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**ALLIANCE FOR JUSTICE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2016 AND 2015**

MATTHEWS, CARTER & BOYCE
CPAs • ADVISORS

ALLIANCE FOR JUSTICE
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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, 2016 and 2015, 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 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 the Alliance for Justice as of December 31, 2016 and 2015, 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.

Matthews, Carter and Boyce

Fairfax, Virginia
September 19, 2017



ALLIANCE FOR JUSTICE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,129,401	\$ 1,083,848
Accounts receivable, net of allowance for doubtful accounts of \$1,100 and \$12,988 at December 31, 2016 and 2015, respectively	48,295	47,669
Contributions receivable	85,388	45,562
Grants receivable, current portion	1,709,029	748,125
Due from affiliates	16,339	6,595
Prepaid expenses	94,478	107,064
Deferred compensation plan investments	349,304	334,199
Total Current Assets	\$ 3,432,234	\$ 2,373,062
PROPERTY AND EQUIPMENT		
Furniture and fixtures	\$ 321,572	\$ 321,822
Leasehold improvements	361,961	361,961
Total Cost	\$ 683,533	\$ 683,783
Less accumulated depreciation	(503,323)	(419,884)
Net Property and Equipment	\$ 180,210	\$ 263,899
OTHER ASSETS		
Grants receivable, net of current portion and discount	\$ 1,165,827	\$ 150,000
Investments	3,311,306	2,485,194
Deposits	55,521	55,521
Total Other Assets	\$ 4,532,654	\$ 2,690,715
TOTAL ASSETS	\$ 8,145,098	\$ 5,327,676
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 36,937	\$ 83,093
Accrued leave payable	71,365	59,855
Deferred rent, current portion	45,459	31,922
Deferred lease incentive, current portion	33,238	33,238
Deferred revenue	-	20,164
Deferred compensation plan liability	349,304	334,199
Total Current Liabilities	\$ 536,303	\$ 562,471
OTHER LIABILITIES		
Deferred rent, net of current portion	\$ 220,144	\$ 265,603
Deferred lease incentive, net of current portion	102,494	135,732
Tenant security deposits	5,726	1,475
Total Liabilities	\$ 864,667	\$ 965,281
NET ASSETS		
Unrestricted net assets	\$ 2,349,407	\$ 2,062,414
Temporarily restricted net assets	4,931,024	2,299,981
Total Net Assets	\$ 7,280,431	\$ 4,362,395
TOTAL LIABILITIES AND NET ASSETS	\$ 8,145,098	\$ 5,327,676

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, 2016 AND 2015**

	2016		2015		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
REVENUE AND SUPPORT					
Grant revenue	\$ 391,961	\$ 5,601,305	\$ 5,993,266	\$ 2,076,816	\$ 2,564,441
Contributions	535,580	17,500	553,080	-	384,794
Events	553,092	-	553,092	-	545,843
Less event direct expenses	(165,219)	-	(165,219)	-	(133,026)
Contract revenue	209,251	-	209,251	-	286,708
Membership dues	63,250	-	63,250	-	56,000
Other revenue	11,584	-	11,584	-	116,835
Net assets released from restriction due to satisfaction of program or time restrictions	2,987,762	(2,987,762)	-	(2,452,533)	-
Total Revenue and Support	\$ 4,587,261	\$ 2,631,043	\$ 7,218,304	\$ (375,717)	\$ 3,821,595
INVESTMENT ACTIVITY					
Interest and dividend income	\$ 33,634	\$ -	\$ 33,634	\$ -	\$ 40,302
Realized gain on investments	73,462	-	73,462	-	165,835
Unrealized (loss on investments)	(90,467)	-	(90,467)	-	(132,912)
Total Investment Activity	\$ 16,629	\$ -	\$ 16,629	\$ -	\$ 73,225
Total Revenue, Support and Investment Activity	\$ 4,603,890	\$ 2,631,043	\$ 7,234,933	\$ (375,717)	\$ 3,894,820

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, 2016 AND 2015

	2016		2015			
	Unrestricted	Temporarily	Total	Unrestricted	Temporarily	Total
		Restricted			Restricted	
EXPENSES						
Program services:						
Bolder Advocacy/Non-Profit Advocacy Project	\$ 2,138,311	\$ -	\$ 2,138,311	\$ 2,217,876	\$ -	\$ 2,217,876
Judicial Selection Project	1,174,321	-	1,174,321	1,207,318	-	1,207,318
Access to Justice Project	42,688	-	42,688	102,834	-	102,834
Fellows Program	215,374	-	215,374	224,176	-	224,176
Total Program Services	\$ 3,570,694	\$ -	\$ 3,570,694	\$ 3,752,204	\$ -	\$ 3,752,204
Supporting services:						
Fundraising	\$ 241,048	\$ -	\$ 241,048	\$ 272,318	\$ -	\$ 272,318
Management and administrative	505,155	-	505,155	477,012	-	477,012
Total Supporting Services	\$ 746,203	\$ -	\$ 746,203	\$ 749,330	\$ -	\$ 749,330
Total Expenses	\$ 4,316,897	\$ -	\$ 4,316,897	\$ 4,501,534	\$ -	\$ 4,501,534
CHANGE IN NET ASSETS	\$ 286,993	\$ 2,631,043	\$ 2,918,036	\$ (230,997)	\$ (375,717)	\$ (606,714)
NET ASSETS, BEGINNING OF YEAR	2,062,414	2,299,981	4,362,395	2,293,411	2,675,698	4,969,109
NET ASSETS, END OF YEAR	\$ 2,349,407	\$ 4,931,024	\$ 7,280,431	\$ 2,062,414	\$ 2,299,981	\$ 4,362,395

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

ALLIANCE FOR JUSTICE
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,918,036	\$ (606,714)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense	\$ 86,566	\$ 89,095
Amortization of deferred lease incentive	(33,238)	(33,238)
Provision for bad debt and bad debt expense	11,888	6,031
Realized gain on investments	(73,462)	(165,835)
Unrealized loss on investments	90,467	132,912
Donated securities	(796,126)	(1,037,883)
Sale of donated securities	787,974	1,035,663
Change in assets and liabilities		
(Increase) Decrease in Assets:		
Accounts receivable	(12,514)	11,400
Contributions receivable	(39,826)	89,551
Grants receivable	(1,976,731)	629,707
Due from affiliates	(9,744)	(1,892)
Prepaid expenses	12,586	3,155
Security deposits	-	(500)
Increase (Decrease) in Liabilities:		
Accounts payable and accrued expenses	(46,156)	14,784
Accrued leave payable	11,510	(9,503)
Deferred rent	(31,922)	(11,408)
Deferred revenue	(20,164)	(142,970)
Tenant security deposits	4,251	(5,625)
Total Adjustments	\$ (2,034,641)	\$ 603,444
Net Cash Provided (Used) by Operating Activities	\$ 883,395	\$ (3,270)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of property and equipment	\$ (2,877)	\$ (36,925)
Purchase of investments	(2,265,316)	(1,478,995)
Sales of investments	1,430,351	2,022,449
Net Cash Provided (Used) by Investing Activities	\$ (837,842)	\$ 506,529
NET CHANGE IN CASH	\$ 45,553	\$ 503,259
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,083,848	580,589
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,129,401	\$ 1,083,848

There were no non-cash investing or financing activities during the years ended December 31, 2016 and 2015.

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

ALLIANCE FOR JUSTICE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services				Supporting Services			Total Expenses	
	Bolder Advocacy	Judicial Selection	Access to Justice	Fellows	Total Program Services	Fundraising	Management and Administrative		Total Supporting Services
Salaries, payroll taxes, and benefits	\$ 1,388,157	\$ 600,800	\$ 29,644	\$ 151,163	\$ 2,169,764	\$ 156,177	\$ 166,626	\$ 322,803	\$ 2,492,567
Accounting and bookkeeping	5,126	3,428	171	745	9,470	807	40,866	41,673	51,143
Advertising and public relations	1,380	2,811	-	-	4,191	-	4,548	4,548	8,739
Bad debts	-	-	-	-	-	-	2,350	2,350	2,350
Bank charges	15	-	-	-	15	-	14,180	14,180	14,195
Books and periodicals	16,590	14,064	-	-	30,654	383	8,385	8,768	39,422
Consultants	112,150	246,550	-	-	358,700	-	115,618	115,618	474,318
Depreciation and amortization	39,286	24,101	1,388	7,357	72,132	7,363	7,071	14,434	86,566
Dues and licenses	7,654	668	-	-	8,322	-	1,781	1,781	10,103
Equipment rental	7,523	1,912	99	474	10,008	415	1,823	2,238	12,246
Insurance	8,743	5,276	282	1,445	15,746	1,402	1,543	2,945	18,691
Internet fees	30,061	19,918	437	2,209	52,625	14,605	22,632	37,237	89,862
Investment Fees	-	-	-	-	-	-	22,555	22,555	22,555
Legal fees	175	10,000	-	-	10,175	-	24,000	24,000	34,175
Meetings and conferences	8,274	8,176	-	-	16,450	133	9,481	9,614	26,064
Miscellaneous	148	-	-	-	148	-	(12,378)	(12,378)	(12,230)
Office supplies	11,484	7,361	248	1,315	20,408	1,244	2,238	3,482	23,890
Postage and delivery	2,499	1,055	14	82	3,650	1,152	2,100	3,252	6,902
Printing and copying	11,764	17,416	23	79	29,282	4,517	7,650	12,167	41,449
Professional fees	23,927	-	-	-	23,927	-	-	-	23,927
Rent	349,470	173,075	8,951	43,509	575,005	44,875	44,053	88,928	663,933
Repairs and maintenance	38,055	22,456	1,105	5,735	67,351	5,993	6,533	12,526	79,877
Staff development	-	-	-	-	-	-	1,770	1,770	1,770
Sub grants	-	-	-	-	-	-	-	-	-
Telephone	17,753	9,174	255	1,261	28,443	1,184	3,869	5,053	33,496
Travel	58,077	6,080	71	-	64,228	798	5,861	6,659	70,887
Video production	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 2,138,311	\$ 1,174,321	\$ 42,688	\$ 215,374	\$ 3,570,694	\$ 241,048	\$ 505,155	\$ 746,203	\$ 4,316,897

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

ALLIANCE FOR JUSTICE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services					Supporting Services			Total Expenses
	Bolder Advocacy	Judicial Selection	Access to Justice	Fellows	Total Program Services	Fundraising	Management and Administrative	Total Supporting Services	
Salaries, payroll taxes, and benefits	\$ 1,515,291	\$ 654,251	\$ 74,071	\$ 164,211	\$ 2,407,824	\$ 141,821	\$ 147,027	\$ 288,848	\$ 2,696,672
Accounting and bookkeeping	17,730	10,611	1,356	3,115	32,812	1,683	9,476	11,159	43,971
Advertising and public relations	2,380	1,837	27	44	4,288	29	13,181	13,181	10,630
Bad debts	-	-	-	-	-	-	12,212	12,212	13,181
Bank charges	-	-	-	-	-	-	1,579	1,614	12,212
Books and periodicals	19,343	17,531	36	72	36,982	35	1,579	1,614	38,596
Consultants	46,908	26,738	-	-	73,646	65,000	112,093	177,093	250,739
Depreciation and amortization	45,538	24,174	2,103	7,700	79,515	4,156	5,424	9,580	89,095
Dues and licenses	2,852	1,534	-	-	4,386	-	6,386	6,386	10,772
Equipment rental	7,837	2,717	280	654	11,488	723	1,355	2,078	13,566
Insurance	18,182	10,393	1,068	2,774	32,417	1,772	1,657	3,429	35,846
Internet fees	37,440	12,903	686	1,525	52,554	6,259	20,633	26,892	79,446
Investment Fees	-	-	-	-	-	-	37,174	37,174	37,174
Legal fees	10,000	300	-	-	10,300	-	24,000	24,000	34,300
Meetings and conferences	15,546	18,270	18	-	33,834	4,020	15,541	19,561	53,395
Miscellaneous	121	122	-	-	243	-	2,542	2,542	2,785
Office supplies	13,984	6,022	694	1,306	22,006	1,340	1,887	3,227	25,233
Postage and delivery	4,251	1,806	75	136	6,268	1,366	2,761	4,127	10,395
Printing and copying	17,001	16,668	73	477	34,219	7,613	3,962	11,575	45,794
Professional fees	5,468	-	-	-	5,468	-	-	-	5,468
Rent	309,220	146,568	17,117	35,679	508,584	28,825	31,930	60,755	569,339
Repairs and maintenance	43,086	18,842	2,079	4,767	68,774	3,732	6,667	10,399	79,173
Staff development	270	-	-	270	270	-	5,010	5,010	5,280
Sub grants	-	66,650	-	-	66,650	-	-	-	66,650
Telephone	18,756	8,934	695	1,716	30,101	1,840	3,525	5,365	35,466
Travel	66,672	25,497	2,456	-	94,625	2,104	4,677	6,781	101,406
Video production	-	134,950	-	-	134,950	-	-	-	134,950
Total Expenses	\$ 2,217,876	\$ 1,207,318	\$ 102,834	\$ 224,176	\$ 3,752,204	\$ 272,318	\$ 477,012	\$ 749,330	\$ 4,501,534

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

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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.

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.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2. Summary of Significant Accounting Policies

Basis of presentation

Financial statement presentation adheres to the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 accounts receivable. The allowance is based upon experience, management's analysis of specific promises made, and other historical factors that pertain to the receivables. No interest is accrued on receivables.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2. Summary of Significant Accounting Policies (Continued)

Property and equipment and depreciation/amortization

The Alliance capitalizes fixed assets with an original cost of \$1,000 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 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.

Advertising

Advertising costs are recorded as expenses when incurred.

Classification of net assets

The Alliance's net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for the general support of the Alliance's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

ALLIANCE FOR JUSTICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 2016 or 2015. Accordingly, no provision for income tax is made in the accompanying financial statements.

The Alliance has adopted FASB ASC 740, *Income Taxes*, which require 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. 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. 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 changes in net assets.

Note 3. 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 1,709,029	\$ 748,125
Receivable in two to five years	<u>1,180,891</u>	<u>150,000</u>
	\$ 2,889,920	\$ 898,175
Less discounts to net present value	<u>(15,064)</u>	<u>-</u>
Total	<u>\$ 2,874,856</u>	<u>\$ 898,125</u>

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

ALLIANCE FOR JUSTICE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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 the 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 Level 1 assets, except for certificates of deposit which are Level 2.

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 Alliance's 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 as of December 31:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Mutual funds:				
Closed end funds	\$ 1,237,506	\$ 1,242,960	\$ 186,596	\$ 228,935
Equity securities	1,373,821	1,248,047	2,298,598	2,046,711
Certificates of deposit	699,979	700,000	-	-
Total	\$ 3,311,306	\$ 3,191,007	\$ 2,485,194	\$ 2,275,646

Recent market conditions have resulted in an unusually high degree of volatility 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>2016</u>	<u>2015</u>
Bolder Advocacy/The Non-Profit Advocacy Project/Foundation Advocacy Initiative	\$ 4,527,130	\$ 1,900,642
Judicial Selection Project	181,222	172,060
Klagsbrun Fellowship	42,835	22,046
Dorot Fellowship	41,765	41,822
Access to Justice Project	12,500	-
California office - general support	-	53,125
Texas office - general support	<u>125,572</u>	<u>110,286</u>
Total	<u>\$ 4,931,024</u>	<u>\$ 2,299,981</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>2016</u>	<u>2015</u>
Bolder Advocacy/The Non-Profit Advocacy Project/Foundation Advocacy Initiative	\$ 2,173,513	\$ 1,875,441
Access to Justice Project	12,500	25,000
Judicial Selection Project	379,643	282,275
Klagsbrun Fellowship	29,211	39,954
Dorot Fellowship	150,058	109,332
California office - general support	103,125	51,041
Time restriction	5,000	5,000
Texas office - general support	<u>134,712</u>	<u>64,490</u>
Total	<u>\$ 2,987,762</u>	<u>\$ 2,452,533</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, 2016 and 2015, the Alliance's contribution to the plan amounted to \$94,087 and \$102,565, respectively.

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Note 8. Deferred Compensation

During 2013, the Alliance established a Section 457(f) Nonqualified Deferred Compensation Plan (the Plan). No contribution was required in 2016 and 2015. 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:

	2016			
	Total	Level 1	Level 2	Level 3
Deferred compensation assets:				
Mutual funds	\$ 191,807	\$ 191,807	\$ -	\$ -
Money funds	157,497	157,497	-	-
	<u>\$ 349,304</u>	<u>\$ 349,304</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation liability	<u>\$ 349,304</u>	<u>\$ -</u>	<u>\$ 349,304</u>	<u>\$ -</u>
	2015			
	Total	Level 1	Level 2	Level 3
Deferred compensation assets:				
Mutual funds	\$ 334,077	\$ 334,077	\$ -	\$ -
Money funds	122	122	-	-
	<u>\$ 334,199</u>	<u>\$ 334,199</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation liability	<u>\$ 334,199</u>	<u>\$ -</u>	<u>\$ 334,199</u>	<u>\$ -</u>

Alliance's mutual funds and money funds are publicly traded and are considered Level 1 items.

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.

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

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. The variance between the straight-line rent expense and the rent paid/abated was recorded as deferred rent at December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Alliance has incurred \$343,425 of tenant improvements which qualify 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, 2016 and 2015, \$33,238 has been recorded as amortization of the leasehold improvements to reduce rent expense.

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:

2017	\$ 759,941
2018	773,262
2019	734,919
2020	<u>731,129</u>
Total	<u>\$ 2,999,251</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 2018. The revenue is reported as a reduction of rent expense in the accompanying financial statements. Sub-lease income was \$143,109 and \$210,363, for the years ended December 31, 2016 and 2015, respectively. Minimum sublease income is anticipated to be as follows for the years ending: 2017 - \$71,358; and 2018 - \$42,581. It is management's intent, to the extent possible, to renew the sub-leases for periods after 2018.

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

	<u>2016</u>	<u>2015</u>
Rent expense	\$ 840,280	\$ 812,940
Less: amortization of deferred lease incentive	(33,238)	(33,238)
Less: sublease income	<u>(143,109)</u>	<u>(210,363)</u>
Net Rent Expense	<u>\$ 663,933</u>	<u>\$ 569,339</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. Effective February 2016 the Alliance receives email alerts when the balance in the accounts exceeds \$250,000 at which time the amount in excess of the \$250,000 is transferred to the Merrill Lynch account.

Major contributors

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.

Five donors contributed 29% of the Alliance's revenue for 2015. As of December 31, 2015, there was \$575,000 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, 2016 and 2015, the Alliance charged the Campaign for administrative and payroll costs totaling \$94,639 and \$22,568, respectively. At December 31, 2016 and 2015, the Campaign owed the Alliance \$16,339 and \$6,595 for shared office expenses, respectively. These amounts are included in "Due from Affiliate" in the accompanying financial statements. During 2015, the Campaign received a grant from the Alliance in the amount of \$66,650.

Note 13. Non-cash Transactions

During 2016 and 2015 the Alliance received donations of stock valued at approximately \$796,126 and \$1,037,883, respectively. All of the donated stock was subsequently sold by the Alliance.

Note 14. Subsequent Events

The Alliance has evaluated events through September 19, 2017, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2016, that would have a material impact on the Alliance's results of operations or financial position as of December 31, 2016.