Cato Institute

Financial Statements
Years Ended March 31, 2020 and 2019

Cato Institute

Financial Statements
Years Ended March 31, 2020 and 2019

Cato Institute

Contents

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

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, 2020, and the related statements of activities and change in net assets, functional expenses 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cato Institute, as of March 31, 2020, 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.

Other Matter

The 2019 financial statements of the Cato Institute were audited by other auditors, whose report dated August 19, 2019 expressed an unmodified opinion on those statements.

BDO USA, LLP

McLean, Virginia
September 15, 2020

Financial Statements

Cato Institute

Statements of Financial Position

March 31,	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 10,539,521	$ 6,280,818
Investments, short-term	34,876,832	35,268,945
Pledges and accounts receivable, current portion, net	3,044,432	4,975,344
Inventory	523,978	296,610
Prepaid expenses, deposits, and other current assets	464,943	682,313
Total current assets	49,449,706	47,504,030
Property and equipment, net	31,839,226	32,624,239
Pledges receivable, net of discount and current portion	930,505	855,267
Investments, long-term	3,364,050	3,390,466
Remainder interests	1,875	1,875
Total assets	$ 85,585,362	$ 84,375,877
Liabilities and Net Assets		
Current liabilities		
Capital lease obligations, current portion	$ 150,739	$ 57,089
Accounts payable and accrued expenses	2,465,202	2,464,969
Deferred revenue	95,704	231,459
Refundable donor advances	1,116,941	-
Annuities payable, current portion	14,224	13,514
Total current liabilities	3,842,810	2,767,031
Noncurrent liabilities		
Annuities payable, net of current portion	64,936	58,140
Capital lease obligations, net of current portion	286,325	128,767
Total liabilities	4,194,071	2,953,938
Net Assets		
Without donor restrictions	70,983,636	69,651,316
With donor restrictions	10,407,655	11,770,623
Total net assets	81,391,291	81,421,939
Total liabilities and net assets	$ 85,585,362	$ 84,375,877

See accompanying notes to the financial statements.

Cato Institute

Statement of Activities and Change in Net Assets

Year ended March 31, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Contributions	$ 24,038,154	$ 6,921,231	$ 30,959,385
Books and other publications	263,164	-	263,164
Conference fees	557,948	-	557,948
Change in split-interest agreements	(15,598)	-	(15,598)
Investment return, net	(323,187)	115,222	(207,965)
Other income	138,251	-	138,251
Net assets released from restrictions	8,399,421	(8,399,421)	-
Total public support and revenue	33,058,153	(1,362,968)	31,695,185
Expenses			
Program services	25,704,611	-	25,704,611
Supporting services			
Managagement and general	2,261,144	-	2,261,144
Fundraising	3,760,078	-	3,760,078
Total expenses	31,725,833	-	31,725,833
Change in net assets	1,332,320	(1,362,968)	(30,648)
Net assets, beginning of the year	69,651,316	11,770,623	81,421,939
Net assets, end of the year	$ 70,983,636	$ 10,407,655	$ 81,391,291

See accompanying notes to the financial statements.

Cato Institute

Statement of Activities

Year ended March 31, 2019	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Public Support and Revenue			
Contributions	$ 22,287,746	$ 6,844,639	$ 29,132,385
Books and other publications	303,428	-	303,428
Conference fees	386,600	-	386,600
Change in split-interest agreements	15,915	-	15,915
Investment return, net	1,195,669	133,831	1,329,500
Other income	278,992	-	278,992
Net assets released from restrictions	4,839,472	(4,839,472)	-
Total public support and revenue	29,307,822	2,138,998	31,446,820
Expenses			
Program services	25,569,278	-	25,569,278
Supporting services			
Managagement and general	2,355,476	-	2,355,476
Fundraising	3,520,617	-	3,520,617
Total expenses	31,445,371	-	31,445,371
Change in net assets	(2,137,549)	2,138,998	1,449
Net assets, beginning of the year	71,788,865	9,631,625	81,420,490
Net assets, end of the year	$ 69,651,316	$ 11,770,623	$ 81,421,939

See accompanying notes to the consolidated financial statements.

Cato Institute

Statement of Functional Expenses

Year ended March 31, 2020	Program Services: Public Policy Research	Program Services: Communications & External Affairs	Program Services: Educational Programs	Program Services: Total Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	2020 Total
Salaries	$ 9,609,055	$ 1,307,033	$ 1,170,796	$ 12,086,884	$ 1,055,264	$ 1,512,979	$ 2,568,243	$ 14,655,127
Benefits & taxes	2,157,082	293,624	221,614	2,672,320	237,064	339,890	576,954	3,249,274
Professional services & fees	1,518,592	18,085	408,029	1,944,706	370,252	473,026	843,278	2,787,984
Communications & platform technology	629,269	78,077	173,652	880,998	78,029	128,266	206,295	1,087,293
Printing, publication &								-
promotion	1,413,978	85,082	107,884	1,606,944	2,955	253,649	256,604	1,863,548
Postage, delivery & order fulfillment	818,931	10,851	81,601	911,383	9,579	44,801	54,380	965,763
Catering, audio visual & meeting	166,629	186,464	1,208,400	1,561,493	44,535	199,828	244,363	1,805,856
Travel	397,530	86,282	538,619	1,022,431	27,711	276,892	304,603	1,327,034
Office supplies, fees & other misc.	491,646	122,837	177,676	792,159	246,622	203,702	450,324	1,242,483
Depreciation, insurance, occupancy, taxes	1,603,426	198,193	387,680	2,189,299	189,133	327,045	516,178	2,705,477
Grants	-	-	35,994	35,994	-	-	-	35,994
Total expenses	$ 18,806,138	$ 2,386,528	$ 4,511,945	$ 25,704,611	$ 2,261,144	$ 3,760,078	$ 6,021,222	$ 31,725,833

See accompanying notes to the financial statements.

Cato Institute

Statement of Functional Expenses

Year ended March 31, 2019	Program Services: Public Policy Research	Program Services: Communications & External Affairs	Program Services: Educational Programs	Program Services: Total Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	2019 Total
Salaries	$ 9,472,972	$ 1,607,583	$ 1,162,782	$ 12,243,337	$ 1,133,801	$ 1,404,673	$ 2,538,474	$ 14,781,811
Benefits & taxes	2,209,144	374,898	224,508	2,808,550	264,408	327,572	591,980	3,400,530
Professional services & fees	1,459,988	22,595	202,554	1,685,137	260,112	198,364	458,476	2,143,613
Communications & platform technology	588,822	86,642	140,110	815,574	76,592	138,413	215,005	1,030,579
Printing, publication & promotion	1,321,828	87,516	64,133	1,473,477	5,884	413,950	419,834	1,893,311
Postage, delivery & order fulfillment	853,818	11,217	91,684	956,719	9,627	188,800	198,427	1,155,146
Catering, audio visual & meeting	227,785	104,274	1,143,235	1,475,294	46,760	126,554	173,314	1,648,608
Travel	364,587	74,920	493,835	933,342	123,190	238,154	361,344	1,294,686
Office supplies, fees & other misc.	424,204	117,468	215,156	756,828	182,952	128,498	311,450	1,068,278
Depreciation, insurance, occupancy, taxes	1,534,142	225,096	364,782	2,124,020	252,150	355,639	607,789	2,731,809
Grants	37,000	-	260,000	297,000	-	-	-	297,000
Total expenses	$ 18,494,290	$ 2,712,209	$ 4,362,779	$ 25,569,278	$ 2,355,476	$ 3,520,617	$ 5,876,093	$ 31,445,371

See accompanying notes to the financial statements.

Cato Institute

Consolidated Statements of Cash Flows

Years ended March 31,		2020		2019
Cash flows from operating activities:				
Change in net assets	$	**(30,648)**	$	1,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Loss on disposal of property and equipment		**-**		3,022
Depreciation and amortization		**1,251,850**		1,243,716
Realized and unrealized loss (gain) on investments, net		**1,374,002**		(370,364)
Change in discount on pledges receivable		**(45,237)**		6,139
Decrease (increase) in assets				
Pledges and accounts receivable		**1,900,910**		1,416,559
Inventory		**(227,368)**		(133,413)
Prepaid expenses, deposits and other current assets		**217,369**		(130,481)
Increase (decrease) in liabilities				
Annuities payable		**21,199**		(15,915)
Accounts payable and accrued expenses		**233**		2,832
Deferred Revenue		**(135,755)**		(281,077)
Refundable donor advances		**1,116,941**		-
Net cash provided by operating activities		**5,443,496**		1,742,467
Cash flows from investing activities:				
Purchases of property and equipment		**(65,591)**		(296,096)
Proceeds from sales of investments		**129,924**		167,235
Purchases of investments		**(1,085,395)**		(7,320,341)
Net cash used in investing activities		**(1,021,062)**		(7,449,202)
Cash flows from financing activities:				
Principal payments on capital lease obligations		**(150,038)**		(171,299)
Payments on annuities		**(13,693)**		(14,644)
Net cash used in financing activities		**(163,731)**		(185,943)
Net increase (decrease) in cash and cash equivalents		**4,258,703**		(5,892,678)
Cash and cash equivalents at the beginning of the year		**6,280,818**		12,173,496
Cash and cash equivalents at the end of the year	**$**	**10,539,521**	$	6,280,818
Supplemental cash flow information:				
Interest paid	**$**	**(4,333)**	$	(8,107)
Noncash investing activities:				
Equipment acquired under capital lease obligation	**$**	**401,247**	$	-

See accompanying notes to the financial statements.

1. Organization

The Cato Institute ("Cato") is a nonpartisan public policy research organization founded in 1977 and incorporated under the laws of the state of Kansas. During 2013, Cato underwent a change in the composition of its board and was re-organized from a stock-based corporation to a member organization. The Institute owes its name to Cato's Letters, a series of essays published in 18th-century England that presented a vision of society free from excessive government power. Those essays inspired the architects of the American Revolution. The mission of the 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. The range of Cato's work includes:

Public Policy Research

Our vision is to create free, open, and civil societies founded on libertarian principles. To that end, scholars and analysts conduct and publish independent, nonpartisan research on a wide range of policy issues across more than 14 research areas, including law and civil liberties, tax and budget policy, regulatory studies, health care and welfare, education, finance, banking and monetary policy, foreign policy and national security, trade policy, and international development.

Educational Programs

Cato hosts public events and conferences in order to engage diverse audiences on our research and policy prescriptions. Cato also proactively invests in the next generation through its student programs. These include our Cato Internship Program and John Russell Paslaqua Intern Seminar Series, our weekend Liberty Seminars for students, and our Student Briefing Program, which teaches high school and college students from around the country about America's founding principles of individual liberty, limited government and free enterprise.

Communications & External Affairs

Cato scholars engage and educate broad audiences on our policy prescriptions by disseminating our research through speaking engagements, briefings, op-eds and blogs, podcasts, television and radio appearances, and our websites, which receive more than 15 million visits annually.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*.

Basis of presentation

Cato follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") ASC 958-205, "Not-for-Profit Entities". As required by the Not-for-Profit Entities Topic of the Codification, Cato is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and cash equivalents

Cash equivalents at March 31, 2020 and 2019 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 net of an allowance for doubtful accounts when necessary. The allowance is determined based on a review of the estimated collectability 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 uncollectible. There was no allowance for uncollectible pledges and accounts receivable for the years ended March 31, 2020 and 2019.

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 net assets with donor restrictions at the net present value of their estimated future cash flows using risk-adjusted interest rates (3 to 4 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 $523,978 and $285,652, and merchandise totaling $0 and $10,958, at March 31, 2020 and 2019, 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 change 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

Valuation of long-lived assets

Cato reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. No indicators of impairment were identified as of March 31, 2020 and 2019.

Investments

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

Long-term investments, which consist of charitable gift annuities and endowment 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.

Cato records investments at fair value. Interest and dividend income is accounted for on the accrual basis. Gains and losses on investments, including changes in market value, are reported in the statements of activities and change in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulation.

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 net assets with donor restrictions 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.

Refundable donor advances

A transfer of assets (i.e. cash received) that is related to a conditional contribution is accounted for as a refundable donor advance in the accompanying statements of financial position until the conditions have been substantially met or explicitly waived by the donor. Other changes in refundable donor advances result from timing differences between payments received from donors and the satisfaction of the conditions within the grant agreements.

Net assets

Cato's resources are classified for accounting and reporting purposes into net asset groups established according to their nature and purpose and based on the existence or absence of donor-imposed restrictions. Accordingly, Cato classifies net asset groups as follows:

Net assets without donor restrictions

Net assets without donor restrictions are not subject to donor-imposed restrictions. These net assets generally result from providing program services and receiving contributions without donor restrictions, restricted gifts whose donor-imposed restrictions were met during the fiscal year less expenses incurred in providing program services, raising contributions, and performing administrative functions.

Net assets with donor restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors. These net assets generally result from contributions and other inflows of assets, the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Cato pursuant to those stipulations. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit Cato to use the income earned on related investments for general or specific purposes.

Revenue recognition

Contributions

Cato receives support from individuals, foundations and corporations in support of Cato's mission. Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes, are reported as net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statements of activities and change in net assets as net assets released from restrictions. Contributions with donor restriction that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as contributions without donor restriction.

At March 31, 2020, Cato had conditional contributions of $1,116,941. These award balances are recognized as refundable donor advances and will be recognized as revenue as the conditions are met, generally as qualifying expenditures are incurred.

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 are 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.

Functional expenses

Expenses are recognized by Cato during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period. The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of Cato are reported as expenses of those functional areas.

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of Cato. Certain costs have been allocated among the program and supporting service categories based on various methods, including time spent. Salaries and related costs are allocated based on time and effort, and facilities costs and information technology expenses are allocated based on total direct costs to the programs and supporting services.

Tax status

Cato is exempt from federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been designated by the Internal Revenue Service as a publicly supported organization under Section 509(a)(1) of the Code. 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. 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, 2020 and 2019.

Cato files income tax returns in the U.S federal jurisdiction. In accordance with FASB ASC 740 *Income Taxes*, Cato recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. With a few exceptions, Cato is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before fiscal year 2017. Management has evaluated Cato's tax positions and has concluded that Cato has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

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.

Financial instruments and credit risk

Cato's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments, pledges, and accounts receivable. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Cato has never experienced any losses related to these balances. Amounts on deposit in excess of federally insured limits at March 31, 2020 approximate $10 million. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position. Cato's pledges and accounts receivable balances consist primarily of amounts due from individuals and foundations. Historically, Cato has not experienced significant losses related to the notes and pledges receivable balances and, therefore, believes that the credit risk related to them is minimal.

Recently adopted authoritative guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entities expect to be entitled in exchange for those goods or services. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Cato adopted this update, along with all subsequent amendments (collectively, "ASC 606") in 2020 under the modified retrospective method. The update was applied to all contracts that were not completed at the date of initial application. Additionally, Cato applied the practical expedient (i) to account for revenues with similar characteristics as a collective group rather than individually, (ii) to not adjust the transaction price for the effects of significant financing components (if any), and (iii) to not disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations relate to contracts with an expected duration of less than one year. The new guidance was applied to contracts that were not completed as of the adoption date. The adoption of this update did not materially impact the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., ASC 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. Under ASU 2018-08, a refundable advance is recorded when Cato receives assets (i.e. cash) in advance of the satisfaction of the conditions within these arrangements. There was no other effect on the financial statements.

As part of ASU 2018-08, the Organization elected to adopt the standards for “contributions made” using the modified prospective basis. The adoption of this update did not materially impact the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230). The update standardizes how certain transactions should be classified in the statement of cash flows. Cato adopted this standard during the year ended March 31, 2020 with no impact to the statements of cash flows.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*). ASU 2016-02 requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally using the straight-line method. The guidance is effective for Cato for the fiscal year ending March 30, 2023. Early adoption is permitted. In transition, a lessee and a lessor will recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to identifying and classifying leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. Cato is evaluating the effect that adoption of ASU 2016-02 will have on Cato’s financial statements.

In August 2018, FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Changes to Disclosure Requirements for Fair Value Measurement*. The ASU amends the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying and adding certain disclosures. The guidance is effective for Cato’s fiscal year 2021. Management continues to evaluate the potential impact of this update on the Cato’s financial statements.

3. Liquidity and Availability of Resources

Cato regularly monitors liquidity to meet its annual operating budget and other contractual commitments. Cato's Investment Committee monitors excess cash levels and designates a portion of any operating surplus to its brokerage portfolio. This brokerage account may be drawn upon, if necessary, to meet unexpected liquidity needs. Financial assets available for general expenditure within one year of the statement of financial position date consists of the following:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	$ **10,539,521**	$ 6,280,818
Investments	**38,240,882**	38,659,411
Pledges and accounts receivable, net of discount	**3,974,937**	5,830,611
Total financial assets	**52,755,340**	50,770,840
Less amounts unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions – purpose restricted	**(5,313,997)**	(5,160,779)
Net assets with donor restrictions – endowments	**(3,028,158)**	(3,019,180)
Pledges and accounts receivable, net of discount, due in excess of one year	**(930,505)**	(855,267)
Investments related to split-interest agreements	**(260,930)**	(274,604)
Total financial assets available to meet general expenditures within one year	$ **43,221,750**	$ 41,461,010

4. Pledges and Accounts Receivable

Pledges and accounts receivable consist of the following as of March 31:

	2020	2019
Accounts, contributions and other receivables	$ **91,372**	$ 285,531
Pledges receivable	**3,928,061**	5,634,813
Total pledges and accounts receivable	**4,019,433**	5,920,344
Less discounts to net present value	**(44,496)**	(89,733)
Total pledges and accounts receivable, net	**3,974,937**	5,830,611
Less noncurrent pledges receivable due in one to five years	**930,505**	855,267
Current pledges and accounts receivable, net	$ **3,044,432**	$ 4,975,344

Cato applies the fair value guidance for discounting pledges and accounts receivable. Accordingly, receivables are valued using rates on publicly traded debt for assets with similar maturities. The discount rate on contributions receivable range from 2.97% to 4.12% for the years ended March 31, 2020 and 2019.

5. Property and Equipment

Property and equipment consists of the following as of March 31:

	2020	2019
Land	**$ 9,656,037**	$ 9,656,037
Buildings and improvements	**35,203,553**	35,203,553
Audio visual systems	**1,580,710**	1,568,860
Office furniture and equipment	**4,152,044**	4,236,220
Accumulated depreciation and amortization	**(18,753,118)**	(18,040,431)
Property and equipment, net	**$ 31,839,226**	$ 32,624,239

Depreciation and amortization expense for the years ended March 31, 2020 and 2019 was $1,251,850 and $1,243,716, respectively.

6. Investments

Investments are stated at fair value and consists of the following as of March 31:

	2020	2019
Short-term investments		
Money market funds	**$ 5,204,215**	$ 5,180,514
Exchange-traded funds - equity	**5,699,289**	6,598,037
Mutual funds - fixed income	**23,973,328**	23,490,394
Investments, short-term	**$ 34,876,832**	$ 35,268,945

	2020	2019
Long-term investments		
Money market funds	**$ 22,471**	$ 7,670
Exchange-traded funds - equity	**164,694**	298,445
Exchange-traded funds - fixed income	**82,840**	77,069
Mutual funds - equity	**422,068**	397,232
Mutual funds - fixed income	**2,671,977**	2,610,050
Investments, long-term	**$ 3,364,050**	$ 3,390,466

Investment return for the years ended March 31, 2020 and 2019, consists of the following:

		2020		2019
Interest and dividends - investments	$	**1,075,429**	$	920,340
Interest and dividends – cash and cash equivalents		**90,609**		38,796
		1,166,038		959,136
Realized and unrealized (loss) gain on investments, net		**(1,374,002)**		370,634
Total investment return, net	$	**(207,965)**	$	1,329,500

Realized and unrealized (loss) gain on investments are reported net of related expenses, such as custodial, commission, and investment advisory fees. There were no internal management expenses for the years ended March 31, 2020 and 2019.

7. 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 $260,930 and $274,604 at March 31, 2020 and 2019, respectively. The annuity liability is a general obligation of Cato. The net assets without donor restrictions of Cato are available for payment of annuity liabilities.

Contributions received under the charitable gift annuity arrangement are recognized as 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 2.0% to 5.8%, 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, 2020 and 2019:

	2020	2019
Beginning balance	$ 71,654	$ 102,213
New annuities established	5,601	-
Payments made to annuitants	(13,693)	(14,644)
Decrease in liability due to deceased annuitant	-	(26,751)
Adjustments to liability relating to passage of time and other factors	15,598	10,836
Total annuities payable	79,160	71,654
Less current portion	14,224	13,514
Total noncurrent annuities payable	$ 64,936	$ 58,140

8. Net Assets With Donor Restrictions

The composition of net assets with donor restrictions by type as of March 31 is as follows:

	2020	2019
Subject to expenditure for specific purpose:		
Academic Research and Programs	$ 15,726	$ 75,311
Center for Constitutional Studies	718,459	908,860
Center for Educational Freedom	58,902	43,902
Center for Global Liberty and Prosperity	1,159,186	203,542
Center for Monetary and Financial Alternatives	1,470,138	2,031,955
Center for Representative Government	57,122	61,587
Conference and Events	-	25,000
Criminal Justice Project	65,350	132,846
Defense and Foreign Policy Studies	3,722	77,155
Economic Studies	435,064	270,226
Friedman Prize	363,081	390,564
Herbert A. Stiefel Center for Trade Policy Studies	268,393	558,572
Health and Welfare Studies	365,090	-
Libertarianism.org	50,587	-
Remainder Interests	1,875	1,875
Student Programs	281,302	379,384
Subject to passage of time:		
General operations	2,065,500	3,590,664
Endowments (Note 9):		
Subject to spending policy and appropriation:		
Public Policy and Research	3,028,158	3,019,180
Total net assets with donor restrictions	$ 10,407,655	$ 11,770,623

Net assets are released from donor restrictions when expenses satisfying the restricted purposes are incurred or by occurrence of other events specified by the donor. Net assets released from donor restrictions for the years ended March 31, 2020 and 2019 are as follows:

	2020	2019
Subject to expenditure for specific purpose:		
Academic Research and Programs	**$ 59,586**	$ 14,753
Center for Constitutional Studies	**406,755**	414,415
Center for Educational Freedom	**65,000**	121,902
Center for Global Liberty and Prosperity	**877,302**	535,128
Center for Monetary and Financial Alternatives	**1,138,815**	1,285,653
Center for Privacy and Homeland Security	**50,000**	100,000
Center for Representative Government	**4,465**	82,954
Center for the Study of Science	**-**	75,000
Conference and Events	**770,485**	7,952
Criminal Justice Project	**67,496**	65,005
Defense and Foreign Policy Studies	**112,728**	258,817
Digital Marketing and Media	**50,000**	110,700
Economic Studies	**200,163**	200,889
External Affairs	**2,500**	-
Friedman Prize	**27,482**	468,402
Health and Welfare Studies	**123,542**	-
Herbert A. Stiefel Center for Trade Policy Studies	**500,180**	376,706
Libertarianism.org	**49,413**	100,000
Regulatory Studies	**100,000**	-
Student Programs	**203,345**	136,277
Subject to passage of time:		
General operations	**3,590,164**	484,919
Total net assets released from donor restrictions	**$ 8,399,421**	$ 4,839,472

9. Endowments

Endowment funds 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 was 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 restricted until expenses have been incurred, thus releasing the income from restriction.

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 in perpetuity (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 retained in perpetuity is subject to appropriation 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

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.

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 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 shall be equal to one percent of the endowment's total asset value.

Funds with deficiencies

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 (underwater endowments). Cato has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless the donor stipulates the contrary. As a result of this interpretation, 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. As of March 31, 2020, deficiencies of this nature exist in one donor-restricted endowment fund, which has an original gift value of $1,000,000, a current fair value of $958,014, and a deficiency of $41,986. There were no funds with deficiencies as of March 31, 2019.

Cato's endowment net assets consist of the following as of March 31, 2020:

	Without donor restrictions	With donor restrictions	Total
Donor restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	**$ -**	**$ 3,010,097**	**$ 3,010,097**
Accumulated investment earnings	**-**	**18,061**	**18,061**
Total endowment net assets	**$ -**	**$ 3,028,158**	**$ 3,028,158**

Cato's endowment net assets consist of the following as of March 31, 2019:

	Without donor restrictions	With donor restrictions	Total
Donor restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 3,010,097	$ 3,010,097
Accumulated investment earnings	-	9,083	9,083
Total endowment net assets	$ -	$ 3,019,180	$ 3,019,180

The changes in the donor-restricted endowment net assets for the years ended March 31, 2020 and 2019 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, March 31, 2018	$ (10,018)	$ 3,010,097	$ 3,000,079
Reclassification of underwater funds due to adoption of ASU 2016-14	10,018	(10,018)	-
Investment return, net	-	133,831	133,831
Appropriation based on spending policy	-	(114,730)	(114,730)
Endowment net assets, March 31, 2019	-	3,019,180	3,019,180
Investment return, net	-	125,240	125,240
Appropriation based on spending policy	-	(116,262)	(116,262)
Endowment net assets, March 31, 2020	$ -	$ 3,028,158	$ 3,028,158

10. Employee Benefit Plans

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 $754,555 and $734,078, respectively, for the years ended March 31, 2020 and 2019, respectively.

Cato maintains a self-insurance program for its employees' health care costs. Cato is liable for losses on claims up to $50,000 per claim for 2020 and 2019. 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, 2020 and 2019, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was $100,370 and $95,964 at March 31, 2020 and 2019, respectively, and is reported as accounts payable and accrued expenses in the statements of financial position.

11. Commitments and Risks

Capital leases

Cato leases certain equipment under capital leases that expire at various dates through 2024. The future minimum lease payments under capital leases in each of the years subsequent to March 31, 2020 are as follows:

2021	$	154,684
2022		170,769
2023		102,638
2024		16,780
Total minimum future lease payments		444,871
Less amounts representing interest		(7,807)
Total present value of net minimum lease payments		437,064
Less current portion		150,739
Total noncurrent capital lease obligations	$	286,325

Capitalized leased equipment of $615,995 and $753,812 is included with property and equipment at March 31, 2020 and 2019, respectively, with accumulated depreciation of $169,043 and $567,139, respectively. Interest expense incurred totaled $3,681 and $7,244 at March 31, 2020 and 2019, respectively.

Conference commitments

Cato has contracts through 2022 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, 2020 is approximately $485,000. As of May 12, 2020, Cato was released from approximately $189,000 of commitments due to event cancellations that were not rescheduled. Cato postponed several events at year end and entered into new agreements, resulting in a deferral of commitments for the postponed events.

Risks and uncertainties

On January 30, 2020, the Director-General of the World Health Organization (WHO) declared the novel coronavirus outbreak a public health emergency of international concern (PHEIC), WHO's highest level of alarm. On March 11, 2020, the WHO declared the novel coronavirus a global pandemic.

Subsequent to March 31, 2020, Cato rescheduled one of its premier events, the biennial Milton Friedman Prize for Advancing Liberty award dinner, to fiscal year 2022. The change in net assets for fiscal year 2021 is not expected to be impacted by the postponement of this event.

The extent of the impact of the COVID-19 outbreak on the operational and financial performance of Cato will depend on certain developments, including the duration and spread of the outbreak. Prolonged travel and social gathering restrictions could negatively impact the fiscal outlook for Cato. In addition, Cato depends on funds from contributions and grants which may decrease or not be available. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of COVID-19. Nevertheless, COVID-19 presents potential material uncertainty and risk with respect to Cato, its performance, and its financial results.

On March 27, 2020, the President of the United States signed into law the “Coronavirus Aid, Relief and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

Cato continues to examine the impact that the CARES Act may have on its operations. Cato leadership has publicly stated that the Institute does not intend to apply for any economic assistance through the Paycheck Protection Program, established by the CARES Act on March 27, 2020. Management continues to monitor the impact the COVID-19 pandemic could potentially have on its operations and financial position.

12. Joint Cost Activities

Cato has incurred and allocated joint costs of fundraising in disseminating information to the general public and supporters in twelve direct mailings during the year ended March 31, 2020 and three direct mailings during the year ended March 31, 2019. For the years ended March 31, 2020 and 2019, Cato incurred total direct mail program costs of $1,032,119 and $917,903, respectively, for informational materials and activities that included fundraising appeals, which were allocated as follows in accordance with ASC 958-720, *Not-for-Profit Entities - Other Expenses*:

		2020		2019
Public policy & research	**$**	**765,707**	$	653,967
Fundraising		**266,412**		263,936
	$	**1,032,119**	$	917,903

13. Donated Services

For the years ended March 31, 2020 and 2019, Cato received benefit from donated advertising services of approximately $426,256 and $322,000, respectively. Additionally, for the years ended March 31, 2020 and 2019, Cato received other in-kind donations of approximately $51,770 and $421,000, 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.

14. 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, 2020 and 2019 are as follows:

			Fair value measurements at reporting date using				
		2020 Total		**Quoted prices in active markets for identical assets/ liabilities Level 1**		**Significant other observable inputs Level 2**		**Significant unobservable inputs Level 3**
Assets:								
Money market funds	**$**	**5,226,686**	**$**	**5,226,686**	**$**	**-**	**$**	**-**
Exchange - traded funds – equity		**5,863,983**		**5,863,983**		**-**		**-**
Exchange-traded funds – fixed income		**82,840**		**82,840**		**-**		**-**
Mutual funds – equity		**422,068**		**422,068**		**-**		**-**
Mutual funds – fixed income		**26,645,305**		**26,645,305**		**-**		**-**
Total investments	**$**	**38,240,882**		**38,240,882**	**$**	**-**	**$**	**-**

		Fair value measurements at reporting date using		
Description	2019 Total	Quoted prices in active markets for identical assets/ liabilities Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Money market funds	$ 5,188,184	$ 5,188,184	$ -	$ -
Exchange - traded funds – equity	6,896,482	6,896,482	-	-
Exchange-traded funds – fixed income	77,069	77,069	-	-
Mutual funds – equity	397,232	397,232	-	-
Mutual funds – fixed income	26,100,444	26,100,444	-	-
Total investments	$ 38,659,411	38,659,411	$ -	$ -

ASC 820 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. 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. There have been no changes in the valuation methodologies during the current year.

15. Subsequent Events

Cato has evaluated its March 31, 2020 financial statements for subsequent events through September 15, 2020, the date the financial statements were available to be issued. Other than the matters described in Note 11, Cato is not aware of any subsequent events which would require recognition or disclosure in the financial statements.