

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

**COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2017 AND 2016

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Alliance Defending Freedom
Scottsdale, Arizona

Report on the Financial Statements

We have audited the accompanying combined financial statements of Alliance Defending Freedom and affiliates, which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Alliance Defending Freedom and affiliates as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The selected combining financial information in the schedules attached, which is the responsibility of management, is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
December 19, 2017

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 14,458,627	\$ 11,672,782
Contributions and Other Receivables	305,275	233,047
Prepaid Expenses	1,996,348	1,202,726
Book Inventory	25,700	23,240
Total Current Assets	16,785,950	13,131,795
NONCURRENT ASSETS		
Restricted Cash	-	380,335
Deposits	300,989	298,344
Intercompany Due to (from)	-	5,864
Investments	6,656,095	7,810,600
Campus and Equipment, Net	16,870,449	18,713,826
Total Noncurrent Assets	23,827,533	27,208,969
Total Assets	\$ 40,613,483	\$ 40,340,764
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable:		
Trade	\$ 1,928,700	\$ 2,497,818
Accrued Liabilities:		
Salaries and Benefits	2,186,398	1,831,696
Property Taxes	-	56,137
Total Current Liabilities	4,115,098	4,385,651
DEFERRED RENT	1,144,179	773,393
Total Liabilities	5,259,277	5,159,044
NET ASSETS		
Unrestricted:		
Undesignated	4,408,606	2,500,873
Designated	11,094,974	11,158,097
Net Investment in Campus and Equipment	16,870,449	18,713,826
	32,374,029	32,372,796
Temporarily Restricted	2,854,056	2,682,803
Permanently Restricted	126,121	126,121
Total Net Assets	35,354,206	35,181,720
Total Liabilities and Net Assets	\$ 40,613,483	\$ 40,340,764

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER SUPPORT				
Contributions	\$ 32,711,333	\$ 17,622,328	\$ -	\$ 50,333,661
Interest Income	168,490	-	-	168,490
Other Income	195,164	-	-	195,164
Court Awarded Fees	434,166	-	-	434,166
Contributed Services	4,962,099	-	-	4,962,099
Tenant Revenue	6,921	-	-	6,921
Realized and Unrealized Gain (Loss) on Investments, Net	314,409	24,393	-	338,802
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	<u>17,475,468</u>	<u>(17,475,468)</u>	-	-
Total Revenues and Other Support	<u>56,268,050</u>	<u>171,253</u>	-	<u>56,439,303</u>
EXPENSES				
Program Services:				
Grants	3,321,768	-	-	3,321,768
Direct Litigation	20,116,332	-	-	20,116,332
Allied Support and Training	7,628,826	-	-	7,628,826
Public Education	<u>14,271,293</u>	-	-	<u>14,271,293</u>
Total Program Services	45,338,219	-	-	45,338,219
Supporting Activities:				
General and Administrative:				
Company Administration	4,470,250	-	-	4,470,250
Tenants Property Management	-	-	-	-
Total General and Administrative	<u>4,470,250</u>	-	-	<u>4,470,250</u>
Fund Raising	<u>6,458,348</u>	-	-	<u>6,458,348</u>
Total Supporting Activities	<u>10,928,598</u>	-	-	<u>10,928,598</u>
Total Expenses	<u>56,266,817</u>	-	-	<u>56,266,817</u>
CHANGE IN NET ASSETS	1,233	171,253	-	172,486
Net Assets - Beginning of Year	<u>32,372,796</u>	<u>2,682,803</u>	<u>126,121</u>	<u>35,181,720</u>
NET ASSETS - END OF YEAR	<u><u>\$ 32,374,029</u></u>	<u><u>\$ 2,854,056</u></u>	<u><u>\$ 126,121</u></u>	<u><u>\$ 35,354,206</u></u>

See accompanying Notes to Combined Financial Statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 31,962,177	\$ 18,168,778	\$ -	\$ 50,130,955
219,261	-	-	219,261
416,430	-	-	416,430
979,457	-	-	979,457
7,206,026	-	-	7,206,026
186,660	-	-	186,660
12,901	5,993	-	18,894
18,378,035	(18,378,035)	-	-
59,360,947	(203,264)	-	59,157,683
3,606,545	-	-	3,606,545
22,836,268	-	-	22,836,268
11,979,566	-	-	11,979,566
15,045,382	-	-	15,045,382
53,467,761	-	-	53,467,761
4,391,803	-	-	4,391,803
197,297	-	-	197,297
4,589,100	-	-	4,589,100
5,775,773	-	-	5,775,773
10,364,873	-	-	10,364,873
63,832,634	-	-	63,832,634
(4,471,687)	(203,264)	-	(4,674,951)
36,844,483	2,886,067	126,121	39,856,671
<u>\$ 32,372,796</u>	<u>\$ 2,682,803</u>	<u>\$ 126,121</u>	<u>\$ 35,181,720</u>

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program Services				Supporting Activities				Total
	Grants and Funding	Direct Litigation	Allied Support and Training	Public Education	Total Program Services	General and Administrative	Fund Raising	Total Supporting Activities	
Salaries and Related Benefits	\$ 1,061,214	\$ 10,547,160	\$ 2,707,672	\$ 5,440,980	\$ 19,757,026	\$ 2,473,101	\$ 2,985,785	\$ 5,458,886	\$ 25,215,912
Contributed Services	54,395	4,894,246	-	-	4,948,641	-	-	-	4,948,641
Occupancy	54,931	780,360	293,429	345,486	1,474,206	236,146	273,696	509,842	1,984,048
Insurance	15,893	78,949	21,040	16,824	132,706	15,581	23,789	39,370	172,076
Communications	16,893	169,164	72,946	91,375	350,378	49,339	67,345	116,684	467,062
Shipping and Postage	3,119	52,946	31,123	1,340,260	1,427,448	130,331	227,961	358,292	1,785,740
Office Supplies	2,962	38,348	77,232	18,364	136,906	9,399	14,577	23,976	160,882
Equipment	27,261	436,415	308,956	232,417	1,005,049	232,962	147,545	380,507	1,385,556
Financial Services	400	6,025	2,181	18,110	26,716	251,830	50,389	302,219	328,935
Travel	67,798	888,367	1,206,887	559,879	2,722,931	96,624	349,733	446,357	3,169,288
Educational Seminars	43,651	405,186	910,438	220,855	1,580,130	74,211	199,626	273,837	1,853,967
Professional Services	57,430	506,318	342,123	364,548	1,270,419	199,715	327,639	527,354	1,797,773
Audio/Visual and Media	2,476	129,895	157,566	391,875	681,812	(50,471)	43,330	(7,141)	674,671
Grant Disbursement	1,804,843	100	100	100	1,805,143	200	400	600	1,805,743
Blackstone Scholarships	144	2,440	1,016,444	1,327	1,020,355	-	1,183	1,183	1,021,538
Direct Mail	16,436	67,864	28,809	2,374,764	2,487,873	248,949	937,045	1,185,994	3,673,867
Depreciation	63,520	961,245	354,398	423,478	1,802,641	282,342	327,464	609,806	2,412,447
Public Education Material	28,402	151,304	97,482	2,430,651	2,707,839	219,991	480,841	700,832	3,408,671
Total Expenses	\$ 3,321,768	\$ 20,116,332	\$ 7,628,826	\$ 14,271,293	\$ 45,338,219	\$ 4,470,250	\$ 6,458,348	\$ 10,928,598	\$ 56,266,817

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	Program Services					Supporting Activities			
	Grants and Funding	Direct Litigation	Allied Support and Training	Public Education	Total Program Services	General and Administrative	Fund Raising	Total Supporting Activities	Total
Salaries and Related Benefits	\$ 902,385	\$ 11,077,753	\$ 3,566,307	\$ 5,271,221	\$ 20,817,666	\$ 2,527,952	\$ 3,095,590	\$ 5,623,542	\$ 26,441,208
Contributed Services	53,323	7,103,740	-	-	7,157,063	-	-	-	7,157,063
Occupancy	61,668	884,671	317,728	381,846	1,645,913	154,816	273,656	428,472	2,074,385
Insurance	14,298	64,145	27,864	16,951	123,258	16,325	24,117	40,442	163,700
Communications	12,501	172,149	65,293	81,629	331,572	42,809	58,699	101,508	433,080
Shipping and Postage	2,035	43,666	55,564	1,521,608	1,622,873	83,609	130,908	214,517	1,837,390
Office Supplies	5,173	68,843	81,871	32,326	188,213	16,567	21,783	38,350	226,563
Equipment	27,771	419,279	394,744	198,030	1,039,824	118,359	139,927	258,286	1,298,110
Financial Services	596	5,020	1,407	8,698	15,721	310,524	45,649	356,173	371,894
Travel	66,526	925,977	2,754,329	478,341	4,225,173	98,205	349,418	447,623	4,672,796
Educational Seminars	33,399	345,355	2,131,456	217,311	2,727,521	65,915	226,624	292,539	3,020,060
Professional Services	78,049	564,133	500,006	261,038	1,403,226	254,162	244,978	499,140	1,902,366
Audio/Visual and Media	7,785	98,029	706,536	688,613	1,500,963	22,344	78,042	100,386	1,601,349
Grant Disbursement	2,262,319	18,925	18,774	18,797	2,318,815	-	8,358	8,358	2,327,173
Blackstone Scholarships	250	4,250	875,950	250	880,700	-	-	-	880,700
Direct Mail	8,385	60,872	46,331	2,983,969	3,099,557	138,281	386,967	525,248	3,624,805
Depreciation	60,654	918,544	342,457	405,702	1,727,357	362,485	321,051	683,536	2,410,893
Public Education Material	9,428	60,917	92,949	2,479,052	2,642,346	179,450	370,006	549,456	3,191,802
Tenants Property Management	-	-	-	-	-	197,297	-	197,297	197,297
Total Expenses	\$ 3,606,545	\$ 22,836,268	\$ 11,979,566	\$ 15,045,382	\$ 53,467,761	\$ 4,589,100	\$ 5,775,773	\$ 10,364,873	\$ 63,832,634

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 172,486	\$ (4,674,951)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities		
Depreciation	2,412,447	2,410,893
Realized and Unrealized Gain on Investments, Net	(338,802)	(18,894)
(Increase) Decrease in Assets:		
Other Receivable	(72,228)	212,456
Prepaid Expenses	(793,622)	1,412,396
Book Inventory	(2,460)	(2,198)
Cash Surrender Value - Life Insurance	5,864	-
Intercompany Due To Due From	-	(5,864)
Deposits	(2,645)	59,948
Increase (Decrease) in Liabilities:		
Accounts Payable	(569,118)	20,289
Accrued Payroll	354,702	249,858
Accrued Property Taxes	(56,137)	40
Tenant Deposits	-	(9,572)
Deferred Rent	370,786	374,807
Net Cash and Cash Equivalents Provided by Operating Activities	1,481,273	29,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(3,076,104)	(13,753,387)
Proceeds from Sales of Investments	4,569,411	21,894,013
Campus and Equipment Acquisitions	(569,070)	(1,789,502)
Net Cash and Cash Equivalents Provided by Investing Activities	924,237	6,351,124
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted Cash	380,335	(952)
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	380,335	(952)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,785,845	6,379,380
Cash and Cash Equivalents - Beginning of Year	11,672,782	5,293,402
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,458,627	\$ 11,672,782

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Alliance Defending Freedom (the Company or ADF) was formed in March 1993 under the laws of the Commonwealth of Virginia. The purpose of the Company is to serve as an alliance-building legal organization that advocates for the right of the people to freely live out their faith. The Company exists to keep the doors open for the Gospel worldwide by advocating for religious liberty, the sanctity of life, and marriage and the family.

Principles of Combination

These combined financial statements include the activities of Alliance Defending Freedom, ADF Foundation, 15100, LLC, 15100 Solar, LLC, Alliance Defending Freedom India Trust, ADF Mexico, ADF Brussels (Belgium), ADF Geneva, ADF International Austria GmbH, ADF International Switzerland, ADF International United Kingdom, and ADF Strasbourg (France). ADF Foundation was incorporated in 2005. 15100, LLC was organized in 2007 to own and operate a commercial real estate property for the benefit of Alliance Defending Freedom. 15100 Solar, LLC was organized in 2012 to own and operate a solar energy project in connection with 15100, LLC. All material intercompany accounts and transactions have been eliminated in the combination.

Financial Statement Presentation

Net assets and revenues, gains and losses are classified based on state and donor imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Company and/or the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Company. Generally, the donors of these assets permit the Company to use all or part of the income earned on related investments for general or specific purposes.

Use of Donor Gifts

Unrestricted contributions from the general public are primarily used to fund case grants, legal projects, and program costs.

The Company's mission includes raising and using funds to transform law and culture so true freedom can flourish.

Awarding of Case Grants

A significant portion of program service spending goes to case grants. Following a detailed application process, grant applications are reviewed for approval by the Grants and Review Council. Grant disbursements include costs to research and litigate selected legal cases. Once awarded, disbursements are made after satisfactory completion of the terms of the grant.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Awarding of Case Grants (Continued)

The Grants and Review Council is composed of volunteer attorneys with expertise in various fields of law. The council meets throughout the year to review grant applications and to plan legal strategy. For the years ended June 30, 2017 and 2016, this committee's contributed skilled services were valued at approximately \$54,000 and \$75,000, respectively, and these amounts are included in contributed services revenue.

Once a grant is awarded, funds are retained until proof of completion of work or expenditures authorized are received from the grant recipient. Grant disbursements are recorded as an expense when paid.

Direct Litigation Contributed Services

Through its ADF Academy, Blackstone Legal Fellowship, and Arete Academy, the Company continues to build an alliance of volunteer attorneys and future attorneys who can work within America's legal system and international bodies of law to protect life, from conception to death; preserve marriage and the family as God ordained it; and protect and defend the ability to publicly live and express one's faith. For the years ended June 30, 2017 and 2016, approximately \$4,900,000 and \$7,160,000, respectively, of contributed services have been recorded as revenue.

Donated Assets and Other Services

Donated assets and other services are recorded at the lower of estimated fair value at date of receipt or current market. For the years ended June 30, 2017 and 2016, there were no donated assets recorded. Other contributed services were \$13,458 and \$12,387 for the years ended June 30, 2017 and 2016, respectively.

Temporarily Restricted Contributions

The Company reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

The Company reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Company reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Income Taxes

Alliance Defending Freedom and ADF Foundation are classified as public charities and are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and Section 43 of the Arizona Revised Statutes. Alliance Defending Freedom India Trust, ADF Mexico, ADF Brussels (Belgium), ADF Geneva, ADF International Austria GmbH, ADF International Switzerland, ADF International United Kingdom and ADF Strasbourg (France) are subject to appropriate tax filings in their jurisdiction. Contributions to Alliance Defending Freedom and ADF Foundation are tax deductible within the limitations described by the Code. 15100, LLC is a single member LLC whose member is Alliance Defending Freedom. 15100, LLC is treated as a disregarded entity of Alliance Defending Freedom for tax purposes. 15100 Solar, LLC is a single member LLC whose member is 15100, LLC.

The Company follows the income tax standard for uncertain tax positions. The Company recognized no liability for uncertain tax positions.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments purchased with an original maturity of three months or less.

Contributions and Other Receivables

Contributions receivable are unconditional promises to give. Such promises that are expected to be collected within one year are recorded at expected net realizable value when the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at present value of estimated future cash flows. Contributions receivable at June 30, 2017 and 2016 are due within one year.

Investments

The Company reports investments in accordance with generally accepted accounting standards. Under these standards, the Company reports investments in equity securities that have readily determinable fair values and all investments in debt securities at fair value. The fair values of investments are based on quoted market prices.

Campus and Equipment

Campus and equipment are stated at cost. The cost of maintenance and repairs is expensed as incurred; significant acquisitions and improvements costing more than \$1,000 and with a useful life of more than one year are capitalized.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Campus and Equipment (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Improvements	10 – 39 Years
Furniture and Equipment	3 – 10 Years

Fair Value Measurements

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at June 30, 2017 and 2016.

Advertising Costs

Advertising costs are charged to expense as they are incurred. The Company incurred advertising expenses \$241,359 and \$263,485, for the years ended June 30, 2017 and 2016 respectively.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Company, in the normal course of business maintains bank and investments balances in excess of FDIC and SIPC insurance limits. The Company regularly remits payments to vendors in such amounts that require bank balances in excess of the FDIC and SIPC insurance limits. Management does not anticipate nonperformance by the financial institutions.

Subsequent Events

In preparing these combined financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through December 19, 2017, the date the combined financial statements were available to be issued.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Total cash and cash equivalents and investments were as follows at June 30:

	2017	2016
Cash and Cash Equivalents	\$ 14,458,627	\$ 11,672,782
Investments	6,656,095	7,810,600
Total	<u>\$ 21,114,722</u>	<u>\$ 19,483,382</u>

NOTE 3 RESTRICTED CASH

Restricted cash consists of amounts in a Rabbi Trust established for the benefit of the Company's Chief Executive Officer. Contributions to the Rabbi Trust during the years ended June 30, 2017 and 2016 was \$-0- for both years, respectively. The account was paid out during the current year due to the transition of the Chief Executive Officer.

NOTE 4 INVESTMENTS

The investment portfolio consists of the following as of June 30:

	2017	2016
Certificates of Deposit	\$ -	\$ 2,307,639
Equity Securities	4,127,007	3,422,416
Mutual Funds	1,842,078	1,663,378
Real Estate Funds	687,010	417,067
Exchange Traded Funds - Equities	-	100
Total Investments	<u>\$ 6,656,095</u>	<u>\$ 7,810,600</u>

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 5 LIFE INSURANCE POLICY

The Company is the beneficiary of a life insurance policy with a face value of \$25,000, and a cash surrender value of \$-0- for June 30, 2017 and 2016, respectively.

NOTE 6 CAMPUS AND EQUIPMENT

Campus and equipment consist of the following:

	2017	2016
Land	\$ 2,000,000	\$ 2,000,000
Building and Improvements	16,915,177	16,840,291
Furniture and Equipment	12,330,063	11,835,879
Total	31,245,240	30,676,170
Less: Accumulated Depreciation	14,374,791	11,962,344
Campus and Equipment, Net	\$ 16,870,449	\$ 18,713,826

NOTE 7 NET ASSETS

Designated Net Assets

Designated net assets consist of grants and special projects in the amount of \$11,094,974 and \$11,158,097 at June 30, 2017 and 2016, respectively, that have been approved but not disbursed. Funds designated for grants will be disbursed upon receipt of appropriate documentation from the grantees.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Special Projects and Grants	\$ 2,177,169	\$ 2,030,309
Open Door	4,539	2,491
Blackstone Fellowship	439,352	432,617
War Chest	232,996	217,386
Total Temporarily Restricted Net Assets	\$ 2,854,056	\$ 2,682,803

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2017	2016
Program Services:		
Special Projects and Grants	\$ 17,445,468	\$ 18,297,079
Blackstone Fellowship	30,000	-
Case Grants	-	80,956
Net Assets Released from Restrictions	\$ 17,475,468	\$ 18,378,035

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 7 NET ASSETS (CONTINUED)

Permanently Restricted Net Assets

Permanently restricted net assets are being held for the following purposes:

	<u>2017</u>	<u>2016</u>
Blackstone Fellowship	\$ 100,000	\$ 100,000
Open Door	26,121	26,121
Total Permanently Restricted Net Assets	<u>\$ 126,121</u>	<u>\$ 126,121</u>

NOTE 8 ENDOWMENT

Interpretation of Relevant Law

The Foundation functions to promote the welfare and activities of Alliance Defending Freedom (Ministry) and assist in achieving its objectives. Long-term success of the Foundation and the Ministry is dependent upon the performance of the Foundation's funds, including endowment funds.

Endowment Funds

The Foundation defines an "endowment" as a fund or part of such a fund that, under the terms of a donor's gift instrument, is not wholly expendable by the Foundation on a current basis. This does not include assets that the Foundation designates as a fund for its own use, or assets held by the Foundation that the Ministry designates as a fund for the Ministry's own use.

The Foundation endowments consist of various funds that may be denominated as true, term, and quasi endowments, and all are subject to the "Investment of Funds" and "Expenditures" provisions noted below. As used herein, "true endowments" are funds for which a donor or other outside agency has stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing current and future income; "term endowments" are similar to true endowment funds except that, upon the passage of a stated period of time, or the occurrence of a stated event, all or part of the principal may be expended; and "quasi endowments" are funds that the board of directors (Board), rather than a donor, has determined will have the principal retained and invested. Since these funds are internally designated rather than externally restricted, the Board has the right to decide at any time to expend some or all of the principal. Collectively, all types of funds are referred to as the "Endowment."

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 8 ENDOWMENTS (CONTINUED)

Investment of Funds

The overall financial objectives of the Foundation are to support the current and future operations of the Ministry and to preserve and enhance the purchasing power of the Endowment. To accomplish these objectives, the Foundation must generate real returns from investments greater than its spending rate over the long term.

The investment objective of the Foundation is to attain an average annual real total return (net of investment management fees and after inflation) in excess of the spending rate over the long term, defined as rolling five-year periods, and to outperform the median endowment within a universe of other similarly held endowments. The Board has adopted a diversified approach to investment that balances its goals of maximizing return and preserving the Endowment's purchasing power. In seeking to attain these investment objectives, the Foundation, the Board, and its agents exercise prudence and appropriate care in accordance with Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Arizona's Management of Charitable Funds Act (Act).

Expenditures

The Act governs expenditures from the Foundation's Endowment. The Foundation complies with the Act, as it may be amended from time to time, in all decisions relating to the expenditure or retention of the Endowment. The Act permits the Foundation to appropriate for expenditure or accumulate so much of any the Endowment as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the applicable Endowment Fund was established, subject to the intent of donors expressed in the applicable gift instrument. The Foundation has adopted a spending policy, permitted by the Act, which provides currently that the amount of funds allocated for expenditure, pursuant to the purposes for which the Endowment was established, will equal annually five percent (5%) of the value of such Endowment, with such being applicable to any sub-fund within the Endowment.

The value of each sub-fund will be calculated by averaging the market value of the sub-fund as of the end of each of the twelve calendar quarters immediately preceding the date upon which the calculation is being made, but not including the quarter in which the calculation date itself falls.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 8 ENDOWMENT (CONTINUED)

Expenditures (Continued)

The endowment net assets and activity for 2017 consisted of the following:

	June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning	\$ -	\$ 25,197	\$ 126,121	\$ 151,318
Contributions	-	-	-	-
Unrealized Gain	-	10,859	-	10,859
Amounts Appropriated for Expenditure	-	-	-	-
Endowment Net Assets, Ending	<u>\$ -</u>	<u>\$ 36,056</u>	<u>\$ 126,121</u>	<u>\$ 162,177</u>

The endowment net assets and activity for 2016 consisted of the following:

	June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning	\$ -	\$ 19,204	\$ 126,121	\$ 145,325
Contributions	-	-	-	-
Unrealized Gain	-	5,993	-	5,993
Amounts Appropriated for Expenditure	-	-	-	-
Endowment Net Assets, Ending	<u>\$ -</u>	<u>\$ 25,197</u>	<u>\$ 126,121</u>	<u>\$ 151,318</u>

NOTE 9 RENTAL INCOME UNDER OPERATING LEASES

The Company leases a portion of its property to one tenant under an operating lease, which expired in January 2016. Rental income for the years ended June 30, 2017 and 2016 was \$-0- and \$186,660, respectively.

NOTE 10 ALLOCATION OF JOINT COSTS

For the years ended June 30, 2017 and 2016, the Company incurred joint costs of \$7,082,538 and \$6,571,589, respectively, for informational materials and activities that included fund raising appeals. Of those costs, \$1,417,886 and \$743,488 were allocated to fund raising expense, \$468,940 and \$316,499 were allocated to general and administrative, and \$5,195,712 and \$5,511,602 were allocated to program services at June 30, 2017 and 2016, respectively.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 11 OPERATING LEASES

Equipment

The Company leases office equipment under noncancellable operating leases with total monthly payments including on-going maintenance costs of approximately \$13,000 plus applicable taxes. These leases expire at various dates through June 2019. Total rent expense was \$330,141 and \$412,124 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 186,321
2019	154,119
2020	82,645
2021	48,238
Total Future Lease Payments	<u>\$ 471,323</u>

Office Space

The Company leases various office space under long term operating leases, which require various total monthly payments. The leases expire at various dates through March 2027. Total rent expense was \$ 1,283,043 and \$1,205,432, for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 1,206,173
2019	1,000,872
2020	978,776
2021	982,524
2022	977,226
Thereafter	4,765,409
Total Future Lease Payments	<u>\$ 9,910,980</u>

The Company accounts for rent expense evenly over the term of the lease using the straight-line method. The unamortized deferred rent was \$1,144,179 and \$773,393 at June 30, 2017 and 2016, respectively.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 12 RETIREMENT PLAN

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code. All employees age 21 and over who have work three months are eligible to participate in the plan by making voluntary contributions of between 1% and 90% of their gross wages up to \$18,000. The Company matches employee contributions up to 4%. The Company contributed \$553,190 and \$567,965 to the plan for the years ended June 30, 2017 and 2016, respectively.

NOTE 13 COMMITMENTS

The Company has contracts with various hotels and conference centers for special events to be held in the following years. The Company was liable for approximately \$2,368,000 and \$1,477,000 related to these contracts at June 30, 2017 and 2016, respectively.

NOTE 14 FAIR VALUE MEASUREMENTS

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Company measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

The following table presents fair value hierarchy for the balances of the assets of the Company measured at fair value on a recurring basis as of June 30, 2017 and 2016:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 4,127,007	\$ -	\$ -	\$ 4,127,007
Mutual Funds - Equities	1,842,078	-	-	1,842,078
Real Estate Funds	687,010	-	-	687,010
Exchange Traded Funds - Equities	-	-	-	-
Certificates of Deposit	-	-	-	-
Total	<u>\$ 6,656,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,656,095</u>

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 3,422,416	\$ -	\$ -	\$ 3,422,416
Mutual Funds	1,663,378	-	-	1,663,378
Real Estate Funds	417,067	-	-	417,067
Government Bonds	100	-	-	100
Certificates of Deposit	-	2,307,639	-	2,307,639
Total	<u>\$ 5,502,961</u>	<u>\$ 2,307,639</u>	<u>\$ -</u>	<u>\$ 7,810,600</u>

**ALLIANCE DEFENDING FREEDOM
SELECTED COMBINING FINANCIAL INFORMATION
YEAR ENDED JUNE 30, 2017**

	ADF	15100 LLC	15100 Solar	ADF Foundation	ADF International Affiliates	Eliminations	ADF Total Combined
ASSETS							
Cash, Investments and Other	\$ 15,386,628	\$ 76,827	\$ 161,854	\$ 7,771,481	\$ 346,244	\$ -	\$ 23,743,034
Property and Equipment, Net	3,300,040	11,559,024	1,166,387	-	844,998	-	16,870,449
Total Assets	<u>\$ 18,686,668</u>	<u>\$ 11,635,851</u>	<u>\$ 1,328,241</u>	<u>\$ 7,771,481</u>	<u>\$ 1,191,242</u>	<u>\$ -</u>	<u>\$ 40,613,483</u>
REVENUE							
Contributions	\$ 50,007,199	\$ -	\$ -	\$ 187,882	\$ 138,580	\$ -	\$ 50,333,661
Contributed Services	4,962,099	-	-	-	-	-	4,962,099
Other Revenue	850,003	69,119	112,887	510,977	-	(399,443)	1,143,543
Total Revenue	<u>55,819,301</u>	<u>69,119</u>	<u>112,887</u>	<u>698,859</u>	<u>138,580</u>	<u>(399,443)</u>	<u>56,439,303</u>
EXPENSES							
Program	41,632,747	879,523	108,688	190,208	2,671,046	(143,993)	45,338,219
Company Administration	4,231,374	152,451	18,839	-	85,803	(18,217)	4,470,250
Fund Raising	5,459,620	140,724	17,390	1,077,847	-	(237,233)	6,458,348
Total Expenses	<u>51,323,741</u>	<u>1,172,698</u>	<u>144,917</u>	<u>1,268,055</u>	<u>2,756,849</u>	<u>(399,443)</u>	<u>56,266,817</u>
Change in Net Assets	<u>\$ 4,495,560</u>	<u>\$ (1,103,579)</u>	<u>\$ (32,030)</u>	<u>\$ (569,196)</u>	<u>\$ (2,618,269)</u>	<u>\$ -</u>	<u>\$ 172,486</u>

ALLIANCE DEFENDING FREEDOM
SELECTED COMBINING FINANCIAL INFORMATION – INTERNATIONAL ENTITIES
YEARS ENDED JUNE 30, 2017

	ADF - India	ADF - Austria	ADF - Mexico	ADF - Belgium	ADF - France	ADF - Switzerland	ADF - United Kingdom	Total International Entities
ASSETS								
Cash, Investments and Other	\$ -	\$ 124,688	\$ -	\$ 50,759	\$ 78,209	\$ 61,043	\$ 31,545	\$ 346,244
Property and Equipment, Net	20,843	248,095	-	243,377	172,843	159,840	-	844,998
Total Assets	<u>\$ 20,843</u>	<u>\$ 372,783</u>	<u>\$ -</u>	<u>\$ 294,136</u>	<u>\$ 251,052</u>	<u>\$ 220,883</u>	<u>\$ -</u>	<u>\$ 1,191,242</u>
REVENUE								
Local Contribution Revenue	\$ -	\$ 38,146	\$ -	\$ -	\$ 4,975	\$ -	\$ 95,459	\$ 138,580
Total Revenue	-	38,146	-	-	4,975	-	95,459	138,580
EXPENSES								
Program	139,811	995,864	103,054	454,489	421,544	467,948	88,336	2,671,046
Company Administration	1,089	40,817	3,875	6,573	5,552	5,477	22,420	85,803
Total Expenses	<u>140,900</u>	<u>1,036,681</u>	<u>106,929</u>	<u>461,062</u>	<u>427,096</u>	<u>473,425</u>	<u>110,756</u>	<u>2,756,849</u>
Change in Net Assets	<u>\$ (140,900)</u>	<u>\$ (998,535)</u>	<u>\$ (106,929)</u>	<u>\$ (461,062)</u>	<u>\$ (422,121)</u>	<u>\$ (473,425)</u>	<u>\$ (15,297)</u>	<u>\$ (2,618,269)</u>