

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2021

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

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4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the consolidated financial statements of ***Barry Goldwater Institute for Public Policy Research and Subsidiary***, (the "Institute"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Institute as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited ***Barry Goldwater Institute for Public Policy Research and Subsidiary's 2020*** consolidated financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

May 25, 2022

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2021

(with summarized comparative totals as of December 31, 2020)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,944,479	\$ 2,030,041
Pledges receivable, net	177,295	958,799
Prepaid expenses and other current assets	65,388	41,977
Property held for sale	<u>169,158</u>	<u>169,158</u>
TOTAL CURRENT ASSETS	4,356,320	3,199,975
PLEDGES RECEIVABLE, less current portion and discount to present value	90,703	19,102
INVESTMENTS	6,482,324	5,748,761
PROPERTY AND EQUIPMENT, net	<u>1,346,040</u>	<u>1,428,387</u>
TOTAL ASSETS	<u>\$ 12,275,387</u>	<u>\$ 10,396,225</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 256,556	\$ 42,172
Accrued and other current liabilities	275,806	429,559
Current portion of split interest agreement	7,404	7,404
Current portion of note payable, net of deferred financing costs	<u>22,211</u>	<u>21,395</u>
TOTAL CURRENT LIABILITIES	561,977	500,530
SPLIT INTEREST AGREEMENT, less current portion	28,463	32,322
NOTE PAYABLE, less current portion and unamortized deferred financing costs	<u>527,810</u>	<u>549,112</u>
TOTAL LIABILITIES	<u>1,118,250</u>	<u>1,081,964</u>
NET ASSETS		
Without donor restrictions	8,719,874	6,631,297
With donor restrictions	<u>2,437,263</u>	<u>2,682,964</u>
TOTAL NET ASSETS	<u>11,157,137</u>	<u>9,314,261</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,275,387</u>	<u>\$ 10,396,225</u>

See Notes to Consolidated Financial Statements

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2021	2020
SUPPORT AND REVENUES				
Contributions	3,484,651	76,295	3,560,946	\$ 4,188,264
Foundation contributions and grants	1,131,601	783,745	1,915,346	1,670,250
In-kind contributions	959,314	-	959,314	691,128
Interest and dividends, net	34,169	23,598	57,767	44,478
Realized and unrealized gains	89,271	227,756	317,027	104,529
Other income	282,161	-	282,161	143,575
Total support and revenues before special events and net assets released from restrictions	<u>5,981,167</u>	<u>1,111,394</u>	<u>7,092,561</u>	<u>6,842,224</u>
Special events:				
Special events revenues	438,424	-	438,424	94,065
Less costs of direct donor benefits	<u>(81,236)</u>	<u>-</u>	<u>(81,236)</u>	<u>(3,735)</u>
Gross profit on special events	<u>357,188</u>	<u>-</u>	<u>357,188</u>	<u>90,330</u>
Net assets released from restrictions	<u>1,357,095</u>	<u>(1,357,095)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>7,695,450</u>	<u>(245,701)</u>	<u>7,449,749</u>	<u>6,932,554</u>
EXPENSES:				
Programs:				
Litigation	2,619,546	-	2,619,546	1,965,767
Legislation	1,248,969	-	1,248,969	1,262,394
Communications	<u>772,039</u>	<u>-</u>	<u>772,039</u>	<u>664,557</u>
Total programs	4,640,554	-	4,640,554	3,892,718
Fundraising	524,376	-	524,376	424,508
Management and general	<u>441,943</u>	<u>-</u>	<u>441,943</u>	<u>395,043</u>
TOTAL EXPENSES	<u>5,606,873</u>	<u>-</u>	<u>5,606,873</u>	<u>4,712,269</u>
CHANGE IN NET ASSETS	<u>2,088,577</u>	<u>(245,701)</u>	<u>1,842,876</u>	<u>2,220,285</u>
NET ASSETS, BEGINNING OF YEAR	<u>6,631,297</u>	<u>2,682,964</u>	<u>9,314,261</u>	<u>7,093,976</u>
NET ASSETS, END OF YEAR	<u>\$ 8,719,874</u>	<u>\$ 2,437,263</u>	<u>\$ 11,157,137</u>	<u>\$ 9,314,261</u>

See Notes to Consolidated Financial Statements

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

	Programs				Support Services		Totals	
	Litigation	Legislation	Communications	Total Programs	Fundraising	Management and General	2021	2020
Wages and salaries	\$ 882,012	\$ 807,379	\$ 413,187	\$ 2,102,578	\$ 196,343	\$ 162,397	\$ 2,461,318	\$ 2,581,171
In-kind legal and research expense	943,924	-	-	943,924	-	-	943,924	670,068
Contract labor	-	173,405	86,636	260,041	88,018	103,914	451,973	216,788
Employee benefits	72,714	69,339	27,751	169,804	17,863	15,835	203,502	218,285
Direct mail and postage	4,477	3,874	114,737	123,088	9,570	532	133,190	129,416
Payroll taxes	61,708	56,489	28,916	147,113	13,726	11,385	172,224	182,788
Depreciation and amortization	37,317	32,287	13,045	82,649	8,763	4,435	95,847	112,646
Travel	10,166	30,748	13,035	53,949	17,801	332	72,082	30,713
Gala fundraising event	-	-	-	-	102,729	-	102,729	62,205
Building expense	36,925	31,948	12,908	81,781	8,671	4,388	94,840	84,689
Dues and subscriptions	5,265	14,853	20,919	41,037	19,106	11,451	71,594	69,830
Technology	8,131	7,035	2,842	18,008	1,909	966	20,883	10,922
Litigation fees and attorney's fees	526,113	-	-	526,113	-	-	526,113	79,213
Event	1,777	100	-	1,877	2,009	57	3,943	21,031
Direct donor benefits	-	-	-	-	81,236	-	81,236	3,735
Advertising and public relations	-	-	29,604	29,604	-	2,803	32,407	20,588
Printing and research publications	-	27	-	27	1,401	-	1,428	26,561
Insurance	7,376	-	-	7,376	-	31,043	38,419	37,208
Audit and financial services	-	-	-	-	-	40,403	40,403	27,700
Book and marketing expense	-	-	-	-	3,392	-	3,392	4,546
Telephone	11,103	9,607	3,881	24,591	2,607	1,320	28,518	28,106
Interest expense	-	-	-	-	-	22,217	22,217	23,375
Bank and credit card fees	55	6	-	61	20,970	3,630	24,661	17,612
Business meals	2,319	3,926	503	6,748	3,192	621	10,561	8,467
Supplies	5,378	4,653	1,880	11,911	1,263	639	13,813	7,889
Seminars and meetings	2,401	3,293	-	5,694	500	1,704	7,898	3,849
Website development expense	-	-	2,195	2,195	-	-	2,195	3,129
Payroll and plan maintenance fees	-	-	-	-	-	9,242	9,242	11,143
Licenses/fees	385	-	-	385	4,543	350	5,278	7,000
Legal	-	-	-	-	-	12,279	12,279	15,331
TOTAL EXPENSES	\$ 2,619,546	\$ 1,248,969	\$ 772,039	\$ 4,640,554	\$ 605,612	\$ 441,943	\$ 5,688,109	\$ 4,716,004

See Notes to Consolidated Financial Statements

**BARRY GOLDWATER INSTITUTE FOR
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CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,842,876	\$ 2,220,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	95,847	112,646
Donated securities	(388,452)	-
Change in discount on long-term pledges	(3,399)	22,805
Amortization of deferred financing costs	911	910
Realized and unrealized gains on investments	(317,027)	(104,529)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Pledges receivable	713,302	(528,476)
Prepaid expenses and other current assets	(23,411)	33,645
Increase (decrease) in:		
Accounts payable	214,384	(58,194)
Accrued and other current liabilities	(153,753)	65,708
Agency liability payable	-	(1,130,000)
Split interest agreement, net	(3,859)	(120)
Net cash provided by operating activities	1,977,419	634,680
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(13,500)	-
Proceeds from sale of investments	491,682	981,809
Purchases of investments	(519,766)	(2,785,856)
Net cash used in investing activities	(41,584)	(1,804,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(21,397)	(20,548)
Proceeds from PPP loan	-	447,177
Payments on PPP loan	-	(447,177)
Net cash used in financing activities	(21,397)	(20,548)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,914,438	(1,189,915)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,030,041	3,219,956
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,944,479	\$ 2,030,041
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid for interest	\$ 16,898	\$ 26,156

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

(1) Institute operations and summary of significant accounting policies

Barry Goldwater Institute for Public Policy Research (“the Institute”) was established in 1988 as an independent, non-partisan research and educational organization dedicated to the study of public policy. Through research, investigations, strategic litigation, testimony, advocacy, and education, the Institute’s mission is to advance public policy and a rule of law under which individuals can shape their own destinies as free men and women. The Institute helps citizens understand and adopt policies that sustain and restore economic liberty, educational freedom, personal responsibility, and constitutional limits on government power consistent with the founding principles of our constitutional republic. When government oversteps its proper bounds the Institute uses public interest litigation to enforce individual rights and constraints on government power guaranteed by our State and Federal constitutions. The Institute neither seeks nor accepts government funding and relies wholly on contributions from the private sector to fund its activities.

In February 2001 the Institute’s Board of Directors formed **Goldwater Institute Holding Company, LLC** (“Holding Company”), with the Institute as the sole member. The Holding Company was formed to hold and manage the Institute’s real property. The Institute transferred its real property to the Holding Company in 2002.

The significant accounting policies followed by the Institute and its subsidiary, the Holding Company, collectively referred to in these consolidated financial statements as the “Institute,” are summarized below:

Basis of presentation – The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, Not-for-Profit Entities – Presentation of Financial Statements. Under ASC 958-205, the Institute is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Institute maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Institute. These net assets may be used at the discretion of the Institute’s management and the board of directors.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Institute or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities and changes in net assets.

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

(1) Institute operations and summary of significant accounting policies (continued)

Prior year summarized information – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's audited consolidated financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Institute and its subsidiary, ***Goldwater Institute Holding Company, LLC***. All significant intercompany transactions and accounts have been eliminated in consolidation.

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

Contributions and grants –The Institute evaluates grants and contributions for evidence of the transfer of commensurate value from the Institute to the grantor or resource provider. The transfer of commensurate value from the Institute to the grantor or resource provider may include instances when a) the goods or services provided by the Institute directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider, or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Institute. When such factors exist, the Institute accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Institute accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Institute to the resource provider, the Institute evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Institute or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Institute and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Institute to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or a release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Institute recognizes amounts received from unconditional contributions at the time the Institute receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Institute.

**BARRY GOLDWATER INSTITUTE FOR
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

(1) Institute operations and summary of significant accounting policies (continued)

The Institute accounts for unconditional contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Restricted contributions, where restrictions are fulfilled in the same period in which the contribution is received, are shown as additions to net assets without donor restrictions.

Special events revenue – The Institute conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Institute. The direct costs of the special events which ultimately benefit the donor rather than the Institute are recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying consolidated statement of activities and changes in net assets. As of December 31, 2021 and 2020, the Institute had not received proceeds for events scheduled to occur in the following fiscal year.

Donated materials and services – Donated materials are reflected as contributions in the consolidated statement of activities and changes in net assets at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. When these conditions are met, the fair value of the donated services is reflected as contributions in the consolidated statement of activities and changes in net assets. No amounts have been reflected in the accompanying consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605.

The Institute is dependent on donated services from various attorneys. The Institute received the following donated materials and services during the years ended December 31:

	<u>2021</u>	<u>2020</u>
Donated legal and research services for programs	\$ 943,924	\$ 670,068
Other donated materials and services	15,390	21,060
Total donated materials and services	<u>\$ 959,314</u>	<u>\$ 691,128</u>

Cash and cash equivalents – Cash consists of cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each financial institution are insured in limited amounts by the Federal Deposit Insurance Corporation (“FDIC”).

**BARRY GOLDWATER INSTITUTE FOR
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

(1) Institute operations and summary of significant accounting policies (continued)

Promises to give – Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Institute's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Pledges receivable are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. At December 31, 2021 and 2020, pledges receivable are considered by management to be fully collectible, and, accordingly an allowance for uncollectible pledges is not considered necessary.

Investments – The Institute carries investments in marketable equity securities with readily determinable fair values at their fair values based on quoted prices in active markets (all Level 1 measurements) in the consolidated statement of financial position in accordance with FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities*.

As of December 31, 2021 and 2020, the Institute holds investments in equity instruments without readily determinable fair values consisting of investments in non-traded real estate investment trusts ("REITs") which are further described in Note 3. Additionally, the Institute invests in certain investments that qualify for the use of Net Asset Value ("NAV") as a practical expedient for fair value as permitted under FASB ASC 820, *Fair Value Measurement*.

The Institute adjusts the carrying value of non-marketable equity securities that do not qualify for the NAV practical expedient up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer and for impairment, if any (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in the consolidated statement of activities and changes in net assets. As of December 31, 2021 and 2020, the carrying value of the Institute's investments in non-marketable equity securities valued using the measurement alternative was approximately \$90,000 and \$91,000, respectively.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

The Institute classifies its investment holdings as long-term assets in the consolidated statement of financial position based on management's intent and the expectation that the investments will provide long-term benefit to the Institute.

**BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

(1) Institute operations and summary of significant accounting policies (continued)

Fair value measurements – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. FASB ASC 820 also requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

Investments valued using NAV as a practical expedient are excluded from the fair value measurements leveling table in accordance with FASB ASC 820.

Property and equipment and related depreciation and amortization – Purchased property and equipment is valued at cost, and donated property and equipment is recorded at fair value at the date of gift to the Institute. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation or amortization account are relieved, and any gain or loss is included in operations. Depreciation and amortization of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Buildings and improvements	39 years
Furniture and equipment	3 - 15 years

Impairment of long-lived assets – The Institute accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for the years ended December 31, 2021 and 2020.

Property held for sale – In April 2019, the Institute entered into a purchase and sale agreement for the land available for sale for \$900,000. The buyer failed to close under the agreement and the Institute cancelled escrow in 2020. In December 2020, the Institute entered in a purchase and sale agreement for the land available for sale with a new buyer for \$1,254,000. The Institute closed the sale on January 12, 2022 for the full amount.

Functional expenses – Expenses are charged to program services, management and general, and fundraising categories based on direct expenditures incurred. The expenses that are allocated include building expense, telephone, office supplies and expenses, equipment lease and technology, which are allocated on a full time equivalent basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

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Year Ended December 31, 2021
(with summarized comparative totals for the year ended December 31, 2020)

(1) Institute operations and summary of significant accounting policies (continued)

Advertising expense – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$32,407 and \$20,588 for 2021 and 2020, respectively.

Deferred financing costs – Deferred financing costs represent commitment fees, legal fees, and other third-party costs associated with obtaining financing. Costs are being amortized using the straight-line method, which approximates the effective interest method over the respective life of the related debt obligation. Deferred financing costs are presented on the accompanying consolidated statement of financial position as a direct reduction to the note payable.

Income tax status – The Institute qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, there is no provision for income taxes. Income determined to be unrelated business taxable income would be taxable. **Goldwater Institute Holding Company, LLC** is a disregarded entity for income tax purposes.

The Institute evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At December 31, 2021 and 2020, management believes the Institute does not have any uncertain tax positions. The Institute's federal Returns of Organization Exempt from Income Tax (Form 990) for 2018, 2019 and 2020 are subject to examination by the IRS, generally for the three years after they were filed. The return for the year ended December 31, 2021 has not yet been filed as of the date of this report.

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. In June 2020, the FASB issued FASB ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which allows certain entities to elect to defer the effective date of the provisions of FASB ASU No. 2016-02. These entities may elect to adopt the lease guidance for fiscal years beginning after December 15, 2021. The Institute does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires that gifts-in-kind to be presented as a separate line item on the consolidated statement of activities and changes in net assets. Additionally, gifts-in-kind are to be disaggregated into categories based on the type of gift received, with the following disclosures made for each category:

- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, the entity will be required to disclose a description of the programs or other activities in which those assets were used.
- The entity's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in *Topic 820, Fair Value Measurement*, at initial recognition.
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

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(1) Institute operations and summary of significant accounting policies (continued)

ASU 2020-07 is required to be adopted for annual reporting periods beginning after June 15, 2021 and shall be applied retrospectively to all periods presented. The Institute is evaluating the impact that this ASU will have on the consolidated financial statements.

Subsequent events - The Institute has evaluated subsequent events through May 25, 2022, which is the date the consolidated financial statements were available to be issued.

(2) Pledges receivable

Pledges receivable consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Unconditional promises to give:		
Receivable in less than one year	\$ 177,295	\$ 958,799
Receivable in two to five years	100,000	25,000
Total pledges receivable	277,295	983,799
Discount to net present value	(9,297)	(5,898)
Net pledges receivable	267,998	977,901
Current portion	(177,295)	(958,799)
Noncurrent portion	<u>\$ 90,703</u>	<u>\$ 19,102</u>

The estimated future cash flows for pledges receivable are discounted over the collection period using a discount rate of 5%.

As of December 31, 2021, there were no pledges due from board members. As of December 31, 2020, \$100,000 of pledges receivable was due from a board member. Board members represented approximately 6% and 10% of contributions for the years ended December 31, 2021 and 2020, respectively.

(3) Investments

Investments consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Common stocks	\$ 830,231	\$ 757,990
Real estate investment trusts (not publicly traded)	89,744	91,355
U.S. equity exchange traded funds	1,536,349	926,032
Business development company funds	41,293	38,236
U.S. fixed income funds	41,891	42,623
Money market funds	3,903,507	3,857,700
Other exchange traded funds	39,309	34,825
Total investments	<u>\$ 6,482,324</u>	<u>\$ 5,748,761</u>

The Institute's investments in real estate investment trusts that are not publicly-traded are subject to redemption restrictions. In order for the Institute to redeem its investments in these real estate investment trusts at a value at least equal to cost, the Institute would be required to hold the investment for a minimum of four years unless the trusts are subject to a public offering or a price per share unrelated to the original offering price is established. The primary investment objectives of the trusts are to preserve and return capital contributions of investors and to provide investors with attractive and stable cash distributions.

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(4) Property and equipment

Property and equipment consist of the following at December 31:

	2021	2020
Cost and donated value:		
Land	\$ 189,322	\$ 189,322
Buildings and improvements	2,401,547	2,401,547
Furniture and equipment	1,364,840	1,351,340
Total cost and donated value	3,955,709	3,942,209
Accumulated depreciation and amortization	(2,609,669)	(2,513,822)
Property and equipment, net	\$ 1,346,040	\$ 1,428,387

Depreciation and amortization expense charged to operations was \$95,847 and \$112,646, respectively, for the years ended December 31, 2021 and 2020.

(5) Split interest agreement

In February 2017, the Institute entered into a charitable gift annuity agreement with an annuitant. The annuitant contributed \$100,000 which was invested in marketable securities that are included in investments on the accompanying consolidated statement of financial position and are carried at fair value. Contribution revenues are recognized at the date the annuity is established after recording liabilities for the present value of the estimated future payments to be made to the donor and/or other beneficiaries. Present values are calculated using discount rates that reflect the fair value as determined at the time the annuity is established. On an annual basis, the Institute revalues the liability based on applicable mortality tables and a discount rate of 2.0%. The present value of the estimated annuity payments associated with the charitable gift annuity was \$35,867 and \$39,726 at December 31, 2021 and 2020, respectively.

(6) Note payable

Note payable consists of a \$600,000 note, with Holding Company as the borrower and with the Institute as the guarantor. The note payable bears interest at 3.70% and is subject to an interest rate reset scheduled for November 2022 when the interest rate will be reset to a 3-year U.S. treasury rate plus a margin of 2.00%. The note is payable in monthly installments of \$3,558, which includes principal and interest. The note payable matures in November 2028 at which time a final payment of all unpaid principal and interest is due. The note payable is subject to a prepayment penalty if more than \$100,000 is repaid in either of the first three years of the note payable, as further defined in the promissory note. The note payable is subject to certain nonfinancial covenants and is collateralized by real property of the Institute. The lender requires a minimum balance of cash on deposit of \$400,000.

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(6) Note payable (continued)

The annual maturities of the note payable are as follows:

<u>Years Ending December 31,</u>	
2022	22,211
2023	23,059
2024	23,886
2025	24,851
Thereafter	<u>462,342</u>
Total annual maturities	556,349
Less unamortized deferred financing costs	<u>(6,328)</u>
Note payable, net	550,021
Less current maturities, net	<u>(22,211)</u>
Note payable, long-term, net	<u><u>\$ 527,810</u></u>

The note payable was fully repaid and terminated in March 2022 with an associated prepayment penalty of approximately \$4,000.

(7) Net assets with donor restrictions

Net assets with donor restriction consist of:

	<u>2021</u>	<u>2020</u>
Free speech	\$ 5,896	\$ 28,600
AZ School District	50,000	-
Education	275,000	62,970
Donor Privacy	-	20,319
Endowments held in perpetuity	915,185	915,185
Proposition 208	-	84,075
Reagan fellows	110,168	65,028
Pledges restricted by time only	49,152	295,900
Constitutional litigation center	615,768	370,071
General Programs	-	632,000
Unions	101,136	101,459
CRT & Academic Transparency	254,318	89,678
Other	<u>60,640</u>	<u>17,679</u>
Total net assets with donor restriction	<u><u>\$ 2,437,263</u></u>	<u><u>\$ 2,682,964</u></u>

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(7) Net assets with donor restrictions (continued)

Net assets released from restriction consist of the following for the year ended December 31, 2021:

Free Speech	\$ 22,703
Proposition 208	84,075
Education	62,970
Donor Privacy	20,319
General Program	632,000
Pledges restricted by time only	298,043
Unions	101,459
Van Sittert Center for Constitutional Advocacy	89,678
Policy and litigation	38,557
Other	7,291
Total net assets released from restriction	<u>\$ 1,357,095</u>

(8) Fair value measurements

The following table summarizes the valuation of the Institute's assets and liabilities subject to fair value measurement other than at initial recognition by the FASB ASC 820 categories as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 830,231	\$ -	\$ -	\$ 830,231
U.S. equity exchange traded funds	1,536,349	-	-	1,536,349
U.S. fixed income funds	41,891	-	-	41,891
Money market funds	3,903,507	-	-	3,903,507
Other exchange traded funds	39,309	-	-	39,309
	<u>\$ 6,351,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,351,287</u>

The following table summarizes the valuation of the Institute's assets and liabilities subject to fair value measurement other than at initial recognition by the above categories as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 757,990	\$ -	\$ -	\$ 757,990
U.S. equity exchange traded funds	926,032	-	-	926,032
U.S. fixed income funds	42,623	-	-	42,623
Money market funds	3,857,700	-	-	3,857,700
Other exchange traded funds	34,825	-	-	34,825
	<u>\$ 5,619,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,619,170</u>

The Level 1 assets above were valued utilizing quoted market prices. The Institute currently has no other assets and liabilities subject to fair value measurement other than at initial recognition.

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(8) Fair value measurements (continued)

As disclosed in Note 1, the Institute measures its investments in non-marketable REITs at carrying value, less impairment, and adjusted for observable price changes in orderly transactions. During the year ended December 31, 2021, the Institute recognized unrealized losses of \$1,612 in the carrying value of its non-marketable REIT investments resulting from an increase in the published per share value of the REITs above the Institute's carrying value. The unrealized gain is recognized as a nonrecurring level three fair value measurement. The unrealized gain has been recorded by the Institute in realized and unrealized gains (losses) in the accompanying consolidated statement of activities and changes in net assets.

In accordance with FASB ASC 820, the Institute is required to disclose the nature and risks of the investments reported at NAV.

The following table summarizes the nature and risk of these investments as of December 31, 2021 and 2020:

	<u>Fair Value</u> <u>2021</u>	<u>Fair Value</u> <u>2020</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Business development company fund 1	\$ 30,298	\$ 28,263	\$ -	n/a	n/a
Business development company fund 2	<u>10,995</u>	<u>9,973</u>	<u>-</u>	n/a	n/a
Total	<u>\$ 41,293</u>	<u>\$ 38,236</u>	<u>\$ -</u>		

Business development company fund 1 – This fund is a business development company fund that makes investments in a diversified portfolio of established middle market private companies. The fund's target investments are loans that are potentially secured by company assets. The fair values of the investments in this category have been estimated using the net asset value per share of the underlying investments. Although common unit holders will not have the right to redeem their units, at its discretion the Board of Trustees of the fund intends to make quarterly tender offers for its common units at the net asset value as of the applicable tender date.

Business development company fund 2 – This fund is a business development company fund that primarily invests in senior debt, subordinated debt, structured products, and equity investments. The fair values of the investments in this fund have been estimated using the net asset value per share of the underlying investments. Although common unit holders will not have the right to redeem their units, at its discretion the Board of Trustees of the fund intends to make quarterly tender offers for its common units at the net asset value as of the applicable tender date.

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(9) Endowments

The Institute's endowments consist of the following individual funds held in perpetuity:

	2021	2020
Duncan Endowment	\$ 700,000	\$ 700,000
McClelland Fellowship	100,330	100,330
Norton Fellowship	64,025	64,025
Goldberg Endowment	50,830	50,830
Total endowment funds held in perpetuity	915,185	915,185
Accumulated earning subject to spending policies	603,296	351,942
Total endowment funds	\$ 1,518,481	\$ 1,267,127

The earnings from the Duncan endowment are restricted to support the constitutional litigation center. The earnings from the McClelland and Norton endowments are restricted to support Reagan fellows. The earnings from the Goldberg endowment are not restricted for a specific purpose.

The Institute's endowments include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act ("MCFA"). The Board of Directors of the Institute has interpreted MCFA 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 net assets restricted in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets restricted in perpetuity is classified as net assets subject to purpose or time restrictions based upon the presence or absence of direction from the donor and are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Institute and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Institute
- (7) The investment policies of the Institute

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(9) Endowments (continued)

The changes in endowment net assets for the year ended December 31, 2021 are as follows:

	<u>Without donor restrictions</u>	<u>With donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2021	\$ -	\$ 1,267,127	\$ 1,267,127
Investment Return:			
Interest and dividends	-	23,598	23,598
Realized and unrealized gains	-	227,756	227,756
Endowment net assets, December 31, 2021	<u>\$ -</u>	<u>\$ 1,518,481</u>	<u>\$ 1,518,481</u>

The changes in endowment net assets for the year ended December 31, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2020	\$ -	\$ 1,169,892	\$ 1,169,892
Contributions	-	-	-
Investment Return:			
Interest and dividends	-	16,921	16,921
Realized and unrealized losses	-	80,314	80,314
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 1,267,127</u>	<u>\$ 1,267,127</u>

The Institute has adopted investment and spending policies to support current operations through a total return investment strategy and a spending policy to maintain, and ideally increase, the purchasing power of the endowment, without putting the principal value of these funds at prudent risk. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce sufficient liquidity to meet distribution requirements, earn a total return of 3% in excess of inflation as measured by the Consumer Price Index over a five-year time horizon, earn competitive returns relative to capital market measures, including broad market indices, as well as funds with similar objectives.

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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(9) Endowments (continued)

The income and/or gains earned by endowment funds are considered revenue without donor restrictions and may be distributed to the Institute as general support revenue for its programs, unless otherwise restricted by the original donor's intent. On at least an annual basis the Executive Committee of the Board of Directors shall recommend to the Board of Directors an amount to be transferred from the unrestricted income and/or gain of the endowment funds to the general operating fund of the Institute. At no time shall the donor-restricted original contributions to the endowment funds be invaded.

As a matter of prudence, no distribution of income and/or gain shall decrease the total fair value of the endowment funds below the donor-restricted original contribution balance. The Executive Committee may distribute all income and/or gains earned by the endowment funds on an annual basis unless otherwise restricted by the original donor's intent.

(10) Liquidity and availability of resources

The Institute monitors its cash flows to ensure the fulfillment of all obligations. As part of the Institute's liquidity plan, excess cash is invested in short-term investments, primarily mutual funds, so as to have readily liquid investments available as needed. Investments may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are as follows:

Cash and cash equivalents	\$ 3,944,479
Pledges receivable	267,998
Investments	<u>6,482,324</u>
Total financial assets	10,694,801
Less:	
Financial assets with donor restrictions	(2,346,560)
Investment subject to liquidity restrictions	(131,037)
Required minimum cash deposits to secure the note payable	(400,000)
Long-term portion of time restricted pledges, net	<u>(90,703)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 7,726,501</u>

(11) Retirement plan

As of January 1, 2009, the Institute implemented a 403(b) retirement plan. The plan is a non-safe harbor plan with the employer matching contributions subject to a 6 year graded vesting schedule. The amount of the Institute's match is discretionary and will be determined by the Institute on an annual basis. Contributions totaling \$44,234 and \$39,828 for the years ended December 31, 2021 and 2020, respectively, were made by the Institute, in addition to the elective deferrals made by employees.

(12) Beneficial interest in trust

In August 2021, the Institute was notified that it is a beneficiary of the Van Sittert Revocable Trust. The gift is restricted per the terms of the Statement of Intent that established the Logan and Barbara Van Sittert Center for Constitutional Advocacy.

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(12) Beneficial interest in trust (continued)

The trust has several assets, including an interest in partnerships and LLCs, the value of which is unknown at this time. In August 2021, the Trust advised the Institute that it would not make any distributions from the Trust until publishing a Notice to Creditors and administering a buy-out provision regarding the Trust's interest in the partnerships. The Trust filed a Petition for Probate of Will and Appointment of Personal Representative on November 29, 2021. That matter was not decided by the Court in 2021. The first accounting from the Trustee is due in August 2022. No amounts have been recognized related to this trust due to the uncertainty and lack of reliable information to measure the Institute's interest in the trust.