

THE BECKET FUND

**AUDITED
FINANCIAL STATEMENTS**

Years Ended September 30, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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.

Hoyt Company, P.L.L.C.

McLean, Virginia
December 12, 2013

THE BECKET FUND
 STATEMENTS OF FINANCIAL POSITION
 September 30, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,016,093	\$ 769,017
Restricted cash	50,004	304,013
Accounts receivable	64,974	7,932
Prepaid expenses and other current assets	127,466	82,782
Pledges receivable, net	175,000	335,000
Property and equipment, net	38,095	38,685
Deposits	<u>49,959</u>	<u>43,709</u>
TOTAL ASSETS	<u>\$ 1,521,591</u>	<u>\$ 1,581,138</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 325,798	\$ 177,620
Accrued compensation and related liabilities	35,302	31,185
Capital lease	11,705	-
Unearned grant revenue	50,004	304,013
Deferred rent incentive	42,044	67,436
Long-term debt	<u>68,188</u>	<u>92,419</u>
TOTAL LIABILITIES	533,041	672,673
NET ASSETS		
Unrestricted	813,550	323,465
Temporarily restricted	<u>175,000</u>	<u>585,000</u>
TOTAL NET ASSETS	<u>988,550</u>	<u>908,465</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,521,591</u>	<u>\$ 1,581,138</u>

See notes to financial statements.

THE BECKET FUND
 STATEMENTS OF ACTIVITIES
 Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions and grants	\$ 4,401,914	\$ 3,201,886
Legal fees	67,587	162,925
Grant for services	437,300	129,280
Reimbursed litigation expenses	7,056	3,821
Miscellaneous (loss) income	<u>(29,550)</u>	<u>1,771</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	4,884,307	3,499,683
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of donation restrictions	<u>610,490</u>	<u>584,799</u>
TOTAL UNRESTRICTED REVENUE, SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	5,494,797	4,084,482
EXPENSES		
Program services	4,217,439	3,106,073
Supporting services		
General and administrative	352,712	375,660
Fundraising	<u>434,561</u>	<u>424,242</u>
TOTAL EXPENSES	<u>5,004,712</u>	<u>3,905,975</u>
INCREASE IN UNRESTRICTED NET ASSETS	490,085	178,507
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	200,490	464,799
Net assets released from restrictions	<u>(610,490)</u>	<u>(584,799)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(410,000)</u>	<u>(120,000)</u>
TOTAL INCREASE IN NET ASSETS	80,085	58,507
NET ASSETS AT BEGINNING OF YEAR	<u>908,465</u>	<u>849,958</u>
NET ASSETS AT END OF YEAR	<u>\$ 988,550</u>	<u>\$ 908,465</u>

See notes to financial statements.

THE BECKET FUND
STATEMENTS OF CASH FLOW
Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 80,085	\$ 58,507
Adjustments to reconcile increase in net assets to net cash (used) provided by operating activities		
Depreciation and amortization of property and equipment	28,461	25,135
Amortization of discount on pledges receivable	-	(872)
Gain on disposal of property and equipment	-	(2,042)
Contributions of investments	(233,669)	(2,936)
Realized loss (gain) on investments	30,248	(144)
Changes in operating assets and liabilities		
Accounts receivable	(57,042)	(696)
Prepaid expenses and other current assets	(49,890)	(40,154)
Pledges receivable	160,000	145,000
Deposits	(6,250)	-
Accounts payable and accrued expenses	148,178	(47,020)
Accrued compensation and related liabilities	4,117	6,496
Unearned grant revenue	(254,009)	54,013
Deferred rent incentive	<u>(25,392)</u>	<u>(4,870)</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(175,163)	190,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in restricted cash	254,009	(54,013)
Purchase of property and equipment	(15,471)	(27,844)
Proceeds from the sale of property and equipment	-	3,500
Proceeds from the sale of investments	<u>208,627</u>	<u>3,080</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	447,165	(75,277)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment on line of credit	-	(50,000)
Principal payments on capital lease	(695)	-
Proceeds from long-term debt	-	125,000
Principal payments on long-term debt	<u>(24,231)</u>	<u>(153,791)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(24,926)</u>	<u>(78,791)</u>
NET INCREASE IN CASH	247,076	36,349
CASH AT BEGINNING OF THE YEAR	<u>769,017</u>	<u>732,668</u>
CASH AT END OF YEAR	<u>\$ 1,016,093</u>	<u>\$ 769,017</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 4,501	\$ 6,574
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, 2013 and 2012

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, 2013 and 2012.

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, 2013 and 2012.

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. 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, 2013, the federal and state statute of limitations remains open for the 2010 through the 2013 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 December 12, 2013, 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, 2013 and 2012 are unconditional and are receivable in less than one year.

No allowance for doubtful pledges is considered necessary at September 30, 2013 and 2012.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, net at September 30, 2013 and 2012 consists of:

	<u>2013</u>	<u>2012</u>
Computers and equipment	\$92,543	\$96,622
Furniture	32,439	33,112
Website	44,051	44,051
Artwork	12,500	12,500
Software	46,592	40,892
Leasehold improvements	9,633	9,633
Less accumulated depreciation and amortization	<u>(199,663)</u>	<u>(198,125)</u>
Total	<u>\$38,095</u>	<u>\$38,685</u>

As of September 30, 2013, 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, 2013:

	<u>2013</u>
Equipment	\$12,399
Less accumulated depreciation	<u>(787)</u>
	<u>\$11,612</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 2013 or 2012.

In connection with the line, the Fund is required to comply with certain financial and nonfinancial covenants. At September 30, 2013, 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, 2013 and 2012 was \$68,188 and \$92,419, respectively.

In connection with the loan, the Fund is required to comply with certain financial and nonfinancial covenants. At September 30, 2013, the Fund believes it is in compliance with the covenants.

Interest expense on the loan for the years ended September 30, 2013 and 2012 amounted to \$4,025 and \$2,431, respectively.

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

<u>Year ending September 30,</u>	
2014	\$25,530
2015	26,837
2016	<u>15,821</u>
	<u>\$68,188</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at September 30:

	<u>2013</u>	<u>2012</u>
Use for future period	\$175,000	\$100,000
Stanford clinic	-	<u>485,000</u>
	<u>\$175,000</u>	<u>\$585,000</u>

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.

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - MAJOR CONTRIBUTORS AND CONTRIBUTIONS

Approximately 22% of unrestricted and restricted support and revenue for each of the years ended September 30, 2013 and 2012 was provided by a religious organization. The Fund's annual dinner raised approximately 11% and 13% of total unrestricted and restricted support and revenue for the years ended September 30, 2013 and 2012, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Interest expense and fees on bank loan	\$ -	\$5,010
Contributions from Board members	\$593,969	\$325,250

Pledges receivable from Board members at September 30, 2013 and 2012 are \$100,000 and \$175,000, respectively.

NOTE 12 - BECKET INSTITUTE

The Fund established The Becket Institute Fellows Program, which was relocated from Rome, Italy to Oxford, England in 2010. The cost of maintaining the Institute for the years ended September 30, 2013 and 2012 was \$0 and \$78,987, respectively.

NOTE 13 - 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, 2014, respectively. The Fund leases a copier under a lease agreement which is accounted for as a capital lease.

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - LEASE COMMITMENTS AND RENT EXPENSE (CONTINUED)

Future minimum lease payments on the Fund's leases at September 30, 2013 are as follows:

<u>Year ending September 30:</u>	<u>Capital lease</u>	<u>Operating leases</u>	<u>Total</u>
2014	\$2,690	\$302,888	\$305,578
2015	2,690	96,616	99,306
2016	2,690	9,900	12,590
2017	2,690	-	2,690
2018	<u>2,468</u>	<u>-</u>	<u>2,468</u>
	13,228	<u>\$409,404</u>	422,632
Less amount representing interest	<u>(1,523)</u>		<u>(1,523)</u>
	<u>\$11,705</u>		<u>\$421,100</u>

Rent expense was \$277,338 and \$266,189 for the years ended September 30, 2013 and 2012, respectively.

THE BECKET FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - 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	\$ 2,509,027	\$ 145,543	\$ 199,492	\$ 2,854,062
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	29,018	1,683	2,307	33,008
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	78,148	4,533	6,213	88,894
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>

THE BECKET FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - FUNCTIONAL EXPENSES (CONTINUED)

The functional allocation of expenses for the year ended September 30, 2012 is as follows:

	Program services	Supporting Services		Total
		General and administrative	Fundraising	
Payroll and benefits	\$ 1,777,066	\$ 108,631	\$ 118,832	\$ 2,004,529
Books and subscriptions	16,921	1,034	1,131	19,086
Conferences and events	107,324	-	250,423	357,747
Depreciation	22,282	1,362	1,490	25,134
Dues, fees and seminars	28,682	1,753	1,918	32,353
Legal liability insurance	7,753	-	-	7,753
Other insurance	7,032	430	470	7,932
Interest	-	6,909	-	6,909
Litigation	103,162	-	-	103,162
Travel and related	142,555	8,714	9,533	160,802
Office expenses	38,338	2,331	2,550	43,219
Printing and reproduction	69,420	4,244	4,642	78,306
Professional fees	77,519	141,106	5,184	223,809
Public relations	104,540	-	-	104,540
Subcontractor expense	292,242	-	-	292,242
Rent	235,983	14,426	15,780	266,189
Postage and delivery	14,755	902	986	16,643
Communications	55,049	3,365	3,681	62,095
Direct mail expense	-	-	7,622	7,622
Bad debt	-	307	-	307
Donations	5,450	-	-	5,450
Becket Institute	-	78,987	-	78,987
Unusual expense	-	1,159	-	1,159
	<u>\$ 3,106,073</u>	<u>\$ 375,660</u>	<u>\$ 424,242</u>	<u>\$ 3,905,975</u>