

ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
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YEARS ENDED JUNE 30, 2016 AND 2015**

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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 statement of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis-of-Matter

As noted in Note 15, management identified certain errors, which resulted in a restatement of contributed services revenue and expenses. Accordingly, adjustments have been made to properly reflect revenue and expenses as of June 30, 2015.

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 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 31, 2017

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 11,672,782	\$ 5,293,402
Contributions and Other Receivables	233,047	445,503
Prepaid Expenses	1,202,726	2,615,122
Book Inventory	23,240	21,042
Total Current Assets	13,131,795	8,375,069
NON-CURRENT ASSETS		
Restricted Cash	380,335	379,383
Deposits	298,344	358,292
Intercompany Due To Due From	5,864	-
Investments	7,810,600	15,932,332
Campus and Equipment, Net	18,713,826	19,335,217
Total Non-Current Assets	27,208,969	36,005,224
Total Assets	\$ 40,340,764	\$ 44,380,293
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable:		
Trade	\$ 2,497,818	\$ 2,477,529
Accrued Liabilities:		
Salaries and Benefits	1,831,696	1,581,838
Property Taxes	56,137	56,097
Tenant Deposits	-	9,572
Total Current Liabilities	4,385,651	4,125,036
DEFERRED RENT	773,393	398,586
Total Liabilities	5,159,044	4,523,622
NET ASSETS		
Unrestricted:		
Undesignated	2,500,873	5,161,076
Designated	11,158,097	12,348,190
Net Investment in Campus and Equipment	18,713,826	19,335,217
	32,372,796	36,844,483
Temporarily Restricted	2,682,803	2,886,067
Permanently Restricted	126,121	126,121
Total Net Assets	35,181,720	39,856,671
Total Liabilities and Net Assets	\$ 40,340,764	\$ 44,380,293

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015 (RESTATED)**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER SUPPORT				
Contributions	\$ 31,956,184	\$ 18,174,771	\$ -	\$ 50,130,955
Interest Income	219,261	-	-	219,261
Other Income	416,430	-	-	416,430
Court Awarded Fees	979,457	-	-	979,457
Contributed Services	7,206,026	-	-	7,206,026
Tenant Revenue	186,660	-	-	186,660
Realized and Unrealized Gain (Loss) on Investments, Net	18,894	-	-	18,894
Loss on Disposal of Equipment	-	-	-	-
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	<u>18,378,035</u>	<u>(18,378,035)</u>	-	-
Total Revenues and Other Support	<u>59,360,947</u>	<u>(203,264)</u>	-	<u>59,157,683</u>
EXPENSES				
Program Services:				
Grants	3,606,545	-	-	3,606,545
Direct Litigation	22,836,268	-	-	22,836,268
Allied Support and Training	11,979,566	-	-	11,979,566
Public Education	<u>15,045,382</u>	-	-	<u>15,045,382</u>
Total Program Services	53,467,761	-	-	53,467,761
Supporting Activities:				
General and Administrative:				
Company Administration	4,391,803	-	-	4,391,803
Tenants Property Management	<u>197,297</u>	-	-	<u>197,297</u>
Total General and Administrative	4,589,100	-	-	4,589,100
Fund Raising	<u>5,775,773</u>	-	-	<u>5,775,773</u>
Total Supporting Activities	<u>10,364,873</u>	-	-	<u>10,364,873</u>
Total Expenses	<u>63,832,634</u>	-	-	<u>63,832,634</u>
CHANGE IN NET ASSETS	(4,471,687)	(203,264)	-	(4,674,951)
Net Assets - Beginning of Year	<u>36,844,483</u>	<u>2,886,067</u>	<u>126,121</u>	<u>39,856,671</u>
NET ASSETS - END OF YEAR	<u><u>\$ 32,372,796</u></u>	<u><u>\$ 2,682,803</u></u>	<u><u>\$ 126,121</u></u>	<u><u>\$ 35,181,720</u></u>

See accompanying Notes to Combined Financial Statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 31,629,244	\$ 14,779,438	\$ -	\$ 46,408,682
166,460	-	-	166,460
707,977	-	-	707,977
1,194,381	-	-	1,194,381
11,751,566	-	-	11,751,566
303,580	-	-	303,580
(64,765)	(4,341)	-	(69,106)
943	-	-	943
<u>13,369,468</u>	<u>(13,369,468)</u>	<u>-</u>	<u>-</u>
59,058,854	1,405,629	-	60,464,483
3,080,935	-	-	3,080,935
23,954,391	-	-	23,954,391
9,594,631	-	-	9,594,631
13,400,261	-	-	13,400,261
<u>50,030,218</u>	<u>-</u>	<u>-</u>	<u>50,030,218</u>
4,021,701	-	-	4,021,701
208,526	-	-	208,526
<u>4,230,227</u>	<u>-</u>	<u>-</u>	<u>4,230,227</u>
6,192,806	-	-	6,192,806
<u>10,423,033</u>	<u>-</u>	<u>-</u>	<u>10,423,033</u>
<u>60,453,251</u>	<u>-</u>	<u>-</u>	<u>60,453,251</u>
(1,394,397)	1,405,629	-	11,232
<u>38,238,880</u>	<u>1,480,438</u>	<u>126,121</u>	<u>39,845,439</u>
<u>\$ 36,844,483</u>	<u>\$ 2,886,067</u>	<u>\$ 126,121</u>	<u>\$ 39,856,671</u>

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

	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	\$ 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 STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015 (RESTATED)**

	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	\$ 662,139	\$ 8,659,286	\$ 3,383,692	\$ 4,713,376	\$ 17,418,493	\$ 2,233,764	\$ 2,982,883	\$ 5,216,647	\$ 22,635,140
Contributed Services	75,405	11,672,130	-	-	11,747,535	-	-	-	11,747,535
Occupancy	47,946	683,726	241,908	300,078	1,273,658	203,406	253,426	456,832	1,730,490
Insurance	12,567	59,016	25,792	14,797	112,172	16,596	24,855	41,451	153,623
Communications	7,220	110,274	43,756	53,781	215,031	32,990	47,525	80,515	295,546
Shipping and Postage	2,393	45,946	36,791	1,470,777	1,555,907	72,897	167,806	240,703	1,796,610
Office Supplies	4,121	67,929	28,928	22,614	123,592	16,589	22,270	38,859	162,451
Equipment	14,681	217,852	88,936	118,468	439,937	111,291	117,201	228,492	668,429
Financial Services	559	7,817	1,272	8,173	17,821	241,390	40,710	282,100	299,921
Travel	70,943	877,021	2,402,109	457,167	3,807,240	197,631	424,839	622,470	4,429,710
Educational Seminars	38,964	268,686	1,321,357	257,843	1,886,850	73,063	322,504	395,567	2,282,417
Professional Services	38,464	420,508	450,251	134,318	1,043,541	202,002	248,366	450,368	1,493,909
Audio/Visual and Media	6,664	93,317	274,161	453,683	827,825	35,416	109,111	144,527	972,352
Grant Disbursement	2,015,939	-	-	27,073	2,043,012	-	153,411	153,411	2,196,423
Blackstone Scholarships	-	-	988,295	-	988,295	-	-	-	988,295
Direct Mail	29,560	73,898	44,396	2,687,255	2,835,109	109,925	508,918	618,843	3,453,952
Depreciation	38,182	576,607	205,696	252,146	1,072,631	340,197	240,436	580,633	1,653,264
Public Education Material	15,188	120,378	57,291	2,428,712	2,621,569	134,544	528,545	663,089	3,284,658
Tenants Property Management	-	-	-	-	-	208,526	-	208,526	208,526
Total Expenses	\$ 3,080,935	\$ 23,954,391	\$ 9,594,631	\$ 13,400,261	\$ 50,030,218	\$ 4,230,227	\$ 6,192,806	\$ 10,423,033	\$ 60,453,251

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (4,674,951)	\$ 11,232
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities		
Depreciation	2,410,893	1,653,264
Loss on Disposal of Equipment	-	(943)
Realized and Unrealized (Gain) Loss on Investments, Net	(18,894)	69,106
(Increase) Decrease in Assets:		
Other Receivable	212,456	(445,503)
Prepaid Expenses	1,412,396	(851,582)
Book Inventory	(2,198)	2,377
Cash Surrender Value - Life Insurance	-	24,031
Intercompany Due To Due From	(5,864)	-
Deposits	59,948	(241,061)
Increase (Decrease) in Liabilities:		
Accounts Payable	20,289	1,092,725
Accrued Payroll	249,858	356,834
Accrued Property Taxes	40	(3,851)
Tenant Deposits	(9,572)	-
Deferred Rent	374,807	398,586
Net Increase in Cash and Cash Equivalents	29,208	2,065,215
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(13,753,387)	(25,123,047)
Proceeds from Sales of Investments	21,894,013	17,171,020
Campus and Equipment Acquisitions	(1,789,502)	(3,594,510)
Proceeds on Sale of Equipment	-	11,586
Net Cash and Cash Equivalents Provided (Used) by Investing Activities	6,351,124	(11,534,951)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted Cash	(952)	(947)
Net Cash and Cash Equivalents Used by Financing Activities	(952)	(947)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,379,380	(9,470,413)
Cash and Cash Equivalents - Beginning of Year	5,293,402	14,763,815
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,672,782	\$ 5,293,402

See accompanying Notes to Combined Financial Statements.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

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, ADF Vienna, Alliance Defending Freedom India Trust, ADF Mexico, ADF Brussels (Belgium), ADF Geneva, 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, 2016 AND 2015**

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, 2016 and 2015, this committee's contributed skilled services were valued at approximately \$75,000 and \$71,000, 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, 2016 and 2015, approximately \$7,160,000 and \$11,750,000, respectively, of contributed services have been recorded as revenue. As disclosed in Note 15, "Adjustment Made in Respect of Correction of Prior Year Error" a mathematical error occurred in the financial statements for the year ended June 30, 2015 in reporting contributed services at \$13,150,00 instead of \$11,750,000, thus overstating it by \$1,400,000.

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, 2016 and 2015, there were no donated assets recorded. Other contributed services were \$12,387 and \$4,031 for the years ended June 30, 2016 and 2015, 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, 2016 AND 2015**

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. ADF Vienna, Alliance Defending Freedom India Trust, ADF Mexico, ADF Brussels (Belgium), ADF Geneva, 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 limited partnership taxed as a corporation and its sole partner 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, 2016 and 2015 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 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, 2016 AND 2015**

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, 2016 and 2015.

Advertising Costs

Advertising costs are charged to expense as they are incurred. The Company incurred advertising expenses \$263,485 and \$342,964, for the years ended June 30, 2016 and 2015 respectively.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

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 January 31, 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, 2016 and 2015:

	2016	2015
Cash and Cash Equivalents	\$ 11,672,782	\$ 5,293,402
Investments	7,810,600	15,932,332
Total	<u>\$ 19,483,382</u>	<u>\$ 21,225,734</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, 2016 and 2015 was \$-0- for both years, respectively.

NOTE 4 INVESTMENTS

The investment portfolio consists of the following as of June 30, 2016 and 2015:

	2016	2015
Certificates of Deposit	\$ 2,307,639	\$ 11,464,734
Equity Securities	3,422,416	2,611,486
Mutual Funds	1,663,378	1,577,467
Real Estate Funds	417,067	278,045
Exchange Traded Funds - Equities	100	600
Total Investments	<u>\$ 7,810,600</u>	<u>\$ 15,932,332</u>

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

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, 2016 and 2015, respectively.

NOTE 6 CAMPUS AND EQUIPMENT

Campus and equipment consist of the following:

	2016	2015
Land	\$ 2,000,000	\$ 2,000,000
Building and Improvements	16,840,291	16,810,972
Furniture and Equipment	11,835,879	9,697,087
Construction in Progress	-	378,610
Total	30,676,170	28,886,669
Less: Accumulated Depreciation	11,962,344	9,551,452
Campus and Equipment, Net	\$ 18,713,826	\$ 19,335,217

NOTE 7 NET ASSETS

Designated Net Assets

Designated net assets consist of grants and special projects in the amount of \$11,158,097 and \$12,348,190 at June 30, 2016 and 2015, 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:

	2016	2015
Special Projects and Grants	\$ 2,030,309	\$ 2,398,051
Open Door	2,491	1,358
Blackstone Fellowship	432,617	407,510
Case Grants	-	79,148
War Chest	217,386	-
Total Temporarily Restricted Net Assets	\$ 2,682,803	\$ 2,886,067

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 7 NET ASSETS (CONTINUED)

Temporarily Restricted Net Assets (Continued)

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

	<u>2016</u>	<u>2015</u>
Program Services:		
Special Projects and Grants	\$ 18,297,079	\$ 12,768,830
National Litigation Academy	-	201,800
Blackstone Fellowship	-	364,096
Case Grants	80,956	34,742
Net Assets Released from Restrictions	<u>\$ 18,378,035</u>	<u>\$ 13,369,468</u>

Permanently Restricted Net Assets

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

	<u>2016</u>	<u>2015</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 its own use.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 8 ENDOWMENTS (CONTINUED)

Endowment Funds (Continued)

The Foundation Endowment consists of True, Term, and Quasi Endowments. 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. Quasi Endowments are defined as funds that the board of directors (Board), rather than the donor, has determined that the principal is to be 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 the principal.

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 and its assigns 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 Funds. The Foundation complies with the Act, as it may be amended from time to time, in all decisions relating to the expenditure of Endowment Funds. The Act permits the Foundation to appropriate for expenditure or accumulate so much of any Endowment Fund 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 an Endowment Fund was established, will equal annually five percent (5%) of the value of such individual Endowment Fund. The value of each Fund will be calculated by averaging the market value of the 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, 2016 AND 2015**

NOTE 8 ENDOWMENT (CONTINUED)

Expenditures (Continued)

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>

The endowment net assets and activity for 2015 consisted of the following:

	June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning	\$ -	\$ 19,964	\$ 126,121	\$ 146,085
Contributions	-	-	-	-
Unrealized Loss	-	(760)	-	(760)
Amounts Appropriated for Expenditure	-	-	-	-
Endowment Net Assets, Ending	<u>\$ -</u>	<u>\$ 19,204</u>	<u>\$ 126,121</u>	<u>\$ 145,325</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, 2016 and 2015 was \$186,660 and \$303,580, respectively.

NOTE 10 ALLOCATION OF JOINT COSTS

For the years ended June 30, 2016 and 2015, the Company incurred joint costs of \$6,571,589 and \$6,482,662, respectively, for informational materials and activities that included fund raising appeals. Of those costs, \$743,488 and \$915,845 were allocated to fund raising expense, \$316,499 and \$223,583 were allocated to general and administrative, and \$5,511,602 and \$5,343,234 were allocated to program services at June 30, 2016 and 2015, respectively.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

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 \$412,124 and \$230,376 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 173,535
2018	149,288
2019	81,919
2020	12,047
Thereafter	21,210
Total Future Lease Payments	<u>\$ 437,999</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 \$1,205,432 and \$865,383, for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,232,394
2018	1,179,184
2019	1,076,620
2020	1,050,295
2021	982,524
Thereafter	5,742,635
Total Future Lease Payments	<u>\$ 11,263,652</u>

The Company accounts for rent expense evenly over the term of the lease using the straight-line method. The unamortized deferred rent was \$773,393 and \$398,586 at June 30, 2016 and 2015, respectively.

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

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 \$567,965 and \$466,877 to the plan for the years ended June 30, 2016 and 2015, 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 \$1,477,000 and \$2,260,000 related to these contracts at June 30, 2016 and 2015, 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, 2016 and 2015:

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

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 2,611,486	\$ -	\$ -	\$ 2,611,486
Mutual Funds	1,577,467	-	-	1,577,467
Hedge - Bonds	278,046	-	-	278,046
Government Bonds	600	-	-	600
Certificates of Deposit	11,464,733	-	-	11,464,733
Total	<u>\$ 15,932,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,932,332</u>

**ALLIANCE DEFENDING FREEDOM AND AFFILIATES
NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 15 ADJUSTMENT MADE IN RESPECT OF CORRECTION OF PRIOR YEAR ERROR

In previous financial year, a mathematical error caused the overstatement of contributed attorney services by 7,000 hours or \$1,400,000. The error was detected during the current financial year and in accordance with the requirement stated in FRS108 Accounting Policies, Changes in Accounting Estimates and Errors, total contributed services was decreased by \$1,400,000, from \$13,150,000 to \$11,750,000. The correction is now recognized retrospectively and certain comparative figures have been restated as disclosed in Note 1 to the financial statements. Contributed Services is recognized as income under Revenues and Other Support and as a corresponding offsetting expense under Programs Service (Grants and Funding, and Direct Litigation), there is no change to the totals for Change in Net Assets and Net Assets – End of Year.

**ALLIANCE DEFENDING FREEDOM
SELECTED COMBINING FINANCIAL INFORMATION
YEARS ENDED JUNE 30, 2016**

	<u>ADF</u>	<u>15100 LLC</u>	<u>15100 Solar</u>	<u>ADF Foundation</u>	<u>ADF International Affiliates</u>	<u>ADF Total Combined</u>
ASSETS						
Cash, Investments and Other	\$ 14,786,557	\$ 29,433	\$ 135,142	\$ 6,675,806	\$ -	\$ 21,626,938
Property and Equipment, Net	4,519,598	12,068,392	1,243,716	-	882,120	18,713,826
Total Assets	<u>\$ 19,306,155</u>	<u>\$ 12,097,825</u>	<u>\$ 1,378,858</u>	<u>\$ 6,675,806</u>	<u>\$ 882,120</u>	<u>\$ 40,340,764</u>
REVENUE						
Contributions	\$ 49,958,947	\$ -	\$ -	\$ 172,008	\$ -	\$ 50,130,955
Contributions from Affiliates	(4,151,174)	-	-	1,464,041	2,687,133	-
Contributed Services	7,206,026	-	-	-	-	7,206,026
Other Revenue	1,291,458	249,020	104,888	175,336	-	1,820,702
Total Revenue	<u>54,305,257</u>	<u>249,020</u>	<u>104,888</u>	<u>1,811,385</u>	<u>2,687,133</u>	<u>59,157,683</u>
EXPENSES						
Program	50,780,676	-	-	-	2,687,085	53,467,761
Company Administration	2,868,755	1,346,591	139,383	234,323	48	4,589,100
Fund Raising	5,775,773	-	-	-	-	5,775,773
Total Expenses	<u>59,425,204</u>	<u>1,346,591</u>	<u>139,383</u>	<u>234,323</u>	<u>2,687,133</u>	<u>63,832,634</u>
Change in Net Assets	<u>\$ (5,119,947)</u>	<u>\$ (1,097,571)</u>	<u>\$ (34,495)</u>	<u>\$ 1,577,062</u>	<u>\$ -</u>	<u>\$ (4,674,951)</u>

**ALLIANCE DEFENDING FREEDOM
SELECTED COMBINING FINANCIAL INFORMATION – INTERNATIONAL ENTITIES
YEARS ENDED JUNE 30, 2016**

	<u>ADF - India</u>	<u>ADF - Austria</u>	<u>ADF - Mexico</u>	<u>ADF - Belgium</u>	<u>ADF - France</u>	<u>ADF - Switzerland</u>	<u>ADF - United Kingdom</u>	<u>Total International Entities</u>
ASSETS								
Cash, Investments and Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property and Equipment, Net	<u>23,295</u>	<u>194,540</u>	<u>-</u>	<u>279,919</u>	<u>197,124</u>	<u>187,242</u>	<u>-</u>	<u>882,120</u>
Total Assets	<u>\$ 23,295</u>	<u>\$ 194,540</u>	<u>\$ -</u>	<u>\$ 279,919</u>	<u>\$ 197,124</u>	<u>\$ 187,242</u>	<u>\$ -</u>	<u>\$ 882,120</u>
REVENUE								
Grant Contributions ADF - USA								
Employee	<u>\$ 88,210</u>	<u>\$ 951,625</u>	<u>\$ 210,888</u>	<u>\$ 578,007</u>	<u>\$ 339,819</u>	<u>\$ 505,982</u>	<u>\$ 12,602</u>	<u>\$ 2,687,133</u>
Total Revenue	<u>88,210</u>	<u>951,625</u>	<u>210,888</u>	<u>578,007</u>	<u>339,819</u>	<u>505,982</u>	<u>12,602</u>	<u>2,687,133</u>
EXPENSES								
Program	88,210	951,577	210,888	578,007	339,819	505,982	12,602	2,687,085
Company Administration	-	48	-	-	-	-	-	48
Total Expenses	<u>88,210</u>	<u>951,625</u>	<u>210,888</u>	<u>578,007</u>	<u>339,819</u>	<u>505,982</u>	<u>12,602</u>	<u>2,687,133</u>
Change in Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>