Financial Statements and Independent Auditor's Report

March 31, 2019 and 2018



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Independent Auditor's Report

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

We have audited the accompanying financial statements of Cato Institute ("Cato"), which comprise the statements of financial position as of March 31, 2019 and 2018, the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the statement of functional expenses for the year ended March 31, 2019.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cato Institute as of March 31, 2019 and 2018, 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.



Emphasis of Matter - Adoption of New Accounting Standard

As discussed in Note 2, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities, as of and for the year ended March 31, 2019. The requirements of the ASU have been applied retrospectively to all periods presented except the statement of functional expenses and disclosures of liquidity and availability of resources as permitted by the standard. The statement of functional expenses includes certain prior-year summarized comparative information, as permitted by ASU 2016-14 in the year of adoption. Our opinion is not modified with respect to this matter.

Bethesda, Maryland August 19, 2019

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Statements of Financial Position March 31, 2019 and 2018

<u>Assets</u>

	2019	2018
Current assets Cash and cash equivalents Investments, short-term Pledges, bequests and accounts receivable, current portion, net Inventory Prepaid expenses, deposits and other current assets	\$ 6,280,818 35,268,945 4,975,344 296,610 682,313	\$ 12,173,496 27,723,594 5,830,586 163,197 551,832
Total current assets	47,504,030	46,442,705
Property and equipment, net	32,624,239	33,574,881
Pledges receivable, net of discount and current portion	855,267	1,422,723
Investments, long-term	3,390,466	3,412,347
Remainder interests	1,875	1,875
	\$ 84,375,877	\$ 84,854,531
Liabilities and Net Assets		
Current liabilities Capital lease obligations, current portion Accounts payable and accrued expenses Deferred revenue Annuities payable, current portion	\$ 57,089 2,464,969 231,459 13,514	\$ 163,628 2,462,137 512,536 17,224
Total current liabilities	2,767,031	3,155,525
Long-term liabilities Annuities payable, net of current portion Capital lease obligations, net of current portion	58,140 128,767	84,989 193,527
Total liabilities	2,953,938	3,434,041
Net assets Without donor restrictions With donor restrictions	69,651,316 11,770,623	71,788,865 9,631,625
Total net assets	81,421,939	81,420,490
	\$ 84,375,877	\$ 84,854,531

Statement of Activities and Change in Net Assets Year Ended March 31, 2019

	Without Donor Restrictions		Vith Donor Restrictions	 Total
Public support and revenue Contributions Books and other publications Conference fees Change in split-interest agreements Interest and dividends Realized and unrealized gain on investments Other income Net assets released from restrictions - satisfaction of program restrictions	\$	22,287,746 303,428 386,600 15,915 867,210 328,459 278,992 4,839,472	\$ 6,844,639 - - - 91,926 41,905 - (4,839,472)	\$ 29,132,385 303,428 386,600 15,915 959,136 370,364 278,992
Total public support and revenue		29,307,822	2,138,998	31,446,820
Expenses Program services Supporting services Management and general Fundraising		25,569,278 2,355,476 3,520,617		25,569,278 2,355,476 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 year		71,788,865	 9,631,625	81,420,490
Net assets, end of year	\$	69,651,316	\$ 11,770,623	\$ 81,421,939

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

		ithout Donor Restrictions		With Donor Restrictions		Total
Public support and revenue						
Contributions	\$	32,420,358	\$	3,047,475	\$	35,467,833
Books and other publications	Ψ	282,486	Ψ	-	Ψ	282,486
Conference fees		638,963		_		638,963
Change in split-interest agreements		(4,526)		-		(4,526)
Interest and dividends		560,907		86,363		647,270
Realized and unrealized loss on						
investments		(297,244)		(57,647)		(354,891)
Other income		259,387		-		259,387
Loss on write-off of pledge receivable		-		(225,000)		(225,000)
Net assets released from restrictions -						
satisfaction of program restrictions		3,316,168		(3,316,168)		-
Total public support and revenue		37,176,499		(464,977)		36,711,522
_						
Expenses		04 040 007				04 040 007
Program services		24,242,027		-		24,242,027
Supporting services		0.075.400				0.075.400
Management and general Fundraising		2,275,403		-		2,275,403
rundraising		4,488,203	-			4,488,203
Total expenses		31,005,633		_		31,005,633
rotar expenses		01,000,000		_		01,000,000
Change in net assets		6,170,866		(464,977)		5,705,889
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Net assets, beginning of year		65,617,999		10,096,602		75,714,601
Net assets, end of year	\$	71,788,865	\$	9,631,625	\$	81,420,490

Statement of Functional Expenses Year Ended March 31, 2019, with Comparative Totals for 2018

		Program S	ervic	es			Supporting Services															
	olic Policy & Research	 munications & ernal Affairs	Educational Pro								Educational Prog		Total Program Services		Management and general		Fundraising		Total Supporting Services		 2019 Total	 2018 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	\$ 14,291,490								
Benefits & taxes	2,209,144	374,898		224,508		2,808,550		264,408		327,572		591,980	3,400,530	3,198,154								
Professional services & fees	1,459,988	22,595		202,554		1,685,137		260,112		198,364		458,476	2,143,613	2,528,547								
Communications & platform technology	588,822	86,642		140,110		815,574		76,592		138,413		215,005	1,030,579	1,034,332								
Printing, publication & promotion	1,321,828	87,516		64,133		1,473,477		5,884		413,950		419,834	1,893,311	1,610,150								
Postage, delivery & order fulfillment	853,818	11,217		91,684		956,719		9,627		188,800		198,427	1,155,146	1,243,988								
Catering, audio visual & meeting	227,785	104,274		1,143,235		1,475,294		46,760		126,554		173,314	1,648,608	1,795,772								
Travel	364,587	74,920		493,835		933,342		123,190		238,154		361,344	1,294,686	1,111,324								
Office supplies, fees, & other misc.	424,204	117,468		215,156		756,828		182,952		128,498		311,450	1,068,278	1,511,563								
Depreciation, insurance, occupancy, taxes	1,534,142	225,096		364,782		2,124,020		252,150		355,639		607,789	2,731,809	2,568,313								
Grants	 37,000	 		260,000	_	297,000				-			297,000	 112,000								
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	\$ 31,005,633								

Statements of Cash Flows Years Ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities Change in net assets Adjustments to reconcile change in net assets to net cash provided by operating activities	\$ 1,449	\$ 5,705,889
Loss on disposal of property and equipment Depreciation and amortization Realized and unrealized (gain) loss on investments, net Loss on write-off of pledge receivable Change in discount on pledges receivable	3,022 1,243,716 (370,364) - 6,139	37,890 1,184,393 354,891 225,000 (61,946)
Annuities payable Changes in	(15,915)	9,738
Pledges, bequests and accounts receivable Inventory Prepaid expenses, deposits and other current assets Remainder interests	1,416,559 (133,413) (130,481)	(3,773,496) 95,510 147,596 (43)
Accounts payable and accrued expenses Deferred revenue	 2,832 (281,077)	78,311 429,370
Net cash provided by operating activities	 1,742,467	 4,433,103
Cash flows from investing activities Purchases of property and equipment Proceeds from sales of investments Purchases of investments	(296,096) 167,235 (7,320,341)	(250,342) 429,311 (657,187)
Net cash used in investing activities	 (7,449,202)	 (478,218)
Cash flows from financing activities Principal payments on capital lease obligations Payments on annuities	(171,299) (14,644)	(96,874) (21,066)
Net cash used in financing activities	(185,943)	(117,940)
Net increase (decrease) in cash and cash equivalents	(5,892,678)	3,836,945
Cash and cash equivalents, beginning of year	 12,173,496	 8,336,551
Cash and cash equivalents, end of year	\$ 6,280,818	\$ 12,173,496
Supplemental cash flow information Interest paid	\$ (8,107)	\$ (5,771)
Noncash investing activities Equipment acquired under capital lease obligation	\$ -	\$ 214,749

See Notes to Financial Statements.

Notes to Financial Statements March 31, 2019 and 2018

Note 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. 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 14 million visits annually.

Note 2 - Summary of significant accounting policies

Basis of accounting

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

Cash and cash equivalents

Cash equivalents at March 31, 2019 and 2018 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.

Notes to Financial Statements March 31, 2019 and 2018

Pledges and accounts receivable

Cato records pledges and accounts receivable, which include bequests receivable, net of an allowance for doubtful accounts when necessary. The allowance is determined based on a review of the estimated 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 worthless. During the year ended March 31, 2018, Cato wrote off a pledge receivable of \$225,000. There were no write-offs during the year ended March 31, 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 \$285,652 and \$155,301, and merchandise totaling \$10,958 and \$7,896, at March 31, 2019 and 2018, 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

Investments

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

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

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.

Notes to Financial Statements March 31, 2019 and 2018

Deferred revenue

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

Net assets

Cato classifies net assets into two categories: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions consist of contributions and investment income with donor-imposed time and/or program-specific restrictions. These restrictions require that resources be used for specific purposes and/or in a certain period. Such net assets with donor restrictions become net assets without donor restrictions when the time restrictions expire or the funds are used for their donor-imposed purposes and are reported in the statements of activities and change in net assets as net assets released from restrictions. Net assets with donor restrictions also consist of contributions with donor-imposed restrictions that do not expire with the passage of time and cannot be removed or fulfilled by Cato's actions.

Contributions

Contributions and pledges of cash and other assets are recorded at estimated fair value as increases in net assets with donor restrictions or net assets without donor restrictions depending on the existence or absence of donor-imposed restrictions. Contributions and pledges reported as net assets with donor restrictions are reclassified to net assets without donor restrictions upon expiration of the stipulated time restriction or accomplishment of the purpose restriction.

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

Donated property and equipment 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.

Allocations

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets and in the statement of functional expenses. 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. Costs specific to programs or other activities are applied directly.

Notes to Financial Statements March 31, 2019 and 2018

Tax status

Cato has been granted tax-exempt status as a public charity within the meaning of Section 501(c)(3) of the Internal Revenue Code ("IRC"). Although Cato is generally exempt from income tax, Cato is subject to unrelated business income taxes under Section 512 of the IRC, as well as subject to excise tax on excess lobbying expenses. As a result of the Tax Cuts and Jobs Act effective January 1, 2018, qualified transportation fringe benefits are also considered unrelated business income. Income tax expense related to qualified transportation fringe benefits was approximately \$42,400 for the year ended March 31, 2019. 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, 2019 and 2018. Tax years prior to 2015 are no longer subject to examination by the Internal Revenue Service or the tax jurisdictions of Kansas and the District of Columbia.

Use of estimates

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

New accounting pronouncement

For the year ended March 31, 2019, Cato adopted FASB ASU No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. This update addresses the complexity and understandability of net asset classification and provides information about liquidity and availability of resources. A key change under ASU 2016-14 is the terminology of net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted or permanently restricted net assets are now reported as net assets with donor restrictions. The ASU requires any underwater portion of Cato's endowment funds to be adjusted from net assets without donor restrictions to net assets with donor restrictions. Additionally, ASU 2016-14 requires a presentation of expenses on a functional basis. The changes required by the update have been applied retrospectively to all periods presented except the underwater portion of the endowments which has been transferred from net assets without donor restrictions to net assets with donor restrictions in the current year, the disclosure of liquidity and availability of resources and the statement of functional expenses as permitted by the standard. The statement of functional expenses includes certain prior-year summarized comparative information, as permitted by ASU 2016-14 in the year of adoption.

Subsequent events

Cato has evaluated events and transactions for potential recognition or disclosure through August 19, 2019, the date the financial statements were available to be issued.

Note 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

Notes to Financial Statements March 31, 2019 and 2018

of any operating surplus to its brokerage portfolio, which was \$35,268,945 as of March 31, 2019. 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 are comprised of the following:

Financial assets		
Cash and cash equivalents	\$	6,280,818
Investments		38,659,411
Pledges, bequests and accounts receivable, net of discount		5,830,611
T . 10		50 770 040
Total financial assets		50,770,840
Less amounts not available to be used within one year		
Endowment funds (Corpus)		(3,010,097)
Pledges, bequests and accounts receivable, due in excess		
of one year		(855,267)
Purpose-restricted net assets		(5,169,862)
Split-interest agreements		(274,604)
	•	44 404 040
		41,461,010

Note 4 - Pledges, bequests and accounts receivable

Pledges, bequests and accounts receivable at March 31, 2019 and 2018 consist of the following:

	 2019	 2018
Accounts, contributions and other receivables Bequests receivable Pledges receivable	\$ 285,531 - 5,634,813	\$ 487,586 2,000,000 4,849,317
Total pledges, bequests and accounts receivable	5,920,344	7,336,903
Less: Discounts to net present value	 (89,733)	 (83,594)
Net receivables	5,830,611	7,253,309
Less: Long-term pledges receivable due in one to five years	855,267	1,422,723
Current pledges, bequests and accounts receivable	\$ 4,975,344	\$ 5,830,586

Notes to Financial Statements March 31, 2019 and 2018

Note 5 - Property and equipment

Property and equipment at March 31, 2019 and 2018 are summarized as follows:

	2019	2018
Land Buildings and improvements Audio visual systems Office furniture and equipment	\$ 9,656,037 35,203,553 1,568,860 4,236,220	\$ 9,656,037 35,127,318 1,568,860 4,021,669
Accumulated depreciation and amortization Property and equipment, net	50,664,670 (18,040,431) \$ 32,624,239	50,373,884 (16,799,003) \$ 33,574,881

Depreciation and amortization expense for the years ended March 31, 2019 and 2018 was \$1,243,716 and \$1,184,393, respectively.

Note 6 - Investments

Investments are stated at fair value and consist of the following at March 31, 2019 and 2018:

	 2019	2018
Short-term investments Money market funds Exchange-traded funds - equity Mutual funds - fixed income	\$ 5,180,514 6,598,037 23,490,394	\$ 5,077,454 - 22,646,140
Investments, short-term	\$ 35,268,945	\$ 27,723,594
Long term investments	 2019	2018
Long-term investments Money market funds Exchange-traded funds - equity Exchange-traded funds - fixed income Mutual funds - equity Mutual funds - fixed income	\$ 7,670 298,445 77,069 397,232 2,610,050	\$ 13,361 362,546 95,000 366,638 2,574,802
Investments, long-term	\$ 3,390,466	\$ 3,412,347

Investments include endowments which had a fair value of \$3,019,180 and \$3,000,079 at March 31, 2019 and 2018, respectively.

Notes to Financial Statements March 31, 2019 and 2018

Investment income for the years ended March 31, 2019 and 2018 is as follows:

	2019	2018
Interest and dividends - investments Interest and dividends - cash and cash equivalents	\$ 920,340 38,796	\$ 642,261 5,009
Realized and unrealized gain (loss) on investments, net	 959,136 370,364	 647,270 (354,891)
	\$ 1,329,500	\$ 292,379

Note 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 \$274,604 and \$390,547 at March 31, 2019 and 2018, 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 5.8 percent to 11.0 percent, and the payment term is the annuitant's life expectancy. The adjustments to the annuity liability relating to the decrease in liability due to a deceased annuitant and the passage of time and other factors have been recorded as change in split-interest agreements income in the accompanying statements of activities and change in net assets. Following is a summary of the changes in the annuities payable for the years ended March 31, 2019 and 2018:

	2019			2018
Beginning balance	\$	102,213	\$	113,541
New charitable gift annuities received		-		5,212
Annuitant Obligations Payments made to annuitants		(14,644)		(21,066)
Decrease in liability due to deceased annuitant		(26,751)		(9,925)
Adjustments to liability relating to passage of time and other factors		10,836		14,451
		71,654		102,213
Less: Current portion		13,514		17,224
	\$	58,140	\$	84,989

Notes to Financial Statements March 31, 2019 and 2018

Note 8 - Line of credit

Cato had a \$5,000,000 unsecured guidance line of credit with a bank. The line of credit was subject to an annual renewal by the bank with interest due monthly at the LIBOR rate plus one percent and outstanding principal due at maturity. The line of credit matured on February 28, 2018 and was not renewed.

Note 9 - Capital leases

Cato leases certain equipment under capital leases that expire at various dates through 2023. The future minimum lease payments under capital leases in each of the years subsequent to March 31, 2019 are as follows:

2020 2021 2022 2023	\$ 60,686 46,019 45,496 41,707
Minimum lease payments Less amounts representing interest	193,908 8,052
Present value of net minimum lease payments Less current portion	185,856 57,089
Long-term portion	\$ 128,767

Capitalized leased equipment of \$753,812 is included with property and equipment at March 31, 2019 and 2018, with accumulated depreciation of \$567,139 and \$396,159, respectively. Interest expense incurred totaled \$7,244 and \$5,771 at March 31, 2019 and 2018, respectively.

Notes to Financial Statements March 31, 2019 and 2018

Note 10 - Net assets with donor restrictions

Net assets with donor restrictions consist of the unexpended portion of restricted contributions received by Cato as well as perpetual endowment funds. Net assets with time or purpose restrictions at March 31, 2019 and 2018 are as follows:

	2019		2018		
Academic Research and Programs	\$	75,311	\$	15,064	
Center for Constitutional Studies		908,860		1,191,029	
Center for Educational Freedom		43,902		100,804	
Center for Global Liberty and Prosperity		203,542		218,470	
Center for Monetary and Financial Alternatives		2,031,955		2,907,583	
Center for Representative Government		61,587		144,541	
Conference and Events		25,000		4,952	
Criminal Justice Project		132,846		97,851	
Defense and Foreign Policy Studies		86,238		146,184	
Economic Studies		270,226		208,115	
Friedman Prize		390,564		407,466	
Herbert A. Stiefel Center for Trade Policy Studies		558,572		189,288	
Remainder Interests		1,875		1,875	
Student Programs		379,384		3,387	
Time Restricted		3,590,664		984,919	
Endowment funds (Corpus)		3,010,097		3,010,097	
	\$	11,770,623	\$	9,631,625	

Notes to Financial Statements March 31, 2019 and 2018

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, 2019 and 2018 are as follows:

	2019		2018	
Academic Research and Programs Center for Constitutional Studies	\$	14,753 414,415	\$	90,610 150,606
Center for Educational Freedom		121,902		138,998
Center for Global Liberty and Prosperity		535,128		565,857
Center for Monetary and Financial Alternatives		1,285,653		1,224,267
Center for Privacy and Homeland Security		100,000		-
Center for Representative Government		82,954		66,959
Center for the Study of Science		75,000		335,000
Conference and Events		7,952		28,595
Criminal Justice Project		65,005		2,149
Defense and Foreign Policy Studies		258,817		91,109
Libertarianism.org		100,000		-
Digital Marketing and Media		110,700		-
Economic Studies		200,889		171,231
Fiscal Policy Studies		-		12,801
Friedman Prize		468,402		-
Herbert A. Stiefel Center for Trade Policy Studies		376,706		221,600
Student Programs		136,277		177,386
Time Restricted		484,919		39,000
	\$	4,839,472	\$	3,316,168

Note 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 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.

Endowment net assets - interpretation of relevant law

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA"), which became effective in Kansas in July 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Cato classifies 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

Notes to Financial Statements March 31, 2019 and 2018

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

The endowment's - 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.

The endowment's - strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, Cato relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to spending policy

Cato has a policy of appropriating for expenditure each year the earnings of the endowments. For the B. Kenneth Simon Endowment, spending is not to exceed seven percent of the endowment's total asset value. In establishing this policy, Cato considered the long-term expected return on its endowment net assets and operating costs of the Constitutional Studies program. For the Richard C. and Deborah L. Young Endowment, spending per quarter 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 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. At March 31, 2018, funds with original gift values of \$1,000,000, fair values of \$989,982 and deficiencies of \$10,018 were reported in net assets without donor restrictions. There were no funds with deficiencies at March 31, 2019.

Notes to Financial Statements March 31, 2019 and 2018

The changes in the donor-restricted endowment net assets for the years ended March 31, 2019 and 2018 are as follows:

	Without donor restrictions		With donor restrictions		Total		
Endowment net assets, April 1, 2017	\$	-	\$	3,029,956	\$	3,029,956	
Dividend income Realized and unrealized loss, net		<u>-</u>		86,363 (57,647)		86,363 (57,647)	
Total investment return		-		28,716		28,716	
Appropriation based on spending policy		(10,018)		(48,575)		(58,593)	
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)		-	
Dividend income Realized and unrealized gain, net		-		91,926 41,905		91,926 41,905	
Total investment return		-		133,831		133,831	
Appropriation based on spending policy				(114,730)		(114,730)	
Endowment net assets, March 31, 2019	\$	<u>-</u>	\$	3,019,180	\$	3,019,180	

Note 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 \$734,078 and \$733,353, respectively, for the years ended March 31, 2019 and 2018, respectively.

Cato maintains a self-insurance program for its employees' health care costs. Cato is liable for losses on claims up to \$45,000 per claim for 2019 and 2018. 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, 2019 and 2018, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$95,964 and \$75,000 at March 31, 2019 and 2018, respectively, and is reported as accounts payable and accrued expenses in the statements of financial position.

Notes to Financial Statements March 31, 2019 and 2018

Note 13 - Commitments

Cato has contracts through 2019 for hotels for future conferences. In the event of cancellation, Cato may be required to pay various costs as stipulated in the contracts, the amounts of which are dependent upon the respective dates of cancellation. Due to the numerous variables involved, Cato's ultimate liability under these contracts cannot be determined; however, the estimated costs as of March 31, 2019 range from approximately \$0 to \$205,000 depending on the nature, timing, and number of conference cancellations. As of August 19, 2019, Cato had not canceled and had no intentions to cancel any future conferences.

Note 14 - Joint activities

Cato has incurred and allocated joint costs of fundraising in disseminating information to the general public and supporters in three direct mailings during the year ended March 31, 2019 and four direct mailings during the year ended March 31, 2018. Total costs allocated were \$917,903 in 2019 and \$806,652 in 2018. Of the total costs allocated, \$653,967 in 2019 and \$550,296 in 2018 were recorded in program services, and \$263,936 in 2019 and \$256,356 in 2018 were recorded in fundraising expenses in the statements of activities and change in net assets.

Note 15 - Concentration of credit risk

Cato maintained balances at banks in excess of Federal Deposit Insurance Corporation ("FDIC") coverage. The amount of uninsured deposits at March 31, 2019 amounted to approximately \$6,074,000.

Note 16 - Donated services

For the years ended March 31, 2019 and 2018, Cato received benefit from donated advertising services of approximately \$322,000 and \$429,000, respectively. Additionally, for the years ended March 31, 2019 and 2018, Cato received other in-kind donations of approximately \$421,000 and \$71,000, 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.

Notes to Financial Statements March 31, 2019 and 2018

Note 17 - Fair value measurements

Cato has determined the fair value of certain assets through application of FASB ASC Topic 820, Fair Value Measurement. Fair values of assets measured on a recurring basis at March 31, 2019 and 2018 are as follows:

	Fair value	Qı r	Fair value measurements at reporting Quoted prices in active Significant markets for other identical observable assets/liabilities inputs (Level 1) (Level 2)		Significant other observable inputs		using nificant servable puts vel 3)
March 31, 2019							
Assets Money market funds Exchange-traded funds - equity Exchange-traded funds - fixed income Mutual funds - equity Mutual funds - fixed income	\$ 5,188,184 6,896,482 77,069 397,232 26,100,444	\$	5,188,184 6,896,482 77,069 397,232 26,100,444	\$	- - - -	\$	- - - - -
Total investments	\$ 38,659,411	\$	38,659,411	\$	-	\$	
March 31, 2018 Assets Money market funds Exchange-traded funds - equity Exchange-traded funds - fixed income	\$ 5,090,815 362,546 95,000	\$	5,090,815 362,546 95,000	\$	-	\$	<u> </u>
Mutual funds - equity Mutual funds - fixed income	 366,638 25,220,942		366,638 25,220,942		-		-
Total investments	\$ 31,135,941	\$	31,135,941	\$	-	\$	

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



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