Institute for Justice

Financial Statements
and Independent Auditor's Report

June 30, 2016 and 2015

Institute for Justice

Index

Independent Auditor's Report

To the Board of Directors
Institute for Justice
Arlington, VA

We have audited the accompanying financial statements of the Institute for Justice (the "Institute"), which comprise the statement of financial position as of June 30, 2016, the related statements of activities and change in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute for Justice as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements and Summarized Comparative Information

The financial statements of the Institute for Justice as of June 30, 2015 were audited by other auditors, whose report dated October 14, 2015 expressed an unmodified opinion on these statements. The summarized comparative information presented herein as of and for the year ended June 30, 2015, is derived from the financial statements audited by other auditors.

CohnReznick LLP

Bethesda, Maryland
December 12, 2016

Institute for Justice

Statements of Financial Position
June 30, 2016 and 2015

Assets

	2016	2015
Cash and cash equivalents	$ 19,070,452	$ 25,738,895
Attorney fees receivable	-	2,311,190
Pledges receivable, net	4,390,516	7,385,729
Other receivables	356,400	372,678
Prepaid expenses and deposits	504,725	450,004
Investments-reserve	56,679,356	34,976,773
Investments-other	430,633	591,044
Property and equipment, net	1,022,555	1,287,440
Total assets	$ 82,454,637	$ 73,113,753

Liabilities and Net Assets

	2016	2015
Accounts payable	$ 302,049	$ 262,559
Accrued liabilities	683,286	511,016
Deferred revenue	75,099	-
Capital lease obligations	44,555	36,334
Deferred compensation liability	1,800,000	1,800,000
Deferred rent	1,842,222	1,360,772
Total liabilities	4,747,211	3,970,681
Net assets		
Unrestricted	65,259,761	60,337,444
Temporarily restricted	12,347,665	8,705,628
Permanently restricted	100,000	100,000
Total net assets	77,707,426	69,143,072
Total liabilities and net assets	$ 82,454,637	$ 73,113,753

See Notes to Financial Statements.

Institute for Justice

Statements of Activities and Change in Net Assets
Year Ended June 30, 2016
With Summarized Totals for Year Ended June 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2016	Totals 2015
Support and revenue					
Contributions and grants	$ 14,688,448	$ 11,986,748	$ -	$ 26,675,196	$ 30,507,263
Attorney fees	437,149	-	-	437,149	3,364,644
Other income	364,532	-	-	364,532	140,440
Net assets released from restrictions-satisfaction of program and time restrictions	8,344,711	(8,344,711)	-	-	-
Total support and revenue	23,834,840	3,642,037	-	27,476,877	34,012,347
Expenses					
Program services	15,214,633	-	-	15,214,633	15,137,227
Management	2,638,349	-	-	2,638,349	1,864,606
Development/fundraising	1,391,978	-	-	1,391,978	1,217,399
Total expenses	19,244,960	-	-	19,244,960	18,219,232
Change in net assets before non-operating activities	4,589,880	3,642,037	-	8,231,917	15,793,115
Non-operating activities					
Investment income-reserve	322,960	-	-	322,960	101,246
Investment income-other	9,477	-	-	9,477	4,086
Total non-operating activities	332,437	-	-	332,437	105,332
Change in net assets	4,922,317	3,642,037	-	8,564,354	15,898,447
Net assets, beginning of year	60,337,444	8,705,628	100,000	69,143,072	53,244,625
Net assets, end of year	$ 65,259,761	$ 12,347,665	$ 100,000	$ 77,707,426	$ 69,143,072

See Notes to Financial Statements.

Institute for Justice

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 8,564,354	$ 15,898,447
Reconciling adjustments:		
Depreciation and amortization	427,909	403,536
Increase (decrease) in allowance for doubtful accounts on pledges receivable	(30,254)	43,654
Amortization of discount on pledges receivable	(76,221)	71,839
Loss on disposal of property and equipment	2,572	553
Unrealized/realized losses on investments	162,629	114,507
Stock contributions	(888,035)	(1,094,760)
Contributions restricted for long-term investments	-	(100,000)
Changes in operating assets and liabilities:		
Attorney fees receivable	2,311,190	(2,311,190)
Pledges receivable	3,101,688	(3,854,965)
Other receivables	16,278	(360,581)
Prepaid expenses and deposits	(54,721)	(55,226)
Accounts payable	39,490	16,870
Accrued liabilities	172,270	(108,520)
Deferred compensation liability	-	1,800,000
Deferred rent	481,450	498,540
Deferred revenue	75,099	(25,137)
Net cash provided by operating activities	14,305,698	10,937,567
Cash flows from investing activities		
Purchases of property and equipment	(140,362)	(155,864)
Purchase of investments	(22,339,958)	(10,665,575)
Proceeds from sales of investments	1,523,192	1,195,497
Net cash used in investing activities	(20,957,128)	(9,625,942)
Cash flows from financing activities		
Payment of capital lease obligations	(17,013)	(13,933)
Proceeds from contributions restricted for investment in endowment	-	100,000
Net cash (used in) provided by financing activities	(17,013)	86,067
Net (decrease) increase in cash and cash equivalents	(6,668,443)	1,397,692
Cash and cash equivalents, beginning of year	25,738,895	24,341,203
Cash and cash equivalents, end of year	$ 19,070,452	$ 25,738,895
Non-cash investing activity		
Property and equipment acquired through a capital lease obligation	$ 25,234	$ 22,904
Supplemental disclosure of cash flow information		
Interest paid	$ 3,234	$ 3,816

See Notes to Financial Statements.

Note 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 towards the protection of productive livelihoods, school choice, private property, and the free exchange of ideas through litigation and education.

Note 2 - Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and, accordingly, revenue is recognized when earned and expenses when the obligations are incurred.

Estimates

Management uses estimates and assumptions in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Cash and cash equivalents

The Institute considers cash in bank accounts and cash on hand to be cash and cash equivalents. Cash is held in interest-bearing demand deposit and money market demand accounts.

Concentration of risk

The Institute maintained balances of cash and cash equivalents in excess of Federal Deposit Insurance Corporation ("FDIC") coverage. The amount of uninsured deposits at June 30, 2016 was approximately $12,640,000.

Accounts receivable

The Institute records accounts receivable net of allowances for doubtful accounts when necessary. The allowances are determined based on a review of the estimated collectibility of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be worthless.

Pledges receivable

Unconditional promises to give from donors are recorded as pledges receivable when the promise is made and are reported at their net realizable amounts, using risk-free discount rates. The amortization of the discount is recorded as contributions and grants revenue in the statements of activities and change in net assets. Contributions and pledges received by the Institute consist mainly of support provided by individuals and foundations. The Institute does not accept grants from the government.

Note 2 - Summary of significant accounting policies (continued)

The allowances are determined based on a review of the estimated collectability of the specific account, 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. As of June 30, 2016 and 2015, the allowance for doubtful accounts was $44,349 and $74,603, respectively.

Conditional promises to give are not recorded by the Institute until the conditions are satisfied.

Investments

Investments consisting of money market funds, mutual funds, and exchange traded funds are reported at their fair value based on quoted market prices provided by independent investment managers. Realized and unrealized gains (losses) are calculated using a specific-identification method and are recorded, along with interest and dividend income as investment return in the statements of activities and change in net assets. Investment returns are classified as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Alternative investments which include an investment in a fund of funds (the Fund), is reported at net asset value. The investment objective is to achieve above-average appreciation by opportunistically trading and investing in a wide variety of securities, instruments, and other investment opportunities and engaging in a broad array of trading and investment strategies. The Fund requires a 90-day prior written notice to redeem all or any portion of its common shares, and redemptions are made as of the last business day of any calendar quarter subject to certain limitations. Net asset value per share is calculated based on measurement of all the underlying investments in the funds in accordance with FASB Accounting Standards Codification ("FASB ASC") Topic 820, *Fair Value Measurement*.

Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over their useful lives or the terms of the lease, whichever is shorter. The Institute capitalizes amounts with a cost of $1,000 or more with estimated useful lives of greater than one year.

Revenue recognition

Contributions and unconditional promises to give are recorded at fair value, when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Note 2 - Summary of significant accounting policies (continued)

Temporarily restricted net assets are contributions on which donors have imposed time restrictions, or program-specific restrictions. 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 statements of activities and change in net assets as net assets released from restrictions

Permanently restricted net assets are contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Institute's actions. The principal amount of the gift is maintained intact.

Non-cash contributions
Donated investments are reflected as contributions and are recorded at their fair value as of the date of the contribution. Donated investments are converted to cash nearly immediately upon receipt and reported as cash flows from operating activities. Any gain or loss on conversion to cash is recognized as investment income in the statements of activities and change in net assets. Non-cash contributions of goods and services are recorded as revenue and expenses at fair value when received and have been presented in the statements of activities and change in net assets as contributions and grants, and expensed in the appropriate functional category. The Institute recorded donated goods and services to program services in the statements of activities and change in net assets for the years ended June 30, 2016 and 2015 in the amounts of $121,497 and $110,191, respectively.

Expense allocation
The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. 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.

Income taxes
The Institute is exempt from income taxes 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 during the years ended June 30, 2016 and 2015. The Institute recognizes interest expense and penalties on income taxes related to uncertain tax positions in management expenses in the statements of activities and change in net assets. There is no provision in these financial statements for penalties and interest related to income taxes on uncertain tax positions for the years ended June 30, 2016 and 2015. Tax years prior to 2012 are no longer subject to examination by the IRS or the tax jurisdiction of the District of Columbia.

Note 2 - Summary of significant accounting policies (continued)

Reclassification

Certain reclassifications have been made to 2015 amounts to conform to the 2016 presentation. In the statement of financial position, the Institute reclassified $1,800,000 to deferred compensation liability from accrued liabilities.

Comparative financial information

The financial statements include 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Subsequent events

The Institute has evaluated events and transactions for potential recognition or disclosure through December 12, 2016, the date the financial statements were available to be issued.

Note 3 - Investments

Investments consist of the following at June 30:

	June 30, 2016		
	Reserve	Other	Total
Money market funds	$ 10,385,643	$ 102,628	$ 10,488,271
Mutual funds-fixed income	1,220,080	275,147	1,495,227
Exchange traded funds:			
International equity	12,334,853	4,091	12,338,944
Domestic equity	6,187,127	48,767	6,235,894
Commodities	12,779,880	-	12,779,880
Bonds	7,793,666	-	7,793,666
Alternative investments	5,978,107	-	5,978,107
Total investments	$ 56,679,356	$ 430,633	$ 57,109,989

	June 30, 2015		
	Reserve	Other	Total
Money market funds	$ 9,989,924	$ 115,431	$ 10,105,355
Mutual funds-fixed income	1,190,115	426,876	1,616,991
Exchange traded funds:			
International equity	6,584,159	4,672	6,588,831
Domestic equity	5,369,126	44,065	5,413,191
Commodities	6,082,388	-	6,082,388
Alternative investments	5,761,061	-	5,761,061
Total investments	$ 34,976,773	$ 591,044	$ 35,567,817

Other investments include monies received under beneficial interest agreements (see Note 6) and monies received for the Institute's endowment (see Note 8).

Three hundred thousand dollars ($300,000) in the reserve investment's money market funds are set aside under a deferred compensation agreement (see Note 9).

Note 3 - Investments (continued)

Investment income for the years ended June 30, 2016 and 2015, consists of the following:

	June 30, 2016		
	Reserve	Other	Total
Interest and dividend income	$ 483,702	$ 11,364	$ 495,066
Net unrealized/realized gains (losses)	(160,742)	(1,887)	(162,629)
Investment income	$ 322,960	$ 9,477	$ 332,437

	June 30, 2015		
	Reserve	Other	Total
Interest and dividend income	$ 207,551	$ 12,288	$ 219,839
Net unrealized/realized gains (losses)	(106,305)	(8,202)	(114,507)
Investment income	$ 101,246	$ 4,086	$ 105,332

Note 4 - Pledges receivable

Pledges receivable that are expected to be collected in future years are discounted to present value 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. The discount rates for 2016 and 2015 ranged from 2.25% to 2.86%. The outstanding pledges, net of discount and provision for uncollectible pledges consist of the following at June 30:

	2016	2015
Economic liberty	$ 322,214	$ 123,750
School choice	495,000	977,879
Operating support	3,517,526	6,200,108
Fellowship	55,776	83,992
Total pledges receivable, net	$ 4,390,516	$ 7,385,729

Note 4 - Pledges receivable (continued)

As of June 30, pledges receivable are expected to be collected as follows:

	2016	2015
Receivable in less than one year	$ 3,389,540	$ 3,952,726
Receivable in one to three years	1,078,498	3,617,000
Total pledges receivable	4,468,038	7,569,726
Less: Discount to net present value	(33,173)	(109,394)
Less: Allowance for doubtful accounts	(44,349)	(74,603)
Pledges receivable, net	$ 4,390,516	$ 7,385,729

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 and therefore, to be recorded as unrestricted contributions and grants in the accompanying statements of activities and change in net assets. As of June 30, 2015, the Institute met all conditions under the Grant. For the years ended June 30, 2016 and 2015, the total amount due to the Institute under this Grant was $1,500,000 and $3,000,000, respectively.

Note 5 - Property and equipment

Property and equipment consists of the following at June 30:

	2016	2015
Furniture and equipment	$ 1,726,904	$ 1,696,070
Computers and software	384,031	363,069
Leasehold improvements	1,870,362	1,867,493
Construction in progress	2,689	-
Total property and equipment	3,983,986	3,926,632
Less: Accumulated depreciation and amortization	(2,961,431)	(2,639,192)
Property and equipment, net	$ 1,022,555	$ 1,287,440

Note 5 - Property and equipment (continued)

Property and equipment held under capital leases at June 30, 2016 and 2015 was $93,400 and $68,166, respectively. Accumulated amortization for assets held under capital leases for the years ended June 30, 2016 and 2015 was $49,389 and $32,341, respectively.

Note 6 - Beneficial interest agreements

During the year ended June 30, 2007, the Institute established the Four Pillars Society to honor those who have named the Institute as the beneficiary of a planned gift. Such gifts might include bequests, retirement assets, or charitable gift annuities. In one type of such gift, the charitable gift annuity, donors transfer funds to the Institute and in return receive quarterly annuity payments for the rest of their lives, as set forth in the agreement between a donor and the Institute. The initial funds the Institute receives are maintained in discrete investment accounts and are included in investments-other in the accompanying statements of financial position (see Note 3). Any assets not distributed will revert to the Institute when the agreement ends. As of June 30, 2016 and 2015, the total assets, at fair value, of such beneficial interest agreements were $331,374 and $491,627, respectively.

The amount payable to beneficiaries is the net present value of the expected future cash flows to be paid to beneficiaries. The estimated liability is included with accrued liabilities in the accompanying statements of financial position and at June 30, 2016 and 2015 was $235,387 and $168,408, respectively. The actuarial present value was computed using interest rates ranging between 1.6% and 5.2% for the years ended June 30, 2016 and 2015.

Note 7 - Restricted net assets

Temporarily restricted net assets are available to support the following at June 30:

	2016	2015
Purpose and Time:		
Fellowship	$ 1,209,999	$ 1,409,769
School choice	495,000	977,879
Economic liberty	265,770	99,000
Strategic research	-	1,179
New media proposal	-	17,690
Grassroots legal defense fund	6,705,031	-
Outreach events	126,760	-
Property rights	27,307	-
	8,829,867	2,505,517
Time:		
General support	3,517,798	6,200,111
Total temporarily restricted net assets	$ 12,347,665	$ 8,705,628

Note 7 - Restricted net assets (continued)

Permanently restricted net assets consist of the following at June 30:

	2016	2015
General support	$ 100,000	$ 100,000

Note 8 - Endowment

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 is included with investments-other in the statements of financial position.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") enacted into law in Virginia during October 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, the Institute classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

The portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated by the Institute in a manner consistent with the standard prudence prescribed by SPMIFA and as determined by the Institute to be prudent for the uses, benefits, purposes, and duration for which the donor-restricted endowment funds was established.

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 the assets associated with individual donor-restricted endowments may fall below the level that the donor or SPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are first funded from temporarily restricted balances not appropriated and then unrestricted net assets.

Note 8 - Endowment (continued)

Deficiencies that are reported in unrestricted net assets were $741 and $583 for the years ended June 30, 2016 and 2015, respectively. These deficiencies resulted from market fluctuations that occurred during previous years and the net of current year investment income earned. Gains that may subsequently restore the fair value of the net assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets.

The following is a summary of the changes in donor-restricted endowment funds subject to SPMIFA for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ -	$ -	$ -	$ -
Contributions	-	-	100,000	100,000
Investment income				
Interest and dividends	-	1,889	-	1,889
Realized and unrealized losses, net	-	(2,472)	-	(2,472)
Transfer from unrestricted net assets	(583)	583	-	-
Appropriation for expenditure	-	-	-	-
Endowment net assets, June 30, 2015	(583)	-	100,000	99,417
Contributions	-	-	-	-
Investment income				
Interest and dividends	-	2,043	-	2,043
Realized and unrealized losses, net	-	(2,201)	-	(2,201)
Transfer from unrestricted net assets	(158)	158	-	-
Appropriation for expenditure	-	-	-	-
Endowment net assets, June 30, 2016	$ (741)	$ -	$ 100,000	$ 99,259

Note 9 - Retirement and deferred compensation plans

The Institute sponsors a 401(k) plan (the "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, discretionary employer matching contributions, and a discretionary employer safe harbor profit-sharing contribution. For the years ended June 30, 2016 and 2015, the Institute made a matching contribution equal to 100% of employee contributions up to 4% of compensation. Vesting in the discretionary matching and/or profit-sharing contribution made by the Institute is based on years of service with full vesting after five years.

Note 9 - Retirement and deferred compensation plans (continued)

The Institute also sponsors a separate tax deferred annuity plan through elective salary reductions under Section 403(b) of the Internal Revenue Code that covers all eligible employees of the Institute. Participating employees are able to defer a portion of their compensation subject to certain Internal Revenue Service limitations.

Retirement expense incurred for the above plans totaled $821,722 and $797,127 for the years ended June 30, 2016 and 2015, respectively.

The Institute has established non-qualified deferred compensation agreements pursuant to Section 457(f) of the Internal Revenue Code for the benefit of certain management or highly compensated employees. These compensation agreements are intended to comply with all applicable requirements of Section 409A of the Code. Amounts set aside under the agreements, 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. As of June 30, 2016 and 2015, the Plan assets include $1,500,000 in cash and cash equivalents and $300,000 in investments-reserve. Under the agreements, the Institute can make discretionary contributions. Obligations for the above agreements total $1,800,000 as of June 30, 2016 and 2015, respectively. Deferred compensation expense totaled $0 and $1,500,000 for the years ended June 30, 2016 and 2015, respectively.

Note 10 - Commitments

The Institute for Justice leases office space for its offices under operating leases with expiration dates ranging from May 2018 through April 2027. These leases call for monthly rent plus the Institute's share of operating expenses. Rent payments are recognized as expenses on a straight-line basis over the term of the applicable lease, and a deferred rent liability is recorded for timing differences associated with bargain rents as well as a deferred lease incentive for a tenant improvement allowance provided by the landlord. The deferred rent liability balance as of June 30, 2016 and 2015 was $1,842,222 and $1,360,772, respectively. The balance as of June 30, 2016 and 2015 consists of deferred lease incentive of $1,082,576 and $1,182,507, respectively, and deferred rent of $759,646 and $178,265, respectively.

Note 10 - Commitments (continued)

The total future minimum lease commitments under these lease agreements at June 30, 2016 are as follows:

June 30,	Amount
2017	$ 1,387,400
2018	1,361,500
2019	1,556,400
2020	1,586,700
2021	1,599,100
Thereafter	9,242,100
Total	$ 16,733,200

Rental expense under all operating leases for the years ended June 30, 2016 and 2015 was $1,697,766 and $1,542,134, respectively.

For its Arlington lease, the Institute entered into a five-year sublease agreement with an unrelated entity effective July 2014. Effective March 31, 2016, as provided for in the agreement, the Institute exercised its option to terminate the sublease early, with an effective date no earlier than July 31, 2017. The minimum commitment to be collected under the existing sublease for the year ended June 30, 2017 is $103,000. Rental income received under the sublease for the years ended June 30, 2016 and 2015 was $99,054 and $87,588 respectively, and is included in other income in the accompanying statements of activities and change in net assets.

The Institute entered into capital leases to finance certain equipment over three to five years. The asset and related liability under these capital leases are recorded at the present value of the minimum lease payments using discount rates ranging between 3.25% and 5.50%.

Note 10 - Commitments (continued)

Future minimum lease payments under the Institute's capital leases are as follows:

June 30,	Amount
2017	$ 20,530
2018	10,938
2019	8,922
2020	5,784
2021	5,848
Total minimum lease payments	52,022
Amount representing interest	(7,467)
Present value of minimum lease payments	$ 44,555

Note 11 - Fair value measurements

The Institute has determined the fair value of certain assets and liabilities through the application of FASB Accounting Standards Codification ("FASB ASC") Topic 820, *Fair Value Measurement*. Fair values of assets and liabilities measured on a recurring basis at June 30, 2016 and 2015 are as follows:

Note 11 - Fair value measurements (continued)

	Fair value	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)
June 30, 2016				
Assets				
Money market funds	$ 10,488,271	$ 10,488,271	$ -	$ -
Mutual funds-fixed income	1,495,227	1,495,227	-	-
Exchange traded funds:				
International equity	12,338,944	12,338,944	-	-
Domestic equity	6,235,894	6,235,894	-	-
Commodities	12,779,880	12,779,880	-	-
Bonds	7,793,666	7,793,666	-	-
Alternative investments	5,978,107	-	-	5,978,107
Total investments	$ 57,109,989	$ 51,131,882	$ -	$ 5,978,107
Liabilities				
Deferred compensation liability	$ 1,800,000	$ 1,800,000	$ -	$ -
Beneficial interests payable	$ 235,387	$ -	$ 235,387	$ -
June 30, 2015				
Assets				
Money market funds	$ 10,105,355	$ 10,105,355	$ -	$ -
Mutual funds-fixed income	1,616,991	1,616,991	-	-
Exchange traded funds:				
International equity	6,588,831	6,588,831	-	-
Domestic equity	5,413,191	5,413,191	-	-
Commodities	6,082,388	6,082,388	-	-
Alternative investments	5,761,061	-	-	5,761,061
Total investments	$ 35,567,817	$ 29,806,756	$ -	$ 5,761,061
Liabilities				
Deferred compensation liability	$ 1,800,000	$ 1,800,000	$ -	$ -
Beneficial interests payable	$ 168,408	$ -	$ 168,408	$ -

Note 11 - Fair value measurements (continued)

FASB ASC Topic 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 the highest quality inputs; Level 2 inputs are based primarily on significant other observable inputs, such as quoted prices for identical assets in inactive markets or quoted prices for similar assets in active or inactive markets and provide reasonable inputs; Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Institute uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Institute measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The deferred compensation liability is based upon the underlying fair value of the deferred compensation asset. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach.

Investment in alternative investments consist of private investment funds, which meet the criteria under GAAP for investments that calculate net asset value per share. 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.

The following table reconciles the changes in Level 3 assets at fair value for the years ended June 30, 2016 and 2015:

	Alternative Investments
Balance, June 30, 2014	$ 4,960,861
Puchases, sales, issuances, and settlements (net)	-
Realized and unrealized gains	800,200
Balance, June 30, 2015	5,761,061
Puchases, sales, issuances, and settlements (net)	-
Realized and unrealized gains	217,046
Balance, June 30, 2016	$ 5,978,107