



ALLIANCE DEFENDING
FREEDOM

FOR FAITH. FOR JUSTICE.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors Report

June 30, 2023 and 2022

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Alliance Defending Freedom and Affiliates
Scottsdale, Arizona

Opinion

We have audited the accompanying consolidated financial statements of Alliance Defending Freedom and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Alliance Defending Freedom and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alliance Defending Freedom and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Directors
Alliance Defending Freedom and Affiliates
Scottsdale, Arizona

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Alliance Defending Freedom and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alliance Defending Freedom and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Colorado Springs, Colorado
November 3, 2023

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Financial Position

	June 30,	
	2023	2022
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 8,052,983	\$ 8,006,507
Restricted cash	13,345,342	12,478,277
Pledges receivable—current portion	998,167	1,028,527
Prepaid expenses and other assets	3,137,050	2,503,301
	<u>25,533,542</u>	<u>24,016,612</u>
Pledges receivable—long-term portion	603,090	1,601,257
Deposits	285,528	271,009
Investments	37,276,118	29,643,718
Operating lease—right-of-use assets	4,595,147	-
Property and equipment—net	35,147,730	34,375,538
	<u>103,441,155</u>	<u>89,908,134</u>
Total Assets	<u>\$ 103,441,155</u>	<u>\$ 89,908,134</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 3,710,072	\$ 3,486,333
Accrued expenses	5,384,706	4,772,928
Deferred membership dues	1,366,419	1,204,380
Operating lease—right-of-use obligations, current portion	1,392,358	-
	<u>11,853,555</u>	<u>9,463,641</u>
Accrued rent liability	-	809,256
Operating lease—right-of-use obligations, net of current portion	4,029,928	-
Total liabilities	<u>15,883,483</u>	<u>10,272,897</u>
Net assets:		
Net assets without donor restrictions:		
Operating	63,757,065	61,244,549
Board designations for contractual obligations and grants	4,536,445	3,669,380
Board designated operating reserve	8,808,897	8,808,897
	<u>77,102,407</u>	<u>73,722,826</u>
Net assets with donor restrictions	10,455,265	5,912,411
Total net assets	<u>87,557,672</u>	<u>79,635,237</u>
Total Liabilities and Net Assets	<u>\$ 103,441,155</u>	<u>\$ 89,908,134</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 84,361,500	\$ 12,248,272	\$ 96,609,772	\$ 87,252,975	\$ 10,876,197	\$ 98,129,172
Membership revenue	2,996,320	-	2,996,320	2,261,762	-	2,261,762
Court awarded fees	3,277,562	-	3,277,562	2,040,600	-	2,040,600
Contributed services	1,251,507	-	1,251,507	1,554,875	-	1,554,875
Dividend and interest income	1,035,396	-	1,035,396	666,423	-	666,423
Realized and unrealized gain (loss)	1,442,473	184,062	1,626,535	(3,697,501)	(280,191)	(3,977,692)
Other income	1,046,933	-	1,046,933	1,071,087	-	1,071,087
Total Support and Revenue	95,411,691	12,432,334	107,844,025	91,150,221	10,596,006	101,746,227
NET ASSETS RELEASED FROM:						
Purpose restrictions	7,876,454	(7,876,454)	-	7,384,299	(7,384,299)	-
EXPENSES:						
Program services:						
Grants	2,487,186	-	2,487,186	2,516,929	-	2,516,929
Legal advocacy	27,793,579	-	27,793,579	23,400,598	-	23,400,598
Strategic relations and training	24,974,550	-	24,974,550	21,064,744	-	21,064,744
Public education	24,288,879	-	24,288,879	20,287,295	-	20,287,295
	79,544,194	-	79,544,194	67,269,566	-	67,269,566
Supporting activities:						
General and administrative	9,286,695	-	9,286,695	7,842,247	-	7,842,247
Fundraising	11,090,701	-	11,090,701	9,227,041	-	9,227,041
	20,377,396	-	20,377,396	17,069,288	-	17,069,288
Total Expenses	99,921,590	-	99,921,590	84,338,854	-	84,338,854
Change in Net Assets	3,366,555	4,555,880	7,922,435	14,195,666	3,211,707	17,407,373
Net Assets, Beginning of Year	73,722,826	5,912,411	79,635,237	59,527,160	2,700,704	62,227,864
Net Assets, End of Year	\$ 77,089,381	\$ 10,468,291	\$ 87,557,672	\$ 73,722,826	\$ 5,912,411	\$ 79,635,237

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2023

	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	\$ 899,634	\$ 19,043,598	\$ 11,193,489	\$ 11,669,546	\$ 42,806,267	\$ 5,917,022	\$ 6,159,109	\$ 12,076,131	\$ 54,882,398
Direct marketing	10,807	418,152	496,828	4,702,879	5,628,666	360,150	1,677,791	2,037,941	7,666,607
Travel	51,281	1,522,266	3,573,759	734,568	5,881,874	217,833	435,950	653,783	6,535,657
Educational seminars	22,208	741,364	3,123,376	213,221	4,100,169	64,068	372,259	436,327	4,536,496
Occupancy	155,470	940,846	1,114,173	930,971	3,141,460	469,796	392,723	862,519	4,003,979
Audio visual and media	5,176	352,858	1,617,061	1,807,420	3,782,515	47,050	134,252	181,302	3,963,817
Office equipment	94,758	1,120,168	890,201	802,723	2,907,850	606,293	407,555	1,013,848	3,921,698
Depreciation and amortization	114,975	620,660	645,860	581,380	1,962,875	315,303	336,423	651,726	2,614,601
Professional services	40,865	1,052,219	287,162	510,336	1,890,582	375,428	239,553	614,981	2,505,563
Public education materials	12,730	304,364	385,239	979,289	1,681,622	53,205	530,522	583,727	2,265,349
Shipping and postage	5,478	50,677	49,482	1,097,291	1,202,928	115,229	287,247	402,476	1,605,404
Blackstone scholarships	-	32,500	1,322,848	-	1,355,348	-	-	-	1,355,348
Direct legal services	-	1,249,485	-	-	1,249,485	-	-	-	1,249,485
Grant disbursements	1,036,122	-	-	-	1,036,122	-	-	-	1,036,122
Financial services	1,474	21,500	7,956	9,288	40,218	537,813	2,980	540,793	581,011
Insurance	15,035	112,493	97,345	74,794	299,667	136,002	25,040	161,042	460,709
Communications	11,414	125,883	89,397	101,012	327,706	37,445	55,165	92,610	420,316
Office supplies	9,759	84,546	80,374	74,161	248,840	34,058	34,132	68,190	317,030
	<u>\$ 2,487,186</u>	<u>\$ 27,793,579</u>	<u>\$ 24,974,550</u>	<u>\$ 24,288,879</u>	<u>\$ 79,544,194</u>	<u>\$ 9,286,695</u>	<u>\$ 11,090,701</u>	<u>\$ 20,377,396</u>	<u>\$ 99,921,590</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2022

	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	\$ 557,547	\$ 16,487,578	\$ 10,030,834	\$ 9,580,024	\$ 36,655,983	\$ 5,031,512	\$ 5,240,958	\$ 10,272,470	\$ 46,928,453
Direct marketing	13,646	377,258	404,376	3,829,074	4,624,354	347,433	1,360,419	1,707,852	6,332,206
Travel	27,835	961,628	2,569,247	563,294	4,122,004	136,849	388,433	525,282	4,647,286
Educational seminars	5,202	226,755	2,242,916	139,102	2,613,975	19,999	162,114	182,113	2,796,088
Occupancy	237,089	735,987	727,881	730,296	2,431,253	319,799	370,192	689,991	3,121,244
Audio visual and media	2,634	209,666	1,146,354	1,559,776	2,918,430	15,567	128,104	143,671	3,062,101
Office equipment	105,560	821,339	995,177	694,567	2,616,643	532,105	346,100	878,205	3,494,848
Depreciation and amortization	178,831	578,494	574,389	583,003	1,914,717	269,498	341,370	610,868	2,525,585
Professional services	10,076	718,756	229,564	205,656	1,164,052	288,794	104,462	393,256	1,557,308
Public education materials	9,053	311,447	340,207	1,219,144	1,879,851	112,103	376,905	489,008	2,368,859
Shipping and postage	8,288	72,645	80,943	909,274	1,071,150	99,232	232,409	331,641	1,402,791
Blackstone scholarships	-	26,000	1,466,400	-	1,492,400	-	-	-	1,492,400
Direct legal services	-	1,544,898	-	-	1,544,898	-	-	-	1,544,898
Grant disbursements	1,298,186	-	-	-	1,298,186	-	-	-	1,298,186
Financial services	16,143	60,094	46,390	48,818	171,445	450,850	26,772	477,622	649,067
Insurance	13,360	83,143	52,936	42,697	192,136	147,396	56,182	203,578	395,714
Communications	24,268	115,191	95,723	109,338	344,520	50,455	55,779	106,234	450,754
Office supplies	9,211	69,719	61,407	73,232	213,569	20,655	36,842	57,497	271,066
	<u>\$ 2,516,929</u>	<u>\$ 23,400,598</u>	<u>\$ 21,064,744</u>	<u>\$ 20,287,295</u>	<u>\$ 67,269,566</u>	<u>\$ 7,842,247</u>	<u>\$ 9,227,041</u>	<u>\$ 17,069,288</u>	<u>\$ 84,338,854</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 7,922,435	\$ 17,407,373
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,614,601	2,525,585
Net realized and unrealized (gains) losses on investments	(1,626,535)	3,977,692
Gain on sale of property and equipment	(9,124)	(4,377)
Donated land	(315,000)	-
Noncash effect of change in accounting principle	17,883	-
Net change in operating assets and liabilities:		
Prepaid expenses and other assets	(633,749)	(725,761)
Deposits	(14,519)	(16,470)
Pledges receivable	1,028,527	(2,629,784)
Accounts payable	326,196	371,177
Accrued expenses	611,778	1,420,584
Deferred membership dues	162,039	355,478
Accrued rent liability	-	(120,682)
Net Cash Provided by Operating Activities	<u>10,084,532</u>	<u>22,560,815</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,287,479)	(3,069,439)
Proceeds on sale of property and equipment	122,353	106,152
Proceeds on sale of investments	19,235,834	19,401,318
Purchase of investments and reinvested interest and dividends	(25,241,699)	(24,947,882)
Net Cash Used by Investing Activities	<u>(9,170,991)</u>	<u>(8,509,851)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	-	(13,125,000)
Net Cash Used by Financing Activities	<u>-</u>	<u>(13,125,000)</u>
Change in Cash, Cash Equivalents, and Restricted Cash	913,541	925,964
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>20,484,784</u>	<u>19,558,820</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u><u>\$ 21,398,325</u></u>	<u><u>\$ 20,484,784</u></u>

(continued)

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30,	
	2023	2022
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSIST OF:		
Cash and cash equivalents	\$ 8,052,983	\$ 8,006,507
Restricted cash	13,345,342	12,478,277
	<u>\$ 21,398,325</u>	<u>\$ 20,484,784</u>
SUPPLEMENTAL DISCLOSURES AND NON-CASH TRANSACTIONS:		
Operating lease-right-of-use assets obtained in exchange for operating lease obligations	<u>\$ 5,763,707</u>	<u>\$ -</u>
Accrued rent liability transferred to operating lease obligation	<u>\$ 809,256</u>	<u>\$ -</u>
Property and equipment purchased with accounts payable	<u>\$ -</u>	<u>\$ 102,457</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

1. **NATURE OF ORGANIZATIONS:**

Alliance Defending Freedom (ADF) was formed in 1993. It is an alliance-building legal organization that seeks to 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 fundamental right of parents to direct the upbringing, care, and education for their children.
- The sanctity of marriage and the truth that God has created us male and female.

ADF accomplishes this mission by advocating in courtrooms and in the public square, training lawyers of today and tomorrow, and funding allies and critical cases-in the United States and around the globe.

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, ADF Deutschland, and ADF Action. 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 Action was incorporated in 2022 as a 501(c)(4) of the Code. ADF, ADF Foundation, and ADF Action 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, 2023 and 2022

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, 2023 and 2022, ADF and Affiliates has cash and cash equivalents on deposit with financial institutions that exceed the federally insured balance by approximately \$19,120,000 and \$19,500,000, respectively.

RESTRICTED CASH

Restricted cash consists of cash and cash equivalents restricted by the board for operating reserves and liquidated damages for future contracted events.

PLEDGE RECEIVABLE

Pledge receivable consists of an unconditional promise to give and is recognized as assets and support in the period made. Unconditional promises that are expected to be received within one year are recorded at their net realizable value based upon management's estimate of the pledges being collectible. Unconditional promises that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows.

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, 2023 and 2022, court awarded fees receivables, software licenses, and insurance payments.

DEPOSITS

Deposits consist of security deposits paid on office rental space.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments consist of cash and cash equivalents, mutual funds, exchange traded funds, and certificates of deposit with an original maturity greater than ninety days and are recorded at fair value. 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.

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. The long-term success of the ADF Foundation's financial support to ADF is dependent in part 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.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS, continued

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.

OPERATING LEASES—RIGHT-OF-USE ASSETS AND OBLIGATIONS

ADF adopted Accounting Standards Update (ASU) 2016-02 (see recently adopted accounting standards below) and its related amendments as of July 1, 2022, which resulted in the recognition of operating leases right-of-use assets totaling \$4,595,147 as of June 30, 2023, as well as operating lease obligations totaling \$5,422,286. ADF elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of July 1, 2022 without restating prior-year amounts. The additional lease disclosure can be found in Note 7.

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 and amortization is recorded using the straight-line method over the estimated useful lives. Depreciation and amortization 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 and amortization 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.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 program costs, legal projects, and case grants.

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 annual ADF Summit, Blackstone Legal Fellowship, and other programs, ADF and Affiliates continue to build an alliance of volunteer attorneys and future attorneys who can work within America's legal system and international bodies of law. They work toward ADF's mission of keeping the door open for the Gospel by advocating for religious liberty, the sanctity of human life, freedom of speech, marriage and family, and parental rights. Contributed services are recognized as in-kind support at their estimated fair value and are reported using current rates for similar services in their principal market. All contributed services were utilized in the furtherance of ADF and Affiliates' programs.

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, 2023 and 2022. All other income is recorded when earned.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES

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

ADF (including its affiliates) offers top-notch legal advocacy and expertise through its 90 attorneys based in Arizona, Georgia, Virginia, Washington D.C., New York City, and around the world. It has had remarkable success—winning nearly 80% of its cases and having played an important role in 74 United States Supreme Court victories. In fact, ADF has directly represented parties in 15 victories at the U.S. Supreme Court since 2011. But direct litigation is not the only way ADF achieves courtroom success.

ADF also engages and equips a growing network of over 4,700 network attorneys to help defend freedom's future. It does so in part by providing grants to fund outside litigation that furthers ADF's strategic objectives, as defined by ADF's U.S. and International advocacy teams, and consistent with its mission described above. These grant funds cover litigation expenses such as expert witness fees, research costs, scholarships, public advocacy efforts, and amicus support, which is critical to ensuring the best possibility of success.

To receive a grant, ADF allies submit applications for funding, which are then reviewed by a council of experienced attorneys. This council meets monthly to review applications, collaborate about how to strategically advance ADF's mission, and award grants that best align with that mission. Once a grant is awarded, ADF keeps the funds until the recipient provides proof of work or expense in accordance with the terms of the grant. Disbursements are recorded as an expense when paid.

ADF also engages in significant public advocacy. Because courtroom decisions can often reflect cultural values, ADF seeks to persuade people on the importance of protecting religious freedom, free speech, the sanctity of life, parental rights, and marriage and family-in the United States and around the globe. And ADF does this through print media, mailing, email alerts, websites, blog posts, op-eds, social media, webinars, and public media appearances and events.

Finally, ADF also provides world-class legal training. Because ADF seeks to transform law and culture so that true freedom may flourish, it provides training to Christian attorneys, law students, and university students interested in pursuing a career in law, public policy, government, business, and other culture-shaping fields. ADF sees this investment as critical to securing freedom's future.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2023 and 2022, was \$1,190,893 and \$1,591,420, respectively, and are included in the public education materials lines of both of the consolidated statements of functional expenses.

ADOPTION OF ACCOUNTING PRONOUNCEMENT

In 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842 of the Accounting Standards Codification). The amendments in this update require organizations that lease assets to recognize on the consolidated statement of financial position the assets and liabilities for the rights and obligations created by the leases. The amendments are effective for fiscal years beginning after December 15, 2021. ADF adopted this update for the year ended June 30, 2023. ADF has contracts which contain the right to control the use of property or assets and are therefore considered to be leases. ADF elected to adopt the transition relief provisions from ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements* and recorded the impact of adoption as of July 1, 2022, without restating any prior-year amounts. ADF also elected the accounting policy elections to exclude short-term leases with lease terms of 12 months or less and to not separate lease and non-lease components. The additional lease disclosure can be found in Note 7. The effect of the adjustment to the opening balance of net assets totaled \$17,883. This amount is reported as a noncash effect of change in accounting principle on the consolidated statements of cash flows.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	June 30,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 8,052,983	\$ 8,006,507
Restricted cash	13,345,342	12,478,277
Pledges receivable	1,601,257	2,629,784
Other receivables	470,305	106,460
Investments	37,276,118	29,643,718
Financial assets, at year-end	<u>60,746,005</u>	<u>52,864,746</u>
Less those unavailable for general expenditure within one year, due to:		
Pledges receivable not expected to be received within one year	(603,090)	(1,601,257)
Donor imposed restrictions:		
Donor restricted as to purpose and use	(3,762,491)	(157,000)
Donor restricted endowments	(1,617,511)	(1,511,072)
Board designations:		
Funds set aside for operating reserves not expected to be used	(7,089,897)	(8,808,897)
Funds set aside for board-designated endowment	(142,834)	(105,808)
Funds set aside for liquidated damages related to contracted future events	<u>(1,333,704)</u>	<u>(703,297)</u>
	<u>(14,549,527)</u>	<u>(12,887,331)</u>
Financial assets available within one year to meet cash needs for general expenditures	<u>\$ 46,196,478</u>	<u>\$ 39,977,415</u>

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

3. LIQUIDITY AND FUNDS AVAILABLE, continued:

ADF and Affiliates has \$60,746,005 of financial assets as of June 30, 2023, consisting of cash, cash equivalents, and restricted cash of \$21,398,325, pledges receivable of \$1,601,257, other receivables of \$470,305, and investments of \$37,276,118. ADF and Affiliates had \$52,864,746 of financial assets as of June 30, 2022, consisting of cash, cash equivalents, and restricted cash of \$20,484,784, pledges receivable of \$2,629,784, other receivables of \$106,460, and short-term investments of \$29,643,718. Of those financial assets, \$14,549,527 and \$12,887,331 is unavailable for use before June 30, 2024 and 2023, respectively, due to receivables not expected to be received within one year, 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, \$46,196,478 and \$39,977,415, of financial assets are available within one year to meet cash needs for general expenditures as of June 30, 2023 and 2022, 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. 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. PLEDGES RECEIVABLE:

Pledges receivable consists of:

	June 30,	
	2023	2022
Pledges receivable	\$ 1,700,000	\$ 2,750,000
Less present value discount	(98,743)	(120,216)
	\$ 1,601,257	\$ 2,629,784

Pledges receivable is expected to be collected as follows:

Due in less than one year	\$ 1,050,000	\$ 1,050,000
Due in one to two years	650,000	1,050,000
Due in two to three years	-	650,000
	\$ 1,700,000	\$ 2,750,000

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

4. PLEDGES RECEIVABLE, continued:

Management has evaluated and believes the pledges are fully collectible; therefore, no allowance for uncollectibility has been recorded as of June 30, 2023.

5. INVESTMENTS:

Investments consist of:

	June 30,	
	2023	2022
Cash and cash equivalents held for investment purposes	\$ 9,709,881	\$ 8,204,321
Certificates of deposit	860,586	2,626,352
Exchange traded funds	20,374,154	14,310,395
Mutual funds	6,331,497	4,502,650
	\$ 37,276,118	\$ 29,643,718

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

	Year Ended June 30,	
	2023	2022
Dividend and interest income	\$ 1,035,396	\$ 666,423
Net realized and unrealized gains (losses)	1,626,535	(3,977,692)
	\$ 2,661,931	\$ (3,311,269)

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

6. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of:

	June 30,	
	2023	2022
Land	\$ 2,000,000	\$ 2,000,000
Land held for sale	215,000	-
Buildings and improvements	38,186,692	37,419,071
Furniture and equipment	18,133,756	16,316,769
	58,535,448	55,735,840
Less accumulated depreciation	(24,426,285)	(21,830,904)
	34,109,163	33,904,936
Construction in process	1,038,567	470,602
	<u>\$ 35,147,730</u>	<u>\$ 34,375,538</u>

7. OPERATING LEASE—RIGHT-OF-USE ASSETS AND OBLIGATIONS:

ADF leases office space and equipment under noncancellable operating leases that expires between 2023 and 2032. The discount rate represents the risk-free discount rate using a period comparable with that of an individual lease term on the later of July 1, 2022 or the inception date of the lease. The leases require monthly payments ranging from \$80 to \$64,116.

	June 30, 2023
Operating lease right-of-use assets	\$ 4,595,147
Operating lease obligations	\$ 5,422,286
Operating lease costs	\$ 1,333,670
Weighted-average discount rate	2.91%
Weighted-average remaining lease term	4.69 years

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

7. OPERATING LEASE—RIGHT-OF-USE ASSETS AND OBLIGATIONS, continued:

Future minimum lease payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year are as follows:

<u>Year Ending June 30</u>	
2024	\$ 1,392,358
2025	1,290,771
2026	1,274,991
2027	884,616
2028	187,801
Thereafter	812,218
	<u>5,842,755</u>
Less imputed interest	<u>(420,469)</u>
	<u><u>\$ 5,422,286</u></u>

Prior to the adoption of ASUs 2016-02 and 2018-11 under Topic 842 as described in Note 2, ADF was applying Topic 840 in relation to operating leases. During the year ended June 30, 2022, ADF had operating lease expenses of \$1,793,209.

8. 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:

	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
Case and project grants	\$ 1,530,844	\$ 1,107,971
Contractual obligations related to future ministry activities	2,862,767	2,455,601
Board designated endowment	142,834	105,808
	<u>\$ 4,536,445</u>	<u>\$ 3,669,380</u>
Operating reserve	<u>\$ 8,808,897</u>	<u>\$ 8,808,897</u>

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

8. NET ASSETS, continued:

Net assets with donor restrictions consist of:

	June 30,	
	2023	2022
Restricted by time or purpose:		
Parental rights	\$ 3,314,672	\$ -
Life	2,680,000	-
Time restricted	1,601,257	2,629,784
Special projects and grants	1,103,835	1,303,695
International projects	36,800	372,000
Underwater endowments	(12,703)	(84,244)
	<u>8,723,861</u>	<u>4,221,235</u>
Restricted in perpetuity	<u>1,731,404</u>	<u>1,691,176</u>
	<u><u>\$ 10,455,265</u></u>	<u><u>\$ 5,912,411</u></u>

9. ENDOWMENT FUNDS:

Changes in endowment net assets with donor restrictions for the year ended June 30, 2023, consist of:

		With Donor Restrictions		
	Without Donor Restrictions	Restricted by Purpose and Time	Restricted by Perpetuity	Total
Endowment net assets, beginning of year	\$ 105,808	\$ (84,244)	\$ 1,691,176	\$ 1,712,740
Contributions	24,000	-	40,228	64,228
Realized losses	(15,073)	(232,093)	-	(247,166)
Net unrealized gains	28,099	403,129	-	431,228
Amounts appropriated for expenditure	<u>-</u>	<u>(99,495)</u>	<u>-</u>	<u>(99,495)</u>
Endowment net assets, end of year	<u><u>\$ 142,834</u></u>	<u><u>\$ (12,703)</u></u>	<u><u>\$ 1,731,404</u></u>	<u><u>\$ 1,861,535</u></u>

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

9. ENDOWMENT FUNDS, continued:

Changes in endowment net assets with donor restrictions for the year ended June 30, 2022, consist of:

		With Donor Restrictions		
	Without Donor Restrictions	Restricted by Purpose and Time	Restricted by Perpetuity	Total
Endowment net assets, beginning of year	\$ -	\$ 301,724	\$ 1,661,078	\$ 1,962,802
Contributions	105,808	-	30,098	135,906
Realized gains	-	411,475	-	411,475
Net unrealized losses	-	(691,666)	-	(691,666)
Amounts appropriated for expenditure	-	(105,777)	-	(105,777)
Endowment net assets, end of year	<u>\$ 105,808</u>	<u>\$ (84,244)</u>	<u>\$ 1,691,176</u>	<u>\$ 1,712,740</u>

The fair value of endowment funds fell below the original gift value as follows:

	June 30,	
	2023	2022
Original gift value	\$ 1,220,283	\$ 1,365,055
Current fair value	<u>1,090,236</u>	<u>1,189,715</u>
Underwater amount	<u>\$ (130,047)</u>	<u>\$ (175,340)</u>

10. FAIR VALUE MEASUREMENTS:

ADF and Affiliates uses appropriate valuation techniques to determine fair value based on inputs available. When possible, ADF and Affiliates measures fair value using Level 1 inputs on the hierarchy presented in the Fair Value Measurements Topic of the FASB Accounting Standards Codification because they generally provide the most reliable evidence of fair value.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

10. FAIR VALUE MEASUREMENTS, continued:

Assets measured on a recurring basis and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value is determined through the use of models or other valuation methodologies.

Level 3: Pricing inputs are unobservable for investments and include situations where there is little, if any, market activity for the investments.

The following table presents the fair value measurements of assets on a recurring basis as of June 30, 2023 and 2022:

	Fair Value	Fair Value Measurements Using:	
		Level 1	Level 2
June 30, 2023:			
Investments held at fair value:			
Money market funds	\$ 6,596,865	\$ 6,596,865	\$ -
Mutual funds	6,331,497	6,331,497	-
Exchange traded funds	20,374,154	20,374,154	-
Certificates of deposit	860,586	-	860,586
	34,163,102	\$ 33,302,516	\$ 860,586
Reconciling items held at cost:			
Cash and cash equivalents	3,113,016		
Total June 30, 2023 investments	\$ 37,276,118		

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

10. FAIR VALUE MEASUREMENTS, continued:

The following table presents the fair value measurements of assets on a recurring basis as of June 30, 2023 and 2022, continued:

	Fair Value	Fair Value Measurements Using:	
		Level 1	Level 2
June 30, 2022:			
Investments held at fair value:			
Money market funds	\$ 1,250,693	\$ 1,250,693	\$ -
Mutual funds	4,502,650	4,502,650	-
Exchange traded funds	14,310,395	14,310,395	-
Certificates of deposit	2,626,352	-	2,626,352
	22,690,090	\$ 20,063,738	\$ 2,626,352
Reconciling items held at cost:			
Cash and cash equivalents	6,953,628		
Total June 30, 2022 investments	\$ 29,643,718		

Valuation techniques: Fair value for money market funds, mutual funds, and exchange traded funds are based on quoted prices in identical markets. Fair value for certificates of deposits are based on market comparisons.

11. RETIREMENT PLAN:

ADF and Affiliates participate in a defined contribution profit-sharing plan under Section 401(k) of the Code. All US-based employees age 21 and above who have worked for at least three months are eligible to participate by making voluntary contributions up to 90% of their gross wages, subject to the IRS-established limits according to their age. ADF and Affiliates match 100% of employee contributions up to 4% of eligible compensation. Employer contributions to the plan were \$1,186,081 and \$999,562, for the year ended June 30, 2023 and 2022, respectively.

12. ALLOCATION OF JOINT COSTS:

During the years ended June 30, 2023 and 2022, ADF and Affiliates incurred joint costs of \$5,545,437 and \$4,618,270, respectively, for informational materials and activities that include fundraising appeals. During the year ended June 30, 2023, \$955,243 of those costs were allocated to fundraising, \$387,846 to general and administrative, and \$4,202,348 to program services. During the year ended June 30, 2022, \$802,756 of those costs were allocated to fundraising, \$322,390 to general and administrative, and \$3,493,124 to program services.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

13. **COMMITMENTS:**

ADF and Affiliates have contracts with various hotels and conference centers for special events to be held in the following years. ADF would be liable for approximately \$2,863,000 and \$2,456,000, as of June 30, 2023 and 2022, respectively, related to these contracts in the event of cancellation.

14. **CONCENTRATION:**

During the years ended June 30, 2023 and 2022, ADF and Affiliates received contributions from one donor that totaled approximately \$18,498,000 and \$12,696,000, respectively. These gifts accounted for approximately 17% and 12%, respectively, of total support and revenue for the years ended June 30, 2023 and 2022.

15. **SUBSEQUENT EVENTS:**

Subsequent events have been evaluated through November 3, 2023, which represents the date the consolidated financial statements were available to be issued.