

THE ACTON INSTITUTE FOR  
THE STUDY OF RELIGION  
AND LIBERTY

Financial Statements  
With Independent Auditors' Report

December 31, 2016 and 2015

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Acton Institute for the Study of Religion and Liberty  
Grand Rapids, Michigan

We have audited the accompanying financial statements of The Acton Institute for the Study of Religion and Liberty (Institute) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows and functional expenses 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.

### *Auditors' 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 Institute'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 Institute'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 in the first paragraph present fairly, in all material respects, the financial position of The Acton Institute for the Study of Religion and Liberty as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Capin Crouse LLP".

Grand Rapids, Michigan  
June 9, 2017

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Statements of Financial Position

	December 31,	
	2016	2015
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,377,401	\$ 3,925,733
Promises to give	1,201,219	1,350,566
Accounts receivable	77,043	77,712
Inventories	155,003	245,473
Prepaid expenses and other assets	369,023	280,972
	5,179,689	5,880,456
 Land, building, and equipment–net	 7,180,438	 7,284,874
 Other Assets:		
Cash restricted for investment in property, equipment, and other	305,099	2,426,650
Promise to give, less current maturities	150,100	315,000
Investments	4,709,168	2,060,939
	5,164,367	4,802,589
 Total Assets	 \$ 17,524,494	 \$ 17,967,919
 <b>LIABILITIES AND NET ASSETS:</b>		
Current Liabilities:		
Accounts payable	\$ 161,217	\$ 351,718
Accrued liabilities and other	79,451	28,427
	240,668	380,145
 Net assets:		
Unrestricted:		
Undesignated	5,570,452	5,999,540
Net investment in land, building, and equipment	7,180,438	7,284,874
	12,750,890	13,284,414
Temporarily restricted	4,032,936	4,303,360
Permanently restricted	500,000	-
	17,283,826	17,587,774
 Total Liabilities and Net Assets	 \$ 17,524,494	 \$ 17,967,919

See notes to financial statements

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Statements of Activities

Year Ended December 31,

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>								
Support:								
Contributions	\$ 3,862,985	\$ 4,171,875	\$ 500,000	\$ 8,534,860	\$ 4,443,166	\$ 4,999,020	\$ -	\$ 9,442,186
Special events-net	102,044	-	-	102,044	11,434	-	-	11,434
	<u>3,965,029</u>	<u>4,171,875</u>	<u>500,000</u>	<u>8,636,904</u>	<u>4,454,600</u>	<u>4,999,020</u>	<u>-</u>	<u>9,453,620</u>
Revenue:								
Gross profit on sales	186,819	-	-	186,819	121,750	-	-	121,750
Program services	479,620	-	-	479,620	569,132	-	-	569,132
Rental income	164,613	-	-	164,613	159,523	-	-	159,523
Net investment income	545,408	2,330	-	547,738	108,139	-	-	108,139
Other income	245,897	-	-	245,897	117,657	-	-	117,657
	<u>1,622,357</u>	<u>2,330</u>	<u>-</u>	<u>1,624,687</u>	<u>1,076,201</u>	<u>-</u>	<u>-</u>	<u>1,076,201</u>
Total Support and Revenue	<u>5,587,386</u>	<u>4,174,205</u>	<u>500,000</u>	<u>10,261,591</u>	<u>5,530,801</u>	<u>4,999,020</u>	<u>-</u>	<u>10,529,821</u>
Net Assets Released from Restrictions:								
Satisfaction of restrictions	4,444,629	(4,444,629)	-	-	5,438,444	(5,438,444)	-	-
Total Support, Revenue, and Net Assets Released from Restrictions	<u>10,032,015</u>	<u>(270,424)</u>	<u>500,000</u>	<u>10,261,591</u>	<u>10,969,245</u>	<u>(439,424)</u>	<u>-</u>	<u>10,529,821</u>
<b>EXPENSES:</b>								
Program services	8,985,658	-	-	8,985,658	9,033,775	-	-	9,033,775
Supporting activities:								
Management and general	804,121	-	-	804,121	728,116	-	-	728,116
Fundraising	775,760	-	-	775,760	719,515	-	-	719,515
Total Expenses	<u>10,565,539</u>	<u>-</u>	<u>-</u>	<u>10,565,539</u>	<u>10,481,406</u>	<u>-</u>	<u>-</u>	<u>10,481,406</u>
Change in Net Assets	(533,524)	(270,424)	500,000	(303,948)	487,839	(439,424)	-	48,415
Net Assets, Beginning of Year	13,284,414	4,303,360	-	17,587,774	12,796,575	4,742,784	-	17,539,359
Net Assets, End of Year	<u>\$ 12,750,890</u>	<u>\$ 4,032,936</u>	<u>\$ 500,000</u>	<u>\$ 17,283,826</u>	<u>\$ 13,284,414</u>	<u>\$ 4,303,360</u>	<u>\$ -</u>	<u>\$ 17,587,774</u>

See notes to financial statements

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Statements of Cash Flows

	Year End December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (303,948)	\$ 48,415
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	325,164	293,333
Contributions restricted for capital or long term purpose, excluding noncash donations	(500,000)	(547,002)
Net unrealized and realized loss (gain) on investment	(253,265)	122,453
Donated investments	(202,616)	(78,355)
Changes in operating assets and liabilities:		
Promises to give	314,247	358,297
Accounts receivable	669	(55,573)
Inventory	90,470	30,244
Prepaid and other	(88,051)	(48,100)
Accounts payable	(190,501)	97,449
Accrued liabilities and other	51,024	(33,491)
Net Cash Provided (Used) by Operating Activities	(756,807)	187,670
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(222,203)	(90,572)
Proceeds from the sale of property and equipment	1,800	-
Purchase of investments	(3,147,772)	-
Proceeds from the sale of investments	955,099	69,610
Net Cash Used by Investing Activities	(2,413,076)	(20,962)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for capital or other long term purpose	500,000	365,336
Net Cash Provided by Financing Activities	500,000	365,336
Change In Cash and Cash Equivalents	(2,669,883)	532,044
Cash and Cash Equivalents, Beginning of Year	6,352,383	5,820,339
Cash and Cash Equivalents, End of Year	\$ 3,682,500	\$ 6,352,383
Cash and Cash Equivalents:		
Available for operations	\$ 3,377,401	\$ 3,925,733
Restricted for investment in property, equipment, and other	305,099	2,426,650
	\$ 3,682,500	\$ 6,352,383

See notes to financial statements

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Statements of Functional Expenses

Year Ended December 31,

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,745,260	\$ 307,185	\$ 549,674	\$ 3,602,119	\$ 2,511,443	\$ 242,646	\$ 480,232	\$ 3,234,321
Conferences and conventions	2,149,002	3,899	3,185	2,156,086	1,897,698	3,624	6,423	1,907,745
Contracted services	1,167,964	20,947	23,342	1,212,253	1,971,849	17,780	31,292	2,020,921
Advertising	643,752	-	299	644,051	260,908	-	195	261,103
Travel	493,476	43,873	27,697	565,046	518,092	44,298	21,153	583,543
Depreciation expense	211,945	87,692	25,527	325,164	195,394	77,020	20,919	293,333
Honorariums	312,292	-	-	312,292	305,862	-	-	305,862
Equipment rental and maintenance	229,893	8,624	16,652	255,169	276,395	5,975	6,211	288,581
Publications	203,658	5,352	26,902	235,912	181,425	5,933	17,294	204,652
Occupancy	163,178	44,417	13,090	220,685	148,798	36,562	9,930	195,290
Grants and awards	214,381	-	-	214,381	162,661	-	-	162,661
Postage and shipping	111,155	2,177	42,278	155,610	141,672	1,983	44,394	188,049
Professional fees	18,003	122,687	526	141,216	23,350	70,389	-	93,739
Printing and duplicating	103,605	4,228	19,542	127,375	170,702	5,031	61,761	237,494
Unrelated business income tax	-	111,753	-	111,753	-	72,000	-	72,000
Meals and entertainment	77,251	11,237	14,167	102,655	119,444	11,369	5,354	136,167
Other expenses	62,042	15,268	5,934	83,244	64,694	17,013	6,560	88,267
Supplies	31,495	5,747	3,337	40,579	33,260	5,655	3,589	42,504
Furniture, fixtures, and equipment	26,382	6,203	2,514	35,099	26,384	3,858	3,154	33,396
Telephone	20,924	2,832	1,094	24,850	23,744	2,555	1,054	27,353
Other taxes	-	-	-	-	-	104,425	-	104,425
<b>Total Expenses</b>	<b>\$ 8,985,658</b>	<b>\$ 804,121</b>	<b>\$ 775,760</b>	<b>\$ 10,565,539</b>	<b>\$ 9,033,775</b>	<b>\$ 728,116</b>	<b>\$ 719,515</b>	<b>\$ 10,481,406</b>

See notes to financial statements

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

### 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Acton Institute for the Study of Religion and Liberty (Institute) is a nonprofit education literary center, headquartered in Grand Rapids, Michigan. The Institute's primary goal is to familiarize the religious community, particularly students and seminarians, with the moral dimensions of liberty and the free market.

#### BASIS OF ACCOUNTING

The financial statements of the Institute have been prepared using the accrual basis of accounting. The preparation of financial statements in accordance 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. Accordingly, actual results could differ from these estimates. The more significant accounting policies are summarized below.

#### FINANCIAL STATEMENT PRESENTATION

The accompanying financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Presentation of Financial Statement* topic of the Accounting Standards Codification (ASC). Under this topic, the Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### RECOGNITION OF DONOR RESTRICTIONS

Contributions received are reported as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restriction expires in the reporting period in which the support is reported. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and permanently restricted net assets are moved to temporarily restricted or unrestricted, as appropriate.

#### UNRESTRICTED NET ASSETS

The unrestricted net assets are used to account for all resources over which the Institute has discretionary control.

#### TEMPORARILY RESTRICTED NET ASSETS

Contributions of cash and other assets are temporarily restricted if they are received with donor stipulations that limit the use of donated assets. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the unrestricted net asset class.



# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

### 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are subject to donor-imposed stipulations to be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on any related investments for a specific purpose. See Note 6.

#### CASH AND CASH EQUIVALENTS

The Institute considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Institute's accounts are insured by the Federal Deposit Insurance Corporation. At times, the Institute's deposits exceed federally insured limits. However, management monitors the soundness of the financial institution and believes the risk is negligible.

#### PROMISES TO GIVE

Unconditional promises to give are recognized as revenue in the period the promise is made, and as assets, decreases of liabilities, or expenses depending on the form of the benefits to be received.

Promises to give are stated at the amount management expects to collect from balances outstanding. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its evaluation of the status of individual accounts, past credit history with donors and the donors' current financial condition. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Institute considers promises to give to be fully collectible; accordingly, no allowance for doubtful promises to give has been recorded. If amounts become uncollectible, a provision for the potential loss will be charged to operations when the determination is made.

#### ACCOUNTS RECEIVABLE

Trade accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its evaluation of the status of individual accounts, past credit history with funds and clients and the funders' clients' current financial condition. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Institute considers all accounts receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, a provision for the potential loss will be charged to operations when the determination is made.

#### INVENTORY

Inventory, consisting primarily of bookstore supplies, is reported at the lower of cost or market, with cost determined on the average cost method.

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

### 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued:

#### LAND, BUILDING, AND EQUIPMENT

The Institute follows the practice of capitalizing, at cost, all expenditure for property and equipment in excess of \$1,000. Donations of property and equipment are recorded as support at the estimated fair value at the time received. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions specifying how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how the long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or long-lived assets are placed in service. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

#### DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

The Institute follows the provisions of the *Fair Value Measurements and Disclosure* topic of the FASB ASC. These standards establish a fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value.

##### Level 1

Unadjusted quoted prices in active markets for identical assets or liabilities.

##### Level 2

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

##### Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompany statements of financial position, as well as, the general classification of such instruments pursuant to the valuation hierarchy.

#### INVESTMENTS

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds (including money market) and common stock.

If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Investments held at Level 2 are coins. For the valuation of the investments in coins, the Institute used significant other observable inputs, including information based on quoted market prices for Level 2 investments.

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

### 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVESTMENTS, continued

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified with Level 3. For the valuation of the common stock of an unregistered company, the Institute used significant unobservable inputs including information from an independent appraisal based on other valuation methods. The valuation approach considers capitalization of earnings and the merger and acquisition valuation method, as well as discounting the valuation for lack of control and lack of marketability.

#### NONCASH DONATIONS

Donated marketable securities and other noncash donations are reported as contributions at their estimated fair values as of the date of the donation. The Institute has received an ongoing in-kind grant from Google for online promotion of its programs. The revenue and expenses are recognized when the specific promotional messaging occurs.

#### INCOME TAXES

The Internal Revenue Service has determined the Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1) and 170(b)(1)(A)(vi). The Institute is subject to tax on unrelated business income, as defined by Section 511 of the code. The provision for income taxes on such income was \$111,753 and \$72,000, as of December 31, 2016 and 2015, respectively. Cash paid for income tax on such income was \$85,753 and \$71,000, as of December 31, 2016 and 2015, respectively. Tax positions taken are assessed for uncertainty and provisions may be recorded if a tax position is not likely to be sustained upon examination.

#### ADVERTISING

The Institute expenses advertising costs as incurred. Total advertising costs were \$644,051 and \$261,103, including donated advertising of \$472,927 and \$0-, as of December 31, 2016 and 2015, respectively.

#### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the program services and supporting activities have been summarized on a functional basis in the statements of activities. Certain costs not directly attributable to specific program services or functions have been allocated to program services and supporting activities. Management considers its method of allocation to be equitable.

#### RECLASSIFICATIONS

Certain amounts from the prior year have been reclassified to conform with current year presentation. These reclassifications had no effect on the change in net assets.

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued:

UNCERTAINTY IN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2016 and 2015, the Institute had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

2. PROMISES TO GIVE:

Promises to give consist of the following:

	December 31,	
	2016	2015
Receivable in less than one year	\$ 1,201,219	\$ 1,350,566
Receivable in one to five years	150,100	315,000
	<u>\$ 1,351,319</u>	<u>\$ 1,665,566</u>

The discount to present value of the long-term promises to give is not material to record.

3. LAND, BUILDING, AND EQUIPMENT:

Property and equipment consists of the following:

	December 31,	
	2016	2015
Land	\$ 1,080,000	\$ 1,080,000
Building	6,068,824	6,068,824
Furniture, fixtures, and equipment	1,316,105	1,096,853
Library books and reference materials	117,654	117,654
	<u>8,582,583</u>	<u>8,363,331</u>
Accumulated depreciation	<u>(1,402,145)</u>	<u>(1,078,457)</u>
	<u>\$ 7,180,438</u>	<u>\$ 7,284,874</u>

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

### 4. INVESTMENTS:

Investments consist of the following as of December 31, 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 1,857,639	\$ 1,857,639	\$ -	\$ -
Common stock	25,734	25,734	-	-
Mutual funds:				
Large growth	123,098	123,098	-	-
Mid-cap growth	152,486	152,486	-	-
Large blend	397,004	397,004	-	-
Intermediate-term bond	224,115	224,115	-	-
High-yield bond	32,892	32,892	-	-
Common stock of unregistered company	1,896,200	-	-	1,896,200
	<u>\$ 4,709,168</u>	<u>\$ 2,812,968</u>	<u>\$ -</u>	<u>\$ 1,896,200</u>

Investments consist of the following as of December 31, 2015:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 35,601	\$ 35,601	\$ -	\$ -
Mutual funds				
Large growth	124,738	124,738	-	-
Mid-cap growth	210,393	210,393	-	-
Other	35,207	-	35,207	-
Common stock of unregistered company	1,655,000	-	-	1,655,000
	<u>\$ 2,060,939</u>	<u>\$ 370,732</u>	<u>\$ 35,207</u>	<u>\$ 1,655,000</u>

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

4. INVESTMENTS, continued:

Investment income consists of:

	December 31,	
	2016	2015
Interest and dividend income	\$ 294,798	\$ 230,592
Net unrealized gain (loss)	228,520	(147,093)
Net realized gain	24,420	24,640
	<u>\$ 547,738</u>	<u>\$ 108,139</u>

The following is a reconciliation of activity for the years ended December 31, 2016 and 2015, for assets measured at fair value based on significant unobservable (Level 3) information:

	December 31,	
	2016	2015
	Level 3	Level 3
	Investments	Investments
Balance, beginning of year	\$ 1,655,000	\$ 1,780,000
Unrealized gain (loss) included in change in unrestricted net assets	241,200	(125,000)
Balance, end of year	<u>\$ 1,896,200</u>	<u>\$ 1,655,000</u>

5. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted activities consist of:

	December 31,			
	2015	Support	Reclassifications	2016
Education	\$ 505,806	\$ 2,749,666	\$ (2,637,989)	\$ 617,483
Research	600,030	1,297,261	(1,509,197)	388,094
Campaign for building and program enhancement	3,084,449	5,939	(184,368)	2,906,020
Time restricted funds	113,075	121,339	(113,075)	121,339
	<u>\$ 4,303,360</u>	<u>\$ 4,174,205</u>	<u>\$ (4,444,629)</u>	<u>\$ 4,032,936</u>

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

5. TEMPORARILY RESTRICTED NET ASSETS, continued:

	December 31,			2015
	2014	Support	Reclassifications	
Education	\$ 685,000	\$ 3,693,743	\$ (3,872,937)	\$ 505,806
Research	1,004,454	645,200	(1,049,624)	600,030
Campaign for building and program enhancement	2,956,006	547,002	(418,559)	3,084,449
Time restricted funds	97,324	113,075	(97,324)	113,075
	<u>\$ 4,742,784</u>	<u>\$ 4,999,020</u>	<u>\$ (5,438,444)</u>	<u>\$ 4,303,360</u>

6. ENDOWMENT FUNDS:

In 2016, the Institute established Acton Institute Endowment Fund. The fund was established with a \$500,000 donor gift that will remain in perpetuity to support the Novak award and \$2,000,000 of prior year funds given by donors for the capital campaign which the board has determined shall function as an endowment to support the long-term capital needs of the Institute.

The Institute adopted the *Reporting Endowment Funds* topic of the FASB ASC. This topic provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization and enhanced disclosure information to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds.

The Institute's endowment consist of a fund established to provide perpetual support for the Institute. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Institute's Board of Directors has interpreted the full provisions of UPMIFA, 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 for the year ended December 31, 2016. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institution in a manner consistent with UPMIFA.

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

6. ENDOWMENT FUNDS, continued:

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 policy of the Institute

Endowment net asset composition by type of fund:

	December 31,	
	2016	2015
Unrestricted:		
Board-designated	\$ 9,320	\$ -
Temporarily restricted	2,002,330	-
Permanently restricted	500,000	-
	\$ 2,511,650	\$ -

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Transfers	-	2,000,000	-	2,000,000
Contributions	-	-	500,000	500,000
Total transfers and contributions	-	2,000,000	500,000	2,500,000
Investment return:				
Dividend and interest income	3,618	904	-	4,522
Net gain (realized and unrealized)	5,702	1,426	-	7,128
Total investment return	9,320	2,330	-	11,650
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	\$ 9,320	\$ 2,002,330	\$ 500,000	\$ 2,511,650



# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

### 6. ENDOWMENT FUNDS, continued:

#### FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no fund deficiencies as of December 31, 2016 and 2015.

#### RISK PARAMETERS AND STRATEGIES EMPLOYED FOR ACHIEVING RETURN OBJECTIVES

The investment policy will voluntarily conform to the evolving prudent investor provisions of UPMIFA and other fiduciary responsibilities pertaining to the investment of the Institute's assets. The policy will be reviewed at least annually to ensure the policy is still consistent with the Institute's financial needs and tolerance for assuming investment and financial risk.

The Institute's broad investment objectives include:

- Preserving the long-term, real purchasing power of the assets while providing a relatively predictable and growing stream of annual distributions.
- Achieving maximum long-term growth through equity investments and generating stable returns with fixed income investments.

#### SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Institute will fund distributions using a total-return based spending policy. The general spending or distribution policy, as approved by the Board of Directors, is a rate of up to 4% of the average market values of the endowment investments over the last 12 quarters. The earnings on the permanently restricted donor assets will be used to fund the Novak award while the earnings on the temporarily restricted capital funds will be used to fund general capital maintenance needs of the Institute.

### 7. LEASES:

The Institute leases office space in Rome, Italy, under an operating lease which expires in February 2019. The future minimum lease payments are subject to exchange rate fluctuations as they are denominated and paid in Euros and any inflationary adjustments based on the annual finding of the National Institute for Statistics. The Institute may not terminate the lease without penalty.

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

7. LEASES, continued:

Future minimum office lease payments are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 40,312
2018	40,312
2019	<u>3,359</u>
	<u>\$ 83,983</u>

Total expense under operating leases was \$47,688 and \$53,920, for the years ended December 31, 2016 and 2015, respectively.

The Institute also leases a portion of the building and related parking spaces to an unrelated party under an operating lease, which expires in September 2019. The lease includes an escalation clause, which increases monthly rent by 2% in October of each year. As of December 31, 2016, monthly rent was \$13,515. Rental income under operating leases for the years ended December 31, 2016 and 2015, was \$164,613 and \$159,523, respectively.

Future rental income is as follows:

<u>Year Ending December 31,</u>	
2017	\$ 166,248
2018	169,575
2019	<u>129,078</u>
	<u>\$ 464,901</u>

8. RETIREMENT PLAN:

The Institute has an employee benefit plan under Section 401(k) of the Internal Revenue Code for substantially all of its employees who meet the eligibility requirements. Contributions to the plan are at the discretion of management. Participants may contribute up to \$18,000 of their compensation to the plan on a pretax basis. The Institute matches 50% of each participant's elective contributions, not to exceed \$4,000 annually in 2016 and 2015. Contributions were \$74,717 and \$65,323, respectively. The Institute's obligation is limited to contributions made for the benefit of participating employees.

# THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

## Notes to Financial Statements

December 31, 2016 and 2015

9. CONCENTRATIONS:

Two funding sources provided approximately 28% of total revenue and three funding sources provided approximately 63% of total promises to give for the year ended December 31, 2016. One funding source provided approximately 23% of total revenue and four funding sources provided approximately 57% of total promises to give for the year ended December 31, 2015.

10. SPECIAL EVENTS-NET:

The Institute hosts an annual fundraising dinner. Special events support is reported net of related expenses in the statements of activities and consists of:

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Contributions	\$ 232,670	\$ 192,220
Program fees	51,975	41,153
Direct expenses	<u>(182,601)</u>	<u>(221,939)</u>
	<u>\$ 102,044</u>	<u>\$ 11,434</u>

11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.