

Institute for Justice
Financial Statements
and Independent Auditor's Report
June 30, 2021 and 2020

Institute for Justice

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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, 2021 and 2020, 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, 2021 and 2020, 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.



Bethesda, Maryland
December 1, 2021

Institute for Justice
Statements of Financial Position
June 30, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	\$ 3,839,769	\$ 5,560,176
Pledges receivable, net	1,673,364	2,504,592
Other receivables	131,182	101,630
Prepaid expenses and deposits	654,378	637,855
Investments - litigation and contingency reserve	85,644,331	70,669,246
Investments - undesignated	27,109,416	23,721,457
Property and equipment, net	3,806,609	1,725,000
 Total assets	 \$ 122,859,049	 \$ 104,919,956

Liabilities and Net Assets

Accounts payable	\$ 440,508	\$ 455,619
Accrued liabilities	2,497,790	2,132,187
Capital lease obligations	51,135	36,523
Deferred rent and lease incentives	2,769,702	2,372,946
Refundable advances	538,000	3,723,353
 Total liabilities	 6,297,135	 8,720,628
 Net assets		
Without donor restrictions		
Undesignated	26,774,366	20,776,705
Board-designated litigation and contingency reserve	85,644,331	70,669,246
Total without donor restrictions	112,418,697	91,445,951
With donor restrictions	4,143,217	4,753,377
 Total net assets	 116,561,914	 96,199,328
 Total liabilities and net assets	 \$ 122,859,049	 \$ 104,919,956

See Notes to Financial Statements.

Institute for Justice

**Statement of Activities and Change in Net Assets
Year Ended June 30, 2021**

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Contributions and grants	\$ 26,938,648	\$ 4,305,571	\$ 31,244,219
Attorney fees	3,314,074	-	3,314,074
Other income	29,756	-	29,756
Net assets released from restrictions - satisfaction of program and time restrictions	<u>4,936,882</u>	<u>(4,936,882)</u>	<u>-</u>
Total support and revenue	<u>35,219,360</u>	<u>(631,311)</u>	<u>34,588,049</u>
Expenses			
Program services	23,590,099	-	23,590,099
Management	3,479,563	-	3,479,563
Development/fundraising	<u>2,229,821</u>	<u>-</u>	<u>2,229,821</u>
Total expenses	<u>29,299,483</u>	<u>-</u>	<u>29,299,483</u>
Change in net assets before non-operating activities	5,919,877	(631,311)	5,288,566
Non-operating activities			
Investment income - litigation and contingency reserve	14,975,085	-	14,975,085
Investment income - undesignated	<u>77,784</u>	<u>21,151</u>	<u>98,935</u>
Total non-operating activities	<u>15,052,869</u>	<u>21,151</u>	<u>15,074,020</u>
Change in net assets	20,972,746	(610,160)	20,362,586
Net assets, beginning of year	<u>91,445,951</u>	<u>4,753,377</u>	<u>96,199,328</u>
Net assets, end of year	<u>\$ 112,418,697</u>	<u>\$ 4,143,217</u>	<u>\$ 116,561,914</u>

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	<u>3,551,698</u>	<u>(3,551,698)</u>	<u>-</u>
Total support and revenue	<u>26,308,453</u>	<u>1,407,902</u>	<u>27,716,355</u>
Expenses			
Program services	21,260,625	-	21,260,625
Management	3,317,673	-	3,317,673
Development/fundraising	<u>1,835,995</u>	<u>-</u>	<u>1,835,995</u>
Total expenses	<u>26,414,293</u>	<u>-</u>	<u>26,414,293</u>
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	<u>833,766</u>	<u>3,484</u>	<u>837,250</u>
Total non-operating activities	<u>4,020,975</u>	<u>3,484</u>	<u>4,024,459</u>
Change in net assets	3,915,135	1,411,386	5,326,521
Net assets, beginning of year	<u>87,530,816</u>	<u>3,341,991</u>	<u>90,872,807</u>
Net assets, end of year	<u>\$ 91,445,951</u>	<u>\$ 4,753,377</u>	<u>\$ 96,199,328</u>

See Notes to Financial Statements.

Institute for Justice

**Statement of Functional Expenses
Year Ended June 30, 2021**

	Program services	Management	Development/ fundraising	Total
Salary and benefits	\$ 18,096,620	\$ 2,100,492	\$ 1,468,765	\$ 21,665,877
Advertising	98,911	-	11,992	110,903
Accounting and corporate legal	100,679	77,599	4,754	183,032
Depreciation and amortization	499,802	59,002	40,559	599,363
Events	39,999	129	124	40,252
In-kind expenses	106,113	-	-	106,113
Insurance	54,321	71,433	-	125,754
Information technology	127,419	628,592	26,410	782,421
Occupancy	1,953,277	232,221	158,814	2,344,312
Operations	246,605	203,505	19,837	469,947
Postage	102,817	8,557	158,582	269,956
Printing	195,346	1,250	214,996	411,592
Professional services	1,440,381	58,324	89,557	1,588,262
Research tools and materials	309,262	15,617	29,266	354,145
Supplies	32,162	11,736	3,070	46,968
Telecommunications	68,807	8,992	2,535	80,334
Travel	117,578	2,114	560	120,252
Total expenses	\$ 23,590,099	\$ 3,479,563	\$ 2,229,821	\$ 29,299,483

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

**Statements of Cash Flows
Years Ended June 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 20,362,586	\$ 5,326,521
Reconciling adjustments:		
Depreciation and amortization	599,363	368,483
Change in allowance for uncollectible pledges	(8,396)	15,298
Amortization of discount on pledges receivable	(39,876)	66,692
(Gain) Loss on disposal of property and equipment	(271)	20
Unrealized/realized gains on investments	(13,600,522)	(2,401,537)
Changes in operating assets and liabilities:		
Pledges receivable	879,500	(1,596,463)
Other receivables	(29,552)	(36,530)
Prepaid expenses and deposits	(16,523)	(127,778)
Accounts payable	(15,111)	137,083
Accrued liabilities	365,603	576,732
Deferred rent and lease incentives	66,418	4,192
Refundable advances	(3,185,353)	2,611,126
Deferred compensation liability	-	(311,487)
	5,377,866	4,632,352
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(2,317,863)	(913,498)
Purchases of investments	(14,128,864)	(58,570,836)
Proceeds from sales of investments	9,366,342	54,710,929
	(7,080,385)	(4,773,405)
Net cash used in investing activities		
Cash flows from financing activities		
Payment of capital lease obligations	(17,888)	(25,984)
	(17,888)	(25,984)
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(1,720,407)	(167,037)
Cash and cash equivalents, beginning of year	5,560,176	5,727,213
Cash and cash equivalents, end of year	\$ 3,839,769	\$ 5,560,176
Noncash investing activity		
Property and equipment acquired through a capital lease obligation	\$ 34,187	\$ -
Leasehold improvements acquired through lease incentive	\$ 330,338	\$ 260,763
Supplemental disclosure of cash flow information		
Interest paid	\$ 7,707	\$ 5,455
Cash paid for income taxes	\$ -	\$ 30,072

See Notes to Financial Statements.

Institute for Justice

Notes to Financial Statements June 30, 2021 and 2020

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, 2021 was approximately \$3,670,000.

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, 2021 and 2020, the allowance for doubtful accounts was \$16,903 and \$25,299, respectively.

Institute for Justice

**Notes to Financial Statements
June 30, 2021 and 2020**

Note 2 - Summary of significant accounting policies (continued)

Investments

Investments consisting of money market funds, mutual funds, certificates of deposit, 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. The Institute has elected the simultaneous release policy for restricted contributions that were initially considered to be conditional contributions, whereby the restriction is considered satisfied upon the condition being met and the contribution is recorded as revenue without donor restrictions.

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Notes to Financial Statements June 30, 2021 and 2020

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.

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, 2021 and 2020, the Institute held \$538,000 and \$3,723,353, respectively, in refundable advances.

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, 2021 and 2020 was \$85,644,331 and \$70,669,246, respectively.

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Notes to Financial Statements June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies (continued)

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, 2021 and 2020 in the amounts of \$106,113 and \$81,014, 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. No income tax expense has been incurred or recognized for the years ended June 30, 2021 and 2020.

Management has determined there are no uncertain tax positions that are material to the financial statements for the years ended June 30, 2021 and 2020. 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, 2021 and 2020. Tax years prior to 2017 are no longer subject to examination by the Internal Revenue Service ("IRS") or the tax jurisdiction of the District of Columbia.

Subsequent events

The Institute has evaluated events and transactions for potential recognition or disclosure through December 1, 2021, the date the financial statements were available to be issued.

Institute for Justice

**Notes to Financial Statements
June 30, 2021 and 2020**

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, 2021 and 2020, 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,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 3,839,769	\$ 5,560,176
Pledges receivables, net	1,673,364	2,504,592
Other receivables	131,182	101,630
Investments	112,753,747	94,390,703
	118,398,062	102,557,101
Less: those unavailable for general expenditure within one year due to:		
Endowment funds	(136,098)	(116,692)
Investments - litigation and contingency reserve	(82,349,437)	(67,605,787)
Beneficial interest agreement funds	(713,203)	(635,174)
Net assets with donor restrictions for use in future periods	(2,092,491)	(2,713,845)
Financial assets available to meet cash needs for general expenditures within one year:	\$ 33,106,833	\$ 31,485,603

Institute for Justice
Notes to Financial Statements
June 30, 2021 and 2020

Note 4 - Investments

Investments consist of the following at June 30:

	June 30, 2021		
	Litigation and contingency reserve	Undesignated	Total
Money market funds	\$ -	\$ 8,660,671	\$ 8,660,671
Mutual funds:			
International equity	22,816,869	13,955	22,830,824
Domestic equity	11,691,170	62,196	11,753,366
Fixed income	26,073,785	17,940,237	44,014,022
Exchange-traded funds:			
International equity	3,781,413	-	3,781,413
Domestic equity	3,694,321	-	3,694,321
Commodities	11,036,242	-	11,036,242
Bonds	-	432,357	432,357
Alternative investments	6,550,531	-	6,550,531
Total investments	\$ 85,644,331	\$ 27,109,416	\$ 112,753,747
	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

Undesignated investments include monies related to beneficial interest agreements (see Note 7) and the Institute's endowment (see Note 9).

Institute for Justice
Notes to Financial Statements
June 30, 2021 and 2020

Note 4 - Investments (continued)

Investment income for the years ended June 30, 2021 and 2020 consists of the following:

	June 30, 2021		
	Litigation and contingency reserve	Undesignated	Total
Interest and dividend income	\$ 1,212,436	\$ 261,062	\$ 1,473,498
Net unrealized/realized gains (losses)	13,762,649	(162,127)	13,600,522
Investment income	\$ 14,975,085	\$ 98,935	\$ 15,074,020
	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

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 2021 and 2020 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:

	2021	2020
Operating support	\$ 1,457,722	\$ 1,916,013
Fellowship	67,142	297,002
Technology	148,500	291,577
Total pledges receivable, net	\$ 1,673,364	\$ 2,504,592

Institute for Justice

**Notes to Financial Statements
June 30, 2021 and 2020**

Note 5 - Pledges receivable (continued)

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

	2021	2020
Receivable in less than one year	\$ 689,500	\$ 884,500
Receivable in one to five years	1,034,500	1,719,000
Total pledges receivable	1,724,000	2,603,500
Less: Discount to net present value	(33,733)	(73,609)
Less: Allowance for doubtful accounts	(16,903)	(25,299)
Pledges receivable, net	\$ 1,673,364	\$ 2,504,592

Note 6 - Property and equipment

Property and equipment consists of the following at June 30:

	2021	2020
Furniture and equipment	\$ 2,584,169	\$ 1,939,247
Computers and software	662,026	477,624
Leasehold improvements	5,064,211	2,724,282
Construction in progress	69,150	577,352
Total property and equipment	8,379,556	5,718,505
Less: Accumulated depreciation and amortization	(4,572,947)	(3,993,505)
Property and equipment, net	\$ 3,806,609	\$ 1,725,000

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$599,363 and \$368,483, respectively. Property and equipment held under capital leases at June 30, 2021 and 2020 was \$97,616 and \$90,613, respectively. Accumulated amortization for assets held under capital leases for the years ended June 30, 2021 and 2020 was \$52,380 and \$57,071, respectively.

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**Notes to Financial Statements
June 30, 2021 and 2020**

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, 2021 and 2020 the total assets, at fair value, of such beneficial interest agreements were \$713,203 and \$635,174, 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, 2021 and 2020 was \$537,836 and \$469,394, respectively. The actuarial present value was computed using interest rates ranging between 0.4% and 5.2% for the years ended June 30, 2021 and 2020.

Note 8 - Net assets with donor restrictions

As of June 30, 2021 and 2020, net assets with donor restrictions are restricted because they are either subject to expenditure for specified purpose and/or time, or restricted in perpetuity:

	June 30,	
	2021	2020
Purpose and Time:		
Fellowship	\$ 1,002,088	\$ 1,257,714
School choice	258,213	-
Economic liberty	153,942	220,201
Strategic research	3,559	-
Communications	43,387	49,697
Property rights	20,000	31,706
Litigation support	129,439	195,811
Technology	150,000	301,190
IJ Clinic on Entrepreneurship Support	35,000	-
Fines and Fees and Collateral Consequences	94,401	-
Endowment (general support)	36,098	16,692
	1,926,127	2,073,011
Time:		
General support	2,117,090	2,580,366
Total purpose and time restricted net assets	4,043,217	4,653,377
Perpetual - endowment	100,000	100,000
Total net assets with donor restrictions	\$ 4,143,217	\$ 4,753,377

Institute for Justice
Notes to Financial Statements
June 30, 2021 and 2020

Note 9 - Endowment

The Institute's endowment, established in 2015, includes only donor-restricted endowment funds (an "Endowment") and is included with investments - undesignated in the statements of financial position. As of June 30, 2021, the Institute has received only one Endowment.

The Institute's Board of Directors interprets the State Prudent Management of Institutional Funds Act ("SPMIFA") to require the Institute to preserve the fair value of the original gift as of the gift date unless the donor consents otherwise. As a result, the Institute classifies the original value of its Endowment as restricted in perpetuity and any accumulations to it as time restricted within net assets with donor restrictions.

The Endowment is invested, and annual returns may vary. As a result, the fair value of the assets associated with the Endowment 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, 2021 and 2020.

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

	Total
Endowment net assets, June 30, 2019	\$ 115,680
Contributions	-
Investment income	3,484
Appropriation for expenditure	(2,472)
Endowment net assets, June 30, 2020	116,692
Contributions	-
Investment income	21,151
Appropriation for expenditure	(1,745)
Endowment net assets, June 30, 2021	\$ 136,098

Note 10 - Retirement plans

The Institute sponsors a 401(k) plan (the "Plan") for all employees with three months of service, subject to minimum hours of service and age limitations. The Plan provides for employee voluntary contributions, discretionary employer matching contributions, employer safe harbor and discretionary profit-sharing contributions. For each of the years ended June 30, 2021 and 2020, 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 \$1,549,222 and \$1,377,506 for the years ended June 30, 2021 and 2020, respectively.

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**Notes to Financial Statements
June 30, 2021 and 2020**

Note 10 - Retirement plans (continued)

The Institute also sponsored a separate tax deferred annuity plan through elective salary reductions under Section 403(b) of the Internal Revenue Code that allowed participating employees to defer a portion of their compensation subject to certain IRS limitations. The 403(b) plan was terminated effective April 30, 2020.

Note 11 - Commitments and contingencies

The Institute leases its offices under operating leases with expiration dates ranging from May 2023 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. At June 30, 2021 and 2020, deferred rent totaled \$1,633,207 and \$1,378,299, respectively, and lease incentives totaled \$1,136,495 and \$994,647, respectively.

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

<u>June 30,</u>	<u>Amount</u>
2022	\$ 2,627,800
2023	2,687,300
2024	2,582,600
2025	2,595,500
2026	2,507,200
Thereafter	<u>2,113,000</u>
Total	<u>\$ 15,113,400</u>

Rental expense under all operating leases for the years ended June 30, 2021 and 2020 was \$2,344,312 and \$1,948,188, 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%.

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**Notes to Financial Statements
June 30, 2021 and 2020**

Note 11 - Commitments and contingencies (continued)

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

<u>June 30,</u>	<u>Amount</u>
2022	\$ 23,033
2023	23,133
2024	14,542
2025	2,340
2026	<u>2,002</u>
Total minimum lease payments	65,050
Amount representing interest	<u>(13,915)</u>
Present value of minimum lease payments	<u><u>\$ 51,135</u></u>

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.

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 Accounting Standards Update 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.

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**Notes to Financial Statements
June 30, 2021 and 2020**

Note 12 - Fair value measurements (continued)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2021 and 2020 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)
<u>June 30, 2021</u>					
<u>Assets</u>					
Money market funds	\$ 8,660,671	\$ -	\$ 8,660,671	\$ -	\$ -
Mutual funds:					
International equity	22,830,824	-	22,830,824	-	-
Domestic equity	11,753,366	-	11,753,366	-	-
Fixed income	44,014,022	-	44,014,022	-	-
Exchange traded funds:					
International equity	3,781,413	-	3,781,413	-	-
Domestic equity	3,694,321	-	3,694,321	-	-
Commodities	11,036,242	-	11,036,242	-	-
Bonds	432,357	-	432,357	-	-
Alternative investments	6,550,531	6,550,531	-	-	-
Total investments	<u>\$ 112,753,747</u>	<u>\$ 6,550,531</u>	<u>\$ 106,203,216</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities</u>					
Beneficial interests payable	<u>\$ 537,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>537,836</u>	<u>\$ -</u>
<u>June 30, 2020</u>					
<u>Assets</u>					
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	<u>\$ 94,390,703</u>	<u>\$ 7,247,238</u>	<u>\$ 87,053,387</u>	<u>\$ 90,078</u>	<u>\$ -</u>
<u>Liabilities</u>					
Beneficial interests payable	<u>\$ 469,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>469,394</u>	<u>\$ -</u>

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**Notes to Financial Statements
June 30, 2021 and 2020**

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, 2021, 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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