Institute for Justice

Financial Statements
and Independent Auditor's Report

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2020, the Institute adopted the provisions of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* and Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to these matters.

CohnReznick LLP

Bethesda, Maryland
December 4, 2020

Institute for Justice

Statements of Financial Position
June 30, 2020 and 2019

Assets

	2020	2019
Cash and cash equivalents	$ 5,560,176	$ 5,727,213
Pledges receivable, net	2,504,592	990,119
Other receivables	101,630	65,100
Prepaid expenses and deposits	637,855	510,077
Investments - litigation and contingency reserve	70,669,246	67,482,037
Investments - undesignated	23,721,457	20,647,222
Property and equipment, net	1,725,000	919,242
Total assets	$ 104,919,956	$ 96,341,010

Liabilities and Net Assets

	2020	2019
Accounts payable	$ 455,619	$ 318,536
Accrued liabilities	2,132,187	1,555,455
Capital lease obligations	36,523	62,507
Deferred compensation liability	-	311,487
Deferred rent and lease incentives	2,372,946	2,107,991
Refundable advances	3,723,353	1,112,227
Total liabilities	8,720,628	5,468,203
Net assets		
Without donor restrictions		
Undesignated	20,776,705	20,048,779
Board-designated litigation and contingency reserve	70,669,246	67,482,037
Total without donor restrictions	91,445,951	87,530,816
With donor restrictions	4,753,377	3,341,991
Total net assets	96,199,328	90,872,807
Total liabilities and net assets	$ 104,919,956	$ 96,341,010

See Notes to Financial Statements.

Institute for Justice

Statement of Activities and Change in Net Assets
Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Contributions and grants	$ 22,259,647	$ 4,959,600	$ 27,219,247
Attorney fees	453,435	-	453,435
Other income	43,673	-	43,673
Net assets released from restrictions - satisfaction of program and time restrictions	3,551,698	(3,551,698)	-
Total support and revenue	26,308,453	1,407,902	27,716,355
Expenses			
Program services	21,260,625	-	21,260,625
Management	3,317,673	-	3,317,673
Development/fundraising	1,835,995	-	1,835,995
Total expenses	26,414,293	-	26,414,293
Change in net assets before non-operating activities	(105,840)	1,407,902	1,302,062
Non-operating activities			
Investment income - litigation and contingency reserve	3,187,209	-	3,187,209
Investment income - undesignated	833,766	3,484	837,250
Total non-operating activities	4,020,975	3,484	4,024,459
Change in net assets	3,915,135	1,411,386	5,326,521
Net assets, beginning of year	87,530,816	3,341,991	90,872,807
Net assets, end of year	$ 91,445,951	$ 4,753,377	$ 96,199,328

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 Functional Expenses
Year Ended June 30, 2020

	Program services	Management	Development/ fundraising	Total
Salary and benefits	$ 16,176,752	$ 1,973,872	$ 1,272,070	$ 19,422,694
Advertising	104,738	220	19,165	124,123
Accounting and corporate legal	66,135	88,973	2,853	157,961
Depreciation and amortization	307,263	37,046	24,174	368,483
Events	171,569	6,064	-	177,633
In-kind expenses	81,014	-	-	81,014
Insurance	56,406	67,744	-	124,150
Information technology	104,678	522,797	21,269	648,744
Occupancy	1,624,029	196,435	127,724	1,948,188
Operations	194,986	204,510	11,266	410,762
Postage	122,966	5,181	96,285	224,432
Printing	209,831	3,919	171,511	385,261
Professional services	906,432	164,439	50,046	1,120,917
Research tools and materials	297,465	17,062	25,188	339,715
Supplies	73,340	14,886	9,318	97,544
Telecommunications	69,738	9,686	2,461	81,885
Travel	693,283	4,839	2,665	700,787
Total expenses	$ 21,260,625	$ 3,317,673	$ 1,835,995	$ 26,414,293

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

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 5,326,521	$ 2,301,391
Reconciling adjustments:		
Depreciation and amortization	368,483	389,138
Change in allowance for uncollectible pledges	15,298	(34,348)
Amortization of discount on pledges receivable	66,692	(31,701)
Loss on disposal of property and equipment	20	2,637
Unrealized/realized gains on investments	(2,401,537)	(1,819,025)
Changes in operating assets and liabilities:		
Pledges receivable	(1,596,463)	1,594,619
Other receivables	(36,530)	(54,739)
Prepaid expenses and deposits	(127,778)	(3,372)
Accounts payable	137,083	(57,689)
Accrued liabilities	576,732	130,583
Deferred rent and lease incentives	4,192	(107,641)
Refundable advances	2,611,126	1,112,227
Deferred compensation liability	(311,487)	7,155
Net cash provided by operating activities	4,632,352	3,429,235
Cash flows from investing activities		
Purchases of property and equipment	(913,498)	(151,387)
Purchases of investments	(58,570,836)	(19,515,331)
Proceeds from sales of investments	54,710,929	15,187,095
Net cash used in investing activities	(4,773,405)	(4,479,623)
Cash flows from financing activities		
Payment of capital lease obligations	(25,984)	(36,508)
Net cash used in financing activities	(25,984)	(36,508)
Net decrease in cash and cash equivalents	(167,037)	(1,086,896)
Cash and cash equivalents, beginning of year	5,727,213	6,814,109
Cash and cash equivalents, end of year	$ 5,560,176	$ 5,727,213
Noncash investing activity		
Property and equipment acquired through a capital lease obligation	$ -	$ 32,500
Leasehold improvements acquired through lease incentive	$ 260,763	$ -
Supplemental disclosure of cash flow information		
Interest paid	$ 5,455	$ 3,643
Cash paid for income taxes	$ 30,072	$ 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. The Institute's sources of support are mainly provided by individuals and foundations. The Institute does not accept grants from the government.

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, 2020 was approximately $5,270,000.

Pledges and accounts 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.

Receivables are recorded 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. As of June 30, 2020 and 2019, the allowance for doubtful accounts was $25,299 and $10,001, respectively.

Note 2 - Summary of significant accounting policies (continued)

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. Construction in progress consists of computers, equipment, and leasehold improvements not yet placed in service that will be amortized once placed in service.

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.

Contributions received by the Institute are classified as either conditional or unconditional. A conditional contribution occurs when the Institute must overcome a barrier or hurdle to be entitled to an underlying contribution and the grantor or donor is released from the obligation to fund or has the right of return of any advanced funding if the Institute fails to overcome the barrier. Any funding received prior to overcoming the barrier is recognized as a refundable advance. Upon overcoming the barrier or hurdle, the Institute recognizes the contribution revenue in contributions and grants on the statements of activities and change in net assets.

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.

Note 2 - Summary of significant accounting policies (continued)

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.

The Institute periodically receives awards, typically costs, attorneys' fees, or both, from cases litigated by the Institute. These awards are recorded as attorney fees on the statements of activities and change in net assets upon final determination that the funds are no longer subject to appeal. From time to time, the Institute receives attorneys' fees before the court makes a final determination on the award, and, in those instances, these fees are included in refundable advances on the statements of financial position.

At June 30, 2020 and 2019, the Institute held $3,723,353 and $1,112,227, respectively, in refundable advances.

Adoption of new accounting principles

During the year ended June 30, 2020, the Institute adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The update requires that the recognition of revenue related to the transfer of goods and services to customers reflect the consideration that the Institute expects to be entitled to in exchange for those goods and services. Adopting the new standard did not have a material effect on the timing of the Institute's revenue recognition for the years ended June 30, 2020 and 2019.

During the year ended June 30, 2020, the Institute also adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. Adopting the new standard did not have a material effect on the timing of the Institute's revenue recognition for the years ended June 30, 2020 and 2019.

During the year ended June 30, 2019, the Institute adopted the provisions of FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. 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.

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.

Note 2 - Summary of significant accounting policies (continued)

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, 2020 and 2019 was $70,669,246 and $67,482,037, respectively.

Noncash 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. Noncash 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, 2020 and 2019 in the amounts of $81,014 and $37,918, 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.

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 were also considered unrelated business income. In December 2019, the law was repealed retroactive to January 1, 2018. As a result, income tax (benefit) expense related to qualified transportation fringe benefits was $(37,012) and $37,012 for the years ended June 30, 2020 and 2019, respectively.

Management has determined there are no uncertain tax positions that are material to the financial statements for the years ended June 30, 2020 and 2019. 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, 2020 and 2019. Tax years prior to 2016 are no longer subject to examination by the Internal Revenue Service ("IRS") or the tax jurisdiction of the District of Columbia.

Reclassifications

Certain reclassifications have been made to the 2019 amounts to conform to the 2020 presentation.

Subsequent events

The Institute has evaluated events and transactions for potential recognition or disclosure through December 4, 2020, 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, 2020 and 2019, 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, 2020	June 30, 2019
Financial assets:		
Cash and cash equivalents	$ 5,560,176	$ 5,727,213
Pledges receivables, net	2,504,592	990,119
Other receivables	101,630	65,100
Investments	94,390,703	88,129,259
	102,557,101	94,911,691
Less: those unavailable for general expenditure within one year due to:		
Endowment funds	(116,692)	(115,680)
Investments - litigation and contingency reserve	(67,605,787)	(64,705,989)
Beneficial interest agreement funds	(635,174)	(347,490)
Net assets with donor restrictions for use in future periods	(2,713,845)	(1,153,172)
Financial assets available to meet cash needs for general expenditures within one year:	$ 31,485,603	$ 28,589,360

Note 4 - Investments

Investments consist of the following at June 30:

	June 30, 2020		
	Litigation and contingency reserve	Undesignated	Total
Money market funds	$ -	$ 6,224,445	$ 6,224,445
Mutual funds:			
International equity	19,395,805	9,773	19,405,578
Domestic equity	10,207,723	50,330	10,258,053
Fixed income	23,503,515	17,066,490	40,570,005
Certificate of deposit	-	90,078	90,078
Exchange-traded funds:			
Commodities	10,314,965	-	10,314,965
Bonds	-	280,341	280,341
Alternative investments	7,247,238	-	7,247,238
Total investments	$ 70,669,246	$ 23,721,457	$ 94,390,703

	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

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, 2020 and 2019 consists of the following:

	June 30, 2020		
	Litigation and contingency reserve	Undesignated	Total
Interest and dividend income	$ 1,152,720	$ 470,202	$ 1,622,922
Net unrealized/realized gains	2,034,489	367,048	2,401,537
Investment income	$ 3,187,209	$ 837,250	$ 4,024,459

	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

The Institute classifies all interest and dividend income as investment income from 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 2020 and 2019 ranged from 2.24% to 4.01%. The outstanding pledges, net of discount and provision for uncollectible pledges consist of the following at June 30:

	2020	2019
Operating support	$ 1,916,013	$ 330,000
Fellowship	297,002	129,772
Technology	291,577	-
Property rights	-	35,347
School choice	-	495,000
Total pledges receivable, net	$ 2,504,592	$ 990,119

Note 5 - Pledges receivable (continued)

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

	2020	2019
Receivable in less than one year	$ 884,500	$ 903,537
Receivable in one to five years	1,719,000	103,500
Total pledges receivable	2,603,500	1,007,037
Less: Discount to net present value	(73,609)	(6,917)
Less: Allowance for doubtful accounts	(25,299)	(10,001)
Pledges receivable, net	$ 2,504,592	$ 990,119

Note 6 - Property and equipment

Property and equipment consists of the following at June 30:

	2020	2019
Furniture and equipment	$ 1,939,247	$ 1,927,873
Computers and software	477,624	461,273
Leasehold improvements	2,724,282	2,372,124
Construction in progress	577,352	18,402
Total property and equipment	5,718,505	4,779,672
Less: Accumulated depreciation and amortization	(3,993,505)	(3,860,430)
Property and equipment, net	$ 1,725,000	$ 919,242

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was $368,483 and $389,138, respectively. Property and equipment held under capital leases at June 30, 2020 and 2019 was $90,613. Accumulated amortization for assets held under capital leases for the years ended June 30, 2020 and 2019 was $57,071 and $31,200, 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, 2020 and 2019, the total assets, at fair value, of such beneficial interest agreements were $635,174 and $347,490, 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, 2020 and 2019 was $469,394 and $259,982, respectively. The actuarial present value was computed using interest rates ranging between 1.2% and 5.2% for the years ended June 30, 2020 and 2019.

Note 8 - Net assets with donor restrictions

As of June 30, 2020 and 2019, 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,	
	2020	2019
Purpose and Time:		
Fellowship	$ 1,257,714	$ 1,121,736
School choice	-	595,000
Economic liberty	220,201	162,460
Strategic research	-	154,631
Communications	49,697	50,000
Property rights	31,706	136,613
Litigation support	195,811	158,798
Outreach and education	-	70,000
Technology	301,190	-
Endowment (general support)	16,692	15,680
	2,073,011	2,464,918
Time:		
General support	2,580,366	777,073
Total purpose and time restricted net assets	4,653,377	3,241,991
Perpetual - endowment	100,000	100,000
Total net assets with donor restrictions	$ 4,753,377	$ 3,341,991

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 during 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 nonprofit 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, 2020 and 2019.

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, 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
Contributions		-
Investment income		
Interest and dividends		2,403
Realized and unrealized gains, net		1,081
Appropriation for expenditure		(2,472)
Endowment net assets, June 30, 2020	$	116,692

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. Effective July 1, 2019, the Plan was amended to include full-time employees with three months of service. 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, 2020 and 2019, 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 profit-sharing contributions made by the Institute is based on years of service with full vesting after five years.

Retirement expense incurred for the 401(k) plan totaled $1,377,506 and $1,177,914 for the years ended June 30, 2020 and 2019, respectively.

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. The 403(b) plan was terminated effective April 30, 2020.

Note 10 - Retirement and deferred compensation plans (continued)

The Institute has established a nonqualified 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, 2020 and 2019, assets set aside included $0 and $314,487, respectively, in investments - undesignated. Under the agreement, the Institute can make discretionary contributions. No discretionary contributions were made for the years ended June 30, 2020 or 2019. Obligations total $0 and $311,487 as of June 30, 2020 and 2019, respectively.

Note 11 - Commitments and contingencies

The Institute leases its offices under operating leases with expiration dates ranging from September 2021 through April 2027, including an amendment executed in August 2020. 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. At June 30, 2020 and 2019, deferred rent totaled $1,378,299 and $1,325,205, respectively, and lease incentives totaled $994,647 and $782,786, respectively.

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

June 30,	Amount
2021	$ 2,152,500
2022	2,548,700
2023	2,590,100
2024	2,568,200
2025	2,595,500
Thereafter	4,620,200
Total	$ 17,075,200

Note 11 - Commitments and contingencies (continued)

Rental expense under all operating leases for the years ended June 30, 2020 and 2019 was $1,948,188 and $1,836,595, 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 6.25% and 7.50%.

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

June 30,	Amount
2021	$ 19,408
2022	8,811
2023	8,810
2024	7,466
Total minimum lease payments	44,495
Amount representing interest	(7,972)
Present value of minimum lease payments	$ 36,523

In April 2019, the Institute entered into a preliminary settlement agreement under which it has received payments of attorney fees of $2,630,000. 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 payments as a refundable advance as of June 30, 2020, pending final approval by the court.

In April 2020, the Institute received a $1,000,000 challenge grant (the "Grant"). The Grant provides one dollar for every dollar raised from new donors by the Institute. All matching funds may be used to support the Institute's overall mission, and the Grant will be recorded as an unrestricted contribution and grant in the statements of activities and change in net assets when conditions are met. As of June 30, 2020, the Institute has classified the payment as a refundable advance.

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.

Note 12 - Fair value measurements (continued)

There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach.

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, 2020 and 2019 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, 2020					
Assets					
Money market funds	$ 6,224,445	$ -	$ 6,224,445	$ -	$ -
Mutual funds:					
International equity	19,405,578	-	19,405,578	-	-
Domestic equity	10,258,053	-	10,258,053	-	-
Fixed income	40,570,005	-	40,570,005	-	-
Certificate of deposit	90,078	-	-	90,078	-
Exchange traded funds:					
Commodities	10,314,965	-	10,314,965	-	-
Bonds	280,341	-	280,341	-	-
Alternative investments	7,247,238	7,247,238	-	-	-
Total investments	$ 94,390,703	$ 7,247,238	$ 87,053,387	$ 90,078	$ -
Liabilities					
Beneficial interests payable	$ 469,394	$ -	$ -	469,394	$ -
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	$ -

Note 13 - COVID-19 global pandemic

In early 2020, an outbreak of the novel strain of coronavirus ("COVID-19") emerged globally. As of June 30, 2020, the pandemic has not had a negative effect on the Institute's financial condition, results of operations, or cash flows, and the financial statements do not include any adjustments to account for the pandemic. The ultimate impact of COVID-19 on the Institute, however, cannot be reasonably estimated at this time, as the duration of the pandemic and the consequences of related government mandates remains uncertain. The Institute has neither applied for nor received any federal, state, or local grants or loans, regardless of whether related to the pandemic.

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