

THE ACTON INSTITUTE FOR
THE STUDY OF RELIGION
AND LIBERTY

Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

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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, 2017 and 2016, 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, 2017 and 2016, 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.



Grand Rapids, Michigan
May 31, 2018

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Statements of Financial Position

	December 31,	
	2017	2016
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 3,334,956	\$ 3,377,401
Promises to give	393,924	1,201,219
Accounts receivable	14,029	77,043
Inventory	152,836	155,003
Prepaid expenses and other assets	320,861	369,023
	4,216,606	5,179,689
Land, building, and equipment–net	7,288,260	7,180,438
Other Assets:		
Cash restricted for investment in property, equipment, and other	254,846	305,099
Promise to give, less current maturities	37,000	150,100
Investments	5,208,467	4,709,168
	5,500,313	5,164,367
Total Assets	\$ 17,005,179	\$ 17,524,494
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable	\$ 220,500	\$ 161,217
Accrued liabilities and other	35,423	79,451
	255,923	240,668
Net assets:		
Unrestricted:		
Undesignated	5,719,434	5,570,452
Net investment in land, building, and equipment	7,288,260	7,180,438
	13,007,694	12,750,890
Temporarily restricted	3,241,562	4,032,936
Permanently restricted	500,000	500,000
	16,749,256	17,283,826
Total Liabilities and Net Assets	\$ 17,005,179	\$ 17,524,494

See notes to financial statements

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Statements of Activities

Year Ended December 31,

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Support:								
Contributions	\$ 8,850,151	\$ 926,424	\$ -	\$ 9,776,575	\$ 3,862,985	\$ 4,171,875	\$ 500,000	\$ 8,534,860
Special events-net	62,742	-	-	62,742	102,044	-	-	102,044
	8,912,893	926,424	-	9,839,317	3,965,029	4,171,875	500,000	8,636,904
Revenue:								
Gross profit on sales	141,936	-	-	141,936	186,819	-	-	186,819
Program services	362,985	-	-	362,985	479,620	-	-	479,620
Rental income	167,718	-	-	167,718	164,613	-	-	164,613
Net investment income	671,551	51,989	-	723,540	545,408	2,330	-	547,738
Other income	46,031	-	-	46,031	245,897	-	-	245,897
	1,390,221	51,989	-	1,442,210	1,622,357	2,330	-	1,624,687
Total Support and Revenue	10,303,114	978,413	-	11,281,527	5,587,386	4,174,205	500,000	10,261,591
Net Assets Released from Restrictions:								
Satisfaction of restrictions	1,469,787	(1,469,787)	-	-	4,444,629	(4,444,629)	-	-
Total Support, Revenue, and Net Assets Released from Restrictions	11,772,901	(491,374)	-	11,281,527	10,032,015	(270,424)	500,000	10,261,591

(continued)

See notes to financial statements

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Statements of Activities
(continued)

	Year Ended December 31,							
	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services	9,904,016	-	-	9,904,016	8,985,658	-	-	8,985,658
Supporting activities:								
Management and general	624,016	-	-	624,016	804,121	-	-	804,121
Fundraising	988,065	-	-	988,065	775,760	-	-	775,760
Total Expenses	11,516,097	-	-	11,516,097	10,565,539	-	-	10,565,539
Losses for uncollectable promises to give	-	300,000	-	300,000	-	-	-	-
Total Expenses and losses	11,516,097	300,000	-	11,816,097	10,565,539	-	-	10,565,539
Change in Net Assets	256,804	(791,374)	-	(534,570)	(533,524)	(270,424)	500,000	(303,948)
Net Assets, Beginning of Year	12,750,890	4,032,936	500,000	17,283,826	13,284,414	4,303,360	-	17,587,774
Net Assets, End of Year	\$13,007,694	\$ 3,241,562	\$ 500,000	\$16,749,256	\$12,750,890	\$ 4,032,936	\$ 500,000	\$17,283,826

See notes to financial statements

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Statements of Cash Flows

	Year End December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (534,570)	\$ (303,948)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	408,442	325,164
Losses for uncollectible promises to give	300,000	-
Contributions restricted for capital or long term purpose, excluding noncash donations	-	(503,610)
Net unrealized and realized gain on investment	(357,489)	(253,265)
Donated investments	(488,077)	(202,616)
Changes in operating assets and liabilities:		
Promises to give	575,415	229,227
Accounts receivable	63,014	669
Inventory	2,167	90,470
Prepaid expenses and other assets	48,162	(88,051)
Accounts payable	59,283	(190,501)
Accrued liabilities and other	(44,028)	51,024
Net Cash Provided (Used) by Operating Activities	32,319	(845,437)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(516,264)	(222,203)
Proceeds from the sale of property and equipment	-	1,800
Purchase of investments	(2,063,389)	(3,147,772)
Proceeds from the sale of investments	2,409,656	955,099
Net Cash Used by Investing Activities	(169,997)	(2,413,076)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital or other long term purpose	44,980	588,630
Net Cash Provided by Financing Activities	44,980	588,630
Change In Cash and Cash Equivalents	(92,698)	(2,669,883)
Cash and Cash Equivalents, Beginning of Year	3,682,500	6,352,383
Cash and Cash Equivalents, End of Year	\$ 3,589,802	\$ 3,682,500
Cash and Cash Equivalents:		
Available for operations	\$ 3,334,956	\$ 3,377,401
Restricted for investment in property, equipment, and other	254,846	305,099
	\$ 3,589,802	\$ 3,682,500

See notes to financial statements

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Statements of Functional Expenses

	Year Ended December 31,							
	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,983,951	\$ 260,036	\$ 660,849	\$ 3,904,836	\$ 2,745,260	\$ 307,185	\$ 549,674	\$ 3,602,119
Conferences and conventions	2,717,972	10,529	12,728	2,741,229	2,149,002	3,899	3,185	2,156,086
Contracted services	1,372,483	9,676	38,185	1,420,344	1,167,964	20,947	23,342	1,212,253
Advertising	698,441	-	4,418	702,859	643,752	-	299	644,051
Travel	407,476	27,191	59,123	493,790	493,476	43,873	27,697	565,046
Depreciation expense	267,396	97,166	43,880	408,442	211,945	87,692	25,527	325,164
Honorariums	340,932	-	-	340,932	312,292	-	-	312,292
Grants and awards	248,805	-	-	248,805	214,381	-	-	214,381
Occupancy	161,820	41,629	18,800	222,249	163,178	44,417	13,090	220,685
Equipment rental and maintenance	168,353	10,359	21,030	199,742	229,893	8,624	16,652	255,169
Printing and duplicating	105,700	544	49,488	155,732	103,605	4,228	19,542	127,375
Postage and shipping	115,296	1,087	32,807	149,190	111,155	2,177	42,278	155,610
Publications	106,330	3,426	17,389	127,145	203,658	5,352	26,902	235,912
Unrelated business income tax	-	100,329	-	100,329	-	111,753	-	111,753
Other expenses	72,092	8,762	12,040	92,894	62,042	15,268	5,934	83,244
Supplies	39,869	7,437	5,398	52,704	31,495	5,747	3,337	40,579
Meals and entertainment	45,163	2,262	4,562	51,987	77,251	11,237	14,167	102,655
Professional fees	3,269	36,231	-	39,500	18,003	122,687	526	141,216
Furniture, fixtures, and equipment	27,122	4,975	2,247	34,344	26,382	6,203	2,514	35,099
Telephone	21,546	2,377	5,121	29,044	20,924	2,832	1,094	24,850
Total Expenses	\$ 9,904,016	\$ 624,016	\$ 988,065	\$ 11,516,097	\$ 8,985,658	\$ 804,121	\$ 775,760	\$ 10,565,539

See notes to financial statements

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

1. NATURE OF ORGANIZATION

The Acton Institute for the Study of Religion and Liberty (The 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.

2. SIGNIFICANT ACCOUNTING POLICIES:

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.

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. As of December 31, 2017, there was approximately \$2,328,680 of uninsured cash and cash equivalents.

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. A discount to present value long-term promises to give is not material to record.

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 consists primarily of bookstore supplies. Inventory is valued at the lower of cost or net realizable value for December 31, 2017, and the lower of cost or market as of December 31, 2016, with cost determined on the average cost method. The Institute adopted ASU 2015-11 for the year ended December 31, 2017, as noted below in Recently Adopted Accounting Standards.

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.

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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, and the securities are classified within Level 2 of the valuation hierarchy. There are no Level 2 investments.

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.

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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 7.

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 for online promotion of its programs. The revenue and expenses are recognized when the specific promotional messaging occurs.

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.

ADVERTISING

The Institute expenses advertising costs as incurred. Total advertising costs were \$702,859 and \$644,051, including donated advertising of \$478,091 and \$472,927, as of December 31, 2017 and 2016, respectively.

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 \$100,329 and \$111,753, as of December 31, 2017 and 2016, respectively. Cash paid for income tax on such income was \$138,329 and \$85,753, as of December 31, 2017 and 2016, 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.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Accounting Standards Update (ASU) 2015-11 updates the *Inventory* topic of the FASB ASC. The primary change resulting from ASU 2015-11 is recording inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for fiscal years after December 15, 2016. The Institute adopted ASU 2015-11 for the year ended December 31, 2017, and has implemented the guidance prospectively. Inventory is valued at the lower of cost or net realizable value for December 31, 2017, and the lower of cost or market as of December 31, 2016. There was no net income impact for adopting this standard.

3. PROMISES TO GIVE:

Promises to give consist of the following:

	December 31,	
	2017	2016
Receivable in less than one year	\$ 393,924	\$ 1,201,219
Receivable in one to five years	37,000	150,100
	<u>\$ 430,924</u>	<u>\$ 1,351,319</u>

During 2017, the Institute was notified that a donor was no longer able to fulfill a promise to give to the capital campaign. The Institute wrote off the pledge, resulting in a loss on uncollectable promises to give of \$300,000 on the statements of activities and a reduction of temporarily restricted net assets.

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

4. LAND, BUILDING, AND EQUIPMENT:

Property and equipment consists of the following:

	December 31,	
	2017	2016
Land	\$ 1,080,000	\$ 1,080,000
Building	6,068,824	6,068,824
Furniture, fixtures, and equipment	1,745,417	1,316,105
Library books and reference materials	121,054	117,654
	<u>9,015,295</u>	<u>8,582,583</u>
Accumulated depreciation	<u>(1,727,035)</u>	<u>(1,402,145)</u>
	<u><u>\$ 7,288,260</u></u>	<u><u>\$ 7,180,438</u></u>

5. INVESTMENTS:

Investments consist of the following as of December 31, 2017:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 43,789	\$ 43,789	\$ -	\$ -
Mutual funds:				
Large growth	153,285	153,285	-	-
Mid-cap growth	188,216	188,216	-	-
Large blend	1,765,752	1,765,752	-	-
Intermediate-term bond	948,486	948,486	-	-
High-yield bond	136,739	136,739	-	-
Common stock of unregistered company	1,972,200	-	-	1,972,200
	<u><u>\$ 5,208,467</u></u>	<u><u>\$ 3,236,267</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,972,200</u></u>

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

5. INVESTMENTS, continued:

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>

Investment income consists of:

	Year Ended December 31,	
	2017	2016
Interest and dividend income	366,051	\$ 294,798
Net unrealized gain	319,227	228,520
Net realized gain	38,262	24,420
	<u>\$ 723,540</u>	<u>\$ 547,738</u>

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

5. INVESTMENTS, continued:

The following is a reconciliation of activity for the years ended December 31, 2017 and 2016, for assets measured at fair value based on significant unobservable (Level 3) information:

	December 31,	
	2017	2016
	Level 3 Investments	Level 3 Investments
Balance, beginning of year	\$ 1,896,200	\$ 1,655,000
Unrealized gain included in change in unrestricted net assets	76,000	241,200
Balance, end of year	\$ 1,972,200	\$ 1,896,200

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted activities consist of:

	December 31,			
	2016	Support	Reclassifications	2017
Education	\$ 617,483	\$ 74,000	\$ (555,725)	\$ 135,758
Research	388,094	598,500	(693,879)	292,715
Media	-	147,000	-	147,000
Campaign for building and program enhancement	2,906,020	51,989	(398,844)	2,559,165
Time restricted funds	121,339	106,924	(121,339)	106,924
	\$ 4,032,936	\$ 978,413	\$ (1,769,787)	\$ 3,241,562

	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
	\$ 4,303,360	\$ 4,174,205	\$ (4,444,629)	\$ 4,032,936

THE ACTON INSTITUTE FOR THE STUDY OF RELIGION AND LIBERTY

Notes to Financial Statements

December 31, 2017 and 2016

7. 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.

The Institute is reporting the endowment in accordance with 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 consists 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, 2017. 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 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

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7. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund:

	December 31,	
	2017	2016
Temporarily restricted	\$ 54,319	\$ 2,330
Permanently restricted	500,000	500,000
	\$ 554,319	\$ 502,330

Changes in endowment net assets for the year ended December 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,330	\$ 500,000	\$ 502,330
Investment return:			
Dividend and interest income	10,826	-	10,826
Net gain (realized and unrealized)	41,163	-	41,163
Total investment return	51,989	-	51,989
Endowment net assets, end of year	\$ 54,319	\$ 500,000	\$ 554,319

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Transfers	-	-	-
Contributions	-	500,000	500,000
Total transfers and contributions	-	500,000	500,000
Investment return:			
Dividend and interest income	904	-	904
Net gain (realized and unrealized)	1,426	-	1,426
Total investment return	2,330	-	2,330
Endowment net assets, end of year	\$ 2,330	\$ 500,000	\$ 502,330

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7. 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, 2017 and 2016.

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. As of December 31, 2017 and 2016, no distributions have taken place.

8. 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. Future minimum office lease payments are as follows:

Year Ending December 31,

2018	\$ 40,312
2019	3,712
	<u>\$ 44,024</u>

Total expense under operating leases was \$41,261 and \$47,688, for the years ended December 31, 2017 and 2016, respectively.

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8. LEASES, continued:

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, 2017, monthly rent was \$14,060. Rental income under operating leases for the years ended December 31, 2017 and 2016, was \$167,718 and \$164,613, respectively. Future rental income is as follows:

Year Ending December 31,

2018	\$ 172,093
2019	131,651
	<hr/>
	\$ 303,744
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9. 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 2017 and 2016. Contributions were \$83,483 and \$74,717, respectively. The Institute's obligation is limited to contributions made for the benefit of participating employees.

10. CONCENTRATIONS:

One funding source provided approximately 22% of total revenue for the year ended December 31, 2017. Two funding sources provided approximately 28% of total revenue for the year ended December 31, 2016.

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11. 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:

	Year Ended December 31,	
	2017	2016
Contributions	\$ 264,875	\$ 232,670
Program fees	73,000	51,975
Direct expenses	(275,133)	(182,601)
	<u>\$ 62,742</u>	<u>\$ 102,044</u>

12. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 31, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.