

The Heartland Institute
Audited Financial Statements
For the Years Ended December 31, 2020 and 2019
(With Independent Auditor's Report Thereon)

The Heartland Institute

Table of Contents

Independent Auditor's Report	1-2
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Financial Statements

Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5-6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8-14



Independent Auditor's Report

To the Board of Directors of
The Heartland Institute
Arlington Heights, Illinois 60004

We have audited the financial statements of The Heartland Institute (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ligke Gross & Orr, PC

Elgin, Illinois
August 6, 2021

The Heartland Institute
Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 879,024	\$ 648,334
Prepaid expenses	984	28,176
Total Current Assets	<u>880,008</u>	<u>676,510</u>
Property and Equipment, net	<u>889,768</u>	<u>923,179</u>
Total Assets	<u><u>\$ 1,769,776</u></u>	<u><u>\$ 1,599,689</u></u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 50,152	\$ 91,034
Credit card payable	14,043	-
Payroll liabilities	95,153	85,041
Total Current Liabilities	<u>159,348</u>	<u>176,075</u>
Net Assets:		
Without donor restrictions	855,911	1,393,039
With donor restrictions	754,517	30,575
Total Net Assets	<u>1,610,428</u>	<u>1,423,614</u>
Total Liabilities and Net Assets	<u><u>\$ 1,769,776</u></u>	<u><u>\$ 1,599,689</u></u>

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue Received:						
Contributions	\$ 2,783,610	\$ 964,835	\$ 3,748,445	\$ 4,550,549	\$ -	\$ 4,550,549
Publications/research	7,628	-	7,628	13,207	-	13,207
Other events	300	-	300	44,863	-	44,863
Interest income	23,528	-	23,528	15,659	-	15,659
Total Revenue	<u>2,815,066</u>	<u>964,835</u>	<u>3,779,901</u>	<u>4,624,278</u>	<u>-</u>	<u>4,624,278</u>
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	<u>240,893</u>	<u>(240,893)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses:						
Program services	2,253,461	-	2,253,461	3,900,055	-	3,900,055
Support services	837,107	-	837,107	875,094	-	875,094
Fundraising services	502,519	-	502,519	816,906	-	816,906
Total Expenses	<u>3,593,087</u>	<u>-</u>	<u>3,593,087</u>	<u>5,592,055</u>	<u>-</u>	<u>5,592,055</u>
Change in Net Assets	(537,128)	723,942	186,814	(967,777)	-	(967,777)
Net Assets, Beginning of Year	1,393,039	30,575	1,423,614	2,360,816	30,575	2,391,391
Net Assets, End of Year	<u>\$ 855,911</u>	<u>\$ 754,517</u>	<u>\$ 1,610,428</u>	<u>\$ 1,393,039</u>	<u>\$ 30,575</u>	<u>\$ 1,423,614</u>

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019
Part 1

	----- Programs -----				Total					
Expenses:	Environmental and Climate	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2020	Total Expenses December 31, 2019	
Salaries and wages	\$ -	\$ 279,754	\$ 364,827	\$ 483,320	\$ 1,127,901	\$ 297,548	\$ 299,828	\$ 1,725,277	\$ 2,271,376	
Benefits	-	33,881	10,364	66,229	110,474	40,723	39,089	190,286	254,891	
Payroll taxes	-	26,186	26,714	34,640	87,540	23,338	20,693	131,571	176,494	
Contractors	87,596	227,330	42,679	100,276	457,881	99,870	5,630	563,381	891,454	
Accounting/payroll fees/legal fees	-	8,535	8,861	12,484	29,880	7,689	6,128	43,697	60,870	
Supplies/furniture/equipment	-	-	-	41,550	41,550	25,655	5,566	72,771	92,652	
Telephone/data	-	-	-	1,207	1,207	28,895	-	30,102	21,800	
Postage and shipping	-	41,039	780	2,782	44,601	21,267	42,448	108,316	219,970	
Occupancy	-	-	-	-	-	189,029	599	189,628	174,349	
Printing and publications	-	94,346	-	-	94,346	16,968	-	111,314	317,222	
Travel	567	-	19,451	11,941	31,959	4,279	63,992	100,230	397,909	
Conferences/meetings	15,000	-	35,017	70,136	120,153	5,275	15,309	140,737	546,496	
Interest	-	-	-	-	-	2,668	-	2,668	1,601	
Depreciation	-	-	-	-	-	33,411	-	33,411	35,455	
Other Expenses:										
Association dues	-	-	-	-	-	948	-	948	-	
Advertising and public relations	-	1,717	3,800	48,245	53,762	7,466	1,898	63,126	75,706	
Education and other expenses	277	1,926	1,382	2,455	6,040	2,228	1,339	9,607	8,600	
Library and subscriptions	-	-	-	178	178	-	-	178	443	
Memberships	-	-	1,800	16,689	18,489	-	-	18,489	10,001	
Government and bank fees	-	-	-	-	-	29,850	-	29,850	23,166	
Moving/staff relocation	-	-	-	-	-	-	-	-	1,600	
Contributions and grants	-	-	-	27,500	27,500	-	-	27,500	10,000	
Total Expenses:	\$ 103,440	\$ 714,714	\$ 515,675	\$ 919,632	\$ 2,253,461	\$ 837,107	\$ 502,519	\$ 3,593,087	\$ 5,592,055	
Percentage of total	3%	20%	14%	26%	63%	23%	14%	100%		

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019
Part 2

	----- Programs -----			Total			
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2019
Salaries and wages	\$ 454,480	\$ 482,670	\$ 611,125	\$ 1,548,275	\$ 333,760	\$ 389,341	\$ 2,271,376
Benefits	48,791	28,091	89,180	166,062	42,892	45,937	254,891
Payroll taxes	37,272	37,739	46,601	121,612	26,884	27,998	176,494
Contractors	292,251	56,802	301,015	650,068	163,207	78,179	891,454
Accounting/payroll fees/legal fees	10,983	13,306	17,531	41,820	9,144	9,906	60,870
Supplies/furniture/equipment	438	10,689	34,113	45,240	27,485	19,927	92,652
Telephone/data	-	2,599	1,400	3,999	16,687	1,114	21,800
Postage and shipping	113,568	8,173	26,458	148,199	5,639	66,132	219,970
Occupancy	-	504	-	504	173,187	658	174,349
Printing and publications	310,140	72	-	310,212	4,111	2,899	317,222
Travel	16,366	137,815	148,266	302,447	7,740	87,722	397,909
Conferences/meetings	-	154,834	328,839	483,673	531	62,292	546,496
Interest	-	-	-	-	1,601	-	1,601
Depreciation	-	-	-	-	35,455	-	35,455
Other Expenses:							
Advertising and public relations	-	-	55,382	55,382	600	19,724	75,706
Education and other expenses	5,700	580	1,160	7,440	580	580	8,600
Library and subscriptions	-	-	290	290	105	48	443
Memberships	2,687	2,000	-	4,687	1,665	3,649	10,001
Government and bank fees	-	145	-	145	23,021	-	23,166
Moving/staff relocation	-	-	-	-	800	800	1,600
Contributions and grants	-	-	10,000	10,000	-	-	10,000
Total Expenses:	<u>\$ 1,292,676</u>	<u>\$ 936,019</u>	<u>\$ 1,671,360</u>	<u>\$ 3,900,055</u>	<u>\$ 875,094</u>	<u>\$ 816,906</u>	<u>\$ 5,592,055</u>
Percentage of total	23%	17%	30%	70%	16%	15%	100%

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statements of Cash Flows
For the Years Ending December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flow from operating activities:		
Change in net assets	\$ 186,814	\$ (967,777)
Add items not requiring an outlay of cash:		
Depreciation	33,411	35,455
(Increase) decrease in current assets:		
Prepaid expenses	27,192	(12,535)
Increase (decrease) in current liabilities:		
Accounts payable	(40,882)	29,263
Credit card payable	14,043	-
Payroll liabilities	10,112	38,862
Net cash provided by (used in) operating activities	<u>230,690</u>	<u>(876,732)</u>
Cash flow from investing activities:		
Purchase of property and equipment	<u>-</u>	<u>(5,562)</u>
Net cash used in investing activities	<u>-</u>	<u>(5,562)</u>
Increase (Decrease) in cash	230,690	(882,294)
Cash and Cash Equivalents Balance, Beginning of Year	648,334	1,530,628
Cash and Cash Equivalents Balance, End of Year	<u>\$ 879,024</u>	<u>\$ 648,334</u>
Supplemental Disclosure		
Cash Paid for Interest	\$ 2,668	\$ 1,601

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 1- Summary of Significant Account Policies

Nature of Activities: The Heartland Institute (the “Organization”) is an Illinois not-for-profit corporation organized exclusively for charitable and educational purposes. Its main purpose is to inform and educate the public on research of past and existing public policies and the effects and results of those policies and free market or private sector alternatives. The Organization’s programs are supported primarily by contributions from individuals, businesses, and foundations.

Method of Accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with United States Generally Accepted Accounting Principles applicable to non-profit organizations. Revenues are recognized as they are earned and expenses as they are incurred.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Update (“ASU”) 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Under FASB ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions include undesignated and board-designated sources with no legal donor-imposed restrictions.

Net assets with donor restrictions represent net assets subject to donor-imposed or legal restrictions, which will either be met by the Organization’s actions, the passage of time or are perpetual in nature. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the restrictions are met or have expired. These reclassifications are reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entities expect to be entitled in exchange for those goods or services. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted this update, along with all subsequent amendments (collectively, “ASC 606”) in 2019 under the modified retrospective method. Additionally, the Organization applied the practical expedient (i) to account for revenues with similar characteristics as a collective group rather than individually, (ii) to not adjust the transaction price for the effects of significant financing components (if any), and (iii) to not disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations relate to contracts with an expected duration of less than one year. The effect of the Organization’s adoption of ASC 606 is outlined below.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 1- Summary of Significant Account Policies (continued)

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., ASC 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Organization adopted this update on a prospective basis and the effects of the adoption are outlined below.

The effect of ASC 606 and ASU 2018-08 on the Organization's financial statements were examined in conjunction with one another. Certain of the Organization's revenue-producing arrangements do not meet the definition of a contract under ASC 606, as the arrangement does not have commercial substance and does not meet the definition of an exchange transaction under the clarified guidance in ASU 2018-08. Prior to the clarifications provided in ASU 2018-08, transactions with customers that benefited the general public were considered to be exchange transactions. Under the clarified guidance, such transactions constitute contributions. The Organization reassessed the nature of its revenue-producing arrangements to ensure alignment with the definition of a contract under ASC 606 and an exchange transaction under ASU 2018-08.

In the following table, revenue from contracts with customers is disaggregated by major services lines and timing of revenue recognition:

	2020	2019
Major service lines		
Publications/research	\$ 7,628	\$ 13,207
Other	300	44,863
	<u>\$ 7,928</u>	<u>\$ 58,070</u>
Timing of revenue recognition		
Services or products transferred at a point in time	\$ 7,928	\$ 58,070
Services or products transferred over time	-	-
	<u>\$ 7,928</u>	<u>\$ 58,070</u>

The majority of the Organization's revenue, which are generated from contributions, fundraising events, and interest income, are not from contracts with customers. Total revenue from these sources were \$3,771,973 and \$4,566,208 for the years ended December 31, 2020 and 2019, respectively.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reports amounts of revenues, gains and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Organization defines cash, for the purposes of reporting cash flows, as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes.

Contributions: The Organization accounts for contributions in accordance with the recommendations in FASB ASC 958-225. In accordance with FASB ASC 958-225, contributions, grants, and contracts received are recorded as support and revenue with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Unrestricted contributions are recognized when received.

Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support and revenues are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, such as when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets released from restrictions.

Donated Property and Services: Donations received in property and services other than cash are recorded at their fair market value on the date of the gift. Donations in property and services whose fair market values are not objectively determinable are omitted from the financial statement in accordance with generally accepted accounting principles.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. The Organization follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$2,500. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets.

Buildings	39 Years
Land improvements	20 Years
Furniture and equipment	7 Years
Software	3 Years
Automobiles	5 Years
Building improvements	15 Years

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk: The Organization maintains its cash balances in several bank accounts. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts in excess are at risk for financial loss. From time to time, the Organization has funds in excess of FDIC insurance. Management has evaluated the risk and does not find it to be significant.

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 Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounts and Pledges Receivable: Accounts receivable are stated at the amount management expects to collect from outstanding balances and pledges. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collections efforts are written off to bad debt expense. There were no bad debt write-offs or accounts deemed uncollectible for the years ended December 31, 2020 and 2019.

Income Tax Status: The Organization is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code. Accounting principles generally accepted in the United States of America requires management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other applicable taxing authorities.

Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress.

Liquidity: The Organization has \$882,008 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$879,024 and postage balances of \$984. None of the financial assets are subjected to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 120 days of normal operating expenses, which are, on average, approximately \$840,000.

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Pending Accounting Changes: In February 2016, the FASB issued ASU No. 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the Statement of Activities and Changes in Net Assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the Statement of Financial Position.

The reporting of lease related expenses in the Statements of Activities and Changes in Net Assets and Cash Flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending after December 15, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

Note 2 – Fixed Assets

Property and equipment at December 31, 2020 consists of the following:

	Cost 12/31/2019	Acquisitions/ (Deletions)	Cost 12/31/2020	Accumulated Depreciation 12/31/2020
Depreciable assets:				
Building	\$ 927,143	\$ -	\$ 927,143	\$ (138,102)
Office furniture	46,005	-	46,005	(30,292)
Office equipment	235,378	-	235,378	(227,978)
Non-depreciable assets:				
Land	65,364	-	65,364	-
Artwork	12,250	-	12,250	-
Total fixed assets	<u>\$ 1,286,140</u>	<u>\$ -</u>	<u>\$ 1,286,140</u>	<u>\$ (396,372)</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$33,411 and \$35,455, respectively.

Note 3 – Lease Commitments

The Organization has four equipment – operating leases:

1. A postage machine lease was entered effective October 2016 through September 2021 for \$1,155 per quarter.
2. A photocopier lease was entered effective August 2014 through July 2019 for \$537 per month.
3. A photocopier lease was entered effective May 2016 through June 2021 for \$272 per month.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 3 – Lease Commitments (continued)

4. A photocopier lease was entered effective September 2019 through August 2024 for \$1,143 per month.

Equipment rent expense for the years ended December 31, 2020 and 2019 was \$22,790 and \$16,212, respectively.

The following are the minimum future lease commitments:

Period ending December 31,	
2021	\$ 18,811
2022	13,714
2023	13,714
2024	9,143
Total	\$ <u>55,382</u>

Note 4 – Concentrations

Approximately 15% and 45% of the Organization's total support and revenues for the years ended December 31, 2020 and 2019 respectively, came from contributions from a single donor. Any substantial loss of donations from this particular donor could significantly affect the Organization's range of services provided.

Note 5 – Fund Balance – Net Assets with Donor Restrictions

Prior to 1997, the estate of Franklin Butcha executed a note under the charitable remainder trust provision of the Internal Revenue Code. Interest of 7.0% per annum is paid quarterly to the beneficiary of Franklin Butcha estate (his spouse) until her death. The principal loan of \$25,000 plus previously accrued interest of \$5,576 prior to Franklin's death for a grand total of \$30,575 was recognized as other income in 1996. Since then income and interest expense have been recorded through the unrestricted fund balance. Any present value adjustments to the bequest, as with discounted cash flow adjustment, were deemed insignificant.

During the year ended December 31, 2020, the Organization recognized an additional \$964,835 of purpose-restricted contributions for various programs, of which \$240,893 was released from restrictions during the year.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 6 – Effects of COVID 19

During the year ended December 31, 2020, as a result of the spread of the COVID 19 virus, economic uncertainties arose which impacted the programs and operations of the Fund. Live events were cancelled or moved online which greatly reduced expenses. The Fund followed restrictions, guidelines, and other health protocols.

Note 7 – Subsequent Events

The Organization evaluated its December 31, 2020 financial statements for subsequent events through the date the financial statements were issued. Due to the ongoing COVID-19 pandemic, uncertainty remains for operations beyond the year ended December 31, 2020, although potential financial impact is unknown at this time. Management believes there is a plan in place to continue operations.