



ALLIANCE DEFENDING
FREEDOM

FOR FAITH. FOR JUSTICE.

**ALLIANCE DEFENDING
FREEDOM AND AFFILIATES**

Consolidated Financial Statements
With Independent Auditors Report

June 30, 2021 and 2020

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, 2021 and 2020, 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 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 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, 2021 and 2020, 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 4, 2021

**ALLIANCE DEFENDING
FREEDOM AND AFFILIATES**

Consolidated Statements of Financial Position

	June 30,	
	2021	2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 19,558,820	\$ 6,937,921
Prepaid expenses and other assets	1,777,540	1,679,288
	21,336,360	8,617,209
Deposits	254,539	226,537
Investments	28,074,846	26,649,540
Property and equipment–net	33,831,002	16,879,430
Total Assets	\$ 83,496,747	\$ 52,372,716
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 3,012,699	\$ 1,812,250
Accrued expenses	3,352,344	2,702,899
Deferred membership dues	848,902	501,227
Note payable–current portion	524,170	-
	7,738,115	5,016,376
Accrued rent liability	929,938	1,022,002
Note payable–long-term portion	12,600,830	-
	21,268,883	6,038,378
Net assets:		
Net assets without donor restrictions:		
Operating	47,477,491	31,255,488
Board designations for contractual obligations and grants	3,240,772	2,288,319
Board designated operating reserve	8,808,897	8,808,897
	59,527,160	42,352,704
Net assets with donor restrictions	2,700,704	3,981,634
	62,227,864	46,334,338
Total Liabilities and Net Assets	\$ 83,496,747	\$ 52,372,716

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 70,240,006	\$ 6,334,630	\$ 76,574,636	\$ 56,448,342	\$ 6,813,236	\$ 63,261,578
Contributed services	2,157,574	-	2,157,574	3,728,655	-	3,728,655
Dividend and interest income	445,351	-	445,351	542,116	-	542,116
Realized and unrealized gain (loss) on investments–net	3,265,977	483,207	3,749,184	(611,540)	(53,952)	(665,492)
Membership revenue	1,639,151	-	1,639,151	1,071,563	-	1,071,563
Court awarded fees	335,261	-	335,261	828,014	-	828,014
Gain (loss) on disposal of property and equipment	(4,262)	-	(4,262)	900	-	900
Other income	197,950	-	197,950	279,322	-	279,322
Total Support and Revenue	78,277,008	6,817,837	85,094,845	62,287,372	6,759,284	69,046,656
NET ASSETS RELEASED:						
Purpose restrictions	8,098,767	(8,098,767)	-	5,591,541	(5,591,541)	-
EXPENSES:						
Program services:						
Grants	2,279,794	-	2,279,794	2,214,011	-	2,214,011
Legal advocacy	18,841,953	-	18,841,953	21,106,183	-	21,106,183
Strategic relations and training	15,859,063	-	15,859,063	13,417,797	-	13,417,797
Public education	16,651,759	-	16,651,759	11,666,403	-	11,666,403
	<u>53,632,569</u>	<u>-</u>	<u>53,632,569</u>	<u>48,404,394</u>	<u>-</u>	<u>48,404,394</u>
Supporting activities:						
General and administrative	6,628,928	-	6,628,928	5,499,206	-	5,499,206
Fundraising	8,939,822	-	8,939,822	8,384,621	-	8,384,621
	<u>15,568,750</u>	<u>-</u>	<u>15,568,750</u>	<u>13,883,827</u>	<u>-</u>	<u>13,883,827</u>
Total Expenses	69,201,319	-	69,201,319	62,288,221	-	62,288,221
Change in Net Assets	17,174,456	(1,280,930)	15,893,526	5,590,692	1,167,743	6,758,435
Net Assets, Beginning of Year	42,352,704	3,981,634	46,334,338	36,762,012	2,813,891	39,575,903
Net Assets, End of Year	\$ 59,527,160	\$ 2,700,704	\$ 62,227,864	\$ 42,352,704	\$ 3,981,634	\$ 46,334,338

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	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	\$ 475,186	\$ 12,917,763	\$ 8,696,848	\$ 7,844,548	\$ 29,934,345	\$ 3,815,981	\$ 4,956,993	\$ 8,772,974	\$ 38,707,319
Direct marketing	10,372	224,038	299,501	2,886,064	3,419,975	243,341	1,470,761	1,714,102	5,134,077
Office equipment	159,309	544,395	730,183	562,304	1,996,191	767,252	403,487	1,170,739	3,166,930
Professional services	16,669	818,420	351,577	1,097,420	2,284,086	253,346	114,891	368,237	2,652,323
Travel	8,633	376,742	1,646,111	306,709	2,338,195	36,984	272,241	309,225	2,647,420
Occupancy	190,778	553,747	546,897	547,107	1,838,529	382,653	331,409	714,062	2,552,591
Depreciation and amortization	152,440	519,601	554,711	676,440	1,903,192	309,081	328,904	637,985	2,541,177
Public education materials	14,209	290,275	304,609	1,127,435	1,736,528	62,949	383,987	446,936	2,183,464
Direct legal services	-	2,157,018	-	-	2,157,018	-	-	-	2,157,018
Educational seminars	813	62,401	1,180,404	53,814	1,297,432	99,159	87,543	186,702	1,484,134
Audio visual and media	226	160,623	229,261	676,560	1,066,670	7,860	224,052	231,912	1,298,582
Grant disbursements	1,207,477	-	-	-	1,207,477	-	-	-	1,207,477
Blackstone scholarships	-	-	1,135,000	-	1,135,000	-	-	-	1,135,000
Shipping and postage	5,733	42,166	44,984	722,748	815,631	78,126	226,391	304,517	1,120,148
Financial services	481	3,384	3,108	10,972	17,945	353,894	8,249	362,143	380,088
Communications	21,115	61,909	63,939	67,184	214,147	42,906	46,971	89,877	304,024
Insurance	6,506	59,124	31,443	20,208	117,281	126,964	43,065	170,029	287,310
Office supplies	9,847	50,347	40,487	52,246	152,927	48,432	40,878	89,310	242,237
	<u>\$ 2,279,794</u>	<u>\$ 18,841,953</u>	<u>\$ 15,859,063</u>	<u>\$ 16,651,759</u>	<u>\$ 53,632,569</u>	<u>\$ 6,628,928</u>	<u>\$ 8,939,822</u>	<u>\$ 15,568,750</u>	<u>\$ 69,201,319</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	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	\$ 378,742	\$ 13,193,982	\$ 6,562,016	\$ 5,771,791	\$ 25,906,531	\$ 3,245,200	\$ 4,846,082	\$ 8,091,282	\$ 33,997,813
Direct marketing	12,761	116,963	176,875	1,975,933	2,282,532	234,869	1,120,184	1,355,053	3,637,585
Office equipment	72,154	341,615	563,561	255,934	1,233,264	528,533	322,770	851,303	2,084,567
Professional services	22,603	661,493	307,829	657,313	1,649,238	224,220	222,969	447,189	2,096,427
Travel	17,315	798,826	1,827,679	374,616	3,018,436	122,159	382,380	504,539	3,522,975
Occupancy	138,526	826,360	357,870	357,227	1,679,983	252,848	336,154	589,002	2,268,985
Depreciation and amortization	109,433	422,908	466,004	586,319	1,584,664	268,542	412,526	681,068	2,265,732
Public education materials	883	303,837	159,349	400,302	864,371	10,679	146,586	157,265	1,021,636
Direct legal services	-	3,726,795	-	-	3,726,795	-	-	-	3,726,795
Educational seminars	2,165	249,710	1,452,360	126,084	1,830,319	81,718	165,269	246,987	2,077,306
Audio visual and media	824	242,016	326,869	555,510	1,125,219	30,737	143,542	174,279	1,299,498
Grant disbursements	1,426,407	-	-	-	1,426,407	-	-	-	1,426,407
Blackstone scholarships	-	-	992,800	-	992,800	-	-	-	992,800
Shipping and postage	3,429	41,602	63,136	493,159	601,326	56,773	175,256	232,029	833,355
Financial services	433	7,615	2,668	12,237	22,953	263,103	4,196	267,299	290,252
Communications	20,933	64,135	64,126	68,320	217,514	48,899	71,090	119,989	337,503
Insurance	3,155	51,075	16,882	8,018	79,130	118,922	16,695	135,617	214,747
Office supplies	4,248	57,251	77,773	23,640	162,912	12,004	18,922	30,926	193,838
	<u>\$ 2,214,011</u>	<u>\$ 21,106,183</u>	<u>\$ 13,417,797</u>	<u>\$ 11,666,403</u>	<u>\$ 48,404,394</u>	<u>\$ 5,499,206</u>	<u>\$ 8,384,621</u>	<u>\$ 13,883,827</u>	<u>\$ 62,288,221</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors	\$ 76,590,221	\$ 62,984,982
Cash received from membership dues	1,986,826	1,167,080
Other cash received	1,185,749	1,598,547
Cash paid to or on behalf of employees	(38,200,639)	(34,721,981)
Cash paid to vendors	(25,470,767)	(22,666,964)
Net Cash Provided by Operating Activities	16,091,390	8,361,664
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(19,441,681)	(1,737,113)
Proceeds on sale of investments	11,047,711	14,563,230
Purchase of investments	(8,201,521)	(18,954,447)
Net Cash Used by Investing Activities	(16,595,491)	(6,128,330)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	13,125,000	-
Net Cash Provided by Financing Activities	13,125,000	-
Change in Cash and Cash Equivalents	12,620,899	2,233,334
Cash and Cash Equivalents, Beginning of Year	6,937,921	4,704,587
Cash and Cash Equivalents, End of Year	\$ 19,558,820	\$ 6,937,921

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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, ADF International Belgium, ADF International Austria GmbH, ADF International Switzerland, ADF International UK, ADF International France and ADF Deutschland. ADF Foundation was incorporated in 2005 as a separate, independent corporation. 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, ADF International Belgium, ADF International Austria GmbH, ADF International Switzerland, ADF International UK, ADF International France, and ADF Deutschland 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, 2021 and 2020

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 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, 2021 and 2020, ADF and Affiliates has cash and cash equivalents on deposit with financial institutions that exceed the federally insured (FDIC) balance by approximately \$18,800,000 and \$6,700,000, 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, 2021 and 2020, 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, exchange traded funds, and certificates of deposit with an original maturity greater than ninety days. Equity securities, mutual funds, and exchange traded 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 interest income and realized and unrealized gain (loss) on investments on the consolidated statements of activities.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020

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 \$3,000 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, 2021 and 2020

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 Areté 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.

Membership revenue consists primarily of annual fees paid by allied churches and ministries. These amounts are recorded when earned, which is ratably in the reporting period in which services are delivered. Deferred membership dues are recorded for the portion of the membership that has not yet occurred as of June 30, 2021 and 2020.

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 70 attorneys based in Arizona, Georgia, Virginia, Washington D.C., New York City, and around the world. Together with a network of over 3,400 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.

A 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 grants 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.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES, continued

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.

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.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2021 and 2020, was \$1,675,282 and \$553,133, respectively, and are included in the public education materials lines of both of the consolidated statements of functional expenses.

ADOPTION OF ACCOUNTING PRONOUNCEMENT

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ADF and Affiliates adopted the provisions of this new standard during the year ended June 30, 2021. This new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard had no effect on change in net assets or net assets in total.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 19,558,820	\$ 6,937,921
Other receivables	62,075	451,850
Investments	28,074,846	26,649,540
Financial assets, at year-end	47,695,741	34,039,311
Less those unavailable for general expenditure within one year, due to:		
Donor imposed restrictions:		
Donor restricted as to purpose and use	(120,000)	(120,000)
Temporarily-restricted Endowments	(190,616)	-
Donor restricted endowments	(1,661,078)	(1,487,920)
Board designations:		
Board designated operating reserve	(8,808,897)	(8,808,897)
Liquidated damages related to contracted future events	(1,382,378)	(825,898)
	(12,162,969)	(11,242,715)
Financial assets available within one year to meet cash needs for general expenditures	\$ 35,532,772	\$ 22,796,596

ADF and Affiliates has \$47,695,741, of financial assets as of June 30, 2021, consisting of cash and cash equivalents of \$19,558,820, other receivables of \$62,075, and short-term investments of \$28,074,846. ADF and Affiliates has \$34,039,311, of financial assets as of June 30, 2020, consisting of cash and cash equivalents of \$6,937,921, other receivables of \$451,850, and short-term investments of \$26,649,540. Of those financial assets, \$12,122,969 and \$11,242,715 is unavailable for use before June 30, 2021 and 2020, 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, \$35,572,772 and \$22,796,596, of financial assets are available within one year to meet cash needs for general expenditures as of June 30, 2021 and 2020, respectively.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

3. LIQUIDITY AND FUNDS AVAILABLE, continued:

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.

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 resources without donor restrictions, and resources without donor restrictions carried forward from prior periods.

4. INVESTMENTS:

Investments consist of:

	June 30,	
	2021	2020
Cash and cash equivalents held for investment purposes	\$ 4,214,484	\$ 3,101,194
Certificates of deposit	5,222,288	10,966,030
Exchange traded funds	9,202,419	5,991,721
Mutual funds	9,435,655	6,590,595
	\$ 28,074,846	\$ 26,649,540

Interest income and gains on investments, netted with management fees, consist of:

	June 30,	
	2021	2020
Dividend and interest income	\$ 445,351	\$ 542,116
Net realized and unrealized gains (losses)	3,749,184	(665,492)
	\$ 4,194,535	\$ (123,376)

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

5. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	June 30,	
	2021	2020
Land	\$ 2,000,000	\$ 2,000,000
Buildings and improvements	35,482,010	17,532,801
Furniture and equipment	15,187,727	15,553,292
	52,669,737	35,086,093
Less accumulated depreciation	(19,315,137)	(18,253,188)
	33,354,600	16,832,905
Construction in process	476,402	46,525
	\$ 33,831,002	\$ 16,879,430

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,	
	2021	2020
Case and project grants	\$ 1,225,519	\$ 1,318,803
Contractual obligations related to future ministry activities	2,015,253	969,516
	\$ 3,240,772	\$ 2,288,319
Operating reserve	\$ 8,808,897	\$ 8,808,897

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

6. NET ASSETS, continued:

Net assets with donor restrictions consist of:

	June 30,	
	2021	2020
Restricted by time or purpose:		
Special projects and grants	\$ 424,539	\$ 927,148
International projects	313,363	337,807
Endowment earnings	301,724	-
Blackstone Fellowship	-	1,307,151
	1,039,626	2,572,106
Restricted in perpetuity:		
Endowment funds	1,661,078	1,487,920
Underwater endowments	-	(78,392)
	1,661,078	1,409,528
	\$ 2,700,704	\$ 3,981,634

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

7. ENDOWMENT FUNDS:

Changes in endowment net assets with donor restrictions for the year ended June 30, 2021, consist of:

Endowment net assets, beginning of year	\$ 1,409,528
Contributions	133,158
Transferred from with donor restrictions by purpose*	40,000
Net realized and unrealized gains	483,207
Amounts appropriated for expenditure	<u>(103,091)</u>
 Endowment net assets, end of year	 <u><u>\$ 1,962,802</u></u>

Changes in endowment net assets with donor restrictions for the year ended June 30, 2020, consist of:

Endowment net assets, beginning of year	\$ 325,244
Contributions	211,699
Transferred from with donor restrictions by purpose*	1,018,280
Net realized and unrealized gains	(53,952)
Amounts appropriated for expenditure	<u>(91,743)</u>
 Endowment net assets, end of year	 <u><u>\$ 1,409,528</u></u>

*During the years ended June 30, 2021 and 2020, donors of funds contributed in previous years requested ADF and Affiliates to transfer these funds from net assets with donor restrictions by time or purpose to net assets restricted in perpetuity.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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, 2021 are:

		Fair Value Measurements Using:		
June 30, 2021	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	\$ 9,435,655	\$ 9,435,655	\$ -	\$ -
Exchange traded funds	9,202,419	9,202,419	-	-
	18,638,074			
		\$ 18,638,074	\$ -	\$ -
Reconciling items:				
Cash and cash equivalents	4,214,484			
Certificates of deposit	5,222,288			
Total investments	\$ 28,074,846			

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

8. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2020 are:

		Fair Value Measurements Using:		
June 30, 2020	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	\$ 6,590,595	\$ 6,590,595	\$ -	\$ -
Exchange traded funds	5,991,721	5,991,721	-	-
	12,582,316			
		\$ 12,582,316	\$ -	\$ -
Reconciling items:				
Cash and cash equivalents	3,101,194			
Certificates of deposit	10,966,030			
	Total investments			
	\$ 26,649,540			

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

9. NOTE PAYABLE:

Note payable consists of a loan with an initial balance of \$13,125,000 secured by property and equipment. This note requires expected monthly payments of \$81,300 beginning October 1, 2021, and has a variable interest rate of 1.350 percentage points over the 1 Month LIBOR Interest Rate. Interest-only payments will be made through September 2021, and the effective interest rate as of June 30, 2021 is 1.45%. The maturity date is April 1, 2026, at which time a balloon payment will be required.

Future minimum payments on the note payable are:

<u>Year Ending June 30,</u>	
2022	\$ 524,170
2023	795,679
2024	807,001
2025	819,401
2026	831,529
Thereafter	<u>9,347,220</u>
	<u><u>\$ 13,125,000</u></u>

ADF and Affiliates was in compliance with all financial and reporting covenants as of June 30, 2021.

10. 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 also 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 \$799,028 and \$695,533, for the years ended June 30, 2021 and 2020, respectively.

11. ALLOCATION OF JOINT COSTS:

For the years ended June 30, 2021 and 2020, ADF and Affiliates incurred joint costs of \$3,581,605 and \$4,076,739, respectively, for informational materials and activities that include fundraising appeals. During the year ended June 30, 2021, \$644,689 of those costs were allocated to fundraising, \$250,712 to general and administrative, and \$2,686,204 to program services. During the year ended June 30, 2020, \$882,418 of those costs were allocated to fundraising, \$284,405 to general and administrative, and \$2,909,916 to program services.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

12. EQUIPMENT LEASES:

ADF and Affiliates leases office equipment under noncancellable operating leases. Lease expenses under these agreements for the years ended June 30, 2021 and 2020, were \$237,593 and \$244,850, respectively. Future minimum lease payments are:

<u>Year Ending June 30,</u>		
2022	\$	233,468
2023		171,507
2024		83,562
2025		38,424
		38,424
	\$	526,961

13. 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, 2021 and 2020, were \$1,645,052 and \$1,559,409, respectively. Future minimum lease payments are:

<u>Year Ending June 30,</u>		
2022	\$	1,607,042
2023		1,595,970
2024		1,557,551
2025		1,524,134
2026		1,091,103
Thereafter		789,321
		789,321
	\$	8,165,121

14. 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 \$2,015,253 and \$969,516, as of June 30, 2021 and 2020, respectively, related to these contracts in the event of cancellation. Between June 30, 2021 and 2020, 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 \$0 and \$388,717, respectively.

15. CONCENTRATION:

During the years ended June 30, 2021 and 2020, ADF and Affiliates received contributions from one donor that totaled approximately \$18,445,000 and \$17,725,000, respectively. These gifts accounted for approximately 22% and 26%, respectively, of total support and revenue for the years ended June 30, 2021 and 2020.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

16. RISKS AND UNCERTAINTIES:

In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the world. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant volatility in financial markets. ADF and Affiliates, like many organizations, saw business travel curtailed and several events either cancelled, postponed, relocated or converted to virtual forums. ADF and Affiliates was otherwise able to continue program and business operations by the grace of God, ongoing generosity of ministry friends, and resourcefulness of team members. As of the date of financial statement issuance, travel and events have resumed on a limited, case-by-case basis. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of ADF and Affiliates for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 4, 2021, which represents the date the consolidated financial statements were available to be issued.