213,818 | 344,562 |
| Prepaid expenses, deposits and other current assets | 282,276 | 123,846 |
| Total current assets | 30,052,455 | 29,624,635 |
| Property and equipment, net | 35,687,668 | 36,993,246 |
| Pledges receivable, net of discount and current portion | 1,711,028 | 2,742,213 |
| Investments, long-term | 3,702,164 | 3,488,730 |
| Remainder interests | 29,471 | 85,504 |
| | $ 71,182,786 | $ 72,934,328 |

Liabilities and Net Assets

| | 2016 | 2015 |
|---|---|---|
| Current liabilities | | |
| Capital lease obligations, current portion | $ 117,046 | $ 137,762 |
| Accounts payable and accrued expenses | 1,599,940 | 1,897,885 |
| Grants payable | 125,000 | - |
| Deferred revenue | 61,167 | 46,223 |
| Annuities payable, current portion | 20,954 | 54,479 |
| Total current liabilities | 1,924,107 | 2,136,349 |
| Long-term liabilities | | |
| Annuities payable, net of current portion | 96,606 | 192,330 |
| Capital lease obligations, net of current portion | 187,382 | 304,430 |
| Other accrued expenses | - | 31,250 |
| Total liabilities | 2,208,095 | 2,664,359 |
| Net assets | | |
| Unrestricted | 58,184,230 | 58,708,736 |
| Temporarily restricted | 7,780,364 | 8,551,136 |
| Permanently restricted | 3,010,097 | 3,010,097 |
| Total net assets | 68,974,691 | 70,269,969 |
| | $ 71,182,786 | $ 72,934,328 |

See Notes to Financial Statements.

## Cato Institute

## Statement of Activities and Change in Net Assets
## Year Ended March 31, 2016

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Public support and revenue | | | | |
| Contributions | $ 24,385,866 | $ 3,030,640 | $ - | $ 27,416,506 |
| Books and other publications | 369,790 | - | - | 369,790 |
| Conference fees | 704,032 | - | - | 704,032 |
| Change in split-interest agreements | 63,403 | - | - | 63,403 |
| Interest and dividends | 198,962 | 67,645 | - | 266,607 |
| Realized and unrealized gain (loss) on investments | 13,113 | (34) | - | 13,079 |
| Other income | 12,137 | - | - | 12,137 |
| Net assets released from restrictions - satisfaction of program restrictions | 3,869,023 | (3,869,023) | - | - |
| Total public support and revenue | 29,616,326 | (770,772) | - | 28,845,554 |
| Expenses | | | | |
| Program services | 22,563,018 | - | - | 22,563,018 |
| Supporting services | | | | |
| Management and general | 2,278,089 | - | - | 2,278,089 |
| Fundraising | 5,299,725 | - | - | 5,299,725 |
| Total expenses | 30,140,832 | - | - | 30,140,832 |
| Change in net assets | (524,506) | (770,772) | - | (1,295,278) |
| Net assets, beginning of year | 58,708,736 | 8,551,136 | 3,010,097 | 70,269,969 |
| Net assets, end of year | $ 58,184,230 | $ 7,780,364 | $ 3,010,097 | $ 68,974,691 |

See Notes to Financial Statements.

## 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 |

See Notes to Financial Statements.

## Cato Institute

## Statements of Cash Flows
## Years Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ (1,295,278) | $ 7,814,989 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 1,563,314 | 1,556,386 |
| Realized and unrealized gain on investments, net | (13,079) | (31,862) |
| Loss on write-off of pledge receivable | 7,774 | - |
| Bad debt expense | 27,904 | 61 |
| Change in discount on pledges receivable | (73,815) | 114,777 |
| Annuities payable | (83,151) | 33,604 |
| Changes in | | |
| Pledges, bequests and accounts receivable | 2,956,513 | (4,325,890) |
| Inventory | 130,744 | (105,551) |
| Prepaid expenses, deposits and other current assets | (158,430) | 171,982 |
| Remainder Interests | 56,033 | - |
| Accounts payable and accrued expenses | (297,945) | 482,297 |
| Grants payable | 125,000 | - |
| Deferred revenue | 14,944 | (26,695) |
| Other accrued expenses | (31,250) | (125,000) |
| Net cash provided by operating activities | 2,929,278 | 5,559,098 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (257,736) | (464,792) |
| Proceeds from sales of investments | 2,343,034 | 2,488,186 |
| Purchases of investments | (17,751,629) | (4,676,893) |
| Net cash used in investing activities | (15,666,331) | (2,653,499) |
| Cash flows from financing activities | | |
| Principal payments on capital lease obligations | (137,764) | (138,606) |
| Payments on annuities | (46,098) | (54,479) |
| Contributions restricted for long-term purposes - endowment | 200,000 | 200,000 |
| Net cash provided by financing activities | 16,138 | 6,915 |
| Net (decrease) increase in cash and cash equivalents | (12,720,915) | 2,912,514 |
| Cash and cash equivalents, beginning of year | 22,048,544 | 19,136,030 |
| Cash and cash equivalents, end of year | $ 9,327,629 | $ 22,048,544 |
| Supplemental cash flow information | | |
| Interest paid | $ (10,974) | $ (13,667) |
| Noncash investing activities | | |
| Equipment acquired under capital lease obligation | $ - | $ 427,967 |

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, 2016 and 2015 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 (1 to 3 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 $207,512 and $336,710, and merchandise totaling $6,306 and $7,852, at March 31, 2016 and 2015, 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 certificates of deposit with original maturities over 90 days, money market funds, and short-term investment-grade fixed income securities, and are held for operating purposes. All certificates of deposit matured during the year ended March 31, 2016 and were reinvested in short-term investments.

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 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.

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 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 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, 2016 and 2015; 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, 2016 and 2015. Tax years prior to 2012 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 27, 2016, 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, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Accounts, contributions and other receivables | $ 606,084 | $ 2,707,172 |
| Bequests receivable | 936,671 | 1,200,000 |
| Pledges receivable | 3,280,000 | 4,205,000 |
| Total pledges, bequests and accounts receivable | 4,822,755 | 8,112,172 |
| Less: Allowance for uncollectible pledges | (7,774) | (105,000) |
| Less: Discounts to net present value | (83,972) | (157,787) |
| Net receivables | 4,731,009 | 7,849,385 |
| Less: Long-term pledges receivable due in one to five years | 1,711,028 | 2,742,213 |
| Current pledges, bequests and accounts receivable | $ 3,019,981 | $ 5,107,172 |

Conditional promises to give are recognized as contribution revenue when the conditions are substantially met. Total combined unpaid conditional grants for Cato were $0 and $650,000, as of March 31, 2016 and 2015, respectively. In fiscal year 2015, Cato received two conditional grants. One grant was 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 was conditioned upon demonstration of the Center's activities and achievements. As of March 31, 2015, $500,000 had been received and recognized as temporarily restricted revenue. In fiscal year 2016, the grantor amended the grant and removed the conditions. The Institute also received a $300,000 grant 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, of which $150,000 was conditioned upon the Institute incurring expenditures of $195,000 for the Deepbills Project in year 1, and commitment of $195,000 of funds for the Deepbills project by the Institute or other funders. 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, the unconditional $150,000 had been received and recognized as temporarily restricted revenue. The conditions on the remaining $150,000 were satisfied during fiscal year 2016; therefore, $150,000 has been recorded and recognized as temporarily restricted revenue as of March 31, 2016, and is included in pledges, bequests and accounts receivable on the statements of financial position.

## Note 4 - Property and equipment

Property and equipment at March 31, 2016 and 2015 are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Land | $ 9,656,037 | $ 9,656,037 |
| Buildings and improvements | 35,103,470 | 34,986,372 |
| Audio visual systems | 1,546,759 | 1,491,539 |
| Office furniture and equipment | 3,894,879 | 3,809,461 |
| | 50,201,145 | 49,943,409 |
| Accumulated depreciation and amortization | (14,513,477) | (12,950,163) |
| Property and equipment, net | $ 35,687,668 | $ 36,993,246 |

## Note 5 - Investments

Investments are stated at fair value and consist of the following at March 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Short-term investments | | |
| Money market funds | $ 5,005,388 | $ - |
| Mutual funds - fixed income | 12,203,363 | - |
| Certificates of deposit | - | 2,000,511 |
| Investments, short-term | $ 17,208,751 | $ 2,000,511 |

| | 2016 | 2015 |
|---|---|---|
| Long-term investments | | |
| Money market funds | $ 14,787 | $ 16,423 |
| Exchange-traded funds - equity | 302,234 | 256,767 |
| Exchange-traded funds - fixed income | 131,964 | 163,572 |
| Mutual funds - equity | 464,447 | 145,093 |
| Mutual funds - fixed income | 2,788,732 | 2,906,875 |
| Investments, long-term | $ 3,702,164 | $ 3,488,730 |

Endowments had a fair value of $3,158,374 and $2,897,752 at March 31, 2016 and 2015, respectively.

Investment income for the years ended March 31, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Interest and dividends - investments | $ 255,628 | $ 75,640 |
| Interest and dividends - cash and cash equivalents | 10,979 | 8,185 |
| | 266,607 | 83,825 |
| Realized and unrealized gain on investments, net | 13,079 | 31,862 |
| | $ 279,686 | $ 115,687 |

## 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 $543,790 and $590,978 at March 31, 2016 and 2015, 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, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Beginning balance | $ 246,809 | $ 267,684 |
| Payments made to annuitants | (46,098) | (54,479) |
| Decrease in liability due to deceased annuitant | (122,802) | - |
| Adjustments to liability relating to passage of time and other factors | 39,651 | 33,604 |
| | 117,560 | 246,809 |
| Less: Current portion | 20,954 | 54,479 |
| | $ 96,606 | $ 192,330 |

## Note 7 - Line of credit

Cato has a $5,000,000 unsecured guidance 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 February 28, 2017. There was no amount outstanding on the line of credit at March 31, 2016 and 2015.

## 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 in each of the years subsequent to March 31, 2016 are as follows:

| | | |
|---|---|---|
| 2017 | $ | 124,411 |
| 2018 | | 93,528 |
| 2019 | | 92,280 |
| 2020 | | 7,687 |
| Minimum lease payments | | 317,906 |
| Less amounts representing interest | | 13,478 |
| Present value of net minimum lease payments | | 304,428 |
| Less current portion | | 117,046 |
| Long-term portion | $ | 187,382 |

Capitalized leased equipment of $726,459 is included with property and equipment at March 31, 2016 and 2015, with accumulated depreciation of $430,301 and $290,035, respectively. Interest expense incurred totaled $10,974 and $13,667 at March 31, 2016 and 2015, 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, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Academic Research and Programs | $ 325,603 | $ 297,503 |
| Center for Constitutional Studies | - | 56,480 |
| Center for Educational Freedom | 66,731 | - |
| Center for Global Liberty and Prosperity | 241,870 | 43,884 |
| Center for Monetary and Financial Alternatives | 4,393,437 | 4,806,945 |
| Center for Representative Government | 30,000 | 25,000 |
| Conference and Events | - | 20,897 |
| Criminal Justice Project | - | 37,500 |
| Defense and Foreign Policy Studies | 46,184 | 60,931 |
| Documentary Series - School, Inc. | 75,000 | 209,734 |
| Friedman Prize | 693,557 | 437,588 |
| Health and Welfare Studies | - | 185,000 |
| Herbert A. Stiefel Center for Trade Policy Studies | 693,328 | 903,198 |
| Information Policy Studies | 133,279 | - |
| Liberating the Future Capital Campaign | 200,000 | 399,339 |
| Remainder interests | 29,471 | 85,504 |
| Student programs | 86,182 | 38,213 |
| Time restricted | 765,722 | 943,420 |
| | $ 7,780,364 | $ 8,551,136 |

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, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Academic Research and Programs | $ 424,714 | $ 539,551 |
| Center for Constitutional Studies | 163,538 | 136,298 |
| Center for Educational Freedom | 73,369 | 65,000 |
| Center for Global Liberty and Prosperity | 147,014 | 246,245 |
| Center for Monetary and Financial Alternatives | 1,327,729 | 848,702 |
| Center for Representative Government | 8,000 | 7,000 |
| Center for the Study of Science | 100,000 | 191,666 |
| Conference and Events | 60,344 | 57,159 |
| Criminal Justice Project | 37,500 | 7,148 |
| Defense and Foreign Policy Studies | 64,747 | 70,477 |
| Documentary Series - School, Inc. | 214,734 | 93,120 |
| Fiscal Policy Studies | 25,000 | 50,000 |
| Friedman Prize | 56,731 | 263,874 |
| Health and Welfare Studies | 187,000 | 2,500 |
| Herbert A. Stiefel Center for Trade Policy Studies | 246,091 | 110,679 |
| Information Policy Studies | 41,721 | 274,000 |
| Liberating the Future Capital Campaign | 205,221 | 4,884,716 |
| Media Communications | - | 5,000 |
| Remainder Interests | 56,033 | - |
| Student programs | 251,839 | 146,843 |
| Time Restricted | 177,698 | - |
| | $ 3,869,023 | $ 7,999,978 |

## 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.

**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 the organization 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 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.

The changes in the donor-restricted endowment net assets for the years ended March 31, 2016 and 2015 are as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted |
|---|---|---|---|
| Endowment net assets, April 1, 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 |
| Dividend income | - | 67,645 | - |
| Realized and unrealized loss, net | - | (34) | - |
| Total investment return | - | 73,432 | 3,010,097 |
| Appropriation based on spending policy | - | (62,619) | - |
| Endowment net assets, March 31, 2016 | $ - | $ 10,813 | $ 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) 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. 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. Total match and discretionary contributions amounted to $640,789 and $554,405, respectively, for the years ended March 31, 2016 and 2015, respectively.

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 2016 and 2015. 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, 2016 and 2015, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was $46,379 and $64,488 at March 31, 2016 and 2015, respectively, and is reported as accounts payable and accrued expenses in the statements of financial position.

## Note 12 - Commitments

Cato has contracts through 2018 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, 2016 range from approximately $0 to $222,000 depending on the nature, timing, and number of conference cancellations. As of September 27, 2016, 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 and were fully paid during the year ended March 31, 2015. Under a second agreement, Cato has recognized an expense and liability at March 31, 2016 and 2015 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, 2016 or 2015.

**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 each of the years ended March 31, 2016 and 2015, respectively. Total costs allocated were $786,569 in 2016 and $1,268,319 in 2015. Of the total costs allocated, $627,540 in 2016 and $942,289 in 2015 were recorded in program services, and $159,029 in 2016 and $326,030 in 2015 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, 2016 amounted to approximately $9,428,000.

**Note 15 - Donated services**

For the years ended March 31, 2016 and 2015, Cato received benefit from donated advertising services of approximately $481,000 and $450,000, respectively. Additionally, for the years ended March 31, 2016 and 2015, Cato received other in-kind donations of approximately $237,000 and $436,000, 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, 2016 and 2015 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, 2016 | | | | |
| Assets | | | | |
| Money Market Funds | $ 5,029,882 | $ 5,015,096 | $ 14,786 | $ - |
| Exchange-Traded Funds - equity | 302,234 | 302,234 | - | - |
| Exchange-Traded Funds - fixed income | 131,964 | 131,964 | - | - |
| Mutual Funds - equity | 464,447 | 464,447 | - | - |
| Mutual Funds - fixed income | 14,982,388 | 14,982,388 | - | - |
| Total investments | $ 20,910,915 | $ 20,896,129 | $ 14,786 | $ - |
| 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 | $ - |

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. Level 2 investments consists of certificates of deposits, and short-term treasury money market funds, and are valued using a market approach from pricing sources utilized by investment managers.

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