Institute for Justice

Financial Statements
and Independent Auditor's Report

June 30, 2019 and 2018

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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 statements of financial position as of June 30, 2019 and 2018, the related statements of activities and change in net assets, functional expenses, and cash flows for the years 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 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 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, 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.

CohnReznick LLP

Bethesda, Maryland
November 19, 2019

Institute for Justice

Statements of Financial Position
June 30, 2019 and 2018

Assets

	2019	2018
Cash and cash equivalents	$ 5,727,213	$ 6,814,109
Pledges receivable, net	990,119	2,518,689
Other receivables	65,100	10,361
Prepaid expenses and deposits	510,077	506,705
Investments - litigation and contingency reserve	67,482,037	64,583,112
Investments - undesignated	20,647,222	17,398,886
Property and equipment, net	919,242	1,127,130
Total assets	$ 96,341,010	$ 92,958,992

Liabilities and Net Assets

	2019	2018
Accounts payable	$ 318,536	$ 376,225
Accrued liabilities	1,555,455	1,424,872
Capital lease obligations	62,507	66,515
Deferred compensation liability	311,487	304,332
Deferred rent	2,107,991	2,215,632
Deferred revenue - attorney fees	1,112,227	-
Total liabilities	5,468,203	4,387,576
Net assets		
Without donor restrictions		
Undesignated	20,048,779	18,608,719
Board-designated litigation and contingency reserve	67,482,037	64,583,112
Total without donor restrictions	87,530,816	83,191,831
With donor restrictions	3,341,991	5,379,585
Total net assets	90,872,807	88,571,416
Total liabilities and net assets	$ 96,341,010	$ 92,958,992

See Notes to Financial Statements.

Institute for Justice

Statement of Activities and Change in Net Assets
Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Contributions and grants	$ 18,851,042	$ 2,454,687	$ 21,305,729
Attorney fees	1,048,280	-	1,048,280
Other income	63,627	-	63,627
Net assets released from restrictions - satisfaction of program and time restrictions	4,499,563	(4,499,563)	-
Total support and revenue	24,462,512	(2,044,876)	22,417,636
Expenses			
Program services	19,084,061	-	19,084,061
Management	2,726,497	-	2,726,497
Development/fundraising	1,702,348	-	1,702,348
Total expenses	23,512,906	-	23,512,906
Change in net assets before non-operating activities	949,606	(2,044,876)	(1,095,270)
Non-operating activities			
Investment income - litigation and contingency reserve	2,898,925	-	2,898,925
Investment income - undesignated	490,454	7,282	497,736
Total non-operating activities	3,389,379	7,282	3,396,661
Change in net assets	4,338,985	(2,037,594)	2,301,391
Net assets, beginning of year	83,191,831	5,379,585	88,571,416
Net assets, end of year	$ 87,530,816	$ 3,341,991	$ 90,872,807

See Notes to Financial Statements.

Institute for Justice

Statement of Activities and Change in Net Assets
Year Ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Contributions and grants	$ 20,621,910	$ 3,273,522	$ 23,895,432
Attorney fees	588,356	-	588,356
Other income	274,218	-	274,218
Net assets released from restrictions - satisfaction of program and time restrictions	7,344,192	(7,344,192)	-
Total support and revenue	28,828,676	(4,070,670)	24,758,006
Expenses			
Program services	19,432,257	-	19,432,257
Management	2,714,910	-	2,714,910
Development/fundraising	1,819,977	-	1,819,977
Total expenses	23,967,144	-	23,967,144
Change in net assets before non-operating activities	4,861,532	(4,070,670)	790,862
Non-operating activities			
Investment income - litigation and contingency reserve	4,583,112	-	4,583,112
Investment income - undesignated	18,035	7,496	25,531
Total non-operating activities	4,601,147	7,496	4,608,643
Change in net assets	9,462,679	(4,063,174)	5,399,505
Net assets, beginning of year	73,729,152	9,442,759	83,171,911
Net assets, end of year	$ 83,191,831	$ 5,379,585	$ 88,571,416

See Notes to Financial Statements.

Institute for Justice

Statement of Functional Expenses
Year Ended June 30, 2019

	Program services	Management	Development/ fundraising	Total
Salary and benefits	$ 13,684,705	$ 1,577,836	$ 1,233,173	$ 16,495,714
Advertising	62,408	619	1,562	64,589
Accounting and corporate legal	73,622	57,825	1,970	133,417
Depreciation and amortization	322,825	37,222	29,091	389,138
Events	232,626	13,150	90	245,866
In-kind expenses	37,918	-	-	37,918
Insurance	60,104	59,802	-	119,906
Information technology	110,703	488,373	23,199	622,275
Occupancy	1,529,351	173,050	134,194	1,836,595
Operations	273,313	229,068	10,125	512,506
Postage	103,355	4,412	99,022	206,789
Printing	182,520	812	88,229	271,561
Professional services	1,182,586	31,374	43,335	1,257,295
Research tools and materials	272,160	8,450	23,756	304,366
Supplies	68,555	20,168	4,923	93,646
Telecommunications	72,310	7,439	2,428	82,177
Travel	815,000	16,897	7,251	839,148
Total expenses	$ 19,084,061	$ 2,726,497	$ 1,702,348	$ 23,512,906

See Notes to Financial Statements.

Institute for Justice

Statement of Functional Expenses
Year Ended June 30, 2018

	Program services	Management	Development/ fundraising	Total
Salary and benefits	$ 14,629,139	$ 1,517,200	$ 1,279,831	$ 17,426,170
Advertising	61,402	210	-	61,612
Accounting and corporate legal	70,089	61,780	6,041	137,910
Depreciation and amortization	334,725	34,715	29,283	398,723
Events	255,946	15,522	1,734	273,202
In-kind expenses	85,239	16,403	624	102,266
Insurance	56,840	60,228	-	117,068
Information technology	107,110	435,091	90,494	632,695
Occupancy	1,507,330	156,545	131,843	1,795,718
Operations	174,160	198,202	11,529	383,891
Postage	108,147	6,044	100,884	215,075
Printing	192,724	1,098	117,141	310,963
Professional services	640,518	165,990	17,338	823,846
Research tools and materials	268,381	965	19,121	288,467
Supplies	74,468	27,287	3,700	105,455
Telecommunications	78,481	7,238	2,755	88,474
Travel	787,558	10,392	7,659	805,609
Total expenses	$ 19,432,257	$ 2,714,910	$ 1,819,977	$ 23,967,144

See Notes to Financial Statements.

Institute for Justice

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 2,301,391	$ 5,399,505
Reconciling adjustments:		
Depreciation and amortization	389,138	398,723
Change in allowance for uncollectible pledges	(34,348)	-
Amortization of discount on pledges receivable	(31,701)	(50,679)
Loss on disposal of property and equipment	2,637	642
Unrealized/realized gains on investments	(1,819,025)	(3,723,995)
Changes in operating assets and liabilities:		
Attorney fees receivable	-	611,587
Pledges receivable	1,594,619	1,738,987
Other receivables	(54,739)	3,629
Prepaid expenses and deposits	(3,372)	(72,705)
Accounts payable	(57,689)	(14,089)
Accrued liabilities	130,583	66,367
Deferred rent	(107,641)	197,807
Deferred revenue - attorney fees	1,112,227	-
Deferred compensation liability	7,155	(1,495,668)
Net cash provided by operating activities	3,429,235	3,060,111
Cash flows from investing activities		
Purchases of property and equipment	(151,387)	(133,194)
Purchases of investments	(19,515,331)	(32,045,874)
Proceeds from sales of investments	15,187,095	25,938,799
Net cash used in investing activities	(4,479,623)	(6,240,269)
Cash flows from financing activities		
Payment of capital lease obligations	(36,508)	(18,259)
Net cash used in financing activities	(36,508)	(18,259)
Net decrease in cash and cash equivalents	(1,086,896)	(3,198,417)
Cash and cash equivalents, beginning of year	6,814,109	10,012,526
Cash and cash equivalents, end of year	$ 5,727,213	$ 6,814,109
Non-cash investing activity		
Property and equipment acquired through a capital lease obligation	$ 32,500	$ 58,113
Supplemental disclosure of cash flow information		
Interest paid	$ 3,643	$ 3,870
Cash paid for income taxes	$ 19,026	$ -

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, cash in transit, 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 coverage. The amount of uninsured deposits at June 30, 2019 was approximately $4,980,000.

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, 2019 and 2018, the allowance for doubtful accounts was $10,001 and $44,349, respectively.

Investments

Investments consisting of money market funds, mutual funds, certificates of deposit, treasury bills and exchange-traded funds are reported at their fair value based on quoted market prices provided by independent investment managers. Gains, both realized and unrealized, and losses are calculated using a specific-identification method and are recorded, along with interest and dividend income, as investment income in the statements of activities and change in net assets. Investment income (gains and losses) is classified as an increase or decrease in net assets without donor restrictions, as applicable, unless its use is restricted by explicit donor stipulations or law.

Alternative investments, which consists of an investment in a fund of funds (the "Fund"), is reported at net asset value (“NAV”). 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 90 days’ 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. NAV 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 assets with a cost of $2,500 or more.

Revenue recognition

Contributions and unconditional promises to give are recorded at fair value, when received. All contributions are considered to be available for general use unless specifically restricted by the donor. Conditional promises to give are recorded once all conditions have been met.

Note 2 - Summary of significant accounting policies (continued)

Net assets with donor restrictions include contributions on which donors have imposed either time restrictions or program-specific restrictions. When a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

Net assets with donor restrictions also include 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 in perpetuity.

Board-designated litigation and contingency reserve

On November 4, 2017, the Institute's Board of Directors designated $60 million of its funds without donor restrictions as a litigation and contingency reserve, effective as of July 1, 2017. The board-designated litigation and contingency reserve fund will allow the Institute to continue to serve its obligations to its clients and advance its mission.

The Board intends that the litigation and contingency reserve fund hold an amount not less than one year of operating funds as the "Target Amount," calculated annually. If the funds in the litigation and contingency reserve are in excess of the Target Amount, the Institute may access a portion of the funds in the reserve, but may not access more than ten percent of the Target Amount without Board approval. The litigation and contingency reserve balance at June 30, 2019 and 2018 was $67,482,037 and $64,583,112, respectively.

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, 2019 and 2018 in the amounts of $37,918 and $102,266, 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. Those estimates include the allocation of salary, fringe benefits, rent and depreciation on the basis of time and effort.

Note 2 - Summary of significant accounting policies (continued)

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. 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 $37,012 and $0 for the years ended June 30, 2019 and 2018, respectively.

Management has determined there are no uncertain tax positions that are material to the financial statements for the years ended June 30, 2019 and 2018. 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, 2019 and 2018. Tax years prior to 2015 are no longer subject to examination by the Internal Revenue Service (“IRS“) or the tax jurisdiction of the District of Columbia.

Adoption of new accounting principle

During the year ended June 30, 2019, the Institute adopted the provisions of Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). Accordingly, the beginning balances of the donor restricted net assets categories (temporarily restricted and permanently restricted) have been retrospectively adjusted to consolidate all donor restricted net assets into one classification (with donor restrictions). ASU 2016-14 requires additional functional expense reporting and disclosures in the areas of liquidity and availability of resources. The Institute has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented in accordance with the standard.

Reclassifications

Certain reclassifications have been made to the 2018 amounts to conform to the 2019 presentation relating to the adoption of ASU 2016-14.

Subsequent events

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

Note 3 - Information regarding liquidity and availability of resources

The Institute strives to maintain liquid financial assets sufficient to cover four months of general expenditures. Financial assets in excess of daily cash requirements are invested in interest-bearing demand deposit accounts and money market demand accounts in federally insured banks and savings and loans not to exceed federally insured amounts (when feasible), federally insured certificates of deposit not to exceed federally insured amounts (when feasible), money market funds that invest in government-backed securities, and direct obligations of the U.S. government, its agencies and instrumentalities whose maturities do not exceed one year.

The following table reflects the Institute's financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations, including the litigation and contingency reserve in excess of the ten percent annual Target Amount. Investments include litigation and contingency reserve funds as well as undesignated funds. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

	June 30, 2019	June 30, 2018
Financial assets:		
Cash and cash equivalents	$ 5,727,213	$ 6,814,109
Pledges receivables, net	990,119	2,518,689
Other receivables	65,100	10,361
Investments	88,129,259	81,981,998
	94,911,691	91,325,157
Less: those unavailable for general expenditure within one year due to:		
Endowment funds	(115,680)	(111,025)
Investments - litigation and contingency reserve	(64,705,989)	(62,017,204)
Beneficial interest agreement funds	(347,490)	(294,868)
Net assets with donor restrictions for use in future periods	(1,153,172)	(2,074,109)
Financial assets available to meet cash needs for general expenditures within one year:	$ 28,589,360	$ 26,827,951

Note 4 - Investments

Investments consist of the following at June 30:

	June 30, 2019		
	Litigation and contingency reserve	Undesignated	Total
Money market funds	$ -	$ 16,093,196	$ 16,093,196
Mutual funds - fixed income	13,071,648	4,280,898	17,352,546
Certificate of deposit	-	90,005	90,005
Exchange-traded funds:			
International equity	15,775,217	11,938	15,787,155
Domestic equity	7,969,740	46,719	8,016,459
Commodities	15,741,803	-	15,741,803
Bonds	7,912,400	124,466	8,036,866
Alternative investments	7,011,229	-	7,011,229
Total investments	$ 67,482,037	$ 20,647,222	$ 88,129,259

	June 30, 2018		
	Litigation and contingency reserve	Undesignated	Total
Money market funds	$ 5,850,193	$ 10,574,024	$ 16,424,217
Mutual funds - fixed income	6,247,088	251,731	6,498,819
Treasury bills	-	6,516,615	6,516,615
Exchange-traded funds:			
International equity	14,876,817	10,447	14,887,264
Domestic equity	7,723,609	46,069	7,769,678
Commodities	15,360,125	-	15,360,125
Bonds	7,424,441	-	7,424,441
Alternative investments	7,100,839	-	7,100,839
Total investments	$ 64,583,112	$ 17,398,886	$ 81,981,998

Undesignated investments include monies related to beneficial interest agreements (see Note 7), the Institute's endowment (see Note 9), and a rabbi trust deferred compensation agreement (see Note 10).

Note 4 - Investments (continued)

Investment income for the years ended June 30, 2019 and 2018 consists of the following:

	June 30, 2019		
	Litigation and contingency reserve	Undesignated	Total
Interest and dividend income	$ 1,114,288	$ 463,348	$ 1,577,636
Net unrealized/realized gains	1,784,637	34,388	1,819,025
Investment income	$ 2,898,925	$ 497,736	$ 3,396,661

	June 30, 2018		
	Litigation and contingency reserve	Undesignated	Total
Interest and dividend income	$ 882,248	$ 220,756	$ 1,103,004
Net unrealized/realized gains	3,700,864	23,131	3,723,995
Investment income	$ 4,583,112	$ 243,887	$ 4,826,999

Interest and dividend income totaling $0 and $218,356 is included in other income on the statements of activities for the years ended June 30, 2019 and 2018, respectively. Beginning July 1, 2018, the Institute classifies all interest and dividend income as investment income for non-operating activities.

Note 5 - 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 2019 and 2018 ranged from 2.47% to 4.01%. The outstanding pledges, net of discount and provision for uncollectible pledges consist of the following at June 30:

	2019	2018
Property rights	$ 35,347	$ 63,982
School choice	495,000	479,117
Operating support	330,000	1,816,100
Fellowship	129,772	159,490
Total pledges receivable, net	$ 990,119	$ 2,518,689

Note 5 - Pledges receivable (continued)

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

	2019	2018
Receivable in less than one year	$ 903,537	$ 1,594,619
Receivable in one to five years	103,500	1,007,037
Total pledges receivable	1,007,037	2,601,656
Less: Discount to net present value	(6,917)	(38,618)
Less: Allowance for doubtful accounts	(10,001)	(44,349)
Pledges receivable, net	$ 990,119	$ 2,518,689

Note 6 - Property and equipment

Property and equipment consists of the following at June 30:

	2019	2018
Furniture and equipment	$ 1,946,275	$ 1,885,585
Computers and software	461,273	415,763
Leasehold improvements	2,372,124	2,325,843
Total property and equipment	4,779,672	4,627,191
Less: Accumulated depreciation and amortization	(3,860,430)	(3,500,061)
Property and equipment, net	$ 919,242	$ 1,127,130

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was $389,138 and $398,723, respectively. Property and equipment held under capital leases at June 30, 2019 and 2018 was $90,613 and $90,847, respectively. Accumulated amortization for assets held under capital leases for the years ended June 30, 2019 and 2018 was $31,200 and $27,805, respectively.

Note 7 - 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 - undesignated in the accompanying statements of financial position (see Note 4). Any assets not distributed will revert to the Institute when the agreement ends. As of June 30, 2019 and 2018, the total assets, at fair value, of such beneficial interest agreements were $347,490 and $294,868, 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, 2019 and 2018 was $259,982 and $214,268, respectively. The actuarial present value was computed using interest rates ranging between 1.6% and 5.2% for the years ended June 30, 2019 and 2018.

Note 8 - Net assets with donor restrictions

As of June 30, 2019 and 2018, net assets with donor restrictions are restricted for the following purposes.

Subject to expenditure for specified purpose and/or time, or restricted in perpetuity:

	June 30, 2019	June 30, 2018
Purpose and Time:		
Fellowship	$ 1,121,736	$ 1,138,211
School choice	595,000	979,117
Economic liberty	162,460	894,993
Strategic research	154,631	227,584
Communications	50,000	41,977
Property rights	136,613	353,627
Litigation support	158,798	-
Outreach and education	70,000	-
Endowment (general support)	15,680	11,025
	2,464,918	3,646,534
Time:		
General support	777,073	1,633,051
Total purpose and time restricted net assets	3,241,991	5,279,585
Perpetual - endowment	100,000	100,000
Total net assets with donor restrictions	$ 3,341,991	$ 5,379,585

Note 9 - Endowment

The Institute's endowment was established in 2015 to support its overall mission. The endowment includes only donor-restricted endowment funds and is included with investments - undesignated in the statements of financial position.

The Institute’s 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 an endowment (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 in accordance with the applicable donor gift instrument.

The portion of the donor-restricted endowment that is not classified as an endowment restricted in perpetuity is classified as time restricted within net assets with donor restrictions until 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 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.

There were no deficiencies reported in net assets with donor restrictions for the years ended June 30, 2019 and 2018.

Note 9 - Endowment (continued)

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

Endowment net assets, June 30, 2017	$ 105,874
Contributions	-
Investment income	
Interest and dividends	2,400
Realized and unrealized gains, net	5,096
Appropriation for expenditure	(2,345)
Endowment net assets, June 30, 2018	111,025
Contributions	-
Investment income	
Interest and dividends	2,721
Realized and unrealized gains, net	4,561
Appropriation for expenditure	(2,627)
Endowment net assets, June 30, 2019	$ 115,680

Note 10 - 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. On June 11, 2019, the Plan was amended to include full-time employees with three months of service. The change is effective July 1, 2019. The Plan provides for employee voluntary contributions, discretionary employer matching contributions, and a discretionary employer safe harbor profit-sharing contribution. For each of the years ended June 30, 2019 and 2018, the Institute made a matching contribution equal to 100% of employee contributions up to 4% of compensation, as well as a safe harbor profit-sharing contribution of 3% of participant 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.

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 IRS limitations.

Retirement expense incurred for the 401(k) plan totaled $1,177,914 and $1,130,107 for the years ended June 30, 2019 and 2018, respectively.

Note 10 - Retirement and deferred compensation plans (continued)

The Institute has established a non-qualified deferred compensation agreement pursuant to Section 457(f) of the Internal Revenue Code for the benefit of certain management or highly compensated employees. The compensation agreement, which is a rabbi trust agreement, is intended to comply with all applicable requirements of Section 409A of the Internal Revenue Code. Amounts set aside under the agreement, 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, 2019 and 2018, assets set aside included $314,487 and $307,333, respectively, in investments - undesignated. Under the agreement, the Institute can make discretionary contributions. No discretionary contributions were made for the years ended June 30, 2019 or 2018. Obligations total $311,487 and $304,332 as of June 30, 2019 or 2018, respectively.

Note 11 - Commitments and contingencies

The Institute leases its offices under operating leases with expiration dates ranging from March 2020 through April 2027, including lease amendments executed in July 2019 and August 2019. 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, 2019 and 2018 was $2,107,991 and $2,215,632, respectively. The balance as of June 30, 2019 and 2018 consists of deferred lease incentive of $782,786 and $882,716, respectively, and deferred rent of $1,325,205 and $1,332,916, respectively.

The total future minimum lease commitments under these lease agreements are as follows:

June 30,	Amount
2020	$ 1,811,800
2021	2,090,600
2022	2,202,100
2023	2,203,500
2024	2,171,400
Thereafter	6,051,600
Total	$ 16,531,000

Note 11 - Commitments and contingencies (continued)

Rental expense under all operating leases for the years ended June 30, 2019 and 2018 was $1,836,595 and $1,795,718, respectively.

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 5.25% and 7.50%.

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

June 30,	Amount
2020	$ 30,640
2021	19,409
2022	8,811
2023	8,811
2024	8,315
Total minimum lease payments	75,986
Amount representing interest	(13,479)
Present value of minimum lease payments	$ 62,507

In April 2019, the Institute entered into a preliminary settlement agreement under which it has received a payment of attorney fees of $1,112,227. The court preliminarily approved that settlement but retained discretion to adjust the fee award at the time the court finally approves the settlement. The Institute has classified the payment as deferred revenue as of June 30, 2019, pending the final approval by the court.

Note 12 - Fair value measurements

The Institute has determined the fair value of certain assets and liabilities through the application of FASB ASC Topic 820, *Fair Value Measurement*. 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.

Note 12 - Fair value measurements (continued)

In accordance with ASU 2015-07, investments that are measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2019 and 2018 are as follows:

		Fair value measurements at reporting date using:			
	Fair value	Net asset value	Quoted prices in active markets for identical assets/liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
June 30, 2019					
Assets					
Money market funds	$ 16,093,196	$ -	$ 16,093,196	$ -	$ -
Mutual funds - fixed income	17,352,546	-	17,352,546	-	-
Certificate of deposit	90,005	-	-	90,005	-
Exchange-traded funds:					
International equity	15,787,155	-	15,787,155	-	-
Domestic equity	8,016,459	-	8,016,459	-	-
Commodities	15,741,803	-	15,741,803	-	-
Bonds	8,036,866	-	8,036,866	-	-
Alternative investments	7,011,229	7,011,229	-	-	-
Total investments	$ 88,129,259	$ 7,011,229	$ 81,028,025	$ 90,005	$ -
Liabilities					
Deferred compensation liability	$ 311,487	$ -	$ 311,487	$ -	$ -
Beneficial interests payable	$ 259,982	$ -	$ -	$ 259,982	$ -
June 30, 2018					
Assets					
Money market funds	$ 16,424,217	$ -	$ 16,424,217	$ -	$ -
Mutual funds - fixed income	6,498,819	-	6,498,819	-	-
Treasury bills	6,516,615	-	-	6,516,615	-
Exchange-traded funds:					
International equity	14,887,264	-	14,887,264	-	-
Domestic equity	7,769,678	-	7,769,678	-	-
Commodities	15,360,125	-	15,360,125	-	-
Bonds	7,424,441	-	7,424,441	-	-
Alternative investments	7,100,839	7,100,839	-	-	-
Total investments	$ 81,981,998	$ 7,100,839	$ 68,364,544	$ 6,516,615	$ -
Liabilities					
Deferred compensation liability	$ 304,332	$ -	$ 304,332	$ -	$ -
Beneficial interests payable	$ 214,268	$ -	$ -	$ 214,268	$ -

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