

THE BECKET FUND
AUDITED
FINANCIAL STATEMENTS

Years Ended September 30, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Becket Fund

We have audited the accompanying financial statements of The Becket Fund (the "Fund") (a nonprofit organization) which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities 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.

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 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Becket Fund as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hoyle & Company, P.L.C.

Vienna, Virginia

April 20, 2017

THE BECKET FUND
 STATEMENTS OF FINANCIAL POSITION
 September 30, 2016 and 2015

ASSETS	2016	2015 (Restated)
Cash	\$ 1,952,166	\$ 2,386,713
Restricted cash	189,480	209,446
Prepaid expenses and other assets	117,714	129,100
Pledges receivable, net of allowance of \$10,000	790,000	-
Property and equipment, net	290,683	79,512
Deposits	<u>39,372</u>	<u>46,016</u>
TOTAL ASSETS	<u>\$ 3,379,415</u>	<u>\$ 2,850,787</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 601,356	\$ 280,721
Accrued compensation and related liabilities	3,901	17,675
Capital lease	4,907	7,330
Unearned grant revenue	189,480	209,446
Deferred rent incentive	391,216	320,638
Long-term debt	<u>103,051</u>	<u>15,887</u>
TOTAL LIABILITIES	1,293,911	851,697
NET ASSETS		
Unrestricted	1,345,504	1,951,668
Temporarily restricted	<u>740,000</u>	<u>47,422</u>
TOTAL NET ASSETS	<u>2,085,504</u>	<u>1,999,090</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,379,415</u>	<u>\$ 2,850,787</u>

See notes to financial statements.

THE BECKET FUND
 STATEMENTS OF ACTIVITIES
 Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions and grants	\$ 4,814,070	\$ 4,571,123
Canterbury medal gala	571,899	603,650
Less: costs of direct benefit to donors	<u>(152,400)</u>	<u>(188,999)</u>
	419,499	414,651
Legal fees	-	782,944
Grant for services	274,966	546,694
Reimbursed litigation expenses	1,319	1,399
Miscellaneous income	<u>1,538</u>	<u>3,593</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	5,511,392	6,320,404
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of donation restrictions	<u>247,422</u>	<u>251,178</u>
TOTAL UNRESTRICTED REVENUE, SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	5,758,814	6,571,582
EXPENSES		
Program services	5,306,750	5,130,205
Supporting services		
General and administrative	421,578	419,849
Fundraising	<u>636,650</u>	<u>499,330</u>
TOTAL EXPENSES	<u>6,364,978</u>	<u>6,049,384</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(606,164)	522,198
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	940,000	253,600
Net assets released from restrictions	<u>(247,422)</u>	<u>(251,178)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>692,578</u>	<u>2,422</u>
TOTAL INCREASE IN NET ASSETS	86,414	524,620
NET ASSETS AT BEGINNING OF YEAR	<u>1,999,090</u>	<u>1,474,470</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,085,504</u>	<u>\$ 1,999,090</u>

See notes to financial statements.

THE BECKET FUND
 STATEMENTS OF CASH FLOW
 Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 86,414	\$ 524,620
Adjustments to reconcile increase in net assets to net cash (used) provided by operating activities		
Depreciation and amortization of property and equipment	39,901	25,910
Increase in allowance for doubtful pledges accounts receivable	10,000	-
Gain on disposal of property and equipment	(200)	(1,062)
Changes in operating assets and liabilities		
Accounts receivable	-	10,650
Prepaid expenses and other assets	11,386	59,026
Pledges receivable	(800,000)	45,000
Deposits	6,644	42,309
Accounts payable and accrued expenses	320,635	45,462
Accrued compensation and related liabilities	(13,774)	(20,542)
Unearned grant revenue	(19,966)	41,569
Deferred rent incentive	<u>70,578</u>	<u>311,504</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(288,382)	1,084,446
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in restricted cash	19,966	(41,569)
Purchase of property and equipment	(251,072)	(65,228)
Proceeds from the sale of property and equipment	<u>200</u>	<u>1,695</u>
NET CASH USED BY INVESTING ACTIVITIES	(230,906)	(105,102)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(2,423)	(2,221)
Proceeds from long-term debt	123,661	-
Principal payments on long-term debt	<u>(36,497)</u>	<u>(26,811)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>84,741</u>	<u>(29,032)</u>
NET (DECREASE) INCREASE IN CASH	(434,547)	950,312
CASH AT BEGINNING OF THE YEAR	<u>2,386,713</u>	<u>1,436,401</u>
CASH AT END OF YEAR	<u>\$ 1,952,166</u>	<u>\$ 2,386,713</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 3,724	\$ 1,783

See notes to financial statements.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE 1 - ORGANIZATION

The Becket Fund for Religious Liberty is a non-profit, public interest law firm that protects the free expression of all religions. Becket exists to vindicate a simple but frequently neglected principle: that because the religious impulse is natural to human beings, religious expression is natural to human culture. As a public interest law firm, Becket represents its clients free of charge (pro-bono) and takes on cases to challenge federal, state, and local violations against the first Amendment right to free expression. Since its founding in 1993, it has been the leading firm in defending the rights of people from "A to Z," from Anglicans to Zoroastrians. Past and current clients include Buddhists, Christians, Hindus, Jews, Muslims, Sikhs, Native Americans and Zoroastrians. Becket has obtained kosher food for Jewish prisoners in Texas, made it possible for a mosque to open in Tennessee, kept a Sikh boy from getting kicked out of high school for wearing a kirpan, protected a Christian family-owned pharmacy from being forced to sell drugs that violated their religious beliefs, and protected the rights of a New York Amish community to build their houses according to their faith.

Becket supporters represent a myriad of religions, but they all share a common vision of a world where religious liberty is respected as a fundamental human right that all are entitled to enjoy and exercise. Its support comes from charitable contributions and grants from individuals and foundations of diverse faith traditions and backgrounds. It is internationally recognized as a leading public interest law firm by the elite media, religious leaders, academics and legal professionals.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Fund maintains its accounting records on the accrual basis of accounting.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect certain reported amounts and disclosures. Accordingly, actual results differ from those estimates.

Basis of Presentation: In accordance with the *Not-For-Profit Entities-Presentation of Financial Statements* sub topic of the FASB Accounting Standards Codification, the Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets are the net assets that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued):

removed by actions of the Fund pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specific purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Fund's actions. The Fund has no permanently restricted net assets at September 30, 2016 and 2015.

Contributions: Contributions are accounted for in accordance with the *Not-For-Profit Entities - Revenue Recognition* topic of the FASB Accounting Standards Codification. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Grant for Services: Revenue from grants for services is recognized as allowable costs under the grant are incurred.

Cash: Cash consists of checking accounts and petty cash.

Financial and Credit Risk: The Fund maintains cash in bank deposit accounts, which at times may exceed Federally insured limits. The Fund has not experienced any losses in such accounts. The Fund believes it is not exposed to any significant credit risk on cash.

The Fund is a not-for-profit, nonpartisan and ecumenical public interest law firm. The Fund's clients are located throughout the United States. The Fund performs ongoing credit evaluation of its clients and requires no collateral against accounts receivable. The Fund has had minimal credit losses on its accounts receivable.

Accounts Receivable: Accounts receivable for fees, reimbursable expenses and awards are reported on the statements of financial position at the outstanding principal balance adjusted for any write-offs. Accounts receivable are considered past due based on contractual payment terms. Uncollectible accounts receivable are written off when it is finally determined they are uncollectible.

Pledges: Unconditional pledges are recognized as revenues in the period received. Conditional pledges are recognized only when the condition on which they depend are substantially met and the pledges become unconditional. Pledges receivable are reported in the statements of financial position at the outstanding pledge balance adjusted for any write-offs and an allowance for

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges (Continued):

uncollectible pledges, if applicable. Pledges anticipated to be received beyond one year are discounted to their net present value at a risk adjusted rate.

Property, Plant and Equipment: Property, plant and equipment of the Fund are recorded at cost. The cost of disposed assets is removed from the respective fixed asset and accumulated depreciation and amortization accounts. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from three to five years. Leasehold improvements generally are amortized over the shorter of the term of the related lease or the estimated useful life of the improvement. The Fund's policy is to capitalize all purchases of property and equipment in excess of \$500.

Functional Allocation of Expenses: The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: The Fund is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. As of September 30, 2016, the federal and state statute of limitations remains open for the 2013 through the 2016 tax years.

Reclassification

Certain balances at September 30, 2015 have been reclassified to conform to the September 30, 2016 presentation.

Subsequent Events: In preparing these financial statements, management has evaluated events and transactions that occurred after the statement of financial position date for potential recognition or disclosure through April 20, 2017, the date the financial statements were available to be issued. See Note 6.

NOTE 3 - RESTRICTED CASH AND UNEARNED GRANT REVENUE

Restricted cash consists of a bank account opened for funds received relating to a grant for the Religious Liberty Clinic at Stanford University Law School.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at September 30, 2016 are unconditional. Pledges receivable due twelve months or more after the statement of financial position date are discounted at 2% per annum. There were no pledges receivable at September 30, 2015.

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - PLEDGES RECEIVABLE (CONTINUED)

Unconditional pledges receivable as of September 30, 2016 are as follows:

Receivable in less than one year	\$550,000
Receivable in one to five years	<u>250,000</u>
Total pledges receivable	800,000
Less discount to net present value	<u>(10,000)</u>
Net unconditional pledges receivable	<u>\$790,000</u>

No allowance for doubtful pledges is considered necessary at September 30, 2016.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, net at September 30, 2016 and 2015 consists of:

	<u>2016</u>	<u>2015</u>
Computers and equipment	\$100,896	\$101,026
Furniture	84,935	8,137
Website and server	124,300	39,973
Artwork	15,500	12,500
Software	10,848	10,848
Leasehold improvements	72,369	-
Less accumulated depreciation and amortization	<u>(118,165)</u>	<u>(92,972)</u>
Total	<u>\$290,683</u>	<u>\$79,512</u>

As of September 30, 2016 and 2015, the Fund leased a copier under a long-term capital lease. Property and equipment includes the following amount for a lease that has been capitalized at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equipment	\$12,399	\$12,399
Less accumulated depreciation	<u>(7,872)</u>	<u>(5,510)</u>
	<u>\$4,527</u>	<u>\$6,889</u>

Depreciation of these assets, computed by the straight-line method over the useful lives of the assets, is included in depreciation and amortization expense.

NOTE 6 - LINE OF CREDIT

The Fund had a \$250,000 line of credit available from Eagle Bank with a maturity date of November 3, 2016. Interest is payable monthly at the daily prime rate as published by the Wall Street Journal, plus 1% subject to a floor of 4.75% (4.75% at September 30, 2016). The line of

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LINE OF CREDIT (CONTINUED)

credit is collateralized by substantially all the assets of the Fund. On November 15, 2016, the line of credit was extended to February 3, 2017. As of April 20, 2017, management is in the process of further extending the line of credit. The line of credit contains certain financial and nonfinancial covenants. The line of credit was not drawn on in 2016 or 2015.

NOTE 7 - LONG-TERM DEBT

During the year ended September 30, 2016, the Fund entered into a three year loan with Susquehanna Commercial Finance, Inc. for the purchase of property and leasehold improvements. Monthly payments on the loan are \$3,904 due from April 2016 through March 2019 with interest of 9.267%. The amount outstanding on this loan at September 30, 2016 was \$103,051.

The Fund had a five year term loan from Eagle Bank for \$125,000. Annual interest was fixed at 5% with monthly interest and principal payments of \$2,363 due from April 2012 through April 2016. The loan was collateralized by all of the assets of the Fund. The amount outstanding on this loan at September 30, 2016 and 2015 was \$0 and \$15,887, respectively.

Interest expense on the loans for the years ended September 30, 2016 and 2015 amounted to \$3,321 and \$1,434, respectively.

Future minimum principal payments of long-term debt as of September 30, 2016 are as follows:

<u>Year ending September 30,</u>	
2017	\$38,812
2018	42,565
2019	<u>21,674</u>
	<u>\$103,051</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2016 and 2015 are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$740,000	\$ -
Messaging Campaign	-	<u>47,422</u>
	<u>\$740,000</u>	<u>\$47,422</u>

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - EMPLOYEE BENEFITS

The Fund has a 401(k) plan, which covers employees who meet the eligibility requirements and who elect to participate. Up to December 31, 2015, all contributions to the Plan were paid by the employees. Under terms of the plan, eligible employees may defer a portion of their compensation, which is then contributed to the plan. Effective January 2016, the Fund began matching three percent of participant's base salary in the Plan. For the year ended September 30, 2016, the total expense for the 401(k) Plan is \$60,263. The Fund also has a flexible benefits plan for employees.

NOTE 10 - MAJOR CONTRIBUTORS AND CONTRIBUTIONS

Approximately 23% of unrestricted and restricted support and revenue for the year ended September 30, 2016 was provided by one donor. Approximately 30% of unrestricted and restricted support and revenue for the year ended September 30, 2015 was provided by two donors. The Fund's annual dinner raised approximately 9% of total unrestricted and restricted support and revenue for the years ended September 30, 2016 and 2015.

NOTE 11 - RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Contributions from Board members	\$715,762	\$599,739

Balances due from related parties at September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable from Board members	\$225,000	\$ -

NOTE 12 - LEASE AND OTHER COMMITMENTS

The Fund leases office space in Washington, D.C., Mount Pleasant, South Carolina, and Salt Lake City, Utah under operating leases that end December 31, 2020, August 31, 2017 and August 31, 2019, respectively. The Fund also leases a copier under a lease agreement which is accounted for as a capital lease.

Future minimum lease payments on the Fund's leases at September 30, 2016 are as follows:

<u>Year ending September 30:</u>	<u>Capital</u>	<u>Operating</u>	<u>Total</u>
2017	\$2,690	\$522,267	\$524,957
2018	2,468	536,009	538,477

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - LEASE AND OTHER COMMITMENTS (CONTINUED)

2019	-	549,198	549,199
2020	-	573,949	573,949
2021	-	<u>149,939</u>	<u>149,938</u>
	<u>5,158</u>	<u>\$2,331,362</u>	<u>\$2,336,520</u>
Less amount representing interest	<u>(251)</u>		
	<u>\$4,907</u>		

Rent expense was \$477,549 and \$559,304 for the years ended September 30, 2016 and 2015, respectively.

The Fund entered into an agreement with a hotel for the 2017 Canterbury Medal Gala. If the Fund withdraws from the agreement, it may be required to pay a cancellation fee of approximately \$171,000. Cancellation of the agreement is not expected to occur.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - FUNCTIONAL EXPENSES

The functional allocation of expenses for the year ended September 30, 2016 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 3,145,160	\$ 205,555	\$ 252,574	\$ 3,603,289
Books and subscriptions	62,595	4,091	5,027	71,713
Conferences and events	52,403	-	293,690	346,093
Depreciation and amortization	34,829	2,276	2,796	39,901
Dues, fees and seminars	25,009	1,635	2,008	28,652
Legal liability insurance	38,877	-	-	38,877
Other insurance	14,511	948	1,165	16,624
Interest	-	3,790	-	3,790
Litigation	49,919	-	-	49,919
Travel and related	249,985	16,338	20,075	286,398
Office expenses	150,522	9,838	12,087	172,447
Printing and reproduction	24,723	1,616	1,985	28,324
Professional fees	394,991	78,547	7,000	480,538
Information technology	-	65,820	-	65,820
Public relations	206,448	-	-	206,448
Subcontractor expense	288,936	-	-	288,936
Rent	416,832	27,243	33,474	477,549
Postage and delivery	16,370	1,070	1,315	18,755
Communications	56,439	2,811	3,454	62,704
Donations	73,077	-	-	73,077
Becket Institute	5,124	-	-	5,124
	<u>\$ 5,306,750</u>	<u>\$ 421,578</u>	<u>\$ 636,650</u>	<u>\$ 6,364,978</u>

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - FUNCTIONAL EXPENSES (CONTINUED)

The functional allocation of expenses for the year ended September 30, 2015 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 2,691,314	\$ 178,911	\$ 223,128	\$ 3,093,353
Books and subscriptions	26,362	1,752	2,186	30,300
Conferences and events	39,016	-	177,894	216,910
Depreciation	22,542	1,499	1,869	25,910
Dues, fees and seminars	31,789	2,113	2,636	36,538
Legal liability insurance	22,927	-	-	22,927
Other insurance	8,583	570	711	9,864
Interest	-	1,895	-	1,895
Litigation	11,525	-	-	11,525
Travel and related	182,017	12,100	15,090	209,207
Office expenses	99,935	6,644	8,286	114,865
Printing and reproduction	86,559	5,754	7,176	99,489
Professional fees	149,614	80,594	12,476	242,684
Information technology	-	55,222	-	55,222
Public relations	157,002	-	-	157,002
Subcontractor expense	988,457	34,405	-	1,022,862
Rent	486,613	32,348	40,343	559,304
Postage and delivery	16,202	1,077	1,343	18,622
Communications	74,691	4,965	6,192	85,848
Donations	24,810	-	-	24,810
Becket Institute	10,247	-	-	10,247
	<u>\$ 5,130,205</u>	<u>\$ 419,849</u>	<u>\$ 499,330</u>	<u>\$ 6,049,384</u>

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - PRIOR YEAR ADJUSTMENT

Unrestricted net assets and temporarily restricted net assets at September 30, 2015 were restated to record a \$162,738 liability related to the Stanford University Law Program. The effect of this prior year adjustment on the accompanying financial statements as of September 30, 2015 is summarized as follows:

	<u>As previously reported</u>	<u>Prior year adjustment</u>	<u>As restated</u>
Statement of Financial Position as of September 30, 2015			
Liabilities			
Accounts payable	\$117,983	\$162,738	\$280,721
Net assets			
Unrestricted	\$2,114,406	\$(162,738)	\$1,951,668
Statement of Activities for the year ended September 30, 2015			
Increase in net assets			
Unrestricted	\$684,936	\$(162,738)	\$522,198