

THE BECKET FUND
AUDITED
FINANCIAL STATEMENTS

Years Ended September 30, 2014 and 2013

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Becket Fund

We have audited the accompanying financial statements of The Becket Fund (the "Fund") which comprise the statements of financial position as of September 30, 2014 and 2013, 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.

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 of 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.

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, 2014 and 2013, 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.

Hugh & Company, P.C.

McLean, Virginia
January 23, 2015

THE BECKET FUND
 STATEMENTS OF FINANCIAL POSITION
 September 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,436,401	\$ 1,016,093
Restricted cash	167,877	50,004
Accounts receivable	10,650	64,974
Prepaid expenses and other current assets	188,126	127,466
Pledges receivable	45,000	175,000
Property and equipment, net	40,827	38,095
Deposits	<u>88,325</u>	<u>49,959</u>
TOTAL ASSETS	<u>\$ 1,977,206</u>	<u>\$ 1,521,591</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 235,259	\$ 325,798
Accrued compensation and related liabilities	38,217	35,302
Capital lease	9,551	11,705
Unearned grant revenue	167,877	50,004
Deferred rent incentive	9,134	42,044
Long-term debt	<u>42,698</u>	<u>68,188</u>
TOTAL LIABILITIES	502,736	533,041
NET ASSETS		
Unrestricted	1,429,470	813,550
Temporarily restricted	<u>45,000</u>	<u>175,000</u>
TOTAL NET ASSETS	<u>1,474,470</u>	<u>988,550</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,977,206</u>	<u>\$ 1,521,591</u>

See notes to financial statements.

THE BECKET FUND
 STATEMENTS OF ACTIVITIES
 Years ended September 30, 2014 and 2013

CHANGES IN UNRESTRICTED NET ASSETS	<u>2014</u>	<u>2013</u>
SUPPORT AND REVENUE		
Contributions and grants	\$ 4,285,404	\$ 3,500,584
Canterbury medal dinner	530,136	576,330
Legal fees	10,650	67,587
Grant for services	462,000	437,300
Reimbursed litigation expenses	5,815	7,056
Miscellaneous income (loss)	<u>20,495</u>	<u>(29,550)</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	5,314,500	4,559,307
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of donation restrictions	<u>175,000</u>	<u>935,490</u>
TOTAL UNRESTRICTED REVENUE, SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	5,489,500	5,494,797
EXPENSES		
Program services	3,904,171	4,217,439
Supporting services		
General and administrative	363,930	352,712
Fundraising	<u>605,479</u>	<u>434,561</u>
TOTAL EXPENSES	<u>4,873,580</u>	<u>5,004,712</u>
INCREASE IN UNRESTRICTED NET ASSETS	615,920	490,085
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	45,000	525,490
Net assets released from restrictions	<u>(175,000)</u>	<u>(935,490)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(130,000)</u>	<u>(410,000)</u>
TOTAL INCREASE IN NET ASSETS	485,920	80,085
NET ASSETS AT BEGINNING OF YEAR	<u>988,550</u>	<u>908,465</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,474,470</u>	<u>\$ 988,550</u>

See notes to financial statements.

THE BECKET FUND
 STATEMENTS OF CASH FLOW
 Years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 485,920	\$ 80,085
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	19,462	28,461
Loss on disposal of property and equipment	1,516	-
Changes in operating assets and liabilities		
Accounts receivable	54,324	(57,042)
Prepaid expenses and other current assets	(60,660)	(44,684)
Pledges receivable	130,000	160,000
Deposits	(38,366)	(6,250)
Accounts payable and accrued expenses	(90,539)	148,178
Accrued compensation and related liabilities	2,915	4,117
Unearned grant revenue	117,873	(254,009)
Deferred rent incentive	(32,910)	(25,392)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>589,535</u>	<u>33,464</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in restricted cash	(117,873)	254,009
Purchase of property and equipment	(23,710)	(15,471)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(141,583)</u>	<u>238,538</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(2,154)	(695)
Principal payments on long-term debt	(25,490)	(24,231)
NET CASH USED BY FINANCING ACTIVITIES	<u>(27,644)</u>	<u>(24,926)</u>
NET INCREASE IN CASH	420,308	247,076
CASH AT BEGINNING OF THE YEAR	<u>1,016,093</u>	<u>769,017</u>
CASH AT END OF YEAR	<u>\$ 1,436,401</u>	<u>\$ 1,016,093</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 3,810	\$ 4,501
Non cash financing activity:		
Equipment acquired under capital leases	\$ -	\$ 12,399

See notes to financial statements.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2014 and 2013

NOTE 1 - ORGANIZATION

The Becket Fund for Religious Liberty is a not-for-profit, nonpartisan organization, dedicated to protecting the free expression of all religions. As a public interest law firm, the Becket Fund takes on cases to challenge federal, state, and local violations against the First Amendment right to free expression. Since our founding in 1993, we have been the leading firm in defending religious liberty, representing individuals and organizations of all faith traditions, including Buddhists, Christians, Hindus, Jews, Muslims, Sikhs, Zoroastrians, and others. The Becket Fund 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, allowed a Christian family-owned pharmacy to avoid selling drugs prohibited by their religion, and protected the rights of a New York Amish community to build their houses according to their faith.

The Becket Fund's support comes from contributions and grants from individuals and foundations of diverse faith traditions and backgrounds. We are internationally recognized as a leading public interest firm by media sources, religious leaders, 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 net assets and permanently restricted net assets.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued):

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 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, 2014 and 2013.

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 statement 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 and Cash Equivalents: Cash and cash equivalents consist 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.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. No allowance for doubtful accounts is considered necessary at September 30, 2014 and 2013.

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 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 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, 2014, the federal and state statute of limitations remains open for the 2011 through the 2014 tax years.

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 January 23, 2015, the date the financial statements were available to be issued. None were noted.

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 Freedom Clinic at Stanford University Law School.

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at September 30, 2014 and 2013 are unconditional and are receivable in less than one year.

No allowance for doubtful pledges is considered necessary at September 30, 2014 and 2013.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, net at September 30, 2014 and 2013 consists of:

	<u>2014</u>	<u>2013</u>
Computers and equipment	\$82,683	\$92,543
Furniture	26,865	32,439
Website	26,801	44,051
Artwork	12,500	12,500
Software	10,848	46,592
Leasehold improvements	9,633	9,633
Less accumulated depreciation and amortization	<u>(128,503)</u>	<u>(199,663)</u>
Total	<u>\$40,827</u>	<u>\$38,095</u>

As of September 30, 2014, the Fund leases 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, 2014:

	<u>2014</u>
Equipment	\$12,399
Less accumulated depreciation	<u>(3,149)</u>
	<u>\$9,250</u>

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

NOTE 6 - BORROWINGS UNDER LINE OF CREDIT

The Fund has a \$75,000 line of credit available from Eagle Bank. Interest is payable monthly at the daily prime rate as published in the Wall Street Journal, plus 1% subject to a floor of 4.75%. The line is collateralized by substantially all of the assets of the Fund. The line was not drawn on in 2014 or 2013.

In connection with the line, the Fund is required to comply with certain financial and nonfinancial covenants. At September 30, 2014, the Fund believes it is in compliance with the covenants.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM DEBT

The Fund has a five year term loan from Eagle Bank for \$125,000. Interest is fixed at 5% with monthly interest and principal payments of \$2,363 due from April 2012 through April 2016. The loan is collateralized by all of the assets of the Fund.

The amount outstanding at September 30, 2014 and 2013 was \$42,698 and \$68,188, respectively.

In connection with the loan, the Fund is required to comply with certain financial and nonfinancial covenants. At September 30, 2014, the Fund believes it is in compliance with the covenants.

Interest expense on the loan for the years ended September 30, 2014 and 2013 amounted to \$2,761 and \$4,025, respectively.

Future minimum principal payments of long-term debt are as follows:

<u>Year ending September 30,</u>	
2015	\$26,837
2016	<u>15,861</u>
	<u>\$42,698</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2014 and 2013 are a result of pledges receivable and are restricted for use in a future period.

NOTE 9 - EMPLOYEE BENEFITS

The Fund has a 401(k) plan, which covers full-time employees who meet the eligibility requirements and who elect to participate. All contributions to the plan are 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. The Fund also has a flexible benefits plan for employees.

NOTE 10 - MAJOR CONTRIBUTORS AND CONTRIBUTIONS

Approximately 39% of unrestricted and restricted support and revenue for the year ended September 30, 2014 was provided by two religiously affiliated organizations. Approximately 22% of unrestricted and restricted support and revenue for the year ended September 30, 2013 was provided by a religiously affiliated organization. The Fund's annual dinner raised approximately 10% and 11% of total unrestricted and restricted support and revenue for the years ended September 30, 2014 and 2013, respectively.

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Contributions from Board members	\$202,114	\$593,969

Pledges receivable from Board members at September 30, 2014 and 2013 are \$0 and \$100,000, respectively.

NOTE 12 - LEASE COMMITMENTS AND RENT EXPENSE

The Fund leases office space in Washington, D.C. and Salt Lake City, Utah under operating leases that end December 31, 2014 and August 31, 2016, respectively. In May 2014, the Fund entered into a new lease in Washington, D.C. effective October 1, 2014 which ends December 31, 2020. The Fund 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, 2014 are as follows:

<u>Year ending September 30:</u>	<u>Capital lease</u>	<u>Operating leases</u>	<u>Total</u>
2015	\$2,690	\$279,783	\$282,473
2016	2,690	388,515	391,205
2017	2,690	502,865	505,555
2018	2,468	525,504	527,972
2019	-	549,199	549,199
2020-2021	-	<u>723,887</u>	<u>723,887</u>
	<u>10,538</u>	<u>\$2,969,753</u>	2,980,291
Less amount representing interest	<u>(987)</u>		<u>(987)</u>
	<u>\$9,551</u>		<u>\$2,979,304</u>

Rent expense was \$306,876 and \$277,338 for the years ended September 30, 2014 and 2013, respectively.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - FUNCTIONAL EXPENSES

The functional allocation of expenses for the year ended September 30, 2014 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 2,410,801	\$ 134,568	\$ 317,419	\$ 2,862,788
Books and subscriptions	22,114	1,234	2,912	26,260
Conferences and events	139,508	343	192,623	332,474
Depreciation	16,389	915	2,158	19,462
Dues, fees and seminars	39,316	2,195	5,177	46,688
Legal liability insurance	21,545	-	-	21,545
Other insurance	5,817	325	766	6,908
Interest	-	3,916	-	3,916
Litigation	11,213	-	-	11,213
Travel and related	110,775	6,184	14,585	131,544
Office expenses	47,947	2,676	6,313	56,936
Printing and reproduction	46,980	2,622	6,186	55,788
Professional fees	81,060	103,794	10,164	195,018
Information technology	-	65,334	-	65,334
Public relations	94,933	-	-	94,933
Subcontractor expense	537,204	22,383	-	559,587
Rent	258,425	14,425	34,026	306,876
Postage and delivery	19,309	1,078	2,542	22,929
Communications	34,711	1,938	4,570	41,219
Direct mail - Campaign expenses	-	-	6,038	6,038
Donations	1,000	-	-	1,000
Becket Institute	5,124	-	-	5,124
	<u>\$ 3,904,171</u>	<u>\$ 363,930</u>	<u>\$ 605,479</u>	<u>\$ 4,873,580</u>

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - FUNCTIONAL EXPENSES

The functional allocation of expenses for the year ended September 30, 2013 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 2,504,327	\$ 145,270	\$ 199,119	\$ 2,848,716
Books and subscriptions	26,056	1,511	2,072	29,639
Conferences and events	156,791	3,266	166,590	326,647
Depreciation	25,021	1,451	1,989	28,461
Dues, fees and seminars	53,800	3,121	4,277	61,198
Legal liability insurance	15,582	-	-	15,582
Other insurance	10,395	603	827	11,825
Interest	-	4,602	-	4,602
Litigation	6,678	-	-	6,678
Travel and related	218,215	12,658	17,350	248,223
Office expenses	46,275	3,091	3,679	53,045
Printing and reproduction	73,491	4,263	5,843	83,597
Professional fees	85,500	71,579	6,656	163,735
Information technology	-	58,677	-	58,677
Public relations	140,749	-	-	140,749
Subcontractor expense	518,264	21,594	-	539,858
Rent	243,809	14,143	19,386	277,338
Postage and delivery	27,128	1,574	2,157	30,859
Communications	58,066	3,368	4,616	66,050
Donations	7,292	-	-	7,292
Unusual expense	-	1,941	-	1,941
	<u>\$ 4,217,439</u>	<u>\$ 352,712</u>	<u>\$ 434,561</u>	<u>\$ 5,004,712</u>