



ALLIANCE DEFENDING
FREEDOM

FOR FAITH. FOR JUSTICE.

**ALLIANCE DEFENDING
FREEDOM AND AFFILIATES**

Consolidated Financial Statements
With Independent Auditors Report

June 30, 2019 and 2018

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Alliance Defending Freedom and Affiliates
Scottsdale, Arizona

We have audited the accompanying consolidated financial statements of Alliance Defending Freedom and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Alliance Defending Freedom and Affiliates
Scottsdale, Arizona

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alliance Defending Freedom and Affiliates as of June 30, 2019 and 2018, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
October 9, 2019

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Financial Position

	June 30,	
	2019	2018
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 4,704,587	\$ 6,283,289
Prepaid expenses and other assets	3,545,982	1,635,272
	8,250,569	7,918,561
Deposits	210,154	337,738
Investments	21,905,246	16,429,124
Property and equipment—net	17,046,884	16,493,997
	\$ 47,412,853	\$ 41,179,420
Total Assets	\$ 47,412,853	\$ 41,179,420
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 2,916,618	\$ 2,444,305
Accrued expenses	3,430,799	2,105,353
Deferred membership dues	405,710	127,005
	6,753,127	4,676,663
Accrued rent liability	1,083,823	1,124,160
	7,836,950	5,800,823
Net assets:		
Net assets without donor restrictions:		
Operating	24,463,797	21,785,589
Board designations for contractual obligations and grants	3,489,318	2,851,342
Board designated operating reserve	8,808,897	8,000,000
	36,762,012	32,636,931
Net assets with donor restrictions:		
Restricted by purpose and time	2,537,770	2,615,545
Restricted in perpetuity	276,121	126,121
	2,813,891	2,741,666
	39,575,903	35,378,597
Total Liabilities and Net Assets	\$ 47,412,853	\$ 41,179,420

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 53,201,755	\$ 4,759,592	\$ 57,961,347	\$ 36,872,035	\$ 18,489,832	\$ 55,361,867
Contributed services	2,914,800	-	2,914,800	5,858,396	-	5,858,396
Interest income	451,592	-	451,592	323,863	-	323,863
Realized and unrealized gain on investments—net	243,905	7,437	251,342	106,151	5,630	111,781
Membership revenue	440,982	-	440,982	150,145	-	150,145
Court awarded fees	2,531,679	-	2,531,679	141,727	-	141,727
Gain (loss) on sale of property and equipment	8,937	-	8,937	(441,498)	-	(441,498)
Other income	122,005	-	122,005	129,267	-	129,267
Total Support and Revenue	59,915,655	4,767,029	64,682,684	43,140,086	18,495,462	61,635,548
NET ASSETS RELEASED:						
Purpose restrictions	4,694,804	(4,694,804)	-	18,733,973	(18,733,973)	-
EXPENSES:						
Program services:						
Grants	2,649,622	-	2,649,622	3,258,924	-	3,258,924
Legal advocacy	19,200,085	-	19,200,085	23,021,276	-	23,021,276
Strategic relations and training	12,233,477	-	12,233,477	10,055,374	-	10,055,374
Public education	11,761,996	-	11,761,996	11,904,533	-	11,904,533
	45,845,180	-	45,845,180	48,240,107	-	48,240,107
Supporting activities:						
General and administrative	6,365,660	-	6,365,660	5,304,037	-	5,304,037
Fundraising	8,274,538	-	8,274,538	8,067,013	-	8,067,013
	14,640,198	-	14,640,198	13,371,050	-	13,371,050
Total Expenses	60,485,378	-	60,485,378	61,611,157	-	61,611,157
Change in Net Assets	4,125,081	72,225	4,197,306	262,902	(238,511)	24,391
Net Assets, Beginning of Year	32,636,931	2,741,666	35,378,597	32,374,029	2,980,177	35,354,206
Net Assets, End of Year	<u>\$ 36,762,012</u>	<u>\$ 2,813,891</u>	<u>\$ 39,575,903</u>	<u>\$ 32,636,931</u>	<u>\$ 2,741,666</u>	<u>\$ 35,378,597</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services				Supporting Activities			Total	
	Grants	Legal Advocacy	Strategic Relations and Training	Public Education	Total Program Services	General and Administrative	Fundraising		Total Supporting Activities
Salaries and benefits	\$ 764,152	\$ 11,634,753	\$ 5,233,472	\$ 5,535,736	\$ 23,168,113	\$ 3,922,098	\$ 4,559,906	\$ 8,482,004	\$ 31,650,117
Direct marketing	17,110	165,497	223,267	2,265,499	2,671,373	234,679	979,898	1,214,577	3,885,950
Direct legal services	21,680	2,891,355	-	-	2,913,035	-	-	-	2,913,035
Travel	42,825	1,296,151	1,925,979	519,581	3,784,536	163,345	509,106	672,451	4,456,987
Educational seminars	10,564	517,893	1,382,950	225,192	2,136,599	103,243	308,623	411,866	2,548,465
Occupancy	135,772	408,481	411,048	407,554	1,362,855	315,454	418,335	733,789	2,096,644
Depreciation	107,251	382,564	413,518	433,811	1,337,144	262,293	366,807	629,100	1,966,244
Public education materials	4,521	493,426	253,921	565,164	1,317,032	62,694	117,364	180,058	1,497,090
Grant disbursements	1,440,773	11,050	650	650	1,453,123	-	-	-	1,453,123
Professional services	14,394	796,400	310,658	195,006	1,316,458	183,948	271,618	455,566	1,772,024
Office equipment	49,404	213,147	515,093	200,275	977,919	467,008	285,678	752,686	1,730,605
Audio visual and media	696	146,470	296,816	655,210	1,099,192	54,329	157,681	212,010	1,311,202
Shipping and postage	5,548	56,480	78,949	624,160	765,137	67,234	154,485	221,719	986,856
Blackstone scholarships	-	-	1,005,200	-	1,005,200	-	-	-	1,005,200
Communications	24,989	79,121	79,183	83,296	266,589	60,935	86,495	147,430	414,019
Financial services	543	8,545	1,274	11,302	21,664	290,154	2,635	292,789	314,453
Office supplies	4,571	43,946	83,283	30,072	161,872	64,705	39,006	103,711	265,583
Insurance	4,829	54,806	18,216	9,488	87,339	113,541	16,901	130,442	217,781
	<u>\$ 2,649,622</u>	<u>\$ 19,200,085</u>	<u>\$ 12,233,477</u>	<u>\$ 11,761,996</u>	<u>\$ 45,845,180</u>	<u>\$ 6,365,660</u>	<u>\$ 8,274,538</u>	<u>\$ 14,640,198</u>	<u>\$ 60,485,378</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services					Supporting Activities			Total
	Grants	Legal Advocacy	Strategic Relations and Training	Public Education	Total Program Services	General and Administrative	Fundraising	Total Supporting Activities	
Salaries and benefits	\$ 1,002,300	\$ 11,592,462	\$ 3,245,378	\$ 4,560,123	\$ 20,400,263	\$ 2,859,632	\$ 4,193,221	\$ 7,052,853	\$ 27,453,116
Direct marketing	14,036	480,703	161,329	3,809,551	4,465,619	402,398	1,338,412	1,740,810	6,206,429
Direct legal services	61,481	5,773,223	-	-	5,834,704	-	-	-	5,834,704
Travel	39,352	1,156,186	1,959,440	448,585	3,603,563	95,888	438,270	534,158	4,137,721
Educational seminars	13,337	498,436	1,515,215	233,820	2,260,808	64,817	183,060	247,877	2,508,685
Occupancy	134,806	407,973	417,136	408,139	1,368,054	313,803	419,210	733,013	2,101,067
Depreciation	124,747	422,259	424,869	396,716	1,368,591	307,090	411,115	718,205	2,086,796
Public education materials	1,608	975,687	52,819	609,552	1,639,666	53,616	136,772	190,388	1,830,054
Grant disbursements	1,747,245	-	-	-	1,747,245	-	-	-	1,747,245
Professional services	29,897	635,582	290,450	215,787	1,171,716	205,716	293,286	499,002	1,670,718
Office equipment	42,990	192,102	387,036	181,851	803,979	476,546	242,755	719,301	1,523,280
Audio visual and media	325	614,752	324,368	194,224	1,133,669	18,586	61,009	79,595	1,213,264
Shipping and postage	3,076	56,102	43,878	684,530	787,586	69,746	169,550	239,296	1,026,882
Blackstone scholarships	66	1,130	1,011,966	66	1,013,228	-	-	-	1,013,228
Communications	31,363	107,056	116,932	114,304	369,655	83,111	117,600	200,711	570,366
Financial services	393	5,972	1,433	12,387	20,185	267,567	3,187	270,754	290,939
Office supplies	4,273	42,059	83,518	19,625	149,475	40,292	30,056	70,348	219,823
Insurance	7,629	59,592	19,607	15,273	102,101	45,229	29,510	74,739	176,840
	<u>\$ 3,258,924</u>	<u>\$ 23,021,276</u>	<u>\$ 10,055,374</u>	<u>\$ 11,904,533</u>	<u>\$ 48,240,107</u>	<u>\$ 5,304,037</u>	<u>\$ 8,067,013</u>	<u>\$ 13,371,050</u>	<u>\$ 61,611,157</u>

See notes to consolidated financial statements

**ALLIANCE DEFENDING
FREEDOM AND AFFILIATES**

Consolidated Statements of Cash Flows

	June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors	\$ 57,708,590	\$ 55,380,379
Cash received from membership dues	719,687	277,150
Interest and dividends received	414,827	291,438
Other cash received	1,731,883	288,872
Cash paid to or on behalf of employees	(30,330,246)	(27,534,018)
Cash paid to vendors	(24,748,449)	(25,361,587)
Net Cash Provided (Used) by Operating Activities	5,496,292	3,342,234
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,190,158)	(2,152,453)
Proceeds on sale of investments	16,220,007	7,994,049
Purchase of investments	(21,112,280)	(17,364,798)
Earnings on assets held for endowments	7,437	5,630
Net Cash Used by Investing Activities	(7,074,994)	(11,517,572)
Change in Cash and Cash Equivalents	(1,578,702)	(8,175,338)
Cash and Cash Equivalents, Beginning of Year	6,283,289	14,458,627
Cash and Cash Equivalents, End of Year	\$ 4,704,587	\$ 6,283,289

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

1. NATURE OF ORGANIZATIONS:

Alliance Defending Freedom (ADF) was formed in 1993, with the purpose of serving as an alliance-building legal organization that advocates for the right of people to freely live out their faith.

ADF exists to keep the doors open for the Gospel by advocating for religious liberty, the sanctity of human life, freedom of speech, and marriage and family. ADF is an alliance-building legal organization that advocates for:

- The right of all people to freely live out their faith.
- The sanctity of human life from conception until natural death.
- The freedom of speech for all.
- The sanctity of marriage and the truth that God has created us male and female.
- The fundamental right of parents to direct the upbringing, care, and education for their children.
- ADF accomplishes this by employing a comprehensive world-wide strategy that includes advocating in courtrooms and the public square, training the lawyers of today and tomorrow, funding allies and critical cases.

These consolidated statements include the activities of ADF, ADF Foundation, 15100, LLC, 15100 Solar, LLC, Alliance Defending Freedom India Trust, Alianza Internacional Defendiendo La Libertad, ADF International Belgium, ADF International Austria GmbH, ADF International Switzerland, ADF International UK, and ADF International 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 ADF. 15100, LLC is a single member LLC whose member is ADF. 15100 Solar, LLC was organized in 2012 to own and operate a solar energy project in connection with 15100, LLC. 15100 Solar, LLC is a single member LLC whose member is 15100, LLC. Alliance Defending Freedom India Trust, Alianza Internacional Defendiendo La Libertad, ADF International Belgium, ADF International Austria GmbH, ADF International Switzerland, ADF International UK, and ADF International France are subject to appropriate tax filings in their jurisdiction. These entities are collectively referred to as Alliance Defending Freedom and Affiliates (ADF and Affiliates) in these consolidated financial statements.

ADF is incorporated in the Commonwealth of Virginia. ADF Foundation is incorporated in the state of Arizona. ADF and ADF Foundation operate as nonprofit religious organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) and are publicly supported organizations under Sections 170(b)(1) and 509(a) of the Code. ADF and ADF Foundation are not considered to be private foundations under Section 509(a) of the Code. ADF and Affiliates' primary source of support and revenue is contributions.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of ADF and Affiliates have been prepared on the accrual basis of accounting. ADF and Affiliates uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

Due to a combination of board control and economic control, the entities listed in Note 1 above are controlled entities of ADF for the purposes of these consolidated statements. The consolidated financial statements of ADF and Affiliates therefore include the financial resources and activities of these entities. All significant intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in checking accounts and interest-bearing money market accounts. As of June 30, 2019 and 2018, ADF and Affiliates has cash and cash equivalents on deposit with financial institutions that exceed the federally insured (FDIC) balance by approximately \$4,000,000 and \$6,780,000, respectively. ADF and Affiliates has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets mainly consist of deposits for program event space and travel expenses for events taking place after June 30, 2019 and 2018, court awarded fees receivables, software licenses, and insurance payments.

DEPOSITS

Deposits consist of security deposits paid on office rental space.

INVESTMENTS

Investments consist of equity securities, mutual funds, and certificates of deposit with an original maturity greater than ninety days. Equity securities and mutual funds are stated at fair value based on quoted market prices. Certificates of deposit are stated at original cost plus accrued interest. Donated securities are recorded at fair value at the date of donation and thereafter carried in conformity with the stated policy. Earnings are included within investment income on the consolidated statements of activities.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS, continued

All assets held for the endowment are recorded at fair value with unrealized gains and losses reported in the statements of activities in the year in which they occur. Donated investments are recorded at fair value at the date of donation. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires ADF and Affiliates to retain as a fund of perpetual duration.

ADF Foundation exists to financially support ADF in achieving its objectives. Long-term success of ADF Foundation and ADF are dependent upon the performance of ADF Foundation's funds, including endowment funds.

ADF 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 ADF Foundation on a current basis. This does not include assets that ADF Foundation designates as a fund for its own use, or assets held by ADF Foundation that ADF designates as a fund for its own use.

The board of directors of ADF Foundation has interpreted Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Arizona's Management of Charitable Funds Act (the Act), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ADF Foundation classifies as net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetuity is classified as restricted by purpose and time until those amounts are appropriated for expenditure by ADF Foundation in a manner consistent with the standard of prudence prescribed by the Act.

ADF Foundation has adopted a spending policy as permitted by the Act and UPMIFA, and all endowment funds are subject to such policy. ADF Foundation complies with its policy and the Act, as it may be amended from time to time, in all decisions relating to the expenditure or retention of the endowment funds. The Act permits ADF Foundation to appropriate for expenditure or accumulate so much of any endowment as ADF Foundation determines is prudent for the uses, benefits, purposes, and duration for which the applicable endowment was established, subject to the intent of donors expressed in the applicable gift instrument.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost if purchased and includes improvements that significantly add to utility or extend useful lives. Costs of maintenance and repairs are charged to expense as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives. Depreciation ranges from 10 to 39 years for buildings and improvements, and from 3 to 10 years for furniture and equipment. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in support and revenue for the period. Purchases in excess of \$1,000 are capitalized, with lesser amounts expensed when incurred.

ACCRUED RENT LIABILITY

Accrued rent liability represents amounts owed for rent on office space. Monthly rents per the contract increase over the thirteen year period, but the rent expense has been recorded evenly over the period in accordance with generally accepted accounting principles.

NET ASSETS

The net assets of ADF and Affiliates are reported in the following categories:

Net assets without donor restrictions consist of resources that are available for current operations, and those resources invested in subsidiaries and property and equipment.

Net assets with donor restrictions include donor-restricted contributions for specified exempt purposes and unappropriated endowment income. These include donor restrictions requiring that net assets be held in perpetuity with only amounts appropriated pursuant to the spending policy available for distribution or otherwise as provided by the gift instrument.

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash and other assets are received or unconditionally promised. Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. Upon satisfaction of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All contributions are considered to be without donor restrictions unless specifically restricted by the donor or grantor. Contributions without donor restrictions from the general public are primarily used to fund case grants, legal projects, and program costs.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

Contributed services are primarily comprised of services donated to ADF and Affiliates that they would have otherwise had to pay for and are recognized when the service is rendered. Through the programs ADF Summit, Blackstone Legal Fellowship, and Arete Academy, ADF and Affiliates continues to build an alliance of volunteer attorneys and future attorneys who can work within America's legal system and international bodies of law. They strive to protect life, from conception to natural death; to preserve marriage and the family as God ordained it; and to protect and defend the ability to publicly live and express one's faith. All other income is recorded when earned.

EXPENSES

Expenses are reported when costs are incurred in accordance with the accrual basis of accounting.

ADF and Affiliates offers exceptional legal advocacy and expertise through nearly 70 attorneys based in Arizona, Georgia, Virginia, Washington D.C., New York City, and around the world. Together with a network of 3,300-strong allied attorneys, ADF and Affiliates has a nearly 80% success rate in cases, and has played important roles in 55 United States Supreme Court cases. Since 2011 ADF has represented parties in nine victories at the Supreme Court. ADF and Affiliates exists to keep the doors open for the Gospel worldwide by advocating for religious liberty and the sanctity of life, marriage, and the family. ADF and Affiliates' mission includes raising funds to transform law and culture so true freedom can flourish.

A significant portion of program service spending goes to case grants. ADF and Affiliates provides grant funding for legal cases and programs that keep the door open for the gospel by advocating for the right of all people to freely live out their faith, the sanctity of human life from conception until natural death, the freedom of speech for all, the sanctity of marriage and the truth that God has created us male and female, and the fundamental right of parents to direct the upbringing, care, and education for their children. Funding is focused on allies working on matters aligned with strategic legal objectives defined by the U.S. and International advocacy teams.

The grant funds cover expenses for litigation, including securing expert witnesses, costs to research, promoting public advocacy, and acquiring strong amicus brief support for cases to ensure the best possibility of success.

Following a detailed application process, grant applications are reviewed by a council of senior attorneys. The council meets monthly to facilitate to review applications and promote support and collaboration with allies working towards objectives that further the ADF mission. Once a grant is awarded, funds are retained until proof of completion of work or expenditures authorized are received from the grant recipient in accordance with the terms of the grant. Disbursements are recorded as an expense when paid.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES, continued

ADF and Affiliates provides information to the public regarding the importance of government recognition of freedom of religion, the sanctity of every human life, and the values of marriage and family in the United States and throughout the world. This is done through the use of printed materials, mailings, email alerts, websites, blogs, op-eds, social media, webinars, media and personal appearances, and events.

As an alliance-building legal organization that advocates for the right of people to freely live out their faith, ADF and Affiliates is committed to equipping allies to defend and promote religious liberty to the best of their ability, and to transform law and culture so true freedom can flourish. To this end, ADF and Affiliates offers world-class training for Christian attorneys and professionals, for law students, and for college students interested in pursuing a career in law, public policy, government, business, and other culture-shaping fields.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated statements of activities and consolidated statements of functional expenses. Accordingly, certain costs, such as salaries, have been allocated among the program services and supporting activities benefited. All expenses are reported when costs are incurred. See the expenses section above for detailed program descriptions.

The consolidated financial statements present various categories of expenses that are attributable to more than one program or supporting function. ADF and Affiliates performs its allocation of such expenses at the individual support department level based on time and effort expended on behalf of the supported program activities, space occupied or shared services utilized by the supported program activities, and purpose and content of various print and electronic communications. More than 50% of ADF and Affiliates' total expenses are incurred in departments whose activities are classified as being 100% related to program service functions, including those directly engaged in litigation, grants, training and education programs, strategic relations, and legal advocacy.

ADVERTISING

ADF and Affiliates uses advertising to promote its programs among the audiences it serves and to raise funds. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2019 and 2018, was \$854,987 and \$1,245,589, respectively, and are included in the public education materials lines of both of the consolidated statements of functional expenses.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects ADF and Affiliates' financial assets reduced by amounts not available for general use within one year:

	June 30,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 4,704,587	\$ 6,283,289
Investments	21,905,246	16,429,124
Financial assets, at year-end	26,609,833	22,712,413
Less those unavailable for general expenditure within one year, due to:		
Donor imposed restrictions:		
Donor restricted as to purpose and use	(1,008,915)	(1,083,845)
Donor restricted endowments	(276,121)	(126,121)
Board designations:		
Board designated operating reserve	(8,808,897)	(8,000,000)
Liquidated damages related to contracted future events	(926,790)	(1,128,096)
	(11,020,723)	(10,338,062)
Financial assets available within one year to meet cash needs for general expenditures	\$ 15,589,110	\$ 12,374,351

ADF and Affiliates has \$26,609,833 of financial assets as of June 30, 2019, consisting of cash and cash equivalents of \$4,704,587 and short-term investments of \$21,905,246. As of June 30, 2018, ADF and Affiliates has \$22,712,413 of financial assets consisting of cash and cash equivalents of \$6,283,289 and short-term investments of \$16,429,124. Of those financial assets, \$11,020,723 and \$10,338,062 is unavailable for use before June 30, 2019 and 2018, respectively, due to donor-imposed restrictions as to purpose and use, Board designated funds as an operating reserve, and balances equal to contractual liquidated damages for future ministry events. Therefore, \$15,589,110 and \$12,374,351 of financial assets are available within one year to meet cash needs for general expenditures as of June 30, 2019 and 2018, respectively.

ADF and Affiliates has a Board-established objective to maintain 90 days of specified operating expenses in reserve to ensure the stability and continuance of its mission, programs, employment, and ongoing operations. Management invests cash in excess of estimated near-term requirements in various short-term investments including certificates of deposit and marketable fixed income instruments and equities.

ADF and Affiliates operates with a budget approved by the Governing Board of Directors, and anticipates funding expenditures not covered by donor-restricted resources with current unrestricted resources and unrestricted resources carried forward from prior periods.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

4. INVESTMENTS:

Investments consist of:

	June 30,	
	2019	2018
Cash and cash equivalents held for investment purposes	\$ 1,677,389	\$ 3,332,104
Certificates of deposit	9,536,644	5,005,873
Equities	-	1,444,104
Mutual funds	10,691,213	6,647,043
	\$ 21,905,246	\$ 16,429,124

Interest income and gains on investments consists of:

	June 30,	
	2019	2018
Dividend and interest income	\$ 414,827	\$ 291,438
Net realized and unrealized gains	288,107	144,206
	\$ 702,934	\$ 435,644

5. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	June 30,	
	2019	2018
Land	\$ 2,000,000	\$ 2,000,000
Buildings and improvements	17,277,588	17,246,467
Furniture and equipment	14,755,783	12,923,909
	34,033,371	32,170,376
Less accumulated depreciation	(17,819,637)	(15,955,146)
	16,213,734	16,215,230
Construction in process	833,150	278,767
	\$ 17,046,884	\$ 16,493,997

**ALLIANCE DEFENDING
FREEDOM AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

6. NET ASSETS:

Board designated net assets consist of grants and special projects that have been approved but not yet disbursed.
Board designated net assets consist of:

	June 30,	
	2019	2018
Contractual obligations related to future ministry activities	\$ 2,341,941	\$ 2,087,575
Case and project grants	1,147,377	763,767
	\$ 3,489,318	\$ 2,851,342

Net assets with donor restrictions, restricted by purpose and time, consist of:

	June 30,	
	2019	2018
Blackstone Fellowship	\$ 847,972	\$ 877,309
Special projects and grants	839,287	356,895
International projects	591,078	525,148
War Chest	253,270	241,090
Open door	6,163	5,601
Church Alliance project	-	609,502
	\$ 2,537,770	\$ 2,615,545

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

7. ENDOWMENT FUNDS:

Changes in endowment net assets for the year ended June 30, 2019, consist of:

	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted by Purpose and Time	Restricted by Perpetuity	
Endowment net assets, beginning of year	\$ -	\$ 41,686	\$ 126,121	\$ 167,807
Contributions	-	-	150,000	150,000
Net realized and unrealized gains	-	7,437	-	7,437
Distributions	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 49,123</u>	<u>\$ 276,121</u>	<u>\$ 325,244</u>

Changes in endowment net assets for the year ended June 30, 2018, consist of:

	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted by Purpose and Time	Restricted by Perpetuity	
Endowment net assets, beginning of year	\$ -	\$ 36,056	\$ 126,121	\$ 162,177
Contributions	-	-	-	-
Net realized and unrealized gains	-	5,630	-	5,630
Distributions	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 41,686</u>	<u>\$ 126,121</u>	<u>\$ 167,807</u>

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

8. FAIR VALUE MEASUREMENTS:

ADF and Affiliates uses appropriate valuation techniques to determine fair value based on inputs available. When available, ADF and Affiliates measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values of assets measured on a recurring basis at June 30, 2019 are:

		Fair Value Measurements Using:		
June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments subject to fair value:				
Mutual Funds	\$ 10,691,213	\$ 10,691,213	\$ -	\$ -
Reconciling items:				
Cash and cash equivalents	1,677,389			
Certificates of deposit	9,536,644			
Total investments	\$ 21,905,246			

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

8. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2018 are:

	June 30, 2018	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Equity securities	\$ 1,444,104	\$ 1,444,104	\$ -	\$ -
Mutual Funds	6,647,043	6,647,043	-	-
 Total assets subject to fair value	 \$ 8,091,147			
Reconciling items:				
Cash and cash equivalents	3,332,104			
Certificates of deposit	5,005,873			
 Total investments	 \$ 16,429,124			

9. RETIREMENT PLAN:

ADF and Affiliates participates in a defined contribution pension plan under Section 401(k) of The Code. All employees age 21 and over, who have worked three months are eligible to participate by making voluntary contributions between 1% and 90% of their gross wages up to \$18,000. ADF and Affiliates matches employee contributions up to 4%. Employer contributions to the plan were \$645,158 and \$575,557 for the years ended June 30, 2019 and 2018, respectively.

10. ALLOCATION OF JOINT COSTS:

For the years ended June 30, 2019 and 2018, ADF and Affiliates incurred joint costs of \$5,044,075 and \$7,048,901, respectively, for informational materials and activities that include fundraising appeals. During the year ended June 30, 2019, \$759,357 of those costs were allocated to fundraising, \$358,978 to general and administrative, and \$3,925,740 to program services. During the year ended June 30, 2018, \$1,171,513 of those costs were allocated to fundraising, \$505,147 to general and administrative, and \$5,372,241 to program services.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

11. EQUIPMENT LEASES:

ADF and Affiliates leases office equipment under noncancellable operating leases. Lease expenses under these agreements for the years ended June 30, 2019 and 2018, were \$149,863 and \$183,829, respectively. Future minimum lease payments are:

<u>Year Ending June 30,</u>	
2020	\$ 175,528
2021	137,135
2022	66,647
2023	25,593
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	\$ 404,903
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12. OFFICE SPACE LEASES:

ADF and Affiliates leases office space under long-term operating leases, which require various total monthly payments. Lease expense under these agreements for the years ended June 30, 2019 and 2018, were \$1,385,678 and \$1,313,517, respectively. Future minimum lease payments are:

<u>Year Ending June 30,</u>	
2020	\$ 1,423,733
2021	1,297,442
2022	1,218,163
2023	1,223,234
2024	1,210,743
Thereafter	2,780,095
	<hr/>
	\$ 9,153,410
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13. COMMITMENTS:

ADF and Affiliates has contracts with various hotels and conference centers for special events to be held in the following years. ADF would be liable for \$2,341,941 and \$2,087,575 as of June 30, 2019 and 2018, respectively, related to these contracts in the event of cancellation. Between June 30, 2019 and 2018, and the issuance of the consolidated financial statements for those years, ADF entered into additional contracts for which the liabilities at time of issuance were \$56,344 and \$634,425, respectively.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

14. CONCENTRATION:

During the years ended June 30, 2019 and 2018, ADF and Affiliates received contributions from two donors that, when combined, totaled approximately \$16,350,000 and \$15,120,000, respectively. These gifts accounted for approximately 25% of total support and revenue for both of the years ended June 30, 2019 and 2018.

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 9, 2019, which represents the date the consolidated financial statements were available to be issued.