The Independent Institute

Audited Financial Statements
June 30, 2023

The Independent Institute
Table of Contents
For the Year Ended June 30, 2023

Report of Independent Auditors........ 1

Statement of Financial Position........ 3

Statement of Activities........ 4

Statement of Functional Expenses........ 5

Statement of Cash Flows........ 6

Notes to Financial Statements........ 7

Independent Auditor's Report

Board of Directors
The Independent Institute
Oakland, California

Opinion

We have audited the financial statements of The Independent Institute, a California nonprofit corporation (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Independent Institute as of June 30, 2023, 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 Financial Statements section of our report. We are required to be independent of The Independent 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 these 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 Independent 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Independent Institute's ability to continue as a going concern for a reasonable period

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.

Ashland, Oregon
June 12, 2024

The Independent Institute
Statement of Financial Position
June 30, 2023

Assets

Current assets		
Cash and cash equivalents	$	2,187,965
Contributions and grants receivable		190,000
Accounts receivable, net		218,576
Inventory, net		195,826
Investments		5,187,472
Prepaid expenses		55,953
Leased assets, current		51,815
Total current assets		8,087,607
Property and equipment		
Property and equipment		267,597
Accumulated depreciation		(196,300)
Total property and equipment, net		71,297
Other assets		
Leased assets, long-term		43,072
Total assets	$	8,201,976

Liabilities and Net Assets

Current liabilities		
Accounts payable	$	155,038
Accrued expenses		297,462
Lease liability, current		51,897
Total current liabilities		504,397
Lease liability, long-term		43,072
Total liabilities		547,469
Net assets		
Without donor restriction		6,491,711
With donor restriction		1,162,796
Total net assets		7,654,507
Total liabilities and net assets	$	8,201,976

The Independent Institute
Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restriction	With Donor Restriction	Total
Revenues, Gains and Support			
Contributions and grants:			
Individual and foundations	$ 2,999,620	$ 822,484	$ 3,822,104
In-kind	453,322	-	453,322
Book and publication sales, net	302,685	-	302,685
Subscription revenue	30,800	-	30,800
Other income	29,929	-	29,929
Investment return, net	351,783	-	351,783
Net assets released from restrictions	2,874,754	(2,874,754)	-
Total support and revenue	7,042,893	(2,052,270)	4,990,623
Expenses			
Program services			
Sparking Entrepreneurship & Innovation	1,297,972	-	1,297,972
Defending Civil Liberties	360,606	-	360,606
Disseminating Ideas	1,711,412	-	1,711,412
Educating the Next Generation	1,469,305	-	1,469,305
Total program services	4,839,295	-	4,839,295
Support services			
General and administrative	386,557	-	386,557
Fundraising	473,170	-	473,170
Total expenses	5,699,022	-	5,699,022
Change in net assets	1,343,871	(2,052,270)	(708,399)
Net assets, beginning of year	5,147,840	3,215,066	8,362,906
Net assets, end of year	$ 6,491,711	$ 1,162,796	$ 7,654,507

The Independent Institute
Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services					Supporting Services		
	Sparking Entrepreneurship & Innovation	Defending Civil Liberties	Disseminating Ideas	Educating the Next Generation	Total Program Services	General & Administration	Fundraising	Total Expenses
Salaries and wages	$ 525,352	$ 187,677	$ 346,535	$ 360,960	$ 1,420,524	$ 264,279	$ 206,544	$ 1,891,347
Professional services	462,246	88,439	351,362	455,914	1,357,961	55,192	112,422	1,525,575
Author honoraria & book preparation	120,660	-	161,785	14,100	296,545	-	-	296,545
Advertising	55,257	25,383	318,192	540,332	939,164	448	6,963	946,575
Payroll taxes & benefits	62,804	27,191	50,227	47,439	187,661	36,314	29,957	253,932
Printing and postage	14,370	4,702	119,410	8,381	146,863	4,607	49,103	200,573
Office and supplies	26,025	17,057	30,739	24,336	98,157	12,949	32,655	143,761
Cost of goods sold	-	-	113,166	-	113,166	1,203	-	114,369
Distribution fees	-	-	95,584	-	95,584	-	-	95,584
Occupancy	10,260	5,247	9,811	9,394	34,712	5,165	5,991	45,868
Travel & meetings	17,916	3,334	111,654	5,627	138,531	4,849	27,735	171,115
Depreciation	3,082	1,576	2,947	2,822	10,427	1,551	1,800	13,778
Total expenses	$ 1,297,972	$ 360,606	$ 1,711,412	$ 1,469,305	4,839,295	$ 386,557	$ 473,170	$ 5,699,022

The Independent Institute
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities		
Change in net assets	$	(708,399)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation		13,778
Unrealized gain on investments, net		(254,791)
Realized loss on investments, net		57,865
Donated securities included in support		(433,466)
Decrease (increase) in assets		
Contributions and grants receivable		(3,516)
Accounts receivable, net		(133,689)
Inventory, net		(61,888)
Prepaid expenses		(34,730)
Leased assets, current		(94,887)
Increase (decrease) in liabilities		
Accounts payable		(324,130)
Accrued expenses		75,524
Lease liability		94,969
Net cash provided by (used in) operating activities		(1,807,360)
Cash flows from investing activities		
Purchases of equipment		(3,749)
Purchases on investments		(1,530,779)
Proceeds from sales of investments		3,836,986
Net cash provided by (used in) investing activities		2,302,458
Net increase (decrease) in cash and cash equivalents,		495,098
Cash and cash equivalents, beginning of year		1,692,867
Cash and cash equivalents, end of year	$	2,187,965

Note 1 - Nature of Activities

The Independent Institute, Inc. (the Organization) is a non-profit corporation founded in 1986. The Organization's purpose is to sponsor comprehensive studies, which deal with critical social and economic issues. These studies, adhering to the highest standard of independent inquiry, are disseminated through books and other publications and are publicly debated through numerous conference and media programs.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The net assets, revenues, gains and losses, expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor imposed restrictions. Accordingly, for reporting purposes, net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions - Represent net assets that are not subject to or are no longer subject to donor-imposed stipulations and are available to support the Organization's operations. This includes certain amounts designated by the board for specified uses.

Net assets with donor restrictions - Represent contributions that are limited in use by the Organization in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by actions of the Organization according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There are no net assets with perpetual donor restrictions at June 30, 2023.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Periodically, such deposits may exceed the federally insured limits. At June 30, 2023 no bank accounts exceeded the federally insured limits.

Contributions and Grants Receivable

Contributions and grants receivable are recognized when the donor makes an unconditional promise to give to the Organization. Multi-year pledges are recorded at present value, unless the discount to present value is deemed insignificant to the financial statements as a whole.

Accounts Receivable, Net

Accounts receivable are derived from exchange transactions, which consist of the sale of print and e-books and other publications. Sale transactions and related accounts receivable due from a third party distributor are presented net of estimated sales returns and allowances. As of June 30, 2023, estimated sales returns and allowances is $5,820.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor or customer, as applicable. There are no allowance for doubtful accounts as of June 30, 2023.

Note 2 - Summary of Significant Accounting Policies (continued)

Inventory

Inventory is carried at the lower of cost or net realizable value and consists primarily of printed publications and books. Inventory cost is determined on the basis of the average cost method.

Inventory Reserve Allowance

A reserve for inventory obsolescence is estimated based on any unsold inventory at the end of the reporting period, excluding newly published books and reprints. As of June 30, 2023, the inventory reserve allowance is $86,000.

Investments

The Organization has reported investments in marketable securities with readily determinable fair market values and all investments in debt securities at their fair market values in the statement of financial position. Realized and unrealized gains and losses are reflected in the statement of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Prepublication Costs

Prepublication costs include costs incurred to create and develop the art, prepress, editorial, digital conversion and other content required for the creation of the master copy of a book or other media. Management determined that the prepublication costs do not provide a future economic benefit and are expensed as incurred.

Property and Equipment

Purchased land, buildings and equipment are recorded at cost and donated property and equipment are recorded at the fair value at the date of the contribution. Management has established a capitalization threshold of $1,000 per item with useful lives greater than one year. Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is determined using the straight-line method over the following estimated useful lives, which ranges from 3 to 33 years. Depreciation expense was $13,778 for the year ended June 30, 2023.

Revenue Recognition

Contributions and Grants

Contributions and grants, including promises to give, are defined as voluntary, non-reciprocal transfers and are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed 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 Statements of Activities as net assets released from restrictions.

Gifts In-Kind

The Organization received in-kind advertising services through Google AdWords. Gifts in-kind are valued at fair value and are recorded as unrestricted contributions in the period received.

Book and Publication Sales Revenue, Net

Book and publication sales revenue are derived from the sale of print and e-books and other publications. Revenue is recognized when the performance obligations are satisfied and control is transferred to the customer, which generally occurs upon shipment of books or delivery of e-books. Print books are sold with a right of return. The Organization records a return reserve, and corresponding decrease in accounts receivable and revenue based upon historical trends.

Note 2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Subscription Revenue
The Organization derives revenue from the sale of its quarterly magazine, The Independent Review, available in print and digital format. Due to overall insignificance, the Organization recognizes revenue at the point of time the sale occurs, which is when payment has been received, instead of deferring the revenue and recognizing it ratably over the subscription period.

Advertising Expenses
The Organization uses advertising to promote its books, publications, and other multimedia content. Advertising costs are expensed as incurred. For the year ended June 30, 2023, total advertising expenses are $946,575 of which $453,322 represent in-kind advertising services provided by Google AdWords.

Functional Allocation of Expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Direct expenses have been allocated accordingly, and certain costs have been allocated among the program services and supporting services benefited. Such allocations are determined by management on an equitable basis based on time and effort of personnel within the Organization.

Board Designated Endowment Fund
The Organization maintains a board designated endowment fund as a component of net assets without donor restrictions. The board designated endowment funds are invested in publicly traded securities. The Organization's policy is to spend 5% of the annual value of its endowment fund on current programs, which can be modified at any time by the Board of Directors.

Note 3 - Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2023:

Cash and cash equivalents	$	2,187,965
Contributions and grants receivable		190,000
Accounts receivable, net		218,576
Investments		5,187,472
Total financial assets		7,784,013
Less amounts unavailable due to:		
Quasi-endowment established by the Board		(936,609)
Financial assets available to meet general expenditures within one year	$	6,847,404

The Organization's goal is generally to maintain financial assets to meet 180 days of operating expenses (approximately $2.6 million). As part of its liquidity plan, the Board has designated net assets to support current programs of the Organization as determined by the Board (see Note 10).

Note 4 - Investments

The Organization's investments consist of the following at June 30, 2023:

	Fair Value	Cost
Exchange-traded funds	$ 1,642,874	$ 1,595,625
Mutual funds	3,544,598	3,073,429
Total investments	$ 5,187,472	$ 4,669,054

Net investment return has been classified as increases in net assets without donor restrictions and was comprised of the following for the year ended June 30, 2023:

Interest and dividends	$ 154,858
Realized gain (loss) on investments	(57,865)
Change in unrealized gain (loss), net	254,791
Total net investment return	$ 351,784

Note 5 - Investments and Fair Value Measurement

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Exchange-traded funds
Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied. Listed fund units are generally marked to the exchange-traded price, while listed fund units if not actively traded and unlisted fund units are generally marked to Net Asset Value (“NAV”).

Note 5 - Fair Value Measurement (continued)

Mutual funds
Valued at the net asset value (NAV) of shares, based on quoted market prices, held by the Organization at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Exchange-traded funds	$ 1,642,874	$ -	$ -	$ 1,642,874
Mutual Funds	3,544,598	-	-	3,544,598
Total investments	$ 5,187,472	$ -	$ -	$ 5,187,472

Note 6 - Property and Equipment

Property and equipment consists of the following at June 30, 2023:

Equipment	$ 96,092
Furniture	46,815
Leasehold improvements	124,691
Total property and equipment	267,597
Less accumulated depreciation	(196,300)
Total property and equipment, net	$ 71,297

Note 7 - Income Taxes

The Organization was granted tax-exempt status other than a private foundation as provided by Internal Revenue Code Section 501(c)(3) in a determination letter dated September 23, 1986. As a result, the Organization is exempt from paying income taxes, except with respect to income unrelated to its tax exempt purpose. As of June 30, 2023, the Organization does not have any unrelated business income, and thus no provision for income taxes has been reflected in these financial statements.

The Organization has analyzed tax positions taken for filings with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial position, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions as of June 30, 2023. The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

As of June 30, 2023, periods subsequent to 2019 are subject to audit by various taxing authorities; however, there are currently no audits for any tax periods in progress.

Note 8 - Concentrations

Contributions and Grants Receivable and Revenue
As of June 30, 2023, 100% or $190,000 of the Organization's total contributions and grants receivable are due from two donors or grantors. In addition, for the year ended June 30, 2023, approximately 41% or $659,395 of contribution and grant revenue was derived from four contributors or grantors. Lastly, approximately 44% or $709,528 was provided by related parties (see Note 11 below).

Note 9 - Lease Agreements

The Organization leases office and warehouse space at its headquarters in Oakland, California, under terms of a lease dated July 1, 2015. The Organization also leases copier and office equipment, under terms of a 60-month lease dated February 25, 2019. All leases are considered to be operating lease and as such, costs are expensed as incurred. For the year ended June 30, 2023, lease expense under these agreements totaled $60,719 and is included under rent and printing expense.

As of June 30, 2023, the Organization's weighted-average remaining lease term was 16 months, and the weighted-average discount rate was 5.18%.

The lease liability is equal to the present value of the remaining lease payments, discounted using the implicit interest rate on the fair market of the leased property.

The following table summarized the maturities of the Company's undiscounted lease liabilities outstanding as of June 30, 2023:

2024	$ 55,180
2025	44,100
Total future long-term lease obligations	99,280
Less imputed interest	(4,311)
Total	$ 94,969

Note 10 - Net Assets

Net assets with donor restrictions at June 30, 2023 are available for the following purposes or periods:

	Balance July 1, 2022	Earnings & Contributions	Expenditures & Releases	Balance June 30, 2023
Specific Purpose				
Sparking Entrepreneurship & Innovation	$ 1,886,464	$ 279,984	$ (1,746,653)	$ 419,795
Defending Civil Liberties	12,577	5,000	(17,577)	-
Disseminating Ideas	68,800	25,000	(38,000)	55,800
Educating the Next Generation	1,122,225	422,500	(1,047,524)	497,201
Specific Purpose and Passage of Time				
Contribution Receivable	125,000	90,000	(25,000)	190,000
Total net assets with donor restrictions	$ 3,215,066	$ 822,484	$ (2,874,754)	$ 1,162,796

The Board has designated certain unrestricted net assets for the Organization's board designated endowment fund. The board designated endowment fund is used to support current programs of the Organization as determined by the Board. Funds are invested and have been designated as follows:

Quasi-endowment balance, beginning of year	$ 924,172
Investment income (loss), net	96,993
Disbursements	(84,556)
Quasi-endowment balance, end of year	$ 936,609

Note 11 - Related Parties

During the year ended June 30, 2023, the Organization received donations of $409,395 and $300,133 from Board Members and from Foundations controlled by Board Members, respectively.

The Organization leases its office from an entity wholly owned by the Chief Executive Officer and Board Member of the Organization. During the year ended June 30, 2023, total rent payments were $45,868.

Note 12 - Subsequent Events

The Organization's management has evaluated subsequent events through June 12, 2024, the date which the financial statements were available for issue. Subsequent to year-end, the Organization entered into a new lease for its office space subsequent to the end of the fiscal year, which increases their rent expense to $7,000 per month for a 60-month period, beginning October 1, 2023.