

**INSTITUTE FOR JUSTICE**

**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**Years Ended June 30, 2015 and 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Institute for Justice

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Institute for Justice (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the year ended June 30, 2015, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the Institute for Justice as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Institute for Justice's June 30, 2014 financial statements, and our report dated October 28, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style.

October 14, 2015  
Bethesda, Maryland

**INSTITUTE FOR JUSTICE**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,738,895	\$ 24,341,203
Pledges receivable, net	7,385,729	3,646,257
Attorney fees receivable	2,311,190	-
Other receivables	372,678	12,097
Prepaid expenses and deposits	450,004	394,778
Investments	34,976,773	24,725,300
Other assets	591,044	392,186
Property and equipment, net	<u>1,287,440</u>	<u>758,646</u>
 Total assets	 <u>\$ 73,113,753</u>	 <u>\$ 54,270,467</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 262,559	\$ 245,689
Accrued liabilities	2,311,016	619,536
Capital lease obligations	36,334	27,363
Deferred rent	1,360,772	108,117
Deferred revenue	<u>-</u>	<u>25,137</u>
 Total liabilities	 <u>3,970,681</u>	 <u>1,025,842</u>
 Net assets		
Unrestricted	60,337,444	49,103,431
Temporarily restricted	8,705,628	4,141,194
Permanently restricted	<u>100,000</u>	<u>-</u>
 Total net assets	 <u>69,143,072</u>	 <u>53,244,625</u>
 Total liabilities and net assets	 <u>\$ 73,113,753</u>	 <u>\$ 54,270,467</u>

The accompanying notes are an integral part of these financial statements.

**INSTITUTE FOR JUSTICE**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2015**  
**(With Comparative Totals for 2014)**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	2015 <u>Total</u>	2014 <u>Total</u>
Support and revenue					
Contributions	\$ 21,580,269	\$ 8,826,994	\$ 100,000	\$ 30,507,263	\$ 23,917,519
Attorney fees	3,364,644	-	-	3,364,644	503,954
Other income	140,440	-	-	140,440	25,748
Net assets released from restrictions - satisfaction of program and time restrictions	<u>4,262,560</u>	<u>(4,262,560)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>29,347,913</u>	<u>4,564,434</u>	<u>100,000</u>	<u>34,012,347</u>	<u>24,447,221</u>
Expenses					
Program services	15,137,227	-	-	15,137,227	11,625,758
Management	1,864,606	-	-	1,864,606	1,380,523
Development/fundraising	<u>1,217,399</u>	<u>-</u>	<u>-</u>	<u>1,217,399</u>	<u>1,082,044</u>
Total expenses	<u>18,219,232</u>	<u>-</u>	<u>-</u>	<u>18,219,232</u>	<u>14,088,325</u>
Change in net assets from operations	11,128,681	4,564,434	100,000	15,793,115	10,358,896
Non-operating activity					
Investment return, net	<u>105,332</u>	<u>-</u>	<u>-</u>	<u>105,332</u>	<u>1,163,460</u>
Change in net assets	11,234,013	4,564,434	100,000	15,898,447	11,522,356
Net assets, beginning of year	<u>49,103,431</u>	<u>4,141,194</u>	<u>-</u>	<u>53,244,625</u>	<u>41,722,269</u>
Net assets, end of year	<u>\$ 60,337,444</u>	<u>\$ 8,705,628</u>	<u>\$ 100,000</u>	<u>\$ 69,143,072</u>	<u>\$ 53,244,625</u>

The accompanying notes are an integral part of these financial statements.

**INSTITUTE FOR JUSTICE**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2015**

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Cash flows from operating activities	
Change in net assets	\$ 15,898,447
Reconciling adjustments:	
Depreciation and amortization	403,536
Allowance for present value of pledges receivable	71,839
Provision for uncollectible pledges receivable	43,654
Loss on disposal of property and equipment	553
Net realized and unrealized losses from investments and other assets	114,507
Stock contributions	(1,094,760)
Contributions restricted for long-term investments	(100,000)
Changes in operating assets and liabilities	
Pledges receivable	(3,854,965)
Attorney fees receivable	(2,311,190)
Other receivables	(360,581)
Prepaid expenses and deposits	(55,226)
Accounts payable	16,870
Accrued liabilities	1,691,480
Deferred rent	498,540
Deferred revenue	(25,137)
Net cash provided by operating activities	<u>10,937,567</u>
Cash flows from investing activities	
Acquisition of property and equipment	(155,864)
Purchase of investments	(20,855,207)
Redemption of investments	<u>11,385,129</u>
Net cash used by investing activities	<u>(9,625,942)</u>
Cash flows from financing activities	
Payment of capital lease obligations	(13,933)
Proceeds from contributions restricted for investment in endowment	<u>100,000</u>
Net cash provided by financing activities	<u>86,067</u>
Net increase in cash and cash equivalents	1,397,692
Cash and cash equivalents, beginning of year	<u>24,341,203</u>
Cash and cash equivalents, end of year	<u><u>\$ 25,738,895</u></u>

The accompanying notes are an integral part of these financial statements.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**1. Organization**

The Institute for Justice (the Institute) was incorporated and began operations in 1991. The Institute is a publicly-supported not-for-profit organization which works toward the protection of productive livelihoods, school choice, private property, and the free exchange of ideas through litigation and education.

**2. Summary of Significant Accounting Policies**

Use of Estimates

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

Income Taxes

The Institute is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Institute's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income for the years ended June 30, 2015 and 2014. Tax years ended June 30, 2012 through 2014 remain open to examination by the taxing jurisdictions to which the Institute is subject, and they have not been extended beyond the applicable statute of limitations; however, the Institute believes there are no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status.

Cash and Cash Equivalents

Cash includes interest and non-interest bearing accounts and a sweep account with insured financial institutions. Deposits often exceed federally insured limits. Management, however, does not consider this a significant concentration of credit risk. Cash equivalents include highly liquid investments with an initial maturity of three months or less. Cash and cash equivalents exclude such amounts included with investments.



**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**2. Summary of Significant Accounting Policies (continued)**

Contributions

Contributions and unconditional promises to give are recorded as support, at fair value, when received. Contributions that are restricted by the donor as to time or purpose are reported as an increase in temporarily restricted net assets. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Pledges Receivable

Unconditional promises to give are reported at their net realizable value as pledges receivable in the accompanying statements of financial position. Conditional promises to give are not recorded as receivables until the conditions are satisfied. Contributions and pledges received by the Institute consist of support provided primarily by individuals and foundations. The Institute does not accept grants from the Government. A provision for uncollectible pledges receivable is recorded in the period such a determination is made.

Investments

Investments are recorded at estimated fair value based on quoted market prices provided by independent investment managers. Purchases and sales are recorded on a trade-date basis. Realized and unrealized holding gains and losses are included with investment income in the statement of activities. Investment income is reported as an increase in unrestricted net assets, unless restricted by donor or law.

Endowment Funds

Endowment gifts are recognized as support when received. The principal amount of the gift is maintained intact. Investment income on endowments is recognized as an increase in unrestricted net assets, unless the income is restricted by donor or law and such restrictions have not been met in the same fiscal year. The Institute follows the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) reporting. See Note 9.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**2. Summary of Significant Accounting Policies (continued)**

Property and Equipment

The Institute capitalizes all property and equipment with a cost of \$1,000 or more. Property and equipment are carried at cost if purchased and at estimated fair value at the date contributed, if applicable. The Institute depreciates all office equipment, furniture and fixtures using the straight-line method over the estimated useful lives of the assets (three to five years). Leasehold improvements are recorded at cost and are being amortized over their estimated useful lives or the terms of the lease, whichever is shorter.

Maintenance and repair costs are charged to expense as incurred. Replacements and betterments are capitalized. At the time properties are retired or otherwise disposed of, the property and related accumulated depreciation or amortization accounts are relieved of the applicable amounts and any gain or loss is credited or charged to income.

Expense Allocation

The costs of providing various programs and other activities of the Institute have been summarized on a functional basis in the statement of activities. Expenses are allocated among the programs and support services based on the functions they directly benefit or upon management's estimates of the proportion of the expenses applicable to each function.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, pledges, accounts receivable, investments and accounts payable. Management estimates that the respective fair values of the financial instruments, other than investments, approximate their recorded values in the statements of financial position due to the relative short-term nature of those instruments. Investments are recorded at fair value in the statements of financial position as discussed in Note 3. Long-term pledges are discounted to present values as discussed in Note 5.

Comparative Information

The statement of activities includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**2. Summary of Significant Accounting Policies (continued)**

Reclassification

Certain amounts in the prior-year financial statements have been reclassified to conform with the current-year presentation.

Subsequent Events

Management has evaluated subsequent events through October 14, 2015, which is the date the financial statements were available to be issued.

**3. Investments**

Investments consist of the following at June 30, 2015 and 2014:

	(Fair Value Levels)		
	(Note 4)	<u>2015</u>	<u>2014</u>
Money market funds	1	\$ 9,989,924	\$ 10,012,787
Mutual funds - fixed income	1	1,190,115	1,169,625
Exchange traded funds			
International equity	1	6,584,159	3,521,453
Domestic equity	1	5,369,126	1,961,358
Commodity	1	4,700,574	1,524,709
Other	1	1,381,814	1,574,507
Alternative investments	3	<u>5,761,061</u>	<u>4,960,861</u>
Total investments		<u>\$ 34,976,773</u>	<u>\$ 24,725,300</u>

The investments are subject to market risks and their values fluctuate daily. Investment return is comprised of the following for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 207,551	\$ 145,133
Net realized and unrealized (losses) gains	<u>(106,305)</u>	<u>1,004,833</u>
Investment return, net	<u>\$ 101,246</u>	<u>\$ 1,149,966</u>

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**4. Fair Value of Financial Instruments**

The Institute reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities that the Institute has the ability to access.
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the years ended June 30, 2015 and 2014, there were no significant transfers in or out of levels 1, 2 or 3.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**4. Fair Value of Financial Instruments (continued)**

Following is a description of the valuation methodologies used for investments measured at fair value and their classification in the valuation hierarchy:

- Investments in *money market* and *mutual funds* are valued at the net asset value of shares held by the Institute at year end reported in the listing of the applicable major exchanges. Such securities are classified within Level 1 of the valuation hierarchy.
- Investments in *exchange traded funds (ETFs)* are valued at the closing price reported in the active markets in which the ETFs are traded. Such securities are classified within Level 1 of the valuation hierarchy.
- Investments in *alternative investments* are valued at the fund's NAV or its equivalent, as provided by the fund. The net assets of alternative investments are valued based on each underlying investment within the alternative investment funds, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors. Such securities are classified within Level 3 of the valuation hierarchy.

The following presents a reconciliation of investments in which significant unobservable inputs (Level 3) were used to determine fair value for 2015 and 2014:

	<u>Alternative Investments</u>
Balance, June 30, 2013	\$ -
Purchases, sales, issuances, and settlements (net)	5,000,000
Realized and unrealized gains (losses)	<u>(39,139)</u>
Balance, June 30, 2014	4,960,861
Purchases, sales, issuances, and settlements (net)	-
Realized and unrealized gains (losses)	<u>800,200</u>
Balance, June 30, 2015	<u><u>\$ 5,761,061</u></u>

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**4. Fair Value of Financial Instruments (continued)**

The following table includes additional disclosures required for the fair value measurements of investments that do not have a readily determinable fair value and are in certain entities that calculate net asset value per share as of June 30, 2015 and 2014:

<u>Investment</u>	<u>Fair Value</u>		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2015</u>	<u>2014</u>			
Alternative Investments	\$ 5,761,061	\$ 4,960,861	\$ -	Quarterly	90 days

**5. Pledges Receivable**

Pledges receivable that are expected to be collected in future years are discounted to present values using a blended rate that contemplates the donor's estimated borrowing rate, and a risk-free rate of return, at the date the unconditional promise is made. (This is a Level 3 input of fair value discussed in Note 4). The discount rates for 2015 and 2014 ranged from 2.25% to 2.86%. The discount is amortized to support from contributions over the pledge collection period. The outstanding pledges at June 30, 2015 and 2014, are as follows:

<u>Purpose</u>	<u>2015</u>	<u>2014</u>
Economic Liberty	\$ 125,000	\$ 604,263
School Choice	1,000,000	1,000,000
Operating support	6,359,226	2,075,498
Fellowship	85,500	25,000
Asset Forfeiture	-	10,000
	<u>7,569,726</u>	<u>3,714,761</u>
Total pledges receivable	7,569,726	3,714,761
Provision for uncollectible pledges receivable	(74,603)	(30,949)
Allowance for present value of pledges receivable	<u>(109,394)</u>	<u>(37,555)</u>
Pledges receivable, net	<u>\$ 7,385,729</u>	<u>\$ 3,646,257</u>

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**5. Pledges Receivable (continued)**

The June 30, 2015 and 2014, pledges receivable are expected to be collected as follows:

	<u>2015</u>	<u>2014</u>
Due in one year	\$ 3,952,726	\$ 2,664,761
Due in two years	2,788,500	550,000
Due in three years	428,500	500,000
Due in four years	<u>400,000</u>	<u>-</u>
Total pledges receivable	<u>\$ 7,569,726</u>	<u>\$ 3,714,761</u>

*The Bill and Rebecca Dunn Liberty Defense Fund*

During the year ended June 30, 2014, the Institute received a Challenge Grant (Grant) of \$5 million. Effective July 1, 2014, the Grant established the Bill and Rebecca Dunn Liberty Defense Fund which provides one dollar for every two dollars of new support raised by the Institute. All eligible donations and matching funds are to be directed into the Fund and used to support the Institute's overall mission. For the years ended June 30, 2015 and 2014, all eligible donations and matching funds are reported as unrestricted support in the accompanying statement of activities, unless an inherent time restriction exists (Note 8). As of June 30, 2015, the Institute met all conditions under the Grant. At June 30, 2015 and 2014, aggregate amounts outstanding from the Grant were \$3 million and \$2 million, respectively.

*Robert W. Wilson Charitable Trust*

On August 24, 2011, the Institute entered into a conditional matching grant from the Robert W. Wilson Charitable Trust (Wilson Trust) for the period beginning January 1, 2011 and ending June 30, 2014. The objective of the grant was to increase the amount of support from existing and new donors for the purposes of expanding the Institute's programs to *Revitalize the Constitution* (IJ Matching Grants) and in particular to expand its *Campaign for Economic Liberty* (IJ Program Matching Grants). The maximum amount under the grant agreement was \$10 million. As of June 30, 2014, the Institute met the maximum allowable amount of funds available for the IJ Matching Grants and IJ Program Matching Grants. At June 30, 2014, aggregate amounts receivable from the Wilson Trust for conditions met were approximately \$429,000. There were no outstanding receivables at June 30, 2015.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**6. Beneficial Interest Agreements**

In 2006 the Institute established the Four Pillars Society as a way to recognize its supporters who have chosen to include the Institute in their will or other long-term financial plans. Under this program, the Institute has received cash contributions totaling approximately \$379,000 in the form of charitable gift annuities. The related monies are housed in discrete investment accounts and are included in other assets in the accompanying statements of financial position. The liability under the agreements is recorded at the net present value of the estimated income owed to the donor based upon an actuarial report. The estimated liability is included with accrued liabilities in the accompanying statements of financial position and was approximately \$168,000 and \$126,000 at June 30, 2015 and 2014, respectively. The discount is computed using the risk-free rates applicable to the current year's calculation. The agreements stipulate that the donors are to receive quarterly payments for the remainder of their lives. Any income not distributed will revert to the Institute when the agreement ends.

The related underlying assets consist of the following at June 30, 2015 and 2014:

	(Fair Value Levels)		
	(Note 4)	<u>2015</u>	<u>2014</u>
Money market funds	1	\$ 112,822	\$ 16,995
Mutual funds - fixed income	1	<u>378,805</u>	<u>375,191</u>
Total assets		<u>\$ 491,627</u>	<u>\$ 392,186</u>

The related underlying assets are subject to market risks and their values fluctuate daily. Return is comprised of the following for the year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 10,399	\$ 9,721
Net realized and unrealized (losses) gains	<u>(5,729)</u>	<u>3,773</u>
Investment return, net	<u>\$ 4,670</u>	<u>\$ 13,494</u>



**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**7. Property and Equipment**

A summary of property and equipment is as follows:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 1,696,070	\$ 1,335,451
Computers and software	363,069	336,478
Leasehold improvements	1,867,493	1,243,813
Construction in progress	<u>-</u>	<u>160,832</u>
	3,926,632	3,076,574
Accumulated depreciation and amortization	<u>(2,639,192)</u>	<u>(2,317,928)</u>
Property and equipment, net	<u>\$ 1,287,440</u>	<u>\$ 758,646</u>

Construction in progress at June 30, 2014, included tenant improvement allowance costs related to the expansion of the headquarters office space as provided by the April 2014 lease amendment. The construction was completed in 2015 and all costs associated with the construction in progress were transferred to the appropriate property and equipment accounts. Under the amended lease terms, the total tenant improvement allowance was \$1,257,455, to be paid by the landlord as construction progressed. At June 30, 2015, \$342,508 of the allowance had not yet been received by the Institute, and is included in other receivables in the statement of financial position. See Note 11 for further information regarding the operating lease. Depreciation and amortization expense for the years ended June 30, 2015 and 2014, was \$403,536 and \$302,206, respectively.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2015 and 2014, include purpose and time restricted contributions and are available to support the following program areas:

	<u>2015</u>	<u>2014</u>
Purpose and Time:		
Fellowship	\$ 1,409,769	\$ 24,375
School Choice	977,879	1,108,535
Economic Liberty	99,000	653,068
Strategic Research	1,179	47,276
New Media Proposal	17,690	-
Revitalize the Constitution	-	73,053
Asset Forfeiture	-	24,887
Property Rights	-	10,000
	<u>2,505,517</u>	<u>1,941,194</u>
Time:		
General support	<u>6,200,111</u>	<u>2,200,000</u>
Total temporarily restricted net assets	<u><u>\$ 8,705,628</u></u>	<u><u>\$ 4,141,194</u></u>

**9. Endowment Funds**

The Institute's endowment consists of a fund established in 2015 to support its overall mission. The endowment includes only donor-restricted endowment funds and it is included with other assets in the accompanying statement of financial position. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of the Institute has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (the Act) as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment.

**INSTITUTE FOR JUSTICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2015 and 2014**

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**9. Endowment Funds (continued)**

Endowment assets are invested in a manner that is intended to provide growth and to preserve or increase the real value of the endowment to meet the future needs of the Institute, always with the objective of selecting investment vehicles that are at an appropriate level of risk for a non-profit organization. Actual returns in any given year may vary.

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 the Act requires the Institute to retain as a fund of perpetual duration. Deficiencies of this nature reported in unrestricted net assets were \$584 as of June 30, 2015. These deficiencies result generally from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

The related underlying assets consist of the following at June 30, 2015:

	(Fair Value Levels)	
	<u>(Note 4)</u>	
Money market funds	1	\$ 2,609
Mutual funds - fixed income	1	<u>96,808</u>
Total assets		<u>\$ 99,417</u>

The related underlying assets are subject to market risks and their values fluctuate daily. Return is comprised of the following for the year ended June 30, 2015:

Interest and dividends	\$ 1,889
Net realized and unrealized (losses) gains	<u>(2,473)</u>
Investment return, net	<u>\$ (584)</u>

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**10. Retirement Plans**

The Institute has a 401(k) plan for all employees with one year of service, subject to minimum hours of service and age limitations. The plan provides for employee voluntary contributions and employer matching contributions. Currently, the Institute is making a matching contribution equal to 100% of employee contributions up to 4% of compensation during the plan year. In addition, the plan may provide for a discretionary contribution for all participants employed on the last day of the plan year who are credited with at least 1,000 hours of service during that year. Vesting in the benefits of the plan is based on years of service with full vesting after five years.

The Institute sponsors a non-qualified deferred compensation plan pursuant to Section 457(f) of the Internal Revenue Code for the benefit of certain management or highly compensated employees. The purpose of the plan is to offer those employees a deferred compensation opportunity and is intended to be an unfunded deferred compensation plan exempt from the requirements of Section 409A of the Code as a short-term deferral program. The Plan's investments, while specifically identified, remain the Institute's assets and are subject to general creditor claims with the benefit payout limited to the value of the underlying assets. Plan obligations for the above non-qualified plan totaled \$1,800,000 and \$225,000 for the years June 30, 2015 and 2014, respectively, and are included with accrued liabilities on the statements of financial position.

The Institute also sponsors a separate tax deferred annuity plan through elective salary reductions under Section 403(b) of the Internal Revenue Code.

Retirement expense incurred for the above plans totaled \$2,297,127 and \$800,732, for the years ended June 30, 2015 and 2014, respectively.

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**11. Lease Commitments**

Operating Leases

The Institute leases office space for its offices under operating leases with expiration dates ranging from March 31, 2015, through April 30, 2027. These leases call for monthly rent plus the pass-through of increases in operating expenses. Rent payments are recognized as expense on a straight-line basis over the terms of the leases, and a deferred rent liability is recorded for timing differences associated with bargain rents and a tenant improvement allowance provided by the landlord. The deferred rent liability balance as of June 30, 2015 and 2014, was \$1,360,772 and \$108,117, respectively.

Rental expense under all operating leases for the years ended June 30, 2015 and 2014, was \$1,542,134 and \$1,163,795, respectively. The total future minimum lease commitments under these lease agreements at June 30, 2015 are as follows:

Year ending June 30, 2016	\$ 1,070,200
2017	1,278,700
2018	1,223,100
2019	1,414,300
2020	1,440,900
Thereafter	<u>10,657,400</u>
	<u>\$ 17,084,600</u>

The Institute entered into a sublease agreement with an unrelated entity effective July 2014. The five-year sublease agreement expires July 31, 2019. Effective after the third and fourth lease years, the Institute and subtenant may terminate the agreement by providing a six-month notice to the other party. The minimum commitments to be collected under the existing sublease are as follows:

Year ending June 30, 2016	\$ 99,100
2017	103,000
2018	107,100
2019	111,400
2020	<u>9,300</u>
	<u>\$ 429,900</u>

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**11. Lease Commitments (continued)**

Capital Leases

The Institute entered into lease agreements to finance certain equipment over three to five-year periods. The lease agreements have been classified as capital leases, which are generally accounted for as additions to property and equipment using lease financing. Future minimum lease payments under the Institute's capital leases are as follows:

Year ending June 30, 2016	\$	19,311
2017		14,542
2018		5,141
2019		<u>3,138</u>
Total minimum lease payments		42,132
Amount representing interest		<u>(5,798)</u>
Present value of minimum lease payments	\$	<u><u>36,334</u></u>

At June 30, 2015 and 2014, the book value of the capital lease assets is \$35,824 and \$25,376, net of accumulated depreciation of \$26,830 and \$19,885, respectively, and is included with property and equipment.

**12. Cash Flow Information**

During the current year, the Institute had noncash investing and financing activities related to capital leases and the tenant improvement allowance on new property and equipment of \$22,904 and \$754,115, respectively. Interest paid in 2015 was \$3,816.