The Rutherford Institute

Financial Statements

June 30, 2014 and 2013

The Rutherford Institute

Contents

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, 2014 and 2013, 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, 2014 and 2013, 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.

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Richmond, Virginia
October 21, 2014

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The Rutherford Institute

Statements of Financial Position
June 30, 2014 and 2013

Assets

	2014	2013
Current assets		
Cash and cash equivalents	$ 26,176	$ 45,380
Cash and cash equivalents - restricted	218,586	184,820
	244,762	230,200
Investments	69,301	201,082
Inventory	34,890	52,425
Prepaid expenses	23,270	33,400
Total current assets	372,223	517,107
Property and equipment		
Furniture, improvements and property	189,364	368,742
Less accumulated depreciation	145,267	320,741
Total property and equipment	44,097	48,001
Other assets		
Trade marks, net of amortization of $37,194 in 2014 and $36,595 in 2013	1,102	1,701
Net investment in life insurance policies	-	430,449
Deposits	7,288	10,689
Total other assets	8,390	442,839
Total assets	$ 424,710	$ 1,007,947

Liabilities and net assets

		2014		2013
Current liabilities				
Accounts payable	$	153,018	$	89,322
Other payables		13,777		14,039
Annuities payable - short term		10,077		14,005
Accrued compensated absences		15,552		15,113
Total current liabilities		192,424		132,479
Long-term liabilities				
Deferred income - annuities		55,785		50,522
Annuities payable		23,349		24,684
Total long-term liabilities		79,134		75,206
Total liabilities		271,558		207,685
Net assets				
Unrestricted		(65,434)		615,442
Unrestricted - annuities		218,586		184,820
		153,152		800,262
Total liabilities and net assets	$	424,710	$	1,007,947

See Notes to the Financial Statements

Statements of Activities

For the Years Ended June 30, 2014 and 2013

Support and Revenue	2014	2013
Support		
Donations	$ 1,120,745	$ 1,154,135
Donated services and equipment	816,315	1,164,377
Grants and foundation gifts	97,133	65,768
Development and planned giving	15,860	61,749
Total support	2,050,053	2,446,029
Other revenue		
Publication	4,810	3,431
Interest and dividends	1,818	6,550
Unrealized gains (losses) on investments	34,659	10,697
Gain on sale of investments	7,399	38,944
Settlements	8,685	13,902
Other	6,288	7,602
Total other revenue	63,659	81,126
Total support and other revenue	2,113,712	2,527,155
Expenses		
Program services	2,614,758	2,639,619
Management and general	98,195	70,079
Fundraising	47,869	48,662
Total expenses	2,760,822	2,758,360
Change in net assets	(647,110)	(231,205)
Net assets, beginning of year	800,262	1,031,467
Net assets, end of year	$ 153,152	$ 800,262

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

The Rutherford Institute

Statement of Functional Expenses
June 30, 2013

	Legal	Education	Total Program	Management and General	Fundraising	2013 Total Expenses
Auto expense	$ 1,943	$ 1,532	$ 3,475	$ 262	$ -	$ 3,737
Bank charges	6,410	5,054	11,463	863	-	12,326
Building and occupancy expense	86,473	68,181	154,653	11,641	-	166,294
Computer consumables	1,372	1,082	2,454	185	-	2,639
Conferences and meetings	4,657	3,672	8,328	627	-	8,955
Depreciation and amortization	5,953	4,694	10,648	801	-	11,449
Direct mail	2,118	1,670	3,788	285	-	4,073
Dues and subscriptions	1,426	1,124	2,550	192	-	2,742
Educational material	91	72	163	12	-	175
Equipment rental and repair	20,254	15,970	36,224	2,727	-	38,950
Insurance	6,398	5,044	11,442	861	-	12,303
Internet expense	3,885	3,063	6,948	523	-	7,471
Litigation services	37,906	29,887	67,793	5,103	-	72,896
Litigation services - donated	1,164,377	-	1,164,377	-	-	1,164,377
Marketing	-	-	-	-	11,670	11,670
Miscellaneous	16,686	13,156	29,842	2,246	-	32,088
Newsletter	3,237	2,552	5,789	216	220	6,225
Office supplies	3,096	2,441	5,536	417	-	5,953
Postage and delivery	57,813	60,274	118,087	-	4,920	123,007
Professional fees	16,598	13,087	29,685	2,234	-	31,919
Publications	87,219	68,769	155,988	-	11,741	167,729
Salaries	369,600	291,416	661,016	33,239	16,515	710,770
Payroll taxes	23,726	18,707	42,433	1,931	1,263	45,627
Employment benefits	45,546	35,911	81,458	4,149	1,982	87,589
Taxes and registration fees	4,296	3,387	7,683	578	-	8,261
Telephone	9,950	7,845	17,796	988	351	19,135
Total expenses	$ 1,981,029	$ 658,589	$ 2,639,619	$ 70,079	$ 48,662	$ 2,758,360

See Notes to the Financial Statements

The Rutherford Institute

Statements of Cash Flows
June 30, 2014 and 2013

		2014		2013
Cash flows from operating activities				
Change in net assets	$	(647,110)	$	(231,205)
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation and amortization		10,868		11,449
Gain on sale of investments		(36,023)		38,944
Unrealized gain on investments		(9,390)		(10,697)
(Increase) decrease in inventory		17,535		13,755
(Increase) decrease in prepaid		10,130		(7,622)
(Increase) decrease in deposits		3,401		-
Increase (decrease) in accounts payable		63,434		20,726
Increase (decrease) in compensated absences		439		4,998
Net cash (used in) provided by operating activities		(586,716)		(159,652)
Cash flows from investing activities				
Net investment in life insurance policies		430,449		(30,998)
Sale of investments		187,039		219,763
Purchase of investments		(11,209)		6,551
Acquisition of equipment		(5,001)		(10,769)
Net cash (used in) provided by investing activities		601,278		184,547
Cash flows from financing activities				
Proceeds under split-interest agreements		15,128		46,190
Payments under split-interest agreements		(15,128)		(14,796)
Net cash (used in) provided by financing activities		-		31,394
Net increase (decrease) in cash and cash equivalents		14,562		56,289
Cash and cash equivalents, beginning of year		230,200		173,911
Cash and cash equivalents, end of year	$	244,762	$	230,200

See Notes to the Financial Statements

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)

Notes to Financial Statements
June 30, 2014 and 2013

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.

Notes to Financial Statements
June 30, 2014 and 2013

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 $599 and $1,433 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.

Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - Investments

A summary of investments follows:

	2014		2013	
	Cost	Market Value	Cost	Market Value
Money market	$ 5 754	$ 5 754	$ 30 754	$ 30 753
Mutual Funds	52 498	63 546	157 642	168 338
Equity funds	1 990	1 991	1 990	1 991
	$ 60 242	$ 71 291	$ 190 386	$ 201 082

Unrealized gains (losses) totaled $36,023 in the current year and $10,697 in the prior year.

Note 3 - Property and equipment

A summary of property and equipment follows:

	June 30, 2014		June 30 2013	
	Cost or Value	Accumulated Depreciation	Cost or Value	Accumulated Depreciation
Vehicles	$ 26 965	$ 26 965	$ 26 965	$ 26 965
Library	21 078	8 431	21 078	6 323
Furniture and fixtures	31 498	31 499	68 343	68 343
Office equipment	79 315	50 854	185 830	159 488
Software	8 963	5 973	22 474	18 704
Leased property	21 545	21 545	39 553	39 668
Leasehold improvements	-	-	4 499	1 250
	$ 189 364	$ 145 267	$ 368 743	$ 320 741

Depreciation expense for the current year was $10,868 and for the prior year was $10,016.

Note 4 - Related party

TRI received contributions from three members of the board of directors totaling $136,550 in 2014 and from three board members totaling $64,057 in 2013.

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.

The Rutherford Institute

Notes to Financial Statements
June 30, 2014 and 2013

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, 2014 totaled $33,426 and for June 30, 2013 totaled $38,689. Current portion of annuities payable totaled $10,077 in 2014 and $14,005 in 2013. Long-term portion of annuities payable totaled $23,349 in 2014 and $24,684 in 2013. Restricted cash related to the split-interest agreements totaled $218,586 in 2014 and $184,820 in 2013.

Note 7 - Donated services and property

TRI received donated attorney services for the year ended June 30, 2014 of $816,315 and $1,164,377 in 2013.

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets with time restrictions consist primarily of donor imposed restrictions. At June 30, 2014 and 2013, 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 lessor 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.

TRI pays premiums of $1,034 per monthly on two life insurance policies for the president of the company. Under the terms of the TRI will receive the total death benefit proceeds.

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, 2014 are as follows:

2015	$	84 459
2016		86 367
2017		87 321
2018		89 068
2019		29 980
	$	377 195

Rent expense totaled $100,319 for the current year and $153,153 for the prior year.

Notes to Financial Statements
June 30, 2014 and 2013

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 and 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 21, 2014 the date the financial statements were issued.

Accounts payable still remains over $100,000 as of October 2014. 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 their due date. Donations have continued to decline over the last three 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.