

Cato Institute

Financial Statements Years Ended March 31, 2022 and 2021

Cato Institute

Financial Statements
Years Ended March 31, 2022 and 2021

Cato Institute

Contents

Independent Auditor's Report	3-4
Financial Statements	
Statements of Financial Position	5
Statements of Activities and Change in Net Assets	6-7
Statements of Functional Expenses	8-9
Statements of Cash Flows	10
Notes to the Financial Statements	11-28



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.

Opinion

We have audited the accompanying financial statements of **Cato Institute** ("Cato"), which comprise the statements of financial position as of March 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cato as of March 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Cato and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cato's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cato's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cato's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

McLean, Virginia
September 9, 2022

Financial Statements

Cato Institute

Statements of Financial Position

<i>March 31,</i>	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 36,337,364	\$ 23,037,847
Investments, short-term	42,819,516	40,460,455
Pledges and accounts receivable, current portion, net	761,556	3,066,900
Inventory	254,069	218,926
Prepaid expenses, deposits, and other current assets	1,805,359	581,021
Total current assets	81,977,864	67,365,149
Property and equipment, net	29,548,093	30,640,495
Pledges receivable, net of discount and current portion	1,833,983	2,238,843
Investments, long-term	3,482,343	3,570,984
Remainder interests	1,875	1,875
Total assets	\$ 116,844,158	\$ 103,817,346
Liabilities and Net Assets		
Current liabilities		
Capital lease obligations, current portion	\$ 129,269	\$ 174,660
Accounts payable and accrued expenses	1,945,455	1,565,803
Deferred revenue	5,185	101,205
Refundable donor advances	550,741	677,776
Annuities payable, current portion	4,230	11,579
Total current liabilities	2,634,880	2,531,023
Noncurrent liabilities		
Annuities payable, net of current portion	25,794	47,967
Capital lease obligations, net of current portion	23,134	145,241
Total liabilities	2,683,808	2,724,231
Commitments and Contingencies		
Net Assets		
Without donor restrictions		
Undesignated	65,813,762	85,656,516
Board designated	37,533,600	-
Total net assets without donor restrictions	103,347,362	85,656,516
With donor restrictions	10,812,988	15,436,599
Total net assets	114,160,350	101,093,115
Total liabilities and net assets	\$ 116,844,158	\$ 103,817,346

See accompanying notes to the financial statements.

Cato Institute

Statement of Activities and Change in Net Assets

<i>Year ended March 31, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Contributions	\$ 40,316,070	\$ 4,419,660	\$ 44,735,730
Books and other publications	523,055	-	523,055
Conference Fees	253,090	-	253,090
Change in split-interest agreements	23,820	-	23,820
Investment return, net	(521,830)	-	(521,830)
Other income	132,506	-	132,506
Net assets released from restrictions	9,043,271	(9,043,271)	-
Total public support and revenue	49,769,982	(4,623,611)	45,146,371
Expenses			
Program services	26,046,031	-	26,046,031
Supporting services			
Management and general	2,332,176	-	2,332,176
Fundraising	3,700,929	-	3,700,929
Total expenses	32,079,136	-	32,079,136
Change in net assets	17,690,846	(4,623,611)	13,067,235
Net assets, beginning of the year	85,656,516	15,436,599	101,093,115
Net assets, end of the year	\$ 103,347,362	\$ 10,812,988	\$ 114,160,350

See accompanying notes to the financial statements.

Cato Institute

Statement of Activities and Change in Net Assets

<i>Year ended March 31, 2021</i>	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Contributions	\$ 30,669,985	\$ 11,457,660	\$ 42,127,645
Books and other publications	339,496	-	339,496
Change in split-interest agreements	7,076	-	7,076
Investment return, net	5,903,714	-	5,903,714
Other income	144,100	-	144,100
Net assets released from restrictions	6,428,716	(6,428,716)	-
Total public support and revenue	43,493,087	5,028,944	48,522,031
Expenses			
Program services	23,473,565	-	23,473,565
Supporting services			
Management and general	2,454,561	-	2,454,561
Fundraising	2,892,081	-	2,892,081
Total expenses	28,820,207	-	28,820,207
Change in net assets	14,672,880	5,028,944	19,701,824
Net assets, beginning of the year	70,983,636	10,407,655	81,391,291
Net assets, end of the year	\$ 85,656,516	\$ 15,436,599	\$ 101,093,115

See accompanying notes to the financial statements.

Cato Institute

Statement of Functional Expenses

	Program Services				Supporting Services			2022 Total
	Public Policy Research	Communications & External Affairs	Educational Programs	Total Program Services	Management & General	Fundraising	Total Supporting Services	
<i>Year ended March 31, 2022</i>								
Salaries	\$ 10,182,420	\$ 1,374,513	\$ 1,414,579	\$ 12,971,512	\$ 1,162,383	\$ 1,320,086	\$ 2,482,469	\$ 15,453,981
Benefits & taxes	2,235,735	301,796	282,305	2,819,836	255,195	289,846	545,041	3,364,877
Professional services & fees	1,503,245	25,840	392,764	1,921,849	340,334	564,832	905,166	2,827,015
Communications & platform technology	331,121	36,789	150,398	518,308	63,771	62,546	126,317	644,625
Printing, publication & promotion	1,532,710	57,248	219,022	1,808,980	9,473	418,160	427,633	2,236,613
Postage, delivery & order fulfillment	936,167	10,694	50,762	997,623	11,658	251,710	263,368	1,260,991
Catering, audio visual & meeting	51,492	35,133	1,078,071	1,164,696	52,755	178,098	230,853	1,395,549
Travel	114,376	50,369	387,679	552,424	8,621	174,142	182,763	735,187
Office supplies, fees & other misc.	555,154	102,127	161,414	818,695	237,094	138,775	375,869	1,194,564
Depreciation, insurance, occupancy & taxes	1,563,914	177,511	403,683	2,145,108	190,892	302,734	493,626	2,638,734
Grants	10,000	5,000	312,000	327,000	-	-	-	327,000
Total expenses	\$ 19,016,334	\$ 2,177,020	\$ 4,852,677	\$ 26,046,031	\$ 2,332,176	\$ 3,700,929	\$ 6,033,105	\$ 32,079,136

See accompanying notes to the financial statements.

Cato Institute

Statement of Functional Expenses

	Program Services				Supporting Services			2021 Total
	Public Policy Research	Communications & External Affairs	Educational Programs	Total Program Services	Management & General	Fundraising	Total Supporting Services	
<i>Year ended March 31, 2021</i>								
Salaries	\$ 10,431,636	\$ 1,400,339	\$ 1,188,785	\$ 13,020,760	\$ 1,302,513	\$ 1,369,086	\$ 2,671,599	\$ 15,692,359
Benefits & taxes	2,029,239	271,788	205,923	2,506,950	251,721	264,755	516,476	3,023,426
Professional services & fees	1,500,445	19,209	221,297	1,740,951	284,776	419,267	704,043	2,444,994
Communications & platform technology	375,396	38,958	74,268	488,622	47,332	60,444	107,776	596,398
Printing, publication & promotion	1,694,550	61,802	77,935	1,834,287	28,948	279,196	308,144	2,142,431
Postage, delivery & order fulfillment	1,040,379	5,855	29,195	1,075,429	14,030	187,808	201,838	1,277,267
Catering, audio visual & meeting	44,868	12,955	41,706	99,529	85	180	265	99,794
Travel	14,643	2,362	2,732	19,737	354	5,118	5,472	25,209
Office supplies, fees & other misc.	448,857	67,221	37,731	553,809	302,815	32,365	335,180	888,989
Depreciation, insurance, occupancy & taxes	1,718,617	177,213	178,775	2,074,605	221,987	273,862	495,849	2,570,454
Grants	41,386	-	17,500	58,886	-	-	-	58,886
Total expenses	\$ 19,340,016	\$ 2,057,702	\$ 2,075,847	\$ 23,473,565	\$ 2,454,561	\$ 2,892,081	\$ 5,346,642	\$ 28,820,207

See accompanying notes to the financial statements.

Cato Institute

Statements of Cash Flows

<i>Years ended March 31,</i>	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 13,067,235	\$ 19,701,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,289,653	1,276,559
Realized and unrealized loss (gain) on investments, net	1,488,894	(5,013,771)
Loss on disposal of property and equipment	14,204	-
Decrease (increase) in assets		
Pledges and accounts receivable	2,710,204	(1,330,806)
Inventory	(35,143)	305,052
Prepaid expenses, deposits and other current assets	(1,224,338)	(116,078)
Increase (decrease) in liabilities		
Annuities payable	(23,820)	(7,078)
Accounts payable and accrued expenses	379,652	(899,399)
Deferred revenue	(96,020)	5,501
Refundable donor advances	(127,035)	(439,165)
Net cash provided by operating activities	17,443,486	13,482,639
Cash flows from investing activities:		
Purchases of property and equipment	(211,455)	(77,828)
Proceeds from sale of investments	127,589	167,119
Purchases of investments	(3,886,903)	(943,905)
Net cash used in investing activities	(3,970,769)	(854,614)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(167,498)	(117,163)
Payments on annuities	(5,702)	(12,536)
Net cash used in financing activities	(173,200)	(129,699)
Net increase in cash and cash equivalents	13,299,517	12,498,326
Cash and cash equivalents at the beginning of the year	23,037,847	10,539,521
Cash and cash equivalents at the end of the year	\$ 36,337,364	\$ 23,037,847
Supplemental cash flow information:		
Interest paid	\$ (3,174)	\$ (4,384)

See accompanying notes to the financial statements.

Cato Institute

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, our 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 over 13 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*.

Cash and cash equivalents

Cash equivalents as of March 31, 2022 and 2021 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

Cato Institute

Notes to the Financial Statements

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, 2022 and 2021.

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 (1 to 2 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 \$254,069 and \$218,926 at March 31, 2022 and 2021, 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, 2022 and 2021.

Cato Institute

Notes to the Financial Statements

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.

Cato Institute

Notes to the Financial Statements

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 contributions from individuals, foundations, and corporations in support of its 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.

As of March 31, 2022 and 2021, Cato had remaining available grant balances on conditional contributions of \$791,520 and \$1,225,900, respectively. Of this amount, \$550,741 and \$677,776 are recognized as refundable donor advances within the statements of financial position as of March 31, 2022 and 2021, respectively. These award balances will be recognized as revenue as the conditions are met, generally as qualifying expenditures are incurred and as milestones are satisfied.

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 printing, publication & promotion 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

Cato Institute

Notes to the Financial Statements

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, 2022 and 2021.

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 2019. 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 as of March 31, 2022 approximate \$34 million and \$22 million, respectively. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the

Cato Institute

Notes to the Financial Statements

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.

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 this new standard will have on Cato's financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU improves the transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The ASU requires that a nonprofit present contributed nonfinancial assets as a separate line item in the statement of activities apart from contributions of cash or other financial assets. Information that shows the contributed nonfinancial assets disaggregated by category will be required to be disclosed. In addition, the ASU requires that for each type of contributed nonfinancial asset the following will be disclosed: (a) policy (if any) on liquidating rather than using the contributed nonfinancial assets, (b) qualitative considerations on whether the contributed nonfinancial assets were liquidated or used during the reporting period and, if used, a description of how the asset was employed should be included, (c) any donor imposed restrictions related to contributed nonfinancial assets, (d) valuation methods and inputs utilized to determine a fair value measure at initial recognition, and (e) the principal or most advantageous market utilized to calculate fair value if it is a market in which the nonprofit is restricted by the donor from selling or utilizing the contributed nonfinancial assets. The amendments in the ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Cato is evaluating the effect that adoption of this new standard will have on Cato's financial statements.

Cato Institute

Notes to the 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:

<i>March 31,</i>	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 36,337,364	\$ 23,037,847
Investments	46,301,859	44,031,439
Pledges and accounts receivable, net of discount	2,595,539	5,305,743
Total financial assets	85,234,762	72,375,029
Less amounts unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions - purpose restricted	(7,571,949)	(12,184,252)
Net assets with donor restrictions - endowments	(3,241,039)	(3,252,347)
Net assets without donor restrictions - board designated	(37,533,600)	-
Pledges and accounts receivable, net of discount, due in excess of one year	(1,833,983)	(2,238,843)
Investments related to split-interest agreements	(241,304)	(318,636)
Total financial assets available to meet general expenditures within one year	\$ 34,812,887	\$ 54,380,951

4. Pledges and Accounts Receivable

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

	2022	2021
Accounts, contributions and other receivables	\$ 11,462	\$ 56,981
Pledges receivable	2,645,094	5,344,920
Total pledges and accounts receivable	2,656,556	5,401,901
Less discounts to net present value	(61,017)	(96,158)
Total pledges and accounts receivable, net	2,595,539	5,305,743
Less noncurrent pledges receivable due in one to five years	(1,833,983)	(2,238,843)
Current pledges and accounts receivable, net	\$ 761,556	\$ 3,066,900

Cato Institute

Notes to the Financial Statements

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 rates on contributions receivable ranges from 1.28% to 4.12% for the years ended March 31, 2022 and 2021.

5. Property and Equipment

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

	2022	2021
Land	\$ 9,656,037	\$ 9,656,037
Buildings and improvements	35,429,598	35,249,354
Audio visual systems	1,580,710	1,580,710
Office furniture and equipment	4,070,402	4,178,675
	<u>50,736,747</u>	<u>50,664,776</u>
Less accumulated depreciation and amortization	(21,188,654)	(20,024,281)
Property and equipment, net	<u>\$ 29,548,093</u>	<u>\$ 30,640,495</u>

Depreciation and amortization expense for the years ended March 31, 2022 and 2021 was \$1,289,653 and \$1,276,559, respectively.

6. Investments

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

	2022	2021
Short-term investments		
Money market funds	\$ 5,285,916	\$ 5,285,009
Mutual funds - equity	15,035,618	13,687,930
Mutual funds - fixed income	22,497,982	21,487,516
Investments, short-term	<u>\$ 42,819,516</u>	<u>\$ 40,460,455</u>
	2022	2021
Long-term investments		
Money market funds	\$ 20,452	\$ 20,204
Exchange-traded funds - equity	158,628	164,571
Exchange-traded funds - fixed income	16,800	14,876
Mutual funds - equity	2,308,235	113,594
Mutual funds - fixed income	978,228	3,257,739
Investments, long-term	<u>\$ 3,482,343</u>	<u>\$ 3,570,984</u>

Cato Institute

Notes to the Financial Statements

Investment return for the years ended March 31, 2022 and 2021, consists of the following:

	2022	2021
Interest and dividends - investments	\$ 886,903	\$ 837,109
Interest and dividends - cash and cash equivalents	80,161	52,834
	967,064	889,943
Realized and unrealized (loss) gain on investments, net	(1,488,894)	5,013,771
Total investment return, net	\$ (521,830)	\$ 5,903,714

Realized and unrealized gain (loss) on investments is 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, 2022 and 2021.

7. 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 as of March 31, 2022 and 2021 are as follows:

		Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets/liabilities Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
2022 Total				
Assets:				
Money market funds	\$ 5,306,368	\$ 5,306,368	\$ -	\$ -
Exchange - traded funds - equity	158,628	158,628	-	-
Exchange-traded funds - fixed income	16,800	16,800	-	-
Mutual funds - equity	17,343,853	17,343,853	-	-
Mutual funds - fixed income	23,476,210	23,476,210	-	-
Total investments	\$ 46,301,859	\$ 46,301,859	\$ -	\$ -

Cato Institute

Notes to the Financial Statements

	2021 Total	Fair value measurements at reporting date using		
		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	\$ 5,305,213	\$ 5,305,213	\$ -	\$ -
Exchange - traded funds - equity	164,571	164,571	-	-
Exchange-traded funds - fixed income	14,876	14,876	-	-
Mutual funds - equity	13,801,524	13,801,524	-	-
Mutual funds - fixed income	24,745,255	24,745,255	-	-
Total investments	\$ 44,031,439	\$ 44,031,439	\$ -	\$ -

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.

8. 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 \$241,304 and \$318,636 as of March 31, 2022 and 2021, 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.

Cato Institute

Notes to the Financial Statements

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 5.8% to 7.1%, 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, 2022 and 2021:

	2022	2021
Beginning balance	\$ 59,546	\$ 79,160
New annuities established	-	-
Payments made to annuitants	(5,703)	(12,536)
Decrease in liability due to deceased annuitant	(29,188)	(10,774)
Adjustments to liability relating to passage of time and other factors	5,369	3,696
Total annuities payable	30,024	59,546
Less current portion	(4,230)	(11,579)
Total noncurrent annuities payable	\$ 25,794	\$ 47,967

9. Net Assets Without Donor Restrictions - Board Designated Net Assets

Board designated net assets consist of the following as of March 31:

	2022	2021
Reserves for Expansion and Contingencies	\$ 37,533,600	\$ -
Total net assets without donor restrictions - board designated	\$ 37,533,600	\$ -

In May 2021, the board of directors established a reserve fund under the title *Reserves for Expansion and Contingencies* to be managed by the Investment Committee. Annual spending from the Reserves shall be authorized in amounts not to exceed 10% of the market value of the Reserves as of March 31 of each year.

Cato Institute

Notes to the Financial Statements

10. Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specific purpose:		
Academic Research and Programs	\$ 15,726	\$ 15,726
Center for Constitutional Studies	353,519	574,750
Center for Educational Freedom	43,902	58,902
Center for Global Liberty and Prosperity	-	201,870
HumanProgress.org	406,229	758,163
Immigration Studies	108,571	242,156
Center for Monetary and Financial Alternatives	520,127	1,350,992
Center for Representative Government	-	96,745
Conference and Events	-	50,000
Criminal Justice Project	-	150,000
Defense and Foreign Policy Studies	-	41,371
Economic Studies	520,824	330,668
Friedman Prize	162,298	854,281
Herbert A. Stiefel Center for Trade Policy Studies	143,661	249,561
Health and Welfare Studies	25,000	240,285
Regulatory Studies	29,646	-
Civil Liberties	-	14,224
Libertarianism.org	-	197,870
Project Sphere	4,227,928	5,139,069
Remainder Interests	1,875	1,875
Student Programs	124,425	729,308
Technology: Content Lab	888,218	886,436
Endowments (Note 11):		
Subject to spending policy and appropriation:		
Public Policy and Research	3,241,039	3,252,347
Total net assets with donor restrictions	\$ 10,812,988	\$ 15,436,599

Cato Institute

Notes to the Financial Statements

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, 2022 and 2021 are as follows:

	2022	2021
Subject to expenditure for specific purpose:		
Center for Constitutional Studies	\$ 331,231	\$ 190,877
Center for Educational Freedom	91,000	89,500
Center for Global Liberty and Prosperity	871,250	233,042
HumanProgress.org	686,935	375,994
Immigration Studies	481,885	349,668
Center for Monetary and Financial Alternatives	1,284,510	863,967
Center for Representative Government	96,745	51,377
Communications: Multimedia	3,500	-
Conference and Events	50,000	-
Criminal Justice Project	201,200	67,350
Defense and Foreign Policy Studies	66,371	54,337
Development	4,990	-
Technology: Content Lab	-	27,600
Economic Studies	439,845	274,396
Friedman Prize	770,283	3,000
General Policy	4,050	125,000
Health and Welfare Studies	490,255	125,805
Herbert A. Stiefel Center for Trade Policy Studies	215,890	168,832
Civil Liberties	14,225	145,776
Libertarianism.org	299,651	618,254
Project Sphere	1,822,735	390,110
Regulatory Studies	170,354	70,000
Student Programs	646,366	138,331
Subject to passage of time:		
General operations	-	2,065,500
Total net assets released from donor restrictions	\$ 9,043,271	\$ 6,428,716

11. 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 Robert A. Levy Center 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 were used for Cato's Defense and Foreign Policy Studies. Commencing June 2020, the donors requested that the funds support Cato's Center for Monetary and Financial Alternatives. The earnings are considered restricted until expenses have been incurred, thus releasing the income from restriction.

Cato Institute

Notes to the Financial Statements

Interpretation of relevant law

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

1. The duration and preservation of the endowment 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. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment funds, giving due consideration to the effect that such alternatives may have on Cato
8. The Endowment Spending Policy 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 Robert A. Levy Center for 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.

Cato Institute

Notes to the Financial Statements

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 UPMIFA requires the organization to retain as a fund of perpetual duration (underwater endowments). Cato has interpreted UPMIFA 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, 2022 and March 31, 2021, there were no funds with deficiencies.

Cato's endowment net assets consist of the following as of March 31, 2022:

	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	-	230,942	230,942
Total endowment net assets	\$ -	\$ 3,241,039	\$ 3,241,039

Cato's endowment net assets consist of the following as of March 31, 2021:

	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	-	242,250	242,250
Total endowment net assets	\$ -	\$ 3,252,347	\$ 3,252,347

Cato Institute

Notes to the Financial Statements

The changes in the donor-restricted endowment net assets for the years ended March 31, 2022 and 2021 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, March 31, 2020	\$ -	\$ 3,028,158	\$ 3,028,158
Investment return, net	-	264,512	264,512
Appropriation based on spending policy	-	(40,323)	(40,323)
Endowment net assets, March 31, 2021	-	3,252,347	3,252,347
Investment return, net	-	31,036	31,036
Appropriation based on spending policy	-	(42,344)	(42,344)
Endowment net assets, March 31, 2022	\$ -	\$ 3,241,039	\$ 3,241,039

12. 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 \$839,284 and \$779,056 for the years ended March 31, 2022 and 2021, 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 2022 and 2021. 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, 2022 and 2021, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$74,709 and \$103,779 as of March 31, 2022 and 2021, respectively, and is reported as accounts payable and accrued expenses in the statements of financial position.

Cato Institute

Notes to the Financial Statements

13. Commitments and Contingencies

Capital leases

Cato leases certain equipment under capital leases that expire at various dates through 2024. The future minimum lease payments under capital leases are as follows:

Years ended March 31,

2023	\$	129,354
2024		23,970
Total minimum future lease payments		153,324
Less amounts representing interest		(921)
Total present value of net minimum lease payments		152,403
Less current portion		129,269
Total noncurrent capital lease obligations		\$ 23,134

Capitalized leased equipment of \$615,995 is included with property and equipment as of March 31, 2022 and 2021, with accumulated depreciation of \$522,440 and \$345,742, respectively. Interest expense incurred totaled \$3,174 and \$4,384 for the years ended March 31, 2022 and 2021, respectively.

Conference commitments

Cato has contracts through 2022 with 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, 2022 is approximately \$240,817.

Risks and uncertainties

Cato's financial condition, operations and liquidity have not been significantly impacted by the global pandemic. The global pandemic of COVID-19 continues to rapidly evolve, and Cato will continue to monitor the COVID-19 situation closely. Although Cato cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse impact on Cato's results of future operations, financial position, and liquidity in fiscal year 2023. Management continues to monitor the impact the COVID-19 pandemic could potentially have on its operations and financial position.

14. Joint Cost Activities

Cato has incurred and allocated joint costs of fundraising in disseminating information to the general public and supporters in five direct mailings during the year ended March 31, 2022 and eleven direct mailings during the year ended March 31, 2021. For the years ended March 31, 2022 and 2021, Cato incurred total direct mail program costs of \$1,385,821 and \$1,609,806, respectively, for

Cato Institute

Notes to the Financial Statements

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*:

	2022	2021
Public policy & research	\$ 1,001,995	\$ 1,297,467
Fundraising	383,826	312,339
	\$ 1,385,821	\$ 1,609,806

15. Donated Services

For the years ended March 31, 2022 and 2021, Cato received benefit from donated advertising services of approximately \$469,374 and \$477,593, respectively. Additionally, for the years ended March 31, 2022 and 2021, Cato received other in-kind donated services of approximately \$0 and \$3,000, 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.

16. Subsequent Events

Cato has evaluated its March 31, 2022 financial statements for subsequent events through September 9, 2022, the date the financial statements were available to be issued. Cato is not aware of any subsequent events which would require recognition or disclosure in the financial statements.