

THE BECKET FUND  
AUDITED  
FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

# HOZIK & COMPANY, P.L.C.

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Becket Fund

We have audited the accompanying financial statements of The Becket Fund ("Becket") (a nonprofit organization) which comprise the statements of financial position as of September 30, 2018 and 2017, 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, 2018 and 2017, 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.

*Hezlik & Company, P.L.C.*

Vienna, Virginia  
January 14, 2019

THE BECKET FUND  
STATEMENTS OF FINANCIAL POSITION  
September 30, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Cash	\$ 1,340,328	\$ 1,273,967
Prepaid expenses and other assets	148,643	316,200
Accounts receivable	550,000	-
Pledges receivable, net of allowance for discount of \$1,371 and \$5,000 as of September 30, 2018 and 2017, respectively	1,003,629	942,473
Grant receivable	-	95,419
Property and equipment, net	229,555	331,028
Deposits	39,372	39,372
TOTAL ASSETS	<u>\$ 3,311,527</u>	<u>\$ 2,998,459</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 112,269	\$ 298,038
Capital lease	11,703	2,405
Deferred rent incentive	261,783	337,819
Long-term debt	20,610	61,831
TOTAL LIABILITIES	<u>406,365</u>	<u>700,093</u>
NET ASSETS		
Unrestricted	1,751,533	1,222,698
Temporarily restricted	1,153,629	1,075,668
TOTAL NET ASSETS	<u>2,905,162</u>	<u>2,298,366</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,311,527</u>	<u>\$ 2,998,459</u>

See notes to financial statements.

THE BECKET FUND  
 STATEMENTS OF ACTIVITIES  
 Years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions and grants	\$ 4,254,525	\$ 3,063,093
Canterbury Medal Gala	897,270	650,150
Less: costs of direct benefit to donors	<u>(197,905)</u>	<u>(179,293)</u>
	699,365	470,857
Legal fees and awards	688,500	247,724
Grant for services	244,579	284,898
Reimbursed litigation expenses	-	1,000
Miscellaneous income (loss)	<u>15,007</u>	<u>(4,934)</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	5,901,976	4,062,638
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of donation restrictions	<u>1,215,668</u>	<u>2,538,205</u>
TOTAL UNRESTRICTED REVENUE, SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	7,117,644	6,600,843
EXPENSES		
Program services	5,522,722	5,776,479
Supporting services		
General and administrative	382,164	349,179
Fundraising	<u>683,923</u>	<u>597,991</u>
TOTAL EXPENSES	<u>6,588,809</u>	<u>6,723,649</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	528,835	(122,806)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,293,629	2,873,873
Net assets released from restrictions	<u>(1,215,668)</u>	<u>(2,538,205)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>77,961</u>	<u>335,668</u>
TOTAL INCREASE IN NET ASSETS	606,796	212,862
NET ASSETS AT BEGINNING OF YEAR	<u>2,298,366</u>	<u>2,085,504</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,905,162</u>	<u>\$ 2,298,366</u>

See notes to financial statements.

THE BECKET FUND  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Increase in net assets	\$ 606,796	\$ 212,862
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation and amortization of property and equipment	134,782	87,959
Decrease in discount on pledges receivable	(3,629)	(5,000)
(Gain) loss on disposal of property and equipment	(344)	5,278
Changes in operating assets and liabilities		
Prepaid expenses and other assets	167,557	(198,486)
Accounts receivable	(550,000)	-
Pledges receivable	(57,527)	(147,473)
Grant receivable	95,419	(95,419)
Accounts payable and accrued expenses	(185,769)	(303,318)
Accrued compensation and related liabilities	-	(3,901)
Unearned grant revenue	-	(189,480)
Deferred rent incentive	<u>(76,036)</u>	<u>(53,397)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	131,249	(690,375)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash	-	189,480
Purchase of property and equipment	(20,753)	(134,032)
Proceeds from the sale of property and equipment	<u>-</u>	<u>450</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(20,753)	55,898
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital leases	(2,914)	(2,502)
Principal payments on long-term debt	<u>(41,221)</u>	<u>(41,220)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(44,135)</u>	<u>(43,722)</u>
 NET INCREASE (DECREASE) IN CASH	66,361	(678,199)
CASH AT BEGINNING OF THE YEAR	<u>1,273,967</u>	<u>1,952,166</u>
CASH AT END OF YEAR	<u>\$ 1,340,328</u>	<u>\$ 1,273,967</u>
 SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 5,754	\$ 4,876
Non cash financing transactions:		
Equipment acquired under capital lease	\$ 13,540	\$ -

See notes to financial statements.

THE BECKET FUND  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

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.

Becket’s major sources of revenue are contributions, grants, and annual gala.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Becket 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, Becket 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-

THE BECKET FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued):

imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Becket 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 Becket's actions. Becket has no permanently restricted net assets at September 30, 2018 and 2017.

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. During the year ended September 30, 2018 the grant was completed and all grant funds were received. At September 30, 2017, Becket had incurred costs under the grant in excess of grant funds received during the year and therefore recorded a grant receivable of \$95,419 at year end.

Cash: Cash consists of checking accounts and petty cash.

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

Becket is a not-for-profit, nonpartisan public interest law firm. Becket's clients are located throughout the United States. Becket performs ongoing credit evaluation of its clients and requires no collateral against accounts receivable. Becket 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. No allowance was considered necessary at September 30, 2018.



THE BECKET FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and Equipment: Property and equipment of Becket are recorded at cost. The cost of disposed assets is removed from the respective fixed asset and accumulated depreciation and amortization accounts. Leasehold improvements are amortized over the shorter of the term of the related lease or the estimated useful life of the improvement. Depreciation and amortization of all other property and equipment is calculated using the straight-line method over the estimated useful lives of the related assets ranging from three to ten years. Becket'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: Becket 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, 2018, the federal and state statute of limitations remains open for the 2015 through the 2018 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 14, 2019, the date the financial statements were available to be issued. None were noted.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable at September 30, 2018 and 2017 are unconditional. Pledges receivable due twelve months or more after the statement of financial position date are discounted at 2% per annum.

Unconditional pledges receivable as of September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$855,000	\$780,806
Receivable in one to five years	<u>150,000</u>	<u>166,667</u>
Total pledges receivable	1,005,000	947,473
Less discount to net present value	<u>(1,371)</u>	<u>(5,000)</u>
Net unconditional pledges receivable	<u>\$1,003,629</u>	<u>\$942,473</u>

THE BECKET FUND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - PLEDGES RECEIVABLE (CONTINUED)

No allowance for doubtful pledges is considered necessary at September 30, 2018 and 2017.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment, net at September 30, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$118,899	\$105,804
Furniture	100,193	99,434
Website and server	222,112	214,072
Artwork	15,500	15,500
Software	10,848	10,848
Leasehold improvements	81,334	81,334
Less accumulated depreciation and amortization	<u>(319,331)</u>	<u>(195,964)</u>
Total	<u>\$229,555</u>	<u>\$331,028</u>

As of September 30, 2018 and 2017, Becket 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Equipment	\$13,539	\$12,399
Less accumulated depreciation	<u>(2,632)</u>	<u>(10,234)</u>
	<u>\$10,907</u>	<u>\$2,165</u>

Amortization of this asset, computed by the straight-line method over the useful life of the asset, is included in depreciation and amortization expense.

NOTE 5 - LONG-TERM DEBT AND INTEREST EXPENSE

During the year ended September 30, 2016, Becket 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, 2018 and 2017 was \$20,610 and \$61,831, respectively. The loan is collateralized by the property and leasehold improvements that were financed.

Interest expense on the loan and capital leases for the years ended September 30, 2018 and 2017 amounted to \$5,754 and \$5,345, respectively.

Future minimum principal payments of long-term debt as of September 30, 2018 are as follows:

THE BECKET FUND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - LONG-TERM DEBT (CONTINUED)

<u>Year ending September 30,</u> 2019	<u>\$20,610</u>
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NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 and 2017 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$1,003,629	\$917,473
Murdock Trust New Staff	150,000	-
New Civil Liberties Alliance	-	111,189
Harvard/Stanford	-	<u>47,006</u>
	<u>\$1,153,629</u>	<u>\$1,075,668</u>

NOTE 7 - EMPLOYEE BENEFITS

Becket has a 401(k) plan, which covers employees who meet the eligibility requirements and who elect to participate. Under terms of the plan, eligible employees may defer a portion of their compensation, which is then contributed to the plan. Effective January 2016, Becket began matching three percent of participant's base salary in the Plan. For the years ended September 30, 2018 and 2017, the total expense for the 401(k) Plan is \$81,926 and \$89,264, respectively. Becket also has a flexible benefits plan for employees.

NOTE 8 - MAJOR CONTRIBUTORS AND CONTRIBUTIONS

Approximately 17% and 22% of unrestricted and restricted support and revenue for the years ended September 30, 2018 and 2017 was provided by one donor, respectively. Becket's annual gala raised approximately 12% and 9% of total unrestricted and restricted support and revenue for the years ended September 30, 2018 and 2017, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Contributions from Board members	\$1,443,111	\$568,798

Balances due from related parties at September 30, 2018 and 2017 are as follows:

THE BECKET FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

	<u>2018</u>	<u>2017</u>
Pledges receivable from Board members	\$500,000	\$275,000

NOTE 10 - LEASE AND OTHER COMMITMENTS

Becket 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, 2019 and August 31, 2019, respectively. Becket also leases a copier under a capital lease that expires May 2023.

Future minimum lease payments on Becket's leases at September 30, 2018 are as follows:

<u>Year ending September 30:</u>	Capital <u>lease</u>	Operating <u>leases</u>	<u>Total</u>
2019	\$2,862	\$568,228	\$571,090
2020	2,862	573,949	576,811
2021	2,862	149,939	152,801
2022	2,862	-	2,862
Thereafter	<u>1,908</u>	<u>-</u>	<u>1,908</u>
	13,356	<u>\$1,292,116</u>	<u>\$1,305,472</u>
Less amount representing interest	<u>(1,653)</u>		
	<u>\$11,703</u>		

Rent expense was \$470,329 and \$469,155 for the years ended September 30, 2018 and 2017, respectively.

Becket entered into an agreement with a hotel for the 2019 Canterbury Medal Gala. If Becket withdraws from the agreement, it may be required to pay a cancellation fee of approximately \$144,000. Cancellation of the agreement is not expected to occur.

THE BECKET FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - FUNCTIONAL EXPENSES

The functional allocation of expenses for the year ended September 30, 2018 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 3,587,314	\$ 204,849	\$ 351,395	\$ 4,143,558
Books and subscriptions	106,640	6,090	10,446	123,176
Conferences and events	-	-	225,137	225,137
Depreciation and amortization	116,689	6,663	11,430	134,782
Dues, fees and seminars	33,250	1,899	3,257	38,406
Legal liability insurance	46,173	-	-	46,173
Other insurance	16,735	956	1,639	19,330
Interest	-	5,754	-	5,754
Litigation	102,247	-	-	102,247
Travel and related	200,711	11,461	19,661	231,833
Office expenses	82,578	4,716	8,089	95,383
Printing and reproduction	17,249	985	1,690	19,924
Professional fees	242,421	54,848	9,377	306,646
Information technology	-	59,574	-	59,574
Public relations	124,252	-	-	124,252
Subcontractor expense	355,520	-	-	355,520
Rent	407,191	23,252	39,886	470,329
Postage and delivery	19,559	1,117	1,916	22,592
Communications	58,905	-	-	58,905
Donations	5,288	-	-	5,288
	<u>\$ 5,522,722</u>	<u>\$ 382,164</u>	<u>\$ 683,923</u>	<u>\$ 6,588,809</u>

THE BECKET FUND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - FUNCTIONAL EXPENSES (CONTINUED)

The functional allocation of expenses for the year ended September 30, 2017 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 3,584,995	\$ 154,421	\$ 293,835	\$ 4,033,251
Books and subscriptions	71,662	3,087	5,874	80,623
Conferences and events	13,053	2,380	203,310	218,743
Depreciation and amortization	78,003	3,360	6,393	87,756
Dues, fees and seminars	23,267	1,002	1,907	26,176
Legal liability insurance	37,254	-	-	37,254
Other insurance	18,091	779	1,483	20,353
Interest	-	5,345	-	5,345
Litigation	41,721	-	-	41,721
Travel and related	225,510	9,714	18,483	253,707
Office expenses	130,762	5,633	10,718	147,113
Printing and reproduction	22,660	976	1,857	25,493
Professional fees	334,195	83,023	19,002	436,220
Information technology	-	60,997	-	60,997
Public relations	207,611	-	-	207,611
Subcontractor expense	309,790	-	-	309,790
Rent	417,013	17,963	34,179	469,155
Postage and delivery	11,593	499	950	13,042
Communications	55,532	-	-	55,532
Donations	193,767	-	-	193,767
	<u>\$ 5,776,479</u>	<u>\$ 349,179</u>	<u>\$ 597,991</u>	<u>\$ 6,723,649</u>