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**ALLIANCE FOR JUSTICE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2014 AND 2013**

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

ALLIANCE FOR JUSTICE
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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MATTHEWS, CARTER & BOYCE
CPAs • ADVISORS

Independent Auditors' Report

Board of Directors
Alliance for Justice
Washington, D.C.

We have audited the accompanying financial statements of the Alliance for Justice (the Alliance), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance for Justice as of December 31, 2014 and 2013, 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.

Fairfax, Virginia
May 15, 2015

ALLIANCE FOR JUSTICE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 580,589	\$ 714,467
Accounts receivable, net of allowance for doubtful accounts of \$6,957 and \$2,852 at December 31, 2014 and 2013, respectively	65,100	42,676
Contributions receivable	135,113	45,153
Grants receivable, current portion	1,377,832	845,122
Due from affiliates	4,703	15,804
Prepaid expenses	110,219	105,134
Deferred compensation plan investments	346,988	-
Total Current Assets	\$ 2,620,544	\$ 1,768,356
PROPERTY AND EQUIPMENT		
Furniture and fixtures	\$ 55,711	\$ 55,711
Equipment	162,044	140,970
Software	96,704	93,371
Leasehold improvements	361,961	361,961
Total Cost	\$ 676,420	\$ 652,013
Less accumulated depreciation	(360,351)	(267,587)
Net Property and Equipment	\$ 316,069	\$ 384,426
OTHER ASSETS		
Grants receivable, net of current portion	\$ 150,000	\$ 750,000
Investments	2,993,505	3,614,875
Deposits	55,021	8,996
Total Other Assets	\$ 3,198,526	\$ 4,373,871
TOTAL ASSETS	\$ 6,135,139	\$ 6,526,653
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 68,309	\$ 280,558
Accrued leave payable	69,358	68,462
Deferred lease incentive, current portion	33,238	33,238
Deferred revenue	163,134	1,475
Deferred compensation plan liability	346,988	-
Total Current Liabilities	\$ 681,027	\$ 383,733
OTHER LIABILITIES		
Deferred rent	\$ 308,933	\$ 303,903
Deferred lease incentive, net of current portion	168,970	202,208
Tenant security deposits	7,100	11,000
Total Liabilities	\$ 1,166,030	\$ 900,844
NET ASSETS		
Unrestricted net assets	\$ 2,293,411	\$ 2,617,677
Temporarily restricted net assets	2,675,698	3,008,132
Total Net Assets	\$ 4,969,109	\$ 5,625,809
TOTAL LIABILITIES AND NET ASSETS	\$ 6,135,139	\$ 6,526,653

The accompanying notes are an integral part of the financial statements.

ALLIANCE FOR JUSTICE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grant revenue	\$ 369,375	\$ 2,006,500	\$ 2,375,875	\$ 767,000	\$ 2,985,000	\$ 3,752,000
Contributions	437,735	-	437,735	491,498	-	491,498
Events	556,974	-	556,974	685,477	-	685,477
Less event direct expenses	(141,705)	-	(141,705)	(158,925)	-	(158,925)
Publication sales	417	-	417	1,589	-	1,589
Membership dues	66,500	-	66,500	81,500	-	81,500
Other revenue	216,052	-	216,052	92,494	-	92,494
Net assets released from restriction due to satisfaction of program or time restrictions	2,338,934	(2,338,934)	-	2,170,529	(2,170,529)	-
Total Revenue and Support	\$ 3,844,282	\$ (332,434)	\$ 3,511,848	\$ 4,131,162	\$ 814,471	\$ 4,945,633
INVESTMENT ACTIVITY						
Interest and dividend income	\$ 28,288	\$ -	\$ 28,288	\$ 22,021	\$ -	\$ 22,021
Realized gain on investments and assets	128,381	-	128,381	155,470	-	155,470
Unrealized gain on investments	125,725	-	125,725	120,728	-	120,728
Total Investment Activity	\$ 282,394	\$ -	\$ 282,394	\$ 298,219	\$ -	\$ 298,219
Total Revenue, Support and Investment Activity	\$ 4,126,676	\$ (332,434)	\$ 3,794,242	\$ 4,429,381	\$ 814,471	\$ 5,243,852

The accompanying notes are an integral part of the financial statements.

ALLIANCE FOR JUSTICE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONCLUDED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
EXPENSES						
Program services:						
Bolder Advocacy/Non-Profit Advocacy Project	\$ 2,033,616	\$ -	\$ 2,033,616	\$ 1,946,790	\$ -	\$ 1,946,790
Judicial Selection Project	1,321,042	-	1,321,042	1,361,030	-	1,361,030
Access to Justice Project	102,053	-	102,053	151,235	-	151,235
Fellows Program	245,890	-	245,890	187,590	-	187,590
Total Program Services	<u>\$ 3,702,601</u>	<u>\$ -</u>	<u>\$ 3,702,601</u>	<u>\$ 3,646,645</u>	<u>\$ -</u>	<u>\$ 3,646,645</u>
Supporting services:						
Fundraising	\$ 401,226	\$ -	\$ 401,226	\$ 286,157	\$ -	\$ 286,157
Management and administrative	347,115	-	347,115	370,678	-	370,678
Total Supporting Services	<u>\$ 748,341</u>	<u>\$ -</u>	<u>\$ 748,341</u>	<u>\$ 656,835</u>	<u>\$ -</u>	<u>\$ 656,835</u>
Total Expenses	<u>\$ 4,450,942</u>	<u>\$ -</u>	<u>\$ 4,450,942</u>	<u>\$ 4,303,480</u>	<u>\$ -</u>	<u>\$ 4,303,480</u>
CHANGE IN NET ASSETS	\$ (324,266)	\$ (332,434)	\$ (656,700)	\$ 125,901	\$ 814,471	\$ 940,372
NET ASSETS, BEGINNING OF YEAR	<u>2,617,677</u>	<u>3,008,132</u>	<u>5,625,809</u>	<u>2,491,776</u>	<u>2,193,661</u>	<u>4,685,437</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,293,411</u></u>	<u><u>\$ 2,675,698</u></u>	<u><u>\$ 4,969,109</u></u>	<u><u>\$ 2,617,677</u></u>	<u><u>\$ 3,008,132</u></u>	<u><u>\$ 5,625,809</u></u>

The accompanying notes are an integral part of the financial statements.

ALLIANCE FOR JUSTICE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ (656,700)	\$ 940,372
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	\$ 92,684	\$ 76,867
Provision for bad debt	(6,957)	(3,209)
Realized gain on investments	(128,381)	(155,470)
Unrealized gain on investments	(125,725)	(120,728)
Amortization of deferred lease incentive	(33,238)	(33,238)
Change in assets and liabilities		
(Increase) Decrease in Assets:		
Accounts receivable	(15,467)	(24,655)
Contributions receivable	(89,960)	(23,319)
Grants receivable	67,290	(355,457)
Prepaid expenses	(5,085)	(23,335)
Security deposit	(46,025)	-
Increase (Decrease) in Liabilities:		
Accounts payable and accrued expenses	(212,249)	202,039
Accrued leave payable	896	(15,010)
Tenant security deposits	(3,900)	-
Deferred rent	5,030	17,578
Deferred revenue	161,659	(3,525)
	\$ (339,428)	\$ (461,462)
Total Adjustments		
Net Cash Provided (Used) by Operating Activities	\$ (996,128)	\$ 478,910
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of property and equipment	\$ (24,407)	\$ (134,437)
Change in due from affiliates	11,101	34,024
Investment earnings re-invested	(28,288)	(21,890)
Purchase of investments	(1,335,667)	(2,504,519)
Sales of investments	2,239,511	1,923,111
	\$ 862,250	\$ (703,711)
Net Cash Provided (Used) by Investing Activities		
NET CHANGE INCREASE IN CASH	\$ (133,878)	\$ (224,801)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	714,467	939,268
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 580,589	\$ 714,467

The accompanying notes are an integral part of the financial statements.

ALLIANCE FOR JUSTICE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Bolder Advocacy	Judicial Selection	Access to Justice	Fellows		Fundraising	Management and Administrative	Total Supporting Services	
Salaries, payroll taxes, and benefits	\$ 1,348,688	\$ 828,485	\$ 80,775	\$ 178,560	\$ 2,436,508	\$ 187,693	\$ 145,933	\$ 333,626	\$ 2,770,134
Accounting and bookkeeping	12,492	10,676	830	2,704	26,702	1,943	10,907	12,850	39,552
Advertising and public relations	3,464	5,636	-	-	9,100	-	5,153	5,153	14,253
Bad debts	10,163	-	-	-	10,163	-	2,928	2,928	13,091
Bank charges	30	-	-	-	30	-	12,118	12,118	12,148
Books and periodicals	20,294	14,996	52	231	35,573	4,599	428	5,027	40,600
Consultants	94,230	5,000	-	-	99,230	125,950	33,625	159,575	258,805
Depreciation	60,487	19,637	1,754	4,731	86,609	4,154	1,921	6,075	92,684
Dues and licenses	6,853	2,210	-	-	9,063	-	4,005	4,005	13,068
Equipment rental	7,729	3,623	286	803	12,441	1,100	875	1,975	14,416
Insurance	11,511	8,998	578	2,068	23,155	1,637	1,022	2,659	25,814
Internet fees	32,743	13,664	984	2,818	50,209	19,450	2,387	21,837	72,046
Investment Fees	-	-	-	-	-	-	45,794	45,794	45,794
Legal fees	21,000	-	-	-	21,000	-	12,000	12,000	33,000
Meetings and conferences	18,662	12,653	-	-	31,315	-	13,493	13,493	44,808
Miscellaneous	-	17	-	-	17	29	9,018	9,047	9,064
Office supplies	13,980	7,625	499	1,593	23,697	1,737	2,022	3,759	27,456
Postage and delivery	2,911	2,174	67	174	5,326	168	1,612	1,780	7,106
Printing and copying	12,651	24,016	54	257	36,978	3,709	7,582	11,291	48,269
Professional fees	19,675	-	-	-	19,675	-	3,267	3,267	22,942
Rent and utilities	241,547	195,251	12,427	44,836	494,061	38,915	16,519	55,434	549,495
Repairs and maintenance	34,567	23,496	1,589	5,475	65,127	7,083	4,423	11,506	76,633
Staff development	-	-	-	-	-	-	600	600	600
Telephone	16,212	9,784	592	1,640	28,228	2,345	2,824	5,169	33,397
Travel	43,727	21,031	1,566	-	66,324	714	6,659	7,373	73,697
Video production	-	112,070	-	-	112,070	-	-	-	112,070
Total Expenses	\$ 2,033,616	\$ 1,321,042	\$ 102,053	\$ 245,890	\$ 3,702,601	\$ 401,226	\$ 347,115	\$ 748,341	\$ 4,450,942

The accompanying notes are an integral part of the financial statements.

ALLIANCE FOR JUSTICE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Bolder Advocacy	Judicial Selection	Access to Justice	Fellows		Fundraising	Management and Administrative	Total Supporting Services	
Salaries, payroll taxes, and benefits	\$ 1,393,516	\$ 834,126	\$ 113,627	\$ 139,841	\$ 2,481,110	\$ 127,797	\$ 106,419	\$ 234,216	\$ 2,715,326
Accounting and bookkeeping	3,573	3,236	247	511	7,567	422	24,727	25,149	32,716
Advertising and public relations	914	2,150	-	-	3,064	-	965	965	4,029
Bad debts	-	-	-	-	-	-	6,352	6,352	6,352
Bank charges	-	-	-	-	-	-	8,727	8,727	8,727
Books and periodicals	16,924	13,385	15	37	30,361	5,984	2,745	8,729	39,090
Consultants	30,393	30,220	-	-	60,613	83,501	76,102	159,603	220,216
Depreciation	34,537	28,148	3,185	4,753	70,623	4,223	2,021	6,244	76,867
Dues and licenses	1,865	760	-	-	2,625	1,685	5,118	6,803	9,428
Equipment rental	10,304	3,945	650	561	15,460	631	1,427	2,058	17,518
Insurance	10,466	8,701	1,100	1,480	21,747	1,234	726	1,960	23,707
Internet fees	41,129	24,532	1,775	4,018	71,454	12,124	35,851	47,975	119,429
Internship	11,825	22,210	-	-	34,035	3,600	12,120	15,720	49,755
Investment Fees	-	-	-	-	-	-	16,938	16,938	16,938
Legal fees	3,645	-	-	-	3,645	-	8,150	8,150	11,795
Meetings and conferences	12,806	15,222	113	-	28,141	124	20,257	20,381	48,522
Miscellaneous	28	3,246	-	-	3,274	-	3,541	3,541	6,815
Office supplies	11,780	7,369	919	1,211	21,279	1,081	3,076	4,157	25,436
Postage and delivery	2,227	2,441	114	139	4,921	1,923	2,078	4,001	8,922
Printing and copying	10,959	15,785	96	172	27,012	8,698	7,329	16,027	43,039
Professional fees	21,500	2,500	-	-	24,000	-	5,300	5,300	29,300
Rent and utilities	246,381	178,674	23,132	29,202	477,389	25,857	2,810	28,667	506,056
Repairs and maintenance	37,177	27,351	3,484	4,566	72,578	3,931	3,028	6,959	79,537
Staff development	-	2,380	-	-	2,380	-	-	-	2,380
Telephone	13,872	6,976	951	1,099	22,898	1,058	1,875	2,933	25,831
Travel	30,969	20,673	1,827	-	53,469	2,284	12,996	15,280	68,749
Video production	-	107,000	-	-	107,000	-	-	-	107,000
Total Expenses	\$ 1,946,790	\$ 1,361,030	\$ 151,235	\$ 187,590	\$ 3,646,645	\$ 286,157	\$ 370,678	\$ 656,835	\$ 4,303,480

The accompanying notes are an integral part of the financial statements.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1. Organization and Programs

Organization

The Alliance for Justice (the "Alliance", "AFJ") is incorporated under the laws of the District of Columbia as a not-for-profit, non-stock corporation. The Alliance has been organized to operate exclusively for charitable and educational purposes and, in particular, to ensure that all Americans have the right to secure justice in the courts and to have their voices heard when government makes decisions that affect their lives.

Program description

Bolder Advocacy - through its Bolder Advocacy initiative, AFJ strengthens the capacity of the public interest community to influence public policy. Bolder Advocacy promotes active engagement in democratic processes and institutions by giving nonprofits and foundations the confidence to advocate effectively and by protecting their right to do so. The goal is to demystify and decode advocacy by equipping organizations with knowledge and tools. AFJ helps organizations fully understand the rules and become assertive in their right to pursue their policy goals.

Bolder Advocacy started in 2012 and expands upon and incorporates two other Alliance programs - the Non Profit Advocacy Project and the Foundation Advocacy Initiative.

The Non Profit Advocacy Project - works to amplify the voice of the nonprofit sector in important public policy debates by giving tax-exempt organizations a better understanding of the laws that govern their participation in the policy process and advocates for the protection and expansion of advocacy rights. The Alliance conducts workshops, prepares and distributes plain language publications, provides assistance, and educates the public.

Foundation Advocacy Initiative – an initiative that educates the foundation community on federal regulations governing grants and the need for increased foundation support for organizations that seek to influence policy and public opinion. The Foundation Advocacy Initiative helps foundations in these efforts through workshops, examples of documents, and technical assistance.

Access to Justice Project – protects and promotes the value of a vigorous civil justice system and monitors and exposes threats to the rule of law. The Access to Justice Project educates the public and policy makers through rigorous research, comprehensive written reports and publications and information for the public.

Judicial Selection Project – monitors and investigates nominations to the federal bench, and engages the public to ensure that the federal judiciary reflects the diversity of America, adheres to the highest legal standards, and is composed of judges who are fair, independent, compassionate and respectful of the country's progress in civil rights, environmental protection and reproductive choice.

Fellows Program – introduces recent college and law school graduates to public interest careers and service.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 2. Summary of Significant Accounting Policies

Basis of presentation

Financial statement presentation adheres to the requirements of the Financial Accounting Standards Board (FASB) ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*. Under FASB ASC 958-205, the Alliance is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Revenue recognition

The Alliance accounts for contributions in accordance with the requirements of FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. Under the guidelines of FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor, including pledges, is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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

Contributions, grants, accounts receivable and allowance for doubtful accounts

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional contributions and grants are recognized as revenue in the period the pledge is received. Conditional contributions and grants are recognized when the conditions on which they depend are substantially met. All contributions and grants receivable are expected to be collected.

Accounts receivable are recorded at the lower of cost or fair value. The risk of loss on the receivables is the balance due at the time of default. All receivables are unsecured. The Alliance uses the allowance method to record uncollectible contributions and other receivables. The allowance is based upon experience, management's analysis of specific promises made, and other historical factors that pertain to the receivables. The allowance as of December 31, 2014 and 2013 is \$6,957 and \$2,852, respectively. No interest is accrued on receivables.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 2. Summary of Significant Accounting Policies (Continued)

Property and equipment and depreciation

The Alliance capitalizes fixed assets with an original cost of \$1,000 or more. Leasehold improvements, software, furniture, and equipment are recorded at cost. Donated equipment is reflected in the accompanying financial statements at its estimated value at the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the life of the lease.

Cash equivalents

For purposes of the statement of cash flows, the Alliance considers all highly liquid short term debt instruments whose maturity dates do not extend past three months from the original date of purchase, and money market funds, to be cash equivalents.

Investments

Investments are recorded at fair market value. Unrealized gains and losses are included in the change in net assets.

Deferred revenue

Deferred revenue represents payments received for services that have not yet been performed.

Functional allocation of expenditures

The costs of providing various programs and other activities of the Alliance have been summarized on a functional basis in the accompanying financial statements. Costs that can be identified with a particular program or support function are charged directly to that program or function. Salaries and related costs and other allocable costs have been allocated among the programs and supporting services based upon management's best estimates of the proportion of these costs applicable to each program.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Fair value of financial instruments

Items considered to be financial instruments (cash, contributions receivable, and accounts payable) are stated in the accompanying financial statements at amounts which approximate their fair value.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 2. Summary of Significant Accounting Policies (Concluded)

Income taxes

The Internal Revenue Service has determined that the Alliance is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Alliance did not engage in activities which might give rise to income tax during 2014 or 2013. Accordingly, no provision for income tax is made in the accompanying financial statements.

The Alliance has adopted FASB ASC 740, *Income Taxes*, which requires changes in recognition and measurement for uncertain tax positions. The Alliance has analyzed its tax positions, and has concluded that it is not aware of any uncertain tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months. If this position changes, the Alliance will assess the impact of any such matters on its financial position and results of operations.

The Alliance files its information tax returns for Federal and various states' reporting purposes. Currently, the 2014, 2013, 2012 and 2011 tax returns are open and subject to examination. The Alliance is not currently under audit by any taxing jurisdiction.

Reclassifications

Certain items in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported net income.

Note 3. Contributions and Grants Receivable

Contributions and grants receivable due within one year or less are reported as current assets. Grants receivable that are due after one year are reported at their net present value in other assets.

The Alliance uses the allowance method to record uncollectible contributions and other receivables. The allowance is based upon experience, management's analysis of specific promises made, and other historical factors that pertain to the receivables. Management believes that all contributions and grants receivable are collectible.

Grants receivable as of December 31, 2014	\$ 1,527,832
Less, allowance for doubtful accounts	-
Less, discount on promises to give	-
	\$ 1,527,832
Less, current portion	(1,377,832)
	\$ 150,000

The anticipated collections of the promises to give based upon the stated payment terms are as follows:

Years Ending	
December 31,	
2015	\$ 1,377,832
2016	150,000
Total	\$ 1,527,832

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 4. Investments

The Alliance adopted the provisions of FASB ASC 820, *Fair Value Measurement*. In accordance with FASB ASC 820, the Alliance has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology that are quoted in an active market
- Level 2 – Inputs to the valuation methodology that are inputs other than quoted prices that are observable for the assets
- Level 3 – Inputs to the valuation methodology that are unobservable and significant to the fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

All of the investment assets recorded in the Statements of Financial Position are categorized based on the inputs to the valuation technique and are valued at quoted prices in active markets for identical assets, Level 1 assets.

The Alliance reports investments in debt and equity securities at fair value, with gains and losses included in the statement of activities and changes in net assets.

The Alliances' investment policy is diversification to reduce volatility of price fluctuations in its overall portfolio and balance risk and return levels to meet its financial goals.

Investments consist of the following:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Mutual funds:				
Closed end funds	\$ 640,970	\$ 652,592	\$ 1,786,828	\$ 1,805,989
Equity securities	2,352,535	2,012,535	1,828,047	1,623,999
Total	\$ 2,993,505	\$ 2,665,127	\$ 3,614,875	\$ 3,429,988

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity of certain investments held by the Alliance which could impact the value of the investments after the date of these financial statements.

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Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for use for the following purposes or periods:

	<u>2014</u>	<u>2013</u>
Bolder Advocacy/The Non Profit Advocacy Project/Foundation Advocacy Initiative	\$ 2,050,600	\$ 2,559,643
Judicial Selection Project	152,708	156,499
Klagsbrun Fellowship	32,000	30,000
Dorot Fellowship	51,154	46,574
California office – general support	<u>389,236</u>	<u>215,416</u>
Total	<u>\$ 2,675,698</u>	<u>\$ 3,008,132</u>

Note 6. Temporarily Restricted Net Assets Released From Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The following is a summary of assets released from restriction during the years ended December 31:

	<u>2014</u>	<u>2013</u>
Bolder Advocacy/The Non Profit Advocacy Project/Foundation Advocacy Initiative	\$ 1,658,543	\$ 1,548,428
Access to Justice Project	35,000	-
Judicial Selection Project	208,790	189,434
Klagsbrun Fellowship	30,000	32,500
Dorot Fellowship	95,420	85,792
California office – general support	306,181	309,375
Time restriction	<u>5,000</u>	<u>5,000</u>
Total	<u>\$ 2,338,934</u>	<u>\$ 2,170,529</u>

Note 7. Retirement Plan

The Alliance maintains a 401(k) profit-sharing plan for all eligible employees. Employees may elect to contribute in accordance with Internal Revenue Service regulations. Although the Alliance is not required to make contributions, it is the Alliance's practice to make contributions up to 5% of compensation for each eligible participant. For the years ended December 31, 2014 and 2013, the Alliance's contribution to the plan amounted to \$98,800 and \$95,953, respectively.

The Alliance maintained a 403(b) plan. During 2009 the Alliance ceased employer contributions to the 403(b) plan and the plan was terminated.

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Note 8. Deferred Compensation

During 2013, the Alliance established a Section 457(f) Nonqualified Deferred Compensation Plan (the Plan). For the years ended December 31, 2014 and 2013 the required contribution to the Plan was \$175,000 per year. The amounts had been fully funded as of December 31, 2014.

The table below presents the balance of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2014:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Deferred compensation assets:				
Mutual funds	\$ 171,908	\$ 171,908	\$ -	\$ -
Money funds	175,080	175,080	-	-
	<u>\$ 346,988</u>	<u>\$ 346,988</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation liability	<u>\$ 346,988</u>	<u>\$ -</u>	<u>\$ 346,988</u>	<u>\$ -</u>

Alliance's mutual funds are publicly traded and are considered Level 1 items. The plan had not been funded as of December 31, 2013.

Deferred compensation liability is based on the fair market value of the deferred compensation plan assets that are observable inputs, but the liability is not publicly traded and is, therefore, classified as Level 2.

Note 9. Operating Leases, Deferred Rent and Deferred Lease Incentive

The Alliance leases office space in the District of Columbia under a non-cancelable agreement which originally expired in August 2010. During 2010 this lease was amended to include the following terms:

- The lease term was extended for one hundred twenty-four (124) months
- Rent was abated for the months of September through December 2010
- The security deposit was amended to \$49,797 from \$57,333.
- The landlord provided the Alliance with an improvement allowance (the allowance) not to exceed \$343,425 to be used for the Alliance's costs of designing and constructing tenant improvements. Up to \$41,211 of this allowance could be used to purchase furniture and fixtures. Additionally, if the allowance was not used for designing and constructing tenant improvements and/or for the purchase of furniture and fixtures up to \$68,685 of the allowance could be applied to annual rent.

Rent expense under this lease will be recognized over the life of the lease on a straight line basis. Straight-line rent expense over the life of the lease will be \$643,481 for each of the years 2014 through 2020. During 2014 and 2013 the variance between the straight-line rent expense and the rent paid/abated was recorded as deferred rent at December 31, 2014 and 2013, respectively.

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Note 9. Operating Leases, Deferred Rent and Deferred Lease Incentive (Concluded)

As of December 31, 2014 and 2013, the Alliance has incurred \$343,425 of tenant improvements which qualify for the improvement allowance. This amount is recorded as leasehold improvements and deferred lease incentive in the statement of financial position. The leasehold improvements will be amortized over the life of the lease on a straight-line basis. The deferred lease incentive will be amortized against rent expense over the life of the lease on a straight-line basis. For the years ended December 31, 2014 and 2013, \$33,238 has been recorded as amortization of the leasehold improvements and is included in depreciation expense. The deferred lease incentive has been amortized to rent expense in the amount of \$33,238 for each of the years ended December 31, 2014 and 2013.

The Alliance also leases office spaces in Oakland, California and Los Angeles, California under non-cancelable agreements expiring in March 2019 and August 2015, respectively. The Oakland, California lease has an option for an additional five year term. The lease requires a monthly payment for the estimated annual increase in real estate taxes and operating expenses.

Minimum lease payments are as follows for future years ending December 31:

2015	\$	719,457
2016		741,908
2017		757,441
2018		773,263
2019		789,423
Thereafter		<u>731,129</u>
Total	\$	<u>4,512,621</u>

The Alliance has entered into non-cancelable agreements to sublease a portion of the District of Columbia office space to unrelated third parties for varying periods ending in 2016. The revenue is reported as a reduction of rent expense in the accompanying financial statements. Sub-lease income was \$203,513 and \$175,266, for the years ended December 31, 2014 and 2013, respectively. Minimum sublease income is anticipated to be as follows for the years ending: 2015 - \$150,841; and 2016 - \$17,255. It is management's intent, to the extent possible, to renew the sub-leases for periods after 2016.

Following is a summary of rental expense net of sublease income:

	<u>2014</u>	<u>2013</u>
Rent expense	\$ 786,246	\$ 681,323
Less: sublease income	<u>(203,513)</u>	<u>(175,266)</u>
Net Rent Expense	<u>\$ 582,733</u>	<u>\$ 506,057</u>

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Note 10. Concentrations

Credit risk

The Alliance maintains cash balances in national financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The Alliance consistently maintains cash balances in excess of the FDIC insurable amount.

Major contributors

Five donors contributed 50% of the Alliance’s revenue for 2014. As of December 31, 2014, there was \$1,153,457 recorded as receivable from these donors.

Three donors contributed 48% of the Alliance’s revenue for 2013. As of December 31, 2013, there was \$1,402,304 recorded as receivable from these donors.

Note 11. Related Party Transactions

The Alliance is affiliated with the Alliance for Justice Action Campaign (the “Campaign”), a 501(c)(4) organization incorporated in 2001. The Campaign shares office facilities with the Alliance. During the years ended December 31, 2014 and 2013, the Alliance charged the Campaign for administrative and payroll costs totaling \$4,703 and \$15,861, respectively. At December 31, 2014 and 2013, the Campaign owed the Alliance \$4,703 and \$15,804 for shared office expenses, respectively. These amounts are included in “Due from Affiliate” in the accompanying financial statements.

Note 12. Non-cash Transactions

During 2014 and 2013 the Alliance received donations of stock valued at approximately \$580,000 and \$560,000, respectively. All of the donated stock was subsequently sold by the Alliance.

There were no non-cash financing transactions during 2014 and 2013.

Note 13. Subsequent Events

The Alliance has evaluated events through May 15, 2015, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2014, that would have a material impact on the Alliance’s results of operations or financial position as of December 31, 2014.