

ALLIANCE FOR JUSTICE
FINANCIAL STATEMENTS
DECEMBER 31, 2017

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FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Alliance for Justice

We have audited the accompanying financial statements of Alliance for Justice (the Alliance), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Alliance for Justice as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Alliance for Justice as of December 31, 2016 were audited by other auditors whose report thereon dated September 19, 2017 expressed an unmodified opinion on those statements.

Calibre CPA Group, PLLC

Bethesda, MD
June 21, 2018

ALLIANCE FOR JUSTICE
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

| ASSETS | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 405,827 | \$ 1,129,401 |
| Accounts receivable net of allowance of \$1,300 and \$1,100 at December 31, 2017 and 2016, respectively | 99,744 | 48,296 |
| Contributions receivable | 194,168 | 85,388 |
| Grants receivable, current | 2,290,117 | 1,709,029 |
| Due from affiliates | 22,463 | 16,339 |
| Prepaid expenses | 77,848 | 94,477 |
| Total current assets | <u>3,090,167</u> | <u>3,082,930</u> |
| NET PROPERTY AND EQUIPMENT | | |
| Furniture and fixtures | 388,646 | 321,572 |
| Leasehold improvements | 364,005 | 361,961 |
| Less: accumulated depreciation | <u>(586,561)</u> | <u>(503,323)</u> |
| Net property and equipment | <u>166,090</u> | <u>180,210</u> |
| OTHER ASSETS | | |
| Grants receivable, net of current portion and discount | 422,116 | 1,165,827 |
| Investments | 5,267,895 | 3,311,306 |
| Deferred compensation plan investments | 349,264 | 349,304 |
| Security deposits | 55,521 | 55,521 |
| Total other assets | <u>6,094,796</u> | <u>4,881,958</u> |
| Total assets | <u>\$ 9,351,053</u> | <u>\$ 8,145,098</u> |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2017 AND 2016

| LIABILITIES AND NET ASSETS | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 104,850 | \$ 36,937 |
| Accrued salaries and benefits | 72,427 | 71,365 |
| Deferred rent- current portion | 220,144 | 45,459 |
| Deferred lease incentive, current portion | 99,714 | 33,238 |
| Deferred Compensation Plan liability | <u>349,264</u> | <u>349,304</u> |
| Total current liabilities | <u>846,399</u> | <u>536,303</u> |
| OTHER LIABILITIES | | |
| Deferred rent | - | 220,144 |
| Deferred lease incentive- long term | - | 102,494 |
| Tenant security deposits | <u>-</u> | <u>5,726</u> |
| Total long-term liabilities | <u>-</u> | <u>328,364</u> |
| Total liabilities | <u>846,399</u> | <u>864,667</u> |
| NET ASSETS | | |
| Unrestricted | 3,389,338 | 2,349,407 |
| Temporarily restricted | <u>5,115,316</u> | <u>4,931,024</u> |
| Total net assets | <u>8,504,654</u> | <u>7,280,431</u> |
| Total liabilities and net assets | <u>\$ 9,351,053</u> | <u>\$ 8,145,098</u> |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017

| | Unrestricted | Temporarily Restricted | Total |
|--|--------------|---------------------------|--------------|
| REVENUE | | | |
| Grant revenue | \$ 294,090 | \$ 3,779,746 | \$ 4,073,836 |
| Contributions | 1,067,483 | 50,956 | 1,118,439 |
| Events | 666,779 | - | 666,779 |
| Less: event direct expenses | (189,000) | - | (189,000) |
| Contract revenue | 449,971 | - | 449,971 |
| Membership dues | 63,500 | - | 63,500 |
| Rental income | 171,201 | - | 171,201 |
| Other revenue | 15,802 | - | 15,802 |
| Interest and dividend income | 78,613 | - | 78,613 |
| Realized gain on investments | 153,493 | - | 153,493 |
| Unrealized gain on investments | 174,772 | - | 174,772 |
| Net assets released from restrictions, satisfaction of program restrictions | 3,646,410 | (3,646,410) | - |
| Total support and revenue | 6,593,114 | 184,292 | 6,777,406 |
| EXPENSES | | | |
| Program expenses | | | |
| Judicial Selection | 1,974,280 | - | 1,974,280 |
| Outreach | 62,949 | - | 62,949 |
| Bolder Advocacy/Non-Profit Advocacy Project | 2,678,871 | - | 2,678,871 |
| Total program expenses | 4,716,100 | - | 4,716,100 |
| Support expenses | | | |
| Management and administrative | 607,621 | - | 607,621 |
| Fundraising | 229,462 | - | 229,462 |
| Total expenses | 5,553,183 | - | 5,553,183 |
| CHANGE IN NET ASSETS | 1,039,931 | 184,292 | 1,224,223 |
| NET ASSETS | | | |
| Beginning of year | 2,349,407 | 4,931,024 | 7,280,431 |
| End of year | \$ 3,389,338 | \$ 5,115,316 | \$ 8,504,654 |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2016

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|---------------------------|---------------------|
| REVENUE | | | |
| Grant revenue | \$ 391,961 | \$ 5,601,305 | \$ 5,993,266 |
| Contributions | 535,580 | 17,500 | 553,080 |
| Events | 553,092 | - | 553,092 |
| Less: event direct expenses | (165,219) | - | (165,219) |
| Contract revenue | 209,251 | - | 209,251 |
| Membership dues | 63,250 | - | 63,250 |
| Rental income | 143,109 | - | 143,109 |
| Other revenue | 11,584 | - | 11,584 |
| Interest and dividend income | 33,634 | - | 33,634 |
| Realized gain on investments | 73,462 | - | 73,462 |
| Unrealized loss on investments | (90,467) | - | (90,467) |
| Net assets released from restrictions, satisfaction of program restrictions | <u>2,987,762</u> | <u>(2,987,762)</u> | <u>-</u> |
| Total support and revenue | <u>4,746,999</u> | <u>2,631,043</u> | <u>7,378,042</u> |
| EXPENSES | | | |
| Program expenses | | | |
| Judicial Selection | 1,380,423 | - | 1,380,423 |
| Outreach | 50,818 | - | 50,818 |
| Bolder Advocacy/Non-Profit Advocacy Project | <u>2,137,784</u> | <u>-</u> | <u>2,137,784</u> |
| Total program expenses | 3,569,025 | - | 3,569,025 |
| Support expenses | | | |
| Management and administrative | 650,314 | - | 650,314 |
| Fundraising | <u>240,667</u> | <u>-</u> | <u>240,667</u> |
| Total expenses | <u>4,460,006</u> | <u>-</u> | <u>4,460,006</u> |
| CHANGE IN NET ASSETS | 286,993 | 2,631,043 | 2,918,036 |
| NET ASSETS | | | |
| Beginning of year | <u>2,062,414</u> | <u>2,299,981</u> | <u>4,362,395</u> |
| End of year | <u>\$ 2,349,407</u> | <u>\$ 4,931,024</u> | <u>\$ 7,280,431</u> |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,224,223 | \$ 2,918,036 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 82,146 | 86,566 |
| Amortization of deferred lease incentive | (36,018) | (33,238) |
| Provision for bad debt and bad debt expense | (200) | 11,888 |
| (Appreciation) depreciation in investments | (328,265) | 17,005 |
| Donated securities | (1,010,202) | (796,126) |
| Sale of donated securities | 1,011,063 | 787,974 |
| Change in assets and liabilities | | |
| Accounts receivable | (51,248) | (12,514) |
| Contributions receivable | (108,780) | (39,826) |
| Grants receivable | 162,623 | (1,976,731) |
| Due from affiliates | (6,124) | (9,744) |
| Prepaid expenses | 16,629 | 12,586 |
| Accounts payable and accrued expenses | 67,913 | (46,156) |
| Accrued leave payable | 1,062 | 11,510 |
| Deferred rent | (45,459) | (31,922) |
| Deferred lease incentive | - | (20,164) |
| Tenant security deposits | (5,726) | 4,251 |
| Net cash provided by operating activities | 973,637 | 883,395 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (68,026) | (2,877) |
| Purchase of investments | (11,438,950) | (2,265,316) |
| Proceeds from sale of investments | 9,809,765 | 1,430,351 |
| Net cash used for investing activities | (1,697,211) | (837,842) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (723,574) | 45,553 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 1,129,401 | 1,083,848 |
| End of year | \$ 405,827 | \$ 1,129,401 |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

| | Program Services | | | Supporting Services | | | |
|----------------------------------|--------------------|-----------|-----------------------|---------------------|------------------------|-------------|--------------|
| | Judicial Selection | Outreach | Total Justice Program | Bolder Advocacy | Management and General | Fundraising | Total |
| Salaries, benefits and payroll | \$ 781,434 | \$ 56,430 | \$ 837,864 | \$ 1,618,451 | \$ 155,921 | \$ 165,840 | \$ 2,778,076 |
| Accounting and bookkeeping | 8,813 | 22 | 8,835 | 27,992 | 48,998 | 96 | 85,921 |
| Advertising and public relations | 2,663 | - | 2,663 | 1,981 | (359) | 49 | 4,334 |
| Bad debts | - | - | - | - | 2,301 | - | 2,301 |
| Bank charges | 200 | - | 200 | 5,206 | 9,083 | - | 14,489 |
| Books and periodicals | 17,525 | 305 | 17,830 | 20,126 | 1,945 | 7,661 | 47,562 |
| Consultants | 254,877 | 274 | 255,151 | 273,486 | 60,705 | 28,129 | 617,471 |
| Contributed legal services | 524,014 | - | 524,014 | - | - | - | 524,014 |
| Depreciation and amortization | (25) | 474 | 449 | 12,462 | 68,316 | 919 | 82,146 |
| Dues and licenses | 914 | - | 914 | 7,057 | 285 | 1,395 | 9,651 |
| Equipment rental | 2,195 | 65 | 2,260 | 7,559 | 4,916 | 129 | 14,864 |
| Grants and awards | 200,150 | - | 200,150 | - | - | - | 200,150 |
| Insurance | 2,393 | 206 | 2,599 | 5,780 | 14,601 | 406 | 23,386 |
| Investment fees | 145 | - | 145 | 294 | 21,330 | - | 21,769 |
| Meetings and conferences | 12,295 | 123 | 12,418 | 14,767 | 7,604 | 2,765 | 37,554 |
| Miscellaneous | 168 | - | 168 | 2 | (6,106) | - | (5,936) |
| Office supplies | 5,524 | 371 | 5,895 | 15,327 | 19,088 | 694 | 41,004 |
| Postage and delivery | 1,705 | 61 | 1,766 | 2,858 | 1,934 | 3,886 | 10,444 |
| Recruiting and hiring | 1,080 | - | 1,080 | 4,641 | 5,977 | - | 11,698 |
| Rent | 127,333 | 3,866 | 131,199 | 558,650 | 151,904 | 10,770 | 852,523 |
| Repairs and maintenance | 12,740 | 567 | 13,307 | 21,036 | 38,513 | 1,570 | 74,426 |
| Staff development | 23 | - | 23 | 4 | 996 | - | 1,023 |
| Travel | 18,114 | 185 | 18,299 | 81,192 | (331) | 5,153 | 104,313 |
| Totals | \$ 1,974,280 | \$ 62,949 | \$ 2,037,229 | \$ 2,678,871 | \$ 607,621 | \$ 229,462 | \$ 5,553,183 |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

| | Program Services | | | Supporting Services | | | |
|----------------------------------|--------------------|-----------|-----------------------|---------------------|------------------------|-------------|--------------|
| | Judicial Selection | Outreach | Total Justice Program | Bolder Advocacy | Management and General | Fundraising | Total |
| Salaries, benefits and payroll | \$ 745,874 | \$ 35,732 | \$ 781,606 | \$ 1,388,157 | \$ 182,567 | \$ 156,177 | \$ 2,508,507 |
| Accounting and bookkeeping | 4,287 | 56 | 4,343 | 5,126 | 40,866 | 807 | 51,142 |
| Advertising and public relations | 2,811 | - | 2,811 | 1,380 | 4,548 | - | 8,739 |
| Bad debts | - | - | - | - | 2,350 | - | 2,350 |
| Bank charges | - | - | - | 15 | 14,180 | - | 14,195 |
| Books and periodicals | 14,064 | - | 14,064 | 16,590 | 8,385 | 383 | 39,422 |
| Consultants | 296,056 | 576 | 296,632 | 178,076 | 154,646 | 19,122 | 648,476 |
| Depreciation and amortization | 29,879 | 1,828 | 31,707 | 38,906 | 6,691 | 6,982 | 84,286 |
| Dues and licenses | 668 | - | 668 | 7,654 | 1,781 | - | 10,103 |
| Equipment rental | 2,366 | 118 | 2,484 | 7,523 | 1,823 | 415 | 12,245 |
| Insurance | 6,570 | 433 | 7,003 | 8,743 | 3,137 | 1,402 | 20,285 |
| Investment fees | - | - | - | - | 22,555 | - | 22,555 |
| Meetings and conferences | 8,176 | - | 8,176 | 8,274 | 9,481 | 133 | 26,064 |
| Miscellaneous | - | - | - | - | (12,228) | - | (12,228) |
| Office supplies | 8,594 | 330 | 8,924 | 11,484 | 2,238 | 1,244 | 23,890 |
| Postage and delivery | 1,124 | 27 | 1,151 | 2,500 | 2,099 | 1,152 | 6,902 |
| Rent | 225,867 | 10,358 | 236,225 | 367,224 | 191,031 | 46,059 | 840,539 |
| Repairs and maintenance | 27,936 | 1,360 | 29,296 | 38,055 | 6,533 | 5,993 | 79,877 |
| Staff development | - | - | - | - | 1,770 | - | 1,770 |
| Travel | 6,151 | - | 6,151 | 58,077 | 5,861 | 798 | 70,887 |
| Totals | \$ 1,380,423 | \$ 50,818 | \$ 1,431,241 | \$ 2,137,784 | \$ 650,314 | \$ 240,667 | \$ 4,460,006 |

See accompanying notes to financial statements.

ALLIANCE FOR JUSTICE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1. ORGANIZATION AND PROGRAMS

Organization - Alliance for Justice (the Alliance) 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. The main programs undertaken by the Alliance are:

Bolder Advocacy - through its Bolder Advocacy initiative, the Alliance 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. The Alliance 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.

Bolder Advocacy helps foundations and their nonprofit grantees understand the importance of advocacy and the complex legal rules governing advocacy by offering trainings, written guides, tools (including tools to assess advocacy and community organizing capacity), coaching, and the Technical Assistance Hotline (866-NP-LOBBY). In addition, Bolder Advocacy works to protect and expand the right of nonprofits and foundations to advocate.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Alliance prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Net Assets - In accordance with accounting principles generally accepted in the United States of America, the Alliance is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are available for the general operations of the Alliance, whereas temporarily restricted net assets may rise from contributions, foundation grants, or pledges to give in the future which are subject to donor-imposed stipulations as to their use for specific programs conducted by the Alliance. The Alliance had no permanently restricted net assets as of December 31, 2017 and 2016.

Revenue Recognition - 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.

Cash and Cash Equivalents - Cash and cash equivalents consists of amounts available for immediate withdrawal from bank accounts and all highly liquid monetary instruments whose maturity dates do not extend past three months.

Investments - Investments are recorded at market value. Unrealized gains and losses are included in investment income in the statements of activities and changes in net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - The Alliance capitalizes fixed assets with an original cost of \$2,500 or more. Leasehold improvements and 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 computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the asset.

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

Reclassifications - Certain reclassifications have been made to the year 2016 amounts to conform to the presentation for the year 2017. These reclassifications did not change total assets, total liabilities, or changes in net assets for 2016 from the totals previously reported.

NOTE 3. INCOME TAXES

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 2017 or 2016. Accordingly, no provision for income tax is made in the accompanying financial statements.

The Alliance accounts for uncertainties in income taxes recognized under a prescribed threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Alliance performed an evaluation of uncertain tax positions for the year ended December 31, 2017, and determined that there were no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. Federal jurisdiction and the state and local jurisdictions in which the Alliance files returns.

NOTE 4. GRANTS RECEIVABLE

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.

Grants receivable at December 31, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|--------------------------------------|---------------------|---------------------|
| Receivable in less than one year | \$ 2,290,117 | \$ 1,709,029 |
| Receivable in two to five years | 430,558 | 1,180,891 |
| | 2,720,675 | 2,889,920 |
| Less: discounts to net present value | (8,442) | (15,064) |
| Total | <u>\$ 2,712,233</u> | <u>\$ 2,874,856</u> |

The discount rate used on long-term promises to give was approximately 1% as of December 31, 2017 and 2016.

NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following at December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|-----------------------------|---------------------|----------------------|---------------------|----------------------|
| | Cost Basis | Fair Market Value | Cost Basis | Fair Market Value |
| Mutual and closed end funds | \$ - | \$ - | \$ 1,242,960 | \$ 1,237,506 |
| Equity securities | 1,637,681 | 1,947,602 | 1,248,047 | 1,373,821 |
| Fixed income | 1,855,539 | 1,839,853 | - | - |
| U.S. Treasury bill | 1,479,604 | 1,480,440 | - | - |
| Certificates of deposit | - | - | 700,000 | 699,979 |
| | <u>\$ 4,972,824</u> | <u>\$ 5,267,895</u> | <u>\$ 3,191,007</u> | <u>\$ 3,311,306</u> |

Accounting standards for fair value measurements defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Accounting standards for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. That framework provides a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to measurements involving significant unobservable inputs (Level 3 inputs). The three levels of the hierarchy are as follows:

- *Level 1* - Observable inputs such as quoted prices for identical assets or liabilities in active markets;

NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

- *Level 2* - Inputs other than the quoted prices in active markets that are observable, either directly or indirectly such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable or inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- *Level 3* - Unobservable inputs in which there is little or no market data, which requires management to develop its own assumptions.

The following is a summary of the inputs used as of December 31, 2017 and 2016, in valuing investments carried at fair value:

| Description | December 31, 2017 Total | Quoted Market Price for Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|----------------------------|---|--|--|
| Assets | | | | |
| Equity securities | \$ 1,947,602 | \$ 1,947,602 | \$ - | \$ - |
| Fixed income | 1,839,853 | - | 1,839,853 | - |
| U.S. Treasury bill | <u>1,480,440</u> | <u>1,480,440</u> | <u>-</u> | <u>-</u> |
| Total | 5,267,895 | 3,428,042 | 1,839,853 | - |
| Deferred compensation annuity contracts | <u>349,264</u> | <u>349,264</u> | <u>-</u> | <u>-</u> |
| Total assets | 5,617,159 | 3,777,306 | 1,839,853 | - |
| Liabilities | | | | |
| Deferred compensation annuity contracts | <u>(349,264)</u> | <u>-</u> | <u>(349,264)</u> | <u>-</u> |
| Total | <u>\$ 5,267,895</u> | <u>\$ 3,777,306</u> | <u>\$ 1,490,589</u> | <u>\$ -</u> |

NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

| Description | December 31, 2016 Total | Quoted Market Price for Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|----------------------------|---|--|--|
| Assets | | | | |
| Mutual funds and closed end securities | \$ 1,237,506 | \$ 1,237,506 | \$ - | \$ - |
| Equity securities | 1,373,821 | 1,373,821 | - | - |
| Certificates of deposit | <u>699,979</u> | <u>-</u> | <u>699,979</u> | <u>-</u> |
| Total | 3,311,306 | 2,611,327 | 699,979 | - |
| Deferred compensation annuity contracts | <u>349,304</u> | <u>349,304</u> | <u>-</u> | <u>-</u> |
| Total assets | 3,660,610 | 2,960,631 | 699,979 | - |
| Liabilities | | | | |
| Deferred compensation annuity contracts - mutual funds | <u>(349,304)</u> | <u>-</u> | <u>(349,304)</u> | <u>-</u> |
| Total | <u>\$ 3,311,306</u> | <u>\$ 2,960,631</u> | <u>\$ 350,675</u> | <u>\$ -</u> |

The fair value of mutual funds, U.S. Treasury bill and equity securities are valued at the closing price reported on the active market on which the securities are traded.

The fair value of fixed income debt securities was estimated using pricing models maximizing the use of observable inputs for similar securities. This included basing values on yields available on comparable securities of issuers with similar credit ratings.

The fair value of the certificates of deposit were valued at amortized cost which approximates fair value.

The deferred compensation liability is not publicly traded and is, therefore, classified as Level 2.

The asset's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to their fair value measurement. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Alliance believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

A summary of temporarily restricted net assets available for use for the years ended December 31, 2017 and 2016 was as follows:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Time restricted | \$ 100,000 | \$ - |
| Purpose restricted | | |
| Bolder Advocacy/The Non-Profit Advocacy | | |
| Project/Foundation Advocacy Initiative | 4,757,576 | 4,527,130 |
| Judicial Selection Project | 186,502 | 181,222 |
| Klagsbrun Fellowship | 42,876 | 42,835 |
| Dorat Fellowship | 15,862 | 41,765 |
| Access to Justice Project | 12,500 | 12,500 |
| Texas office - general support | - | 125,572 |
| | <u>\$ 5,115,316</u> | <u>\$ 4,931,024</u> |

A summary of temporarily restricted net assets release from donor restrictions for the years ended December 31, 2017 and 2016 was as follows:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Bolder Advocacy/The Non-Profit Advocacy | | |
| Project/Foundation Advocacy Initiative | \$ 2,719,137 | \$ 2,173,513 |
| Judicial Selection Project | 635,756 | 379,643 |
| Klagsbrun Fellowship | 20,000 | 29,211 |
| Dorat Fellowship | 145,945 | 150,058 |
| Access to Justice Project | - | 12,500 |
| California office - general support | - | 103,125 |
| Texas office - general support | 125,572 | 134,712 |
| Time restriction | - | 5,000 |
| | <u>\$ 3,646,410</u> | <u>\$ 2,987,762</u> |

NOTE 7. RETIREMENT PLANS

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, 2017 and 2016, the Alliance's contribution to the plan amounted to \$109,518 and \$94,086, respectively

NOTE 8. DEFERRED COMPENSATION

During 2013, the Alliance established a Section 457(f) nonqualified deferred compensation plan. Benefits are funded by annuity contracts that have been purchased by the Alliance. The fair value of these annuity contracts at December 31, 2017 and 2016 was \$349,264 and \$349,304, respectively.

NOTE 9. OPERATING LEASES, DEFERRED RENT AND DEFERRED LEASE INCENTIVE

As of December 31, 2017, the Alliance leased 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 extend the lease for one hundred twenty-four months and a landlord provided improvement allowance not to exceed \$343,425.

The Alliance incurred \$343,425 of tenant improvements which qualified for the improvement allowance. This amount is included in leasehold improvements in the statement of financial position. The leasehold improvements are 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, 2017 and 2016, \$33,238 and \$31,780 has been recorded as amortization of the leasehold improvements to reduce rent expense.

Rent expense under this lease is recognized over the life of the lease on a straight-line basis. Straight-line rent expense over the life of the lease is \$643,481. The difference between the straight-line rent expense and the rent paid/abated was recorded is recorded as deferred rent at December 31, 2017 and 2016.

During the year ended December 31, 2017, the Alliance negotiated a new lease, effective January 2018. The previous lease will be terminated at the time the Alliance takes occupancy of the new space. The new lease is for a period of 120 months.

The Alliance also leases office spaces in Los Angeles, California on a month-to-month basis and in Dallas, Texas and Oakland, California under non-cancelable agreements expiring in May 2017 and March 2019, 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:

| | | |
|------------|----|-------------------|
| 2018 | \$ | 326,407 |
| 2019 | | 802,979 |
| 2020 | | 822,994 |
| 2021 | | 843,562 |
| 2022 | | 864,683 |
| Thereafter | | <u>6,690,661</u> |
| Total | \$ | <u>10,351,286</u> |

**NOTE 9. OPERATING LEASES, DEFERRED RENT AND DEFERRED LEASE INCENTIVE
(CONTINUED)**

The Alliance has entered into several agreements to sublease a portion of the District of Columbia office space to unrelated third parties for varying periods ending in 2021. The revenue is reported as a reduction of rent expense in the accompanying financial statements. Sub-lease income was \$171,201 and \$143,109, for the years ended December 31, 2017 and 2016, respectively. Minimum sublease income for the year ending December 31:

| | | |
|-------|----|-----------------------|
| 2018 | \$ | 152,864 |
| 2019 | | 82,737 |
| 2020 | | 59,032 |
| 2021 | | <u>40,466</u> |
| Total | \$ | <u><u>335,099</u></u> |

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

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------|--------------------------|
| Rent expense | \$ 852,523 | \$ 840,539 |
| Less: amortization of deferred lease incentive | (45,459) | (33,238) |
| Less: sublease income | <u>(171,201)</u> | <u>(143,109)</u> |
| Net rent expense | <u><u>\$ 635,863</u></u> | <u><u>\$ 664,192</u></u> |

NOTE 10. CONCENTRATIONS

Credit Risk - The Alliance maintains its cash bank deposit accounts which at times may exceed the federally insured limits per bank. The Alliance has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. Amounts in excess of deposit insurance limits were approximately \$82,000 as of December 31, 2017.

Major Contributors - As of December 31, 2017, there was approximately \$2,012,000 recorded as receivable from three donors.

Five donors contributed 51% of the Alliance's revenue for 2016. As of December 31, 2016, there was \$2,359,920 recorded as receivable from these donors.

NOTE 11. CONTINGENCIES

The Alliance receives a significant portion of its revenue from grants. The ultimate determination of amounts received under these programs often is based on allowable costs reported to the donor. In some instances, the donor reserves the right to audit the program costs. Until the final settlement is reached with each donor, there exists a contingency to refund any amount received for costs deemed unallowable in an audit conducted by a donor.

NOTE 12. 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, 2017 and 2016, the Alliance charged the Campaign for administrative and payroll costs totaling \$103,401 and \$94,639, respectively. At December 31, 2017 and 2016, the Campaign owed the Alliance \$22,463 and \$16,339 for shared office expenses, respectively. These amounts are included in "Due from Affiliate" in the accompanying financial statements. The Alliance also made a contribution of \$200,000 to the Campaign during the year ended December 31, 2017. No contributions were made by the Alliance to the Campaign during the year ended December 31, 2016.

NOTE 13. NON-CASH TRANSACTIONS

During 2017 and 2016, the Alliance received donations of stock valued at approximately \$1,010,202 and \$796,126, respectively. All of the donated stock was subsequently sold by the Alliance.

NOTE 14. SUBSEQUENT EVENTS

The Alliance has evaluated events through June 21, 2018, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2017, that would have a material impact on the Alliance's results of operations or financial position as of December 31, 2017.