

The Rutherford Institute

Financial Statements

June 30, 2015 and 2014

The Rutherford Institute

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Frank Barcalow CPA, P.L.L.C.
Certified Public Accountant

Independent Auditor's Report

The Board of Directors
The Rutherford Institute
Charlottesville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of The Rutherford Institute (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses 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 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 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 Rutherford Institute as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 13 to the financial statements, the Organization has suffered recurring significant reductions in contributions and has a net deficiency in net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
October 29, 2015

The Rutherford Institute

Statements of Financial Position

June 30, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 49,247	\$ 26,176
Cash and cash equivalents - restricted	119,604	218,586
	<u>168,851</u>	<u>244,762</u>
Investments	81,380	69,301
Inventory	32,030	34,890
Prepaid expenses	14,557	23,270
	<u>296,818</u>	<u>372,223</u>
Property and equipment		
Furniture, improvements and property	189,364	189,364
Less accumulated depreciation	156,071	145,267
	<u>33,293</u>	<u>44,097</u>
Other assets		
Trade marks, net of amortization of \$37,294 in 2015 and \$37,194 in 2014	1,002	1,102
Deposits	7,038	7,288
	<u>8,040</u>	<u>8,390</u>
Total other assets		
	<u>8,040</u>	<u>8,390</u>
Total assets	\$ <u><u>338,151</u></u>	\$ <u><u>424,710</u></u>

Liabilities and net assets	<u>2015</u>	<u>2014</u>
Current liabilities		
Accounts payable	\$ 116,229	\$ 153,018
Other payables	12,303	13,777
Annuities payable - short term	10,077	10,077
Accrued compensated absences	<u>14,286</u>	<u>15,552</u>
Total current liabilities	<u>152,895</u>	<u>192,424</u>
Long-term liabilities		
Deferred income - annuities	60,950	55,785
Annuities payable	<u>18,183</u>	<u>23,349</u>
Total long-term liabilities	<u>79,133</u>	<u>79,134</u>
Total liabilities	<u>232,028</u>	<u>271,558</u>
Net assets		
Unrestricted	(13,481)	(65,434)
Unrestricted - annuities	<u>119,604</u>	<u>218,586</u>
	<u>106,123</u>	<u>153,152</u>
Total liabilities and net assets	<u>\$ 338,151</u>	<u>\$ 424,710</u>

See Notes to the Financial Statements

The Rutherford Institute

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Statements of Activities For the Years Ended June 30, 2015 and 2014

Support and Revenue	<u>2015</u>	<u>2014</u>
Support		
Donations	\$ 940,629	\$ 1,120,745
Donated services and equipment	615,873	816,315
Grants and foundation gifts	80,603	97,133
Development and planned giving	<u>166,593</u>	<u>15,860</u>
Total support	<u>1,803,698</u>	<u>2,050,053</u>
Other revenue		
Publication	4,056	4,810
Interest and dividends	1,796	1,818
Unrealized gains (losses) on investments	3,053	34,659
Gain on sale of investments	-	7,399
Settlements	16,525	8,685
Other	<u>(331)</u>	<u>6,288</u>
Total other revenue	<u>25,099</u>	<u>63,659</u>
Total support and other revenue	<u><u>1,828,797</u></u>	<u><u>2,113,712</u></u>
Expenses		
Program services	1,781,572	2,614,758
Management and general	53,802	98,195
Fundraising	<u>40,452</u>	<u>47,869</u>
Total expenses	1,875,826	2,760,822
Change in net assets	(47,029)	(647,110)
Net assets, beginning of year	<u>153,152</u>	<u>800,262</u>
Net assets, end of year	\$ <u><u>106,123</u></u>	\$ <u><u>153,152</u></u>

See Notes to the Financial Statements

The Rutherford Institute

Statement of Functional Expenses

June 30, 2015

	Legal	Education	Total Program	Management and General	Fundraising	2015 Total Expenses
Auto expense	\$ 1,433	\$ 1,108	\$ 2,541	\$ 162	\$ -	2,703
Bank charges	7,557	5,846	13,403	856	-	14,259
Building and occupancy expense	56,892	44,011	100,903	6,441	-	107,344
Computer consumables	6,093	4,713	10,806	690	-	11,496
Conferences and meetings	1,040	805	1,845	118	-	1,963
Depreciation and amortization	5,780	4,471	10,251	654	-	10,905
Direct mail	322	249	571	36	-	607
Dues and subscriptions	609	471	1,080	69	-	1,149
Educational material	93	72	165	11	-	175
Equipment rental and repair	23,566	18,231	41,797	2,668	-	44,465
Insurance	2,755	2,132	4,887	312	-	5,199
Internet expense	6,837	5,289	12,126	774	-	12,900
Litigation services	27,094	20,959	48,053	3,067	-	51,120
Litigation services - donated	615,873	-	615,873	-	-	615,873
Marketing	-	-	-	-	11,657	11,657
Miscellaneous	8,600	6,653	15,253	974	-	16,227
Newsletter	620	479	1,099	70	-	1,169
Office supplies	2,766	2,140	4,906	313	-	5,219
Postage and delivery	43,307	39,457	82,764	7,518	5,955	96,237
Professional fees	9,596	7,423	17,020	1,086	-	18,106
Publications	55,025	42,566	97,591	-	6,229	103,820
Salaries	314,899	243,601	558,500	22,438	13,211	594,149
Payroll taxes	20,135	15,576	35,712	1,268	1,011	37,991
Employment benefits	47,817	36,990	84,807	3,431	1,982	90,220
Taxes and registration fees	5,327	4,121	9,448	603	-	10,051
Telephone	5,736	4,437	10,173	243	407	10,822
Total expenses	\$ 1,269,771	\$ 511,801	\$ 1,781,572	\$ 53,802	\$ 40,452	\$ 1,875,826

See Notes to the Financial Statements

The Rutherford Institute

Statement of Functional Expenses

June 30, 2014

	Legal	Education	Total Program	Management and General	Fundraising	2014 Total Expenses
Auto expense	\$ 1,949	\$ 1,574	\$ 3,523	\$ 225	\$ -	\$ 3,748
Bank charges	6,413	5,179	11,592	740	-	12,332
Building and occupancy expense	64,170	51,829	115,999	7,404	-	123,403
Computer consumables	3,413	2,757	6,170	394	-	6,564
Conferences and meetings	4,219	3,407	7,626	487	-	8,113
Depreciation and amortization	5,651	4,565	10,216	652	-	10,868
Dues and subscriptions	541	518	1,059	68	-	1,127
Educational material	156	126	282	18	-	300
Equipment rental and repair	20,198	16,314	36,512	2,331	-	38,843
Insurance	6,855	5,537	12,392	791	-	13,183
Internet expense	4,180	3,376	7,557	482	-	8,039
Litigation services	32,990	30,452	63,442	-	-	63,442
Litigation services - donated	816,315	-	816,315	-	-	816,315
Marketing	-	-	-	-	11,761	11,761
Miscellaneous	22,109	17,858	39,967	2,551	-	42,518
Newsletter	1,031	786	1,817	70	95	1,982
Office supplies	3,565	2,879	6,444	411	-	6,855
Postage and delivery	49,194	44,822	94,016	8,787	6,518	109,321
Professional fees	20,232	16,341	36,573	2,334	-	38,907
Publications	65,280	60,829	126,109	15,040	7,215	148,364
Salaries	356,041	287,571	643,612	22,567	18,515	684,694
Payroll taxes	23,284	18,806	42,090	1,271	1,416	44,777
Employment benefits	280,640	226,671	507,311	30,345	2,037	539,693
Taxes and registration fees	4,905	3,962	8,867	566	-	9,433
Telephone	8,445	6,821	15,266	662	312	16,240
Total expenses	\$ 1,801,776	\$ 812,982	\$ 2,614,758	\$ 98,195	\$ 47,869	\$ 2,760,822

See Notes to the Financial Statements

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Statements of Cash Flows

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (47,029)	\$ (647,110)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	10,905	10,868
Gain on sale of investments	-	(36,023)
Unrealized gain on investments	(3,053)	(9,390)
(Increase) decrease in inventory	2,860	17,535
(Increase) decrease in prepaid	8,713	10,130
(Increase) decrease in deposits	250	3,401
Increase (decrease) in accounts payable	(38,263)	63,434
Increase (decrease) in compensated absences	(1,266)	439
Net cash (used in) provided by operating activities	<u>(66,883)</u>	<u>(586,716)</u>
Cash flows from investing activities		
Net investment in life insurance policies	-	430,449
Sale of investments	3,051	187,039
Purchase of investments	(12,079)	(11,209)
Acquisition of equipment	-	(5,001)
Net cash (used in) provided by investing activities	<u>(9,028)</u>	<u>601,278</u>
Cash flows from financing activities		
Proceeds under split-interest agreements	-	15,128
Payments under split-interest agreements	-	(15,128)
Net cash (used in) provided by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(75,911)	14,562
Cash and cash equivalents, beginning of year	<u>244,762</u>	<u>230,200</u>
Cash and cash equivalents, end of year	<u>\$ 168,851</u>	<u>\$ 244,762</u>

See Notes to the Financial Statements

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Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Summary of significant accounting policies

Nature of activities

The Rutherford Institute (TRI) is a non-profit civil liberties organization dedicated to preserving free speech in public, including public schools, protecting the rights of churches, other religious organizations and home schools to operate without government intrusion, defending parental rights and family autonomy, supporting the sanctity of human life and assisting individuals who have been oppressed for their beliefs or had their human rights violated. TRI, founded by John W. Whitehead, was incorporated in 1982 as a Virginia non-stock corporation.

TRI provides legal research and litigation services related to preserving First Amendment rights and religious and civil liberties. The Organization also provides litigation and dispute resolution services and sponsors religious liberty seminars.

TRI provides education to encourage understanding and protection of religious and civil liberties, as well as the arts and culture, of all people through educational mailing and distribution of educational publications, videotapes, audiotapes and facsimiles.

Finally, The Rutherford Institute provides international research and information services related to preserving religious and civil liberties.

Promises to give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional contributions receivable. Historically, there have not been significant differences between the amounts allocated and collected. Accordingly, no provision has been made for uncollectible amounts.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States. Under generally accepted accounting principles, TRI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At the present time, the Organization does not have any temporary or permanently restricted net assets.

(continued)

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Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Summary of significant accounting policies (continued)

Cash equivalents

For purposes of the statement of cash flows, TRI considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows include restricted cash and cash equivalents.

Grant contract support

TRI recognizes grant funds as awarded.

Accounts receivable

Accounts receivables are recorded net of specific write-offs and allowance for doubtful accounts. Uncollectible accounts are written off on an individual basis when specifically identified. Interest is not charged on past due accounts.

Inventory

Inventory consists of books, brochures, pamphlets, publications, t-shirts, audiotapes and videotapes, is stated at cost. Cost is determined by the first-in, first-out (FIFO) method.

Donated services and equipment

TRI recognizes donated services as support. Donated services primarily from legal assistance is recorded as income and a corresponding entry is made to expense. Other in-kind contributions are recorded when received at fair value as income and expense. Equipment donated is recorded as income and with a fair market value greater than \$500, is capitalized and depreciated over the life of the asset, if less than \$500, the donation is recorded at fair value as income and expense.

Property and equipment

Property and equipment expenditures greater than \$500 are capitalized and stated at cost, if purchased, and at fair value at date of receipt, if donated. Expenditures for acquisition, renewals and betterments are capitalized, whereas maintenance and repair costs are charged to expense as incurred. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any resultant gain or loss is recorded in the statement of activities.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the related assets. Useful lives range from 5 to 10 years for furniture, fixtures and equipment, 5 years for leasehold improvements, and 5 years for the law libraries. Amortization is calculated using the straight-line method and is reported with depreciation expense.

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Notes to Financial Statements June 30, 2015 and 2014

Note 1 - Summary of significant accounting policies (concluded)

Allocation of expenses

The costs of providing programs and other activities have been summarized on a functional basis in the Statement of Activities and in Statement of Functional Expenses. Accordingly, certain costs have been allocated between the program and supporting services benefitted based on personnel time and space utilized for the related activities. Some expense apportionments are estimates because of the overlap of activities and the difficulty of record-keeping for usage. Specifically identifiable expenses are directly allocated.

Income taxes

TRI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. TRI is also exempt from Virginia income taxes and, therefore, has made no provision for the federal or Virginia income taxes. In addition, the Internal Revenue Service has determined that TRI is not a "private foundation" within the meaning of Section 509(a) of the Code.

Investments

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains or losses are reported in the statement of activities. Donated securities are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received.

Trademarks

Trademarks are recorded at cost and amortized over 15 years using the straight-line method. Amortization for the current year totaled \$100 and \$599 for the prior year and is recorded with depreciation expense.

Advertising

Advertising costs are expensed as incurred. There was no advertising expense in the current year.

Estimates

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

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Notes to Financial Statements

June 30, 2015 and 2014

Note 2 - Investments

A summary of investments follows:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Money market	\$ 1 159	\$ 1 159	\$ 5 754	\$ 5 754
Mutual Funds	<u>73 436</u>	<u>80 221</u>	<u>52 498</u>	<u>63 547</u>
	\$ <u>74 595</u>	\$ <u>81 380</u>	\$ <u>58 252</u>	\$ <u>69 301</u>

Unrealized gains (losses) totaled \$3,053 in the current year and \$34,659 in the prior year.

Note 3 - Property and equipment

A summary of property and equipment follows:

	June 30, 2015		June 30 2014	
	Cost or Value	Accumulated Depreciation	Cost or Value	Accumulated Depreciation
Vehicles	\$ 26 965	\$ 26 965	\$ 26 965	\$ 26 965
Library	21 078	10 539	21 078	8 431
Furniture and fixtures	31 498	31 499	31 498	31 499
Office equipment	79 315	58 770	79 315	50 854
Software	8 963	6 753	8 963	5 973
Leased property	<u>21 545</u>	<u>21 545</u>	<u>21 545</u>	<u>21 545</u>
	\$ <u>189 364</u>	\$ <u>156 071</u>	\$ <u>189 364</u>	\$ <u>145 267</u>

Depreciation expense for the current year was \$10,905 and for the prior year was \$10,868.

Note 4 - Related party

TRI received contributions from three members of the board of directors totaling \$64,950 in 2015 and from three board members totaling \$136,550 in 2014.

Note 5 - Concentration of credit risk

Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash and unsecured receivables. Cash accounts are maintained in several financial institutions in Central Virginia. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The bank balance may exceed the insured amount from time to time but management believes that the risk is minimal. Management believes there is no significant credit risk for receivables because of close monitoring.

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Notes to Financial Statements June 30, 2015 and 2014

Note 6 - Split-interest agreements

TRI has entered into charitable gift annuity agreements with donors who have transferred assets to TRI in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the value of the assets transferred and the liability for future payments, determined on an actuarial basis, is recognized as unrestricted support at the date of the gift unless the use of the assets is restricted by the donor. The annuity liability is revalued annually with the resulting increase or decrease recorded as revenue. Interest rates on the split-interest agreements range from 4.60% to 9.5%. Total expected future cash flows to be paid to the annuity beneficiaries under these agreements as of June 30, 2015 totaled \$28,261 and for June 30, 2014 totaled \$33,426. Current portion of annuities payable totaled \$10,077 in 2015 and \$10,077 in 2014. Long-term portion of annuities payable totaled \$18,183 in 2015 and \$23,349 in 2014. Restricted cash related to the split-interest agreements totaled \$119,604 in 2015 and \$218,586 in 2014.

Note 7 - Donated services and property

TRI received donated attorney services for the year ended June 30, 2015 of \$615,873 and \$816,315 in 2014.

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets with time restrictions consist primarily of donor imposed restrictions. At June 30, 2015 and 2014, there were no temporarily restricted net assets.

Note 9 - Pension plan

TRI has a Simple individual retirement account salary reduction plan covering all of its qualified full-time employees. TRI contributes an amount equal to the lesser of 3% of each participating employee's compensation or the amount deferred by each employee. During the current year contributions have been temporarily suspended. TRI made no contributions to this plan for the current year or for the prior year.

Note 10 - Operating lease obligations

TRI has entered into an five year lease for office space with an option for an additional five years. The lease contains a right of first refusal provision on behalf of TRI in the event that the landlord seeks to sell the leased premises during the lease term.

Future minimum annual lease payments as of June 30, 2015 are as follows:

2016	\$	86 367
2017		87 321
2018		89 068
2019		<u>29 980</u>
	\$	<u><u>292 736</u></u>

Rent expense totaled \$84,459 for the current year and \$100,319 for the prior year.

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Fair value measurements

TRI records fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Three levels of the fair value hierarchy are based on three types of inputs as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

All investments were measured at fair value by level one valuation.

Note 12 - Subsequent events

In preparing these financial statements, TRI has evaluated events and transactions for potential recognition or disclosure through October 29, 2015 the date the financial statements were issued.

Accounts payable still remains over \$115,000 as of October 2015. Many of these payables are past due.

Note 13 - Going concern

The Organization has sustained losses the last several years and recently has not been able to pay expenses by their due date. Donations have continued to decline over the last four years. Management believes that it is possible to increase revenues by raising the profile of the Organization through additional writings and radio interviews. It has been discussed with management to increase their focus on contribution appeals. It is not known as of the audit date how effective changes will assist the Organization.