The Rutherford Institute

Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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.

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Richmond, Virginia
November 10, 2016

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The Rutherford Institute

Statements of Financial Position
June 30, 2016 and 2015

Assets

		2016		2015
Current assets				
Cash and cash equivalents	$	25,483	$	49,247
Cash and cash equivalents - restricted		113,318		119,604
		138,801		168,851
Investments		27,691		81,380
Accounts receivable		50,000		-
Inventory		23,080		32,030
Prepaid expenses		5,719		14,557
Total current assets		245,291		296,818
Property and equipment				
Furniture, improvements and property		189,364		189,364
Less accumulated depreciation		165,872		156,071
Total property and equipment		23,492		33,293
Other assets				
Trade marks, net of amortization of $37,394 in 2016 and $37,294 in 2015		902		1,002
Deposits		7,038		7,038
Total other assets		7,940		8,040
Total assets	$	276,723	$	338,151

Liabilities and net assets

		2016		2015
Current liabilities				
Accounts payable	$	78,228	$	116,229
Other payables		12,454		12,303
Annuities payable - short term		8,019		10,077
Accrued compensated absences		13,675		14,286
Total current liabilities		112,376		152,895
Long-term liabilities				
Deferred income - annuities		86,901		60,950
Annuities payable		18,398		18,183
Total long-term liabilities		105,299		79,133
Total liabilities		217,675		232,028
Net assets				
Unrestricted		59,048		106,123
Total liabilities and net assets	$	276,723	$	338,151

See Notes to the Financial Statements

The Rutherford Institute

Statements of Activities
For the Years Ended June 30, 2016 and 2015

Support and Revenue		2016		2015
Support				
Donations	$	977,997	$	940,629
Donated services and equipment		1,282,549		615,873
Grants and foundation gifts		79,200		80,603
Development and planned giving		81,125		166,593
Total support		2,420,871		1,803,698
Other revenue				
Publication		2,507		4,056
Interest and dividends		960		1,796
Unrealized gains (losses) on investments		(4,652)		3,053
Settlements		11,723		16,525
Other		441		(331)
Total other revenue		10,979		25,099
Total support and other revenue		2,431,850		1,828,797
Expenses				
Program services		2,371,028		1,781,572
Management and general		72,641		53,802
Fundraising		35,256		40,452
Total expenses		2,478,925		1,875,826
Change in net assets		(47,075)		(47,029)
Net assets, beginning of year		106,123		153,152
Net assets, end of year	$	59,048	$	106,123

See Notes to the Financial Statements

The Rutherford Institute

Statement of Functional Expenses
June 30, 2016

	Legal	Education	Total Program	Management and General	Fundraising	2016 Total Expenses
Auto expense	$ 1,779	$ 1,494	$ 3,273	$ 285	$ -	$ 3,558
Bank charges	6,348	5,332	11,680	1,016	-	12,696
Building and occupancy expense	52,351	43,975	96,326	8,376	-	104,702
Computer consumables	3,907	3,282	7,189	625	-	7,814
Conferences and meetings	182	153	335	29	-	364
Depreciation and amortization	4,950	4,158	9,108	792	-	9,900
Equipment rental and repair	12,907	10,841	23,748	2,065	-	25,813
Insurance	2,009	1,688	3,697	321	-	4,018
Internet expense	4,832	4,058	8,890	773	-	9,663
Litigation services	26,601	24,555	51,156	-	-	51,156
Litigation services - donated	1,282,549	-	1,282,549	-	-	1,282,549
Marketing	-	-	-	-	12,129	12,129
Miscellaneous	9,187	7,717	16,903	1,470	-	18,373
Newsletter	136	126	262	-	-	262
Office supplies	2,157	1,811	3,968	345	-	4,313
Postage and delivery	38,566	35,138	73,704	5,480	6,518	85,702
Professional fees	7,954	6,681	14,635	1,273	-	15,908
Publications	60,005	50,404	110,409	-	9,601	120,010
Salaries	283,154	237,849	521,003	39,642	5,663	566,308
Payroll taxes	18,073	15,181	33,254	2,530	361	36,146
Employment benefits	43,818	36,807	80,625	6,135	876	87,636
Taxes and registration fees	4,571	3,840	8,411	731	-	9,142
Telephone	5,382	4,520	9,902	753	108	10,763
Total expenses	$ 1,871,416	$ 499,612	$ 2,371,028	$ 72,641	$ 35,256	$ 2,478,925

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

Statements of Cash Flows
June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (47,075)	$ (47,029)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	9,900	10,905
Gain on sale of investments	-	-
Unrealized gain on investments	4,652	(3,053)
(Increase) decrease in inventory	8,950	2,860
(Increase) decrease in accounts receivable	(50,000)	-
(Increase) decrease in prepaid	8,838	8,713
(Increase) decrease in deposits	-	250
Increase (decrease) in accounts payable	(37,850)	(38,263)
Increase (decrease) in compensated absences	(611)	(1,266)
Net cash (used in) provided by operating activities	(103,196)	(66,883)
Cash flows from investing activities		
Sale of investments	60,966	3,051
Purchase of investments	(7,276)	(12,079)
Net cash (used in) provided by investing activities	53,690	(9,028)
Cash flows from financing activities		
Proceeds under split-interest agreements	30,084	-
Payments under split-interest agreements	(10,627)	-
Net cash (used in) provided by financing activities	19,457	-
Net increase (decrease) in cash and cash equivalents	(30,049)	(75,911)
Cash and cash equivalents, beginning of year	168,851	244,762
Cash and cash equivalents, end of year	$ 138,801	$ 168,851

See Notes to the Financial Statements

The Rutherford Institute

Notes to Financial Statements
June 30, 2016 and 2015

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.

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.

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 $100 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.

The Rutherford Institute

Notes to Financial Statements
June 30, 2016 and 2015

Note 2 - Investments

A summary of investments follows:

	2016				2015			
		Cost		Market Value		Cost		Market Value
Money market	$	1 672	$	1 672	$	1 159	$	1 159
Mutual Funds		22 410		26 019		73 436		80 221
	$	24 082	$	27 691	$	74 595	$	81 380

Unrealized gains (losses) totaled $(4,652) in the current year and $3,053 in the prior year.

Note 3 - Property and equipment

A summary of property and equipment follows:

	June 30, 2016				June 30 2015			
		Cost or Value		Accumulated Depreciation		Cost or Value		Accumulated Depreciation
Vehicles	$	26 965	$	26 965	$	26 965	$	26 965
Library		21 078		12 647		21 078		10 539
Furniture and fixtures		31 498		31 499		31 498		31 499
Office equipment		79 315		65 683		79 315		58 770
Software		8 963		7 533		8 963		6 753
Leased property		21 545		21 545		21 545		21 545
	$	189 364	$	165 872	$	189 364	$	156 071

Depreciation expense for the current year was $9,900 and for the prior year was $10,905.

Note 4 - Related party

TRI received contributions from three members of the board of directors totaling $57,400 in 2016 and from three board members totaling $64,950 in 2015.

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, 2016 and 2015

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, 2016 totaled $26,417 and for June 30, 2015 totaled $28,261. Current portion of annuities payable totaled $8,019 in 2016 and $10,077 in 2015. Long-term portion of annuities payable totaled $18,398 in 2016 and $18,183 in 2015. Restricted cash related to the split-interest agreements totaled $113,318 in 2016 and $119,604 in 2015.

Note 7 - Donated services and property

TRI received donated attorney services for the year ended June 30, 2016 of $1,282,549 and $615,873 in 2015.

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets with time restrictions consist primarily of donor imposed restrictions. At June 30, 2016 and 2015, 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.

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, 2016 are as follows:

2017	87 321
2018	89 068
2019	29 980
	$ 206 369

Rent expense totaled $86,129 for the current year and $84,459 for the prior year.

Notes to Financial Statements
June 30, 2016 and 2015

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 February 10, 2017 the date the financial statements were issued.

TRI has been able to reduce their accounts payable to under $25,000 and their financial status has improved.