

THE BECKET FUND
AUDITED
FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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 (the "Fund") (a nonprofit organization) which comprise the statements of financial position as of September 30, 2017 and 2016, 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, 2017 and 2016, 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
February 9, 2018

THE BECKET FUND
 STATEMENTS OF FINANCIAL POSITION
 September 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash	\$ 1,273,967	\$ 1,952,166
Restricted cash	-	189,480
Prepaid expenses and other assets	316,200	117,714
Pledges receivable, net of allowance of \$5,000 and \$10,000 as of September 30, 2017 and 2016, respectively	942,473	790,000
Grant receivable	95,419	-
Property and equipment, net	331,028	290,683
Deposits	<u>39,372</u>	<u>39,372</u>
TOTAL ASSETS	<u>\$ 2,998,459</u>	<u>\$ 3,379,415</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 298,038	\$ 601,356
Accrued compensation and related liabilities	-	3,901
Capital lease	2,405	4,907
Unearned grant revenue	-	189,480
Deferred rent incentive	337,819	391,216
Long-term debt	<u>61,831</u>	<u>103,051</u>
TOTAL LIABILITIES	700,093	1,293,911
NET ASSETS		
Unrestricted	1,222,698	1,345,504
Temporarily restricted	<u>1,075,668</u>	<u>740,000</u>
TOTAL NET ASSETS	<u>2,298,366</u>	<u>2,085,504</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,998,459</u>	<u>\$ 3,379,415</u>

See notes to financial statements.

THE BECKET FUND
STATEMENTS OF ACTIVITIES
Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions and grants	\$ 3,063,093	\$ 4,814,070
Canterbury Medal Gala	650,150	571,899
Less: costs of direct benefit to donors	<u>(179,293)</u>	<u>(152,400)</u>
	470,857	419,499
Legal fees and awards	247,724	-
Grant for services	284,898	274,966
Reimbursed litigation expenses	1,000	1,319
Miscellaneous income (loss)	<u>(4,934)</u>	<u>1,538</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	4,062,638	5,511,392
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of donation restrictions	<u>2,538,205</u>	<u>247,422</u>
TOTAL UNRESTRICTED REVENUE, SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	6,600,843	5,758,814
EXPENSES		
Program services	5,776,479	5,306,750
Supporting services		
General and administrative	349,179	421,578
Fundraising	<u>597,991</u>	<u>636,650</u>
TOTAL EXPENSES	<u>6,723,649</u>	<u>6,364,978</u>
DECREASE IN UNRESTRICTED NET ASSETS	(122,806)	(606,164)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,873,873	940,000
Net assets released from restrictions	<u>(2,538,205)</u>	<u>(247,422)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>335,668</u>	<u>692,578</u>
TOTAL INCREASE IN NET ASSETS	212,862	86,414
NET ASSETS AT BEGINNING OF YEAR	<u>2,085,504</u>	<u>1,999,090</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,298,366</u>	<u>\$ 2,085,504</u>

See notes to financial statements.

THE BECKET FUND
 STATEMENTS OF CASH FLOWS
 Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 212,862	\$ 86,414
Adjustments to reconcile increase in net assets to net cash used by operating activities		
Depreciation and amortization of property and equipment	87,959	39,901
(Decrease) increase in discount on pledges receivable	(5,000)	10,000
Loss (gain) on disposal of property and equipment	5,278	(200)
Changes in operating assets and liabilities		
Prepaid expenses and other assets	(198,486)	11,386
Pledges receivable	(147,473)	(800,000)
Grant receivable	(95,419)	-
Deposits	-	6,644
Accounts payable and accrued expenses	(303,318)	320,635
Accrued compensation and related liabilities	(3,901)	(13,774)
Unearned grant revenue	(189,480)	(19,966)
Deferred rent incentive	<u>(53,397)</u>	<u>70,578</u>
NET CASH USED BY OPERATING ACTIVITIES	(690,375)	(288,382)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash	189,480	19,966
Purchase of property and equipment	(134,032)	(251,072)
Proceeds from the sale of property and equipment	<u>450</u>	<u>200</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	55,898	(230,906)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(2,502)	(2,423)
Proceeds from long-term debt	-	123,661
Principal payments on long-term debt	<u>(41,220)</u>	<u>(36,497)</u>
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(43,722)	84,741
	NET DECREASE IN CASH	(678,199)
	CASH AT BEGINNING OF THE YEAR	1,952,166
	CASH AT END OF YEAR	\$ <u>1,273,967</u>
	\$ <u>1,952,166</u>	
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 4,876	\$ 3,724

See notes to financial statements.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

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, 2017 and 2016.

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. At September 30, 2017, the Fund 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. At September 30, 2016, the Fund had received grant funds in excess of costs incurred under the grant and therefore recorded unearned grant revenue of \$189,480 at year end.

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.

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, 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 ten 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, 2017, the federal and state statute of limitations remains open for the 2014 through the 2017 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 February 9, 2018, the date the financial statements were available to be issued. None were noted.

NOTE 3 - RESTRICTED CASH AND UNEARNED GRANT REVENUE

Restricted cash at September 30, 2016 consists of a bank account opened for funds received relating to a grant for the Religious Liberty Clinic at Stanford University Law School. At September 30, 2017, all funds received for the Religious Liberty Clinic have been spent and therefore, there was no restricted cash.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at September 30, 2017 and 2016 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, 2017 and 2016 are as follows:

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - PLEDGES RECEIVABLE (CONTINUED)

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$780,806	\$550,000
Receivable in one to five years	<u>166,667</u>	<u>250,000</u>
Total pledges receivable	947,473	800,000
Less discount to net present value	<u>(5,000)</u>	<u>(10,000)</u>
Net unconditional pledges receivable	<u>\$942,473</u>	<u>\$790,000</u>

No allowance for doubtful pledges is considered necessary at September 30, 2017 and 2016.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, net at September 30, 2017 and 2016 consists of:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$105,804	\$100,896
Furniture	99,434	84,935
Website and server	214,072	124,300
Artwork	15,500	15,500
Software	10,848	10,848
Leasehold improvements	81,334	72,369
Less accumulated depreciation and amortization	<u>(195,964)</u>	<u>(118,165)</u>
Total	<u>\$331,028</u>	<u>\$290,683</u>

As of September 30, 2017 and 2016, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Equipment	\$12,399	\$12,399
Less accumulated depreciation	<u>(10,234)</u>	<u>(7,872)</u>
	<u>\$2,165</u>	<u>\$4,527</u>

Amortization 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

At September 31, 2016, the Fund had a \$250,000 line of credit available from Eagle Bank. Interest was 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 credit was

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LINE OF CREDIT (CONTINUED)

collateralized by substantially all the assets of the Fund. On February 3, 2017, the line of credit expired and was not renewed. The line of credit contained certain financial and nonfinancial covenants. The line of credit was not drawn on in 2017 or 2016.

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, 2017 and 2016 was \$61,831 and \$103,051, respectively. The loan is collateralized by the property and leasehold improvements that were financed.

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.

Interest expense on the loans for the years ended September 30, 2017 and 2016 amounted to \$5,155 and \$3,480, respectively.

Future minimum principal payments of long-term debt as of September 30, 2017 are as follows:

<u>Year ending September 30,</u>	
2018	\$42,565
2019	<u>19,266</u>
	<u>\$61,831</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2017 and 2016 are restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$917,473	\$740,000
National Civil Liberties Alliance	111,189	-
Harvard/Stanford	<u>47,006</u>	<u>-</u>
	<u>\$1,075,668</u>	<u>\$740,000</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, 2017 and 2016, the total expense for the 401(k) Plan is \$89,264 and \$60,263, respectively. The Fund also has a flexible benefits plan for employees.

NOTE 10 - MAJOR CONTRIBUTORS AND CONTRIBUTIONS

Approximately 22% and 23% of unrestricted and restricted support and revenue for the years ended September 30, 2017 and 2016 was provided by one donor, respectively. The Fund's annual dinner raised approximately 9% of total unrestricted and restricted support and revenue for the years ended September 30, 2017 and 2016.

NOTE 11 - RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Contributions from Board members	\$568,798	\$715,762

Balances due from related parties at September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable from Board members	\$275,000	\$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, 2018 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, 2017 are as follows:

	Capital	Operating	
<u>Year ending September 30:</u>	<u>lease</u>	<u>leases</u>	<u>Total</u>
2018	\$2,468	\$544,534	\$547,002

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>2,468</u>	<u>\$1,817,620</u>	<u>\$1,820,088</u>
Less amount representing interest	<u>(63)</u>		
	<u>\$2,405</u>		

Rent expense was \$469,155 and \$477,549 for the years ended September 30, 2017 and 2016, respectively.

The Fund entered into an agreement with a hotel for the 2018 Canterbury Medal Gala. If the Fund withdraws from the agreement, it may be required to pay a cancellation fee of approximately \$253,000. 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, 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>

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - FUNCTIONAL EXPENSES (CONTINUED)

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>