

International Justice Mission and Affiliate

Consolidated Financial Report
December 31, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
International Justice Mission

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of International Justice Mission and Affiliate (collectively, IJM), which comprise the consolidated statement of financial position as of December 31, 2018, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 auditor considers 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, based on our audit and the financial statements referred to above present fairly, in all material respects, the financial position of International Justice Mission and Affiliate as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2019, on our consideration of IJM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IJM's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited IJM's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matters

As disclosed in Note 1 to the financial statements, IJM adopted the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and applied this retrospectively to 2017. The adoption of this standard resulted in additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

RSM US LLP

McLean, Virginia
April 22, 2019

International Justice Mission and Affiliate

**Consolidated Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)**

	2018	2017
Assets		
Cash and cash equivalents	\$ 19,984,820	\$ 25,718,997
Investments	1,004,221	995,000
Receivables, net	2,250,413	1,885,638
Promises to give, net	3,114,800	3,403,466
Prepaid expenses and other assets	2,163,524	1,414,371
Property and equipment, net	3,574,337	3,264,504
	<u>\$ 32,092,115</u>	<u>\$ 36,681,976</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,298,646	\$ 3,951,420
Refundable advances	2,156,029	2,433,971
Accrued severance and retirement for national staff	1,833,202	1,317,035
Deferred rent and tenant improvements	5,225,295	5,837,576
	<u>13,513,172</u>	<u>13,540,002</u>
Commitments and contingencies (Notes 7 and 10)		
Net assets:		
Without donor restrictions	11,272,861	13,242,811
With donor restrictions	7,306,082	9,899,163
	<u>18,578,943</u>	<u>23,141,974</u>
	<u>\$ 32,092,115</u>	<u>\$ 36,681,976</u>

See notes to consolidated financial statements.

International Justice Mission and Affiliate

**Consolidated Statement of Activities
Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions and grants	\$ 52,678,293	\$ 16,801,460	\$ 69,479,753	\$ 71,262,427
In-kind support	2,122,982	-	2,122,982	2,269,830
Rental income	112,553	-	112,553	102,399
Other income	924,022	-	924,022	374,062
Net assets released from restrictions	19,653,914	(19,653,914)	-	-
Total support and revenue	75,491,764	(2,852,454)	72,639,310	74,008,718
Expenses:				
Program services:				
Justice System Transformation	40,760,052	-	40,760,052	37,236,834
Mobilization	17,627,200	-	17,627,200	12,613,543
Total program services	58,387,252	-	58,387,252	49,850,377
Supporting services:				
Fund development	9,124,804	-	9,124,804	7,180,809
General and administrative	10,571,473	-	10,571,473	9,507,991
Total supporting services	19,696,277	-	19,696,277	16,688,800
Total expenses	78,083,529	-	78,083,529	66,539,177
Change in net assets before IJM UK transfer	(2,591,765)	(2,852,454)	(5,444,219)	7,469,541
Transfer of net assets from IJM UK	621,815	259,373	881,188	-
Change in net assets	(1,969,950)	(2,593,081)	(4,563,031)	7,469,541
Net assets:				
Beginning	13,242,811	9,899,163	23,141,974	15,672,433
Ending	\$ 11,272,861	\$ 7,306,082	\$ 18,578,943	\$ 23,141,974

See notes to consolidated financial statements.

International Justice Mission and Affiliate

Consolidated Statement of Functional Expenses Year Ended December 31, 2018 (With Comparative Totals for 2017)

	Program Services			Supporting Services			2018 Total	2017 Total
	Justice System Transformation	Mobilization	Total Program Services	Fund Development	General and Administrative	Total Supporting Services		
Salaries and employee benefits	\$ 24,279,645	\$ 8,304,780	\$ 32,584,425	\$ 6,358,435	\$ 5,847,486	\$ 12,205,921	\$ 44,790,346	\$ 39,813,404
Services provided by contract	3,868,065	2,386,529	6,254,594	546,756	1,282,923	1,829,679	8,084,273	6,282,958
Travel	2,422,308	2,513,527	4,935,835	635,269	405,337	1,040,606	5,976,441	3,424,697
Depreciation	679,074	84,700	763,774	54,487	81,617	136,104	899,878	753,872
External engagement	1,422,657	2,556,225	3,978,882	412,451	(114,842)	297,609	4,276,491	3,485,401
Professional services	244,443	19,570	264,013	50,382	1,170,707	1,221,089	1,485,102	1,150,559
Subgrants	678,631	2,064	680,695	9,040	2,219	11,259	691,954	391,771
Information technology	2,241,782	290,258	2,532,040	130,298	367,372	497,670	3,029,710	2,458,033
Facilities	2,301,079	914,674	3,215,753	613,330	904,178	1,517,508	4,733,261	4,773,923
Financial fees and interest	462,262	78,578	540,840	48,741	262,197	310,938	851,778	707,904
Insurance, taxes and other	117,239	111,012	228,251	71,736	216,022	287,758	516,009	658,377
Office expenses and supplies	1,544,752	361,384	1,906,136	192,886	142,232	335,118	2,241,254	2,110,893
Other expenses	498,115	3,899	502,014	993	4,025	5,018	507,032	527,385
	\$ 40,760,052	\$ 17,627,200	\$ 58,387,252	\$ 9,124,804	\$ 10,571,473	\$ 19,696,277	\$ 78,083,529	\$ 66,539,177

See notes to consolidated financial statements.

International Justice Mission and Affiliate

**Consolidated Statement of Cash Flows
Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (4,563,031)	\$ 7,469,541
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	899,878	753,872
(Gain) loss on disposal of property and equipment	(9,460)	6,633
Deferred rent and tenant improvements	(612,281)	(448,969)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	(364,775)	(1,268,123)
Promises to give, net	288,666	(2,319,108)
Prepaid expenses and other assets	(749,153)	264,573
Increase (decrease) in:		
Accounts payable and accrued expenses	347,226	1,334,738
Refundable advances	(277,942)	70,962
Accrued severance and retirement for national staff	516,167	772,944
Net cash (used in) provided by operating activities	(4,524,705)	6,637,063
Cash flows from investing activities:		
(Purchase) sale of investments	(9,221)	1,403
Purchase of property and equipment	(1,241,524)	(1,001,042)
Proceeds from sale of equipment	41,273	21,895
Net cash used in investing activities	(1,209,472)	(977,744)
Net (decrease) increase in cash and cash equivalents	(5,734,177)	5,659,319
Cash and cash equivalents:		
Beginning	25,718,997	20,059,678
Ending	\$ 19,984,820	\$ 25,718,997

See notes to consolidated financial statements.

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: International Justice Mission and Affiliate (IJM) consist of the activities of International Justice Mission (IJM US) and International Justice Mission UK (IJM UK), which was under IJM US in 2018.

International Justice Mission is the largest, international, anti-slavery organization working to protect the poor from violence throughout the developing world. IJM partners with local authorities to rescue victims of violence, bring criminals to justice, restore survivors and strengthen justice systems. IJM works on behalf of victims of crimes like slavery, violence against women and children, and police abuse of power. IJM also seeks to mobilize the Christian church and the general public to respond on behalf of victims of violence.

IJM UK is a charitable company limited by guarantee registered and operated in the UK – company number 04310900. It is registered with the Charity Commission of England and Wales (Charity number 1099126) and is in the process of registration with the OSCR in Scotland. IJM UK is affiliated with International Justice Mission (IJM US), a global team working in 18 countries worldwide to protect the poor from violence throughout the world. The global headquarters of IJM US are based in the United States of America, where IJM US is organized and operated as a charitable not-for-profit corporation, incorporated in the Commonwealth of Virginia. For the purpose of aligning the global team around shared mission, core values and objectives, IJM US is the sole member of IJM UK. As a separate legal entity, registered in the UK and subject to UK law, IJM UK has a separate board of Directors/Trustees with fiduciary responsibility under UK law over IJM UK.

A summary of IJM's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented using the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles (GAAP).

Basis of presentation: IJM follows the Not-for-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under this topic, IJM is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Principles of consolidation: All significant intercompany transactions between IJM US and IJM UK have been eliminated.

Net assets without donor restrictions: Represents resources whose use is not restricted by donor stipulations and are available for the support of general operating activities.

Net assets with donor restrictions: Represents resources unavailable for use in the current period because of the existence of time and/or donor-imposed restrictions that remain unsatisfied at year-end or resources whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of IJM.

Cash and cash equivalents: For purposes of reporting cash flows, IJM considers all investments purchased with an original maturity of three months or less to be cash equivalents. In order to facilitate operations in IJM's field offices worldwide, IJM maintains bank accounts in several countries. All cash in these international accounts is included in cash and cash equivalents. The balance in these accounts was \$939,984 at December 31, 2018.

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Financial risk: IJM maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. IJM has not experienced any losses in such accounts. IJM believes it is not exposed to any significant financial risk on cash.

Investments: IJM holds certificates of deposit with original maturities of 90 days or more which are recorded at cost based on quoted market prices. Interest is recognized as income when earned.

Receivables, net: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no provision for doubtful accounts at December 31, 2018.

Promises to give, net: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give are initially recorded at fair value less an estimate made for doubtful promises and a discount for the time value of money. There was no discount recorded at December 31, 2018, as amounts are due within the next 15 months. The allowance for doubtful promises was \$35,200 at December 31, 2018.

Property and equipment, net: Property and equipment purchases are capitalized at cost and depreciated on a straight-line basis over their estimated lives. IJM capitalizes all property and equipment purchased with a cost of \$5,000 or more. The depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Valuation of long-lived assets: IJM reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Support and revenue: Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

IJM receives grants from federal agencies and others for various purposes. Grant awards revenue is recognized to the extent expenses have been incurred under approved awards for the purposes specified by an approved grant. IJM defers grant payments received under approved awards to the extent the payments received exceed expenses incurred for the purposes specified under the grant restrictions. These funds are reported as refundable advances.

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In-kind support: Contributions of services are recognized in the financial statements as in-kind contributions if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically be purchased if not provided by donation. These services are recorded at their estimated fair values at the date of donation and are recognized in the financial statements as contributions and expenses. Donated services in the amount of \$2,122,982 are included in the in-kind support on the accompanying consolidated statement of activities for the year ended December 31, 2018.

Rental income: IJM currently rents four floors in an office building for its headquarters office use. A portion of this space was obtained in anticipation of future growth, but is not currently required space for the staff needs at headquarters. IJM chose to sub-lease the additional space in order to benefit from first rights to the space. In order to mitigate the rental expense related to this unused space, IJM sublets the space and generates rental income. During 2018, IJM received \$112,553 in rental income from its subtenants which, although not netted for financial statement purposes, offsets occupancy expense.

Expense allocation: The consolidated financial statements report certain categories of expenses that are attributable to more than one program or function. As a result, these expenses require allocation on a reasonable basis that is consistently applied within the organization. IJM applies two kind of allocations, based on activity and based on a proportion of time charged to each functional area. Expenses related to the Executive and Advancement functional areas are allocated based on the core activities of each area and the activities performed by the staff members within each area. Expenses related to and budgeted in the functional areas of administration, finance and technology are allocated based on a pre-determined proportion of time approved by the management. Other expenses that require allocation such as rent, utilities and supplies are allocated based on headcount.

Fundraising events: IJM complies with the Not-for-Profit Topic of the Codification, which requires that revenue and expenses from fundraising events be reported gross; therefore, fund development expenses are not offset directly against related revenues. Contribution revenue from the events totaled \$690,788 and registration revenues totaled \$66,035 for the year ended December 31, 2018. Fundraising banquet expenses were \$181,528 for the year ended December 31, 2018.

Foreign currency translation: The functional currency for IJM is the U.S. dollar. Revenue and expenses of IJM's foreign operations are translated at weighted-average exchange rates for the period, and assets and liabilities are translated at the statement of financial position date at the exchange rate in effect at year-end.

Foreign currency transactions: Foreign currency transactions are recorded in U.S. dollars at the exchange rates in effect at the date of the transactions. Gains and losses are recorded within expenses on the accompanying statement of activities and statement of functional expenses.

Income taxes: IJM is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, IJM qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. IJM had \$100,388 of tax expense related to unrelated business income for the year ended December 31, 2018.

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

IJM complies with the accounting for uncertainty in income taxes topic, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, IJM may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated IJM's tax positions and has concluded that IJM has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guideline. IJM would be liable for income taxes in the U.S. federal jurisdiction. Generally, IJM is no longer subject to U.S. federal tax examinations by tax authorities before 2015.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with IJM's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2017 summarized comparative information have been reclassified to conform to the December 31, 2018, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Adopted accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions.

Recent accounting pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. IJM is currently evaluating the extent of the anticipated impact of this standard and will implement this standard on January 1, 2020.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. This ASU became effective January 1, 2019. IJM is currently evaluating the potential impact of adopting this standard and does not expect it to have a material impact on the consolidated financial statements.

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. IJM is currently assessing the potential impact of this new guidance.

Subsequent events: IJM has evaluated subsequent events through April 22, 2019, which is the date the financial statements were available to be issued and there are no further matters to disclose not reported in these consolidated financial statements.

Note 2. Availability of Assets

IJM is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner, IJM must maintain sufficient resources to meet those responsibilities to its donors. Therefore, financial assets may not be available for general expenditures within one year. As part of IJM's liquidity management, IJM has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. In addition, the board designates a liquidity reserve of \$7,655,802 as the minimum five-week liquidity reserve that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. Although IJM does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary. In the event of an unanticipated liquidity need, IJM also could draw upon \$6,000,000 of available line of credit (as further discussed in Note 10).

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 2. Availability of Assets (Continued)

The following reflects IJM's consolidated financial assets, including cash and cash equivalents, accounts receivable, investments and promises to give, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date:

Financial assets, at December 31, 2018	\$ 26,354,254
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(7,306,082)
Collateral for a security deposit	(250,000)
Short-term CDs restricted by letter of credit	(500,000)
	<u>(8,056,082)</u>
Board designations:	
Amount set aside for liquidity reserve	(7,655,802)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,642,370</u>

Note 3. Receivables

Receivables at December 31, 2018, consist of the following:

Grant receivables	\$ 1,837,437
Other receivables	399,935
Advances for travel	13,041
	<u>\$ 2,250,413</u>

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2018, and depreciation expense for the year ended December 31, 2018, are as follows:

	Lives	Cost	Depreciation	Net	Depreciation
Automobiles	7 years	\$ 2,206,183	\$ 1,044,750	\$ 1,161,433	\$ (256,690)
Equipment	5 years	2,490,256	2,042,831	447,425	(171,103)
Leasehold improvements	7 years	2,314,498	1,065,791	1,248,707	(279,035)
Software	3 years	1,099,227	872,858	226,369	(68,098)
Furniture and fixtures	5-10 years	898,590	408,187	490,403	(124,952)
		<u>\$ 9,008,754</u>	<u>\$ 5,434,417</u>	<u>\$ 3,574,337</u>	<u>\$ (899,878)</u>

International Justice Mission and Affiliate

Notes to Consolidated Financial Statements

Note 5. Refundable Advances

Refundable advances consist primarily of advance payments on grants. The majority of this balance is made up of advance payments from two donors, which totaled \$1,738,821 at December 31, 2018.

Note 6. Net Assets With Donor Restrictions

Changes in net assets with donor restrictions by purpose for the year ended December 31, 2018, were as follows:

	December 31, 2017	Additions	Releases	December 31, 2018
Purpose restrictions:				
Justice System Transformation	\$ 9,630,557	\$ 15,546,738	\$ 17,892,636	\$ 7,284,659
ERP	-	1,500,000	1,500,000	-
Staff care	16,606	-	252,000	(235,394)
	<u>9,647,163</u>	<u>17,046,738</u>	<u>19,644,636</u>	<u>7,049,265</u>
Time restrictions	252,000	14,095	9,278	256,817
	<u>\$ 9,899,163</u>	<u>\$ 17,060,833</u>	<u>\$ 19,653,914</u>	<u>\$ 7,306,082</u>

Note 7. Commitments

Leases: IJM has a lease agreement for office space on several floors of its headquarters' office building which expires in March 2024. During the year ended 2015, IJM further amended its lease to include additional spaces in the same building. The lease terms for the additional space includes a provision for an optional landlord contribution toward specific improvements. The combined rent for the additional space is approximately \$70,000 per month, and rent concessions were also provided by the landlord. The existing lease arrangement includes rent concessions and a 3% annual increase, which is included in the basis for the calculation of the deferred rent amount. The benefit of these rent concessions is being amortized over the term of the lease. The lease also requires IJM to maintain a letter of credit in favor of the landlord, secured by certificates of deposit. At December 31, 2018, the combined required letter of credit was \$999,046.

IJM has also entered into other leases for office space in Europe, Bangladore, Uganda, Thailand, Kenya, Philippines, Guatemala, Bolivia and other locations in South America and South Asia. The lease terms expire at various times over the next two to five years. The leases require the tenant to make monthly rental payments ranging from approximately \$900 to \$9,500 for the term of the leases.

Future minimum rental payments applicable to operating leases at December 31, 2018, are as follows:

2019	\$ 4,489,974
2020	4,290,978
2021	4,217,144
2022	4,300,234
2023	4,432,494
Thereafter	1,256,586
Total	<u>\$ 22,987,410</u>

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Notes to Consolidated Financial Statements

Note 7. Commitments (Continued)

Rent expense applicable to operating leases for the year ended December 31, 2018, was \$4,142,459 and is included in the facilities costs on the consolidated statement of functional expenses.

Enterprise resource planning software: In 2016, IJM entered into several multi-year non-cancellable agreements for enterprise software subscriptions, licenses and support with future payment requirements as follows:

	Workday	Salesforce	Classy	Boomi, Inc.	Total
Years ending December 31:					
2019	\$ 561,430	\$ 507,056	\$ 56,100	\$ 51,975	\$ 1,176,561
2020	556,597	441,318	-	51,975	1,049,890
2021	91,100	26,746	-	43,313	161,159
Total	<u>\$ 1,209,127</u>	<u>\$ 975,120</u>	<u>\$ 56,100</u>	<u>\$ 147,263</u>	<u>\$ 2,387,610</u>

Note 8. Retirement Plan

IJM maintains a defined contribution pension plan (the Plan) under Section 403(b)(7) of the Code. IJM made discretionary contributions to the Plan for the benefit of eligible employees in amounts equal to 6% of qualifying compensation during the year ended December 31, 2018. Contributions for not yet vested employees are held by the Plan custodian until they meet the one-year service requirement. IJM contributed \$1,381,691 to the Plan during the year ended December 31, 2018.

Note 9. Related Parties

IJM has four partner offices: IJM Canada, IJM Germany, IJM Netherlands, and IJM Australia (collectively referred to as International Advancement Offices (IAOs)). The IAOs are independent organizations, governed by independent boards and staffed by national leadership. IJM is currently in the process of changing the governance structure for these offices, but presently they are tied to IJM through trademark and ministry agreements. The IAOs grow the justice movement in their own country and provide resources – including funding, personnel, political influence, media attention and overall mission strategy – to accomplish the shared mission around the world.

IJM receives support for operations from the IAOs and is also reimbursed for certain expenses by the IAOs. IJM also provides support to the IAOs as support for operations, when necessary. For the year ended December 31, 2018, the net support received from the IAOs is as follows:

	IJM Canada	IJM Germany	IJM Netherlands	IJM Australia	Total
Net support received from International Advancement Offices	<u>\$ 2,444,446</u>	<u>\$ 577,178</u>	<u>\$ 993,744</u>	<u>\$ 405,013</u>	<u>\$ 4,420,381</u>

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Note 10. Contingencies

Federal awards: IJM participates in a number of federally-assisted grant programs which are subject to financial and compliance audits by the federal government or its representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

International operations: IJM has operations in many countries throughout the world, many of which have politically and economically volatile environments and whose governments are still in development stages. As a result, IJM may have financial risks associated with these operations, including such matters as the assessment of local taxes. No assessments of any such amounts have been received and, accordingly, no provisions for such liabilities, if any, that might result from these operations have been made in the accompanying consolidated financial statements.

Legal matters: From time to time, IJM may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of management, there are no material legal proceedings to which IJM is a party.

Line of credit: At year-end, IJM had a \$6,000,000 committed line of credit. This line of credit expires May 31, 2019 and accrues interest at one-month LIBOR plus 1.65%. The line is collateralized by unsecured/negative pledges. The line of credit contains certain administrative covenants that the Organization maintains. The organization has no outstanding borrowings under the line of credit at December 31, 2018.