BBD
CERTIFIED PUBLIC ACCOUNTANTS

RODALE INSTITUTE

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

RODALE INSTITUTE

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BBD

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rodale Institute

We have audited the accompanying financial statements of Rodale Institute (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Rodale Institute as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Rodale Institute’s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBO, LLP.

Philadelphia, Pennsylvania
April 27, 2015

RODALE INSTITUTE

STATEMENT OF FINANCIAL POSITION

December 31, 2014 with comparative totals for 2013

	2014	2013
ASSETS		
Cash	$ 832,191	$ 488,549
Contributions receivable		
Rodale, Inc.	5,526,000	5,526,000
Other	88,607	144,223
Accounts receivable		
Grants and federal awards	183,325	173,417
Other	100,766	36,435
Inventory	52,494	22,428
Prepaid expenses and other assets	56,156	48,050
Investments	12,564,489	12,912,596
Note receivable	1,030,580	1,030,580
Beneficial interest in perpetual trust	536,780	505,000
Property and equipment, net	2,923,978	2,808,736
Total assets	$ 23,895,366	$ 23,696,014
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 258,929	$ 142,926
Accrued liabilities	158,288	108,254
Deferred grant revenue	-	86,704
Total liabilities	417,217	337,884
NET ASSETS		
Unrestricted	10,042,713	10,135,076
Temporarily restricted	12,165,606	11,998,848
Permanently restricted	1,269,830	1,224,206
Total net assets	23,478,149	23,358,130
Total liabilities and net assets	$ 23,895,366	$ 23,696,014

See accompanying notes

RODALE INSTITUTE

STATEMENT OF ACTIVITIES

Year ended December 31, 2014 with comparative totals for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
REVENUE, GAINS AND SUPPORT					
Grants	$ 190,108	$ -	$ -	$ 190,108	$ 270,162
Federal awards	299,736	-	-	299,736	316,053
Contributions	992,159	863,579	17,375	1,873,113	3,156,021
Education and store	205,351	-	-	205,351	397,177
Farm sales	257,757	-	-	257,757	229,974
Other	195,767	-	-	195,767	154,509
Interest and dividend income	217,565	124,161	16,048	357,774	286,338
Net realized and unrealized gain on investments	138,534	108,795	14,959	262,288	1,430,353
Change in value of beneficial interest in perpetual trust	-	-	31,780	31,780	-
Transfers					
Endowment spending policy distribution	294,428	(259,890)	(34,538)	-	-
Net assets released from restrictions	669,887	(669,887)	-	-	-
Total revenue, gains and support	3,461,292	166,758	45,624	3,673,674	6,240,587
EXPENSES					
Program Services					
Strategic Solutions Team	2,079,497	-	-	2,079,497	2,030,291
Communications	702,551	-	-	702,551	529,825
Supporting Services					
Management and general	526,564	-	-	526,564	605,721
Development	245,043	-	-	245,043	216,336
Total expenses	3,553,655	-	-	3,553,655	3,382,173
CHANGE IN NET ASSETS	(92,363)	166,758	45,624	120,019	2,858,414
NET ASSETS					
Beginning of year	10,135,076	11,998,848	1,224,206	23,358,130	20,499,716
End of year	$ 10,042,713	$ 12,165,606	$ 1,269,830	$ 23,478,149	$ 23,358,130

See accompanying notes

RODALE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2014 with comparative totals for 2013

	Program Services			Supporting Services			Totals	
	Strategic Solutions Team	Communications	Total Program Services	Management and General	Development	Total Supporting Services	2014	2013
Salaries	$ 866,763	$319,930	$1,186,693	$269,939	$102,754	$372,693	$1,559,386	$1,587,971
Payroll taxes and employee benefits	231,469	88,928	320,397	74,684	27,443	102,127	422,524	422,615
Consulting services	74,119	40,000	114,119	8,270	31,606	39,876	153,995	103,190
Contractors and subcontractors	174,138	-	174,138	-	-	-	174,138	215,216
Cost of goods sold	2,908	64,590	67,498	-	-	-	67,498	76,732
Depreciation	43,269	503	43,772	6,660	5,622	12,282	56,054	50,314
Dues and subscriptions	11,221	5,330	16,551	3,036	7,335	10,371	26,922	19,356
Equipment maintenance and rental	146,827	20,511	167,338	77,538	7,967	85,505	252,843	206,276
Postage	3,371	13,837	17,208	1,492	12,638	14,130	31,338	22,072
Printing and publications	8,223	14,788	23,011	560	5,441	6,001	29,012	35,992
Professional services	21,895	21,132	43,027	22,668	5	22,673	65,700	39,057
Supplies	258,630	24,221	282,851	21,593	7,963	29,556	312,407	282,354
Telecommunications	8,144	4,625	12,769	11,151	1,057	12,208	24,977	22,366
Travel	76,373	39,919	116,292	-	8,381	8,381	124,673	79,339
Utilities	74,104	14,463	88,567	16,508	17	16,525	105,092	101,962
Other	78,043	29,774	107,817	12,465	26,814	39,279	147,096	117,361
	$ 2,079,497	$702,551	$2,782,048	$526,564	$245,043	$771,607	$3,553,655	$3,382,173

See accompanying notes

RODALE INSTITUTE

STATEMENT OF CASH FLOWS

Year ended December 31, 2014 with comparative totals for 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 120,019	$ 2,858,414
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Net realized and unrealized gain on investments	(262,288)	(1,430,353)
Contribution of beneficial interest in perpetual trust	-	(505,000)
Change in value of beneficial interest in perpetual trust	(31,780)	-
Depreciation expense	56,054	50,314
Amortization of discount on contributions receivable	(386,820)	(386,820)
(Increase) decrease in		
Contributions receivable	442,436	395,324
Accounts receivable	(74,239)	(47,719)
Inventory	(30,066)	8,943
Prepaid expenses and other assets	(8,106)	16,397
Increase (decrease) in		
Accounts payable	116,003	81,549
Accrued liabilities	50,034	(18,578)
Deferred grant revenue	(86,704)	56,134
Net cash provided by (used for) operating activities	(95,457)	1,078,605
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) sales of investments	610,395	(1,636,629)
Purchases of property and equipment	(171,296)	(41,482)
Net cash provided by (used for) investing activities	439,099	(1,678,111)
Net change in cash	343,642	(599,506)
CASH		
Beginning of year	488,549	1,088,055
End of year	$ 832,191	$ 488,549

See accompanying notes

(1) NATURE OF OPERATIONS

Rodale Institute (the ***"Institute"***), located in Kutztown, Pennsylvania, is a non-profit research and education organization focused on organic agriculture and its beneficial impact on health and the environment. For over six decades Rodale Institute has demonstrated the benefits of organic farming through innovative research and outreach on its 333 acre experimental farm, one of the largest research facilities of its kind. The Institute has trained thousands of farmers throughout the world in organic methods that enhance soil fertility, build soil organic matter, sequester carbon and eliminate the use of synthetic chemicals and fertilizers. Rodale Institute's Farming System Trial is the longest running side-by-side comparison of conventional versus organic farming. Results of this 30-year study prove that organic yields match conventional and organic farming systems are more profitable than conventional.

Rodale Institute also hosts a myriad of online tools for farmers including their free Transition to Organics course that provides information and expertise for farmers seeking to convert their farms from chemical methods to organic practices. In addition, Rodale Institute's website is home to an Organic Price Report, a Crop Conversion Calculator, an Organic System Plan and a variety of other online tools that help famers transition to organic and ensure they are utilizing best organic farming practices. Revenue sources for the Institute consist primarily of federal and state grant monies in addition to contributions from individuals and organizations who share this vision and commitment.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. As a result, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Institute reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Institute and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as ***"net assets released from restrictions."***

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that such assets be maintained indefinitely.

Fair Value Measurements

Generally accepted accounting principles (***"GAAP"***) define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Institute. Unobservable inputs reflect the Institute’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Institute has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Institute's own assumptions.

Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Accounts Receivable

Accounts receivable are reported at net realizable value. The net realizable value is based on management's estimate of the amount of receivables that will be actually collected. Accounts are written off against the allowance for doubtful accounts when management determines the account is uncollectible.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Dividend and interest income is recorded as earned. Donated investments are recorded at fair value at the date of receipt.

The Institute invests in a professionally-managed portfolio that contains various types of securities ***(See Note 4)***. Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Property and Equipment

The Institute capitalizes all expenditures for property and equipment in excess of $1,000. Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years.

Beneficial Interest in Perpetual Trust

The Institute is the beneficiary of a perpetual trust agreement which is held by a third party. Because the Institute will receive a perpetual stream of income from the trust, an estimate of the present value of estimated future cash flows has been recorded as an asset on the statement of financial position using Level 3 valuation inputs. The Institute's beneficial interest in this trust agreement is shown as a permanently restricted net asset in the financial statements.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as ***"unrestricted support."***

Unconditional contributions are recognized when the related promise to give is received. Conditional contributions are recognized when the conditions are satisfied.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Institute.

Grants and Federal Awards

Grants and federal awards are recorded as revenue as the services are performed.

Functional Allocation of Expenses

The costs of providing the program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefitted, primarily based upon the relative time spent by Institute employees on each function.

Income Tax Status

The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Institute's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain income tax positions taken on their tax returns. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. The Institute believes that it had no uncertain tax positions as defined in GAAP and the standard had no impact on the Institute's financial statements.

The tax returns for the years ended December 31, 2011, 2012 and 2013 are subject to examination by the Internal Revenue Service and other various taxing authorities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially subject the Institute to concentrations of credit risk are cash, contributions receivable, accounts receivable and a note receivable. The Institute maintains its cash at various financial institutions. At times, deposits may exceed federally-insured limits. Accounts receivable are due primarily from government agencies and are expected to be collected during 2015. The note receivable and the majority of contributions receivable are due from Rodale, Inc. and are further described in Notes 3 and 5.

Reclassifications

Certain items in the 2013 comparative information have been reclassified to conform to the 2014 presentation. The most significant reclassification was the result of management determining a contribution received many years ago and recorded as permanently restricted should have been recorded as unrestricted. As a result permanently restricted net assets were decreased and unrestricted net assets were increased by $35,067 at December 31, 2013.

(3) CONTRIBUTIONS RECEIVABLE

Rodale, Inc. is a for-profit publishing corporation located in Emmaus, Pennsylvania. A former Chairman of Rodale, Inc. founded the Institute. Contributions receivable from Rodale, Inc. are expected to be collected as follows:

2015	$ 386,820
2016	386,820
2017	386,820
2018	386,820
2019	386,820
Thereafter	5,943,730
	7,877,830
Less discount to net present value (7%)	(2,351,830)
	$ 5,526,000

Other contributions receivable are expected to be collected in 2015. Fair value of contributions receivable was determined using Level 2 valuation inputs.

(4) INVESTMENTS

Investments, at fair value, consist of the following at December 31,:

	2014	2013
Money market funds	$ 396,834	$ 1,150,486
Marketable equity securities	6,572,416	6,521,111
Mutual funds		
Equities	2,385,749	2,316,332
Fixed income	3,209,490	2,924,667
	$12,564,489	$12,912,596

Fair value of investments was determined using Level 1 inputs.

(5) NOTE RECEIVABLE

In January 1991, the Institute received a note receivable from Rodale, Inc. ***(See Note 3)***. The note in the amount of $2,061,160 (in addition to forgiveness of an advance from Rodale, Inc. of $555,000) was consideration for the repurchase by Rodale, Inc. of preferred stock (78,800 shares) held by the Institute. It bears interest at 12% per annum with principal payments to be received in ten equal annual installments beginning March 31, 1997, with the entire unpaid balance due March 31, 2006. On April 1, 2006, an agreement was reached with Rodale, Inc. to extend this note until March 31, 2011. On March 31, 2011, the note was amended to extend the note's maturity until March 31, 2021. The note is due in full on March 31, 2021, and interest will be paid quarterly at 7%, until this note matures on that date. At December 31, 2014 and 2013, the outstanding balance of this note was $1,030,580.

(6) PROPERTY AND EQUIPMENT

Property and equipment at December 31, consist of the following:

	2014	2013
Land	$ 2,554,726	$ 2,554,726
Land improvements	34,421	34,421
Machinery and equipment	1,499,401	1,341,499
Accumulated depreciation	(1,164,570)	(1,121,910)
	$ 2,923,978	$ 2,808,736

All of the Institute's land is under a conservation easement with the Wildlands Conservancy.

(7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	Balance December 31, 2013	Additions	Released from Restrictions	Balance December 31, 2014
Purpose restrictions				
Operations and maintenance of Rodale Institute	$ 5,197,806	$ 232,956	$(259,890)	$ 5,170,872
Various	1,262,888	456,759	(270,913)	1,448,734
Time restrictions (available in future years)				
Rodale, Inc. contribution receivable	5,526,000	386,820	(386,820)	5,526,000
Other	12,154	20,000	(12,154)	20,000
	$11,998,848	$1,096,535	$(929,777)	$12,165,606

(8) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

General endowment	$ 715,675
Your 2 Cents endowment	17,375
Beneficial interest in perpetual trust	536,780
	$1,269,830

The income from the general endowment and the beneficial interest in perpetual trust is available for general operations. The income for the Your 2 Cents endowment is restricted for financial assistance to organic farmers.

(9) ENDOWMENT FUND

An accounting standard was issued which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (***"UPMIFA"***). The Institute is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The Institute classifies both the original fair value of contributions to permanent endowments along with the investment income attributable to the permanent endowments as part of permanently restricted net assets. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, the Institute has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The Institute's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of money annually distributed from the endowment funds to support various programs. The current spending policy on the permanently restricted endowment is to distribute the amount equal to 5% of a moving three-year average of the fair value of the permanently restricted endowment fund. No distribution was taken on the board-designated endowment fund for 2014.

Changes in the endowment assets for the year ended December 31, 2014 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, beginning of year	$5,197,806	$719,206	$5,917,012
Contributions	-	17,375	17,375
Investment income	124,161	16,048	140,209
Realized and unrealized gain	108,795	14,959	123,754
Spending policy distribution	(259,890)	(34,538)	(294,428)
Endowment net assets, end of year	$5,170,872	$733,050	$5,903,922

(10) DONATED SERVICES AND IN-KIND CONTRIBUTIONS

The fair value of donated services and in-kind contributions included as contributions in the financial statements and the corresponding expenses for the years ended December 31, 2014 and 2013 are as follows:

	2014			
	Strategic Solutions Team	Communications	Management and General	Total
Consulting services	$ -	$ 963	$ -	$ 963
Contractors and subcontractors	42,907	-	-	42,907
Equipment maintenance and rental	-	600	-	600
Professional services	-	-	954	954
Supplies	109	-	-	109
	$43,016	$1,563	$954	$45,533

	2013			
	Strategic Solutions Team	Communications	Management and General	Total
Consulting services	$ 285	$ -	$7,780	$ 8,065
Contractors and subcontractors	103,619	-	-	103,619
Supplies	28,914	142	-	29,056
	$130,908	$142	$7,780	$140,740

(11) DEFINED CONTRIBUTION PLAN

The Institute participates in a participatory defined contribution plan that covers substantially all of its employees. Employees can contribute any percentage of their income up to the Internal Revenue Service limit for the year. The Institute matches contributions by the participants up to 6% of annual compensation. The Institute contributed $42,432 to the plan in 2014 and $49,434 to the plan in 2013.

(12) LINE OF CREDIT

The Institute has a line of credit arrangement with a local bank under which the Institute may borrow up to $250,000 on such terms as the Institute and the bank mutually agree upon. The line bears interest at prime plus ¾%. The arrangement is approved until December 31, 2015, but is reviewed annually for renewal. At December 31, 2014 and 2013, the full $250,000 was available.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 27, 2015, the date on which the financial statements were available to be issued. No subsequent events have occurred that require recognition in the financial statements.