



Certified Public Accountants, LLP

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

FINANCIAL STATEMENTS

MARCH 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors
American Civil Liberties Union Foundation
of Northern California, Inc.

We have audited the accompanying financial statements of American Civil Liberties Union Foundation of Northern California, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of March 31, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of American Civil Liberties Union Foundation of Northern California, Inc. as of March 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited American Civil Liberties Union Foundation of Northern California, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
September 8, 2016

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

STATEMENT OF FINANCIAL POSITION

March 31, 2016

With comparative totals at March 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
ASSETS					
Cash and cash equivalents (Note 2)	\$ 2,812,537	\$ -	\$ -	\$ 2,812,537	\$ 2,611,646
Pledges receivable (Note 3)		3,632,928		3,632,928	108,775
Other accounts receivable	239,792			239,792	21,316
Due from National (Note 11)	837,466			837,466	2,138,864
Due from ACLU-NC (Note 11)	396,582			396,582	204,859
Other assets	62,953			62,953	76,061
Deposits	8,937			8,937	8,937
Investments (Note 4)	4,148,871	5,348,699	2,730,304	12,227,874	12,172,332
Property and equipment (Note 6)	8,795,665			8,795,665	9,042,184
	\$ 17,302,803	\$ 8,981,627	\$ 2,730,304	\$ 29,014,734	\$ 26,384,974
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 54,254	\$ -	\$ -	\$ 54,254	\$ 241,586
Accrued liabilities (Note 7)	477,265			477,265	413,276
Note payable	-			-	1,481,013
	531,519	-	-	531,519	2,135,875
NET ASSETS					
Unrestricted	3,508,886			3,508,886	3,109,947
Unrestricted - board designated funds (Note 8)	4,466,733			4,466,733	4,060,812
Unrestricted - property and equipment	8,795,665			8,795,665	7,561,171
Temporarily restricted (Note 9)		8,981,627		8,981,627	6,786,865
Permanently restricted (Note 10)			2,730,304	2,730,304	2,730,304
	16,771,284	8,981,627	2,730,304	28,483,215	24,249,099
	\$ 17,302,803	\$ 8,981,627	\$ 2,730,304	\$ 29,014,734	\$ 26,384,974

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

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

STATEMENT OF ACTIVITIES

For the year ended March 31, 2016

With comparative totals for the year ended March 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
REVENUE AND SUPPORT					
Contributions	\$ 7,811,298	\$ 5,885,652	\$ -	\$ 13,696,950	\$ 9,323,031
In-kind contributions (Note 13)	7,646,372			7,646,372	4,642,337
Grants	255,250	1,113,917		1,369,167	1,375,496
Bequests	985,579	9,760		995,339	1,701,260
Attorney fee awards (Note 2)	873,630			873,630	518,338
Interest and dividends income	129,386	107,085		236,471	227,359
Other revenue	212,460			212,460	225,236
Gain on investments	(14,187)	60,431		46,244	673,695
Net assets released from capital restrictions	1,636,476	(1,636,476)		-	-
Net assets released from purpose restrictions	3,101,743	(3,101,743)		-	-
Discount on pledges		(243,864)		(243,864)	-
National share (Note 11)	(4,589,973)			(4,589,973)	(3,714,333)
TOTAL REVENUE AND SUPPORT	18,048,034	2,194,762	-	20,242,796	14,972,419
EXPENSES					
Program services	13,015,282			13,015,282	9,289,443
Management and general	1,225,796			1,225,796	967,510
Fundraising	1,767,602			1,767,602	1,571,290
TOTAL EXPENSES	16,008,680	-	-	16,008,680	11,828,243
CHANGE IN NET ASSETS	2,039,354	2,194,762	-	4,234,116	3,144,176
NET ASSETS, BEGINNING OF YEAR	14,731,930	6,786,865	2,730,304	24,249,099	21,104,923
NET ASSETS, END OF YEAR	\$ 16,771,284	\$ 8,981,627	\$ 2,730,304	\$ 28,483,215	\$ 24,249,099

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

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2016

With comparative totals for the year ended March 31, 2015

	Program Services	Management and General	Fundraising	Total Expenses	
				2016	2015
In-kind legal expenses (Note 13)	\$ 7,646,372	\$ -	\$ -	\$ 7,646,372	\$ 4,642,337
Personnel costs	3,368,301	807,323	1,170,886	5,346,510	4,366,186
Meetings and travel	377,126	90,174	130,782	598,082	456,114
Legislative	393,050			393,050	370,698
Professional and consulting fees	271,938	65,179	94,531	431,648	358,247
Depreciation	206,850	49,578	71,905	328,333	325,680
Occupancy costs	241,966	57,995	84,112	384,073	297,440
Law intern	126,869			126,869	199,129
Printing, publications, and public education	97,448	23,357	33,875	154,680	190,554
Fundraising			103,983	103,983	129,222
Bank charges		97,605	27,369	124,974	93,514
Equipment and maintenance	52,388	12,556	18,211	83,155	79,680
Insurance	24,221	5,805	8,420	38,446	66,826
Other	51,469			51,469	65,258
Library materials	50,379			50,379	48,556
Telephone	22,989	5,510	7,992	36,491	36,938
Office supplies	17,707	4,244	6,154	28,105	35,038
Litigation costs	39,216			39,216	19,899
Cost of recruitment	10,972	2,630	3,814	17,416	19,849
Contribution and partner grants	9,859	2,363	3,427	15,649	17,960
Postage	6,162	1,477	2,141	9,780	9,118
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 13,015,282	\$ 1,225,796	\$ 1,767,602	\$ 16,008,680	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 9,289,443	\$ 967,510	\$ 1,571,290		\$ 11,828,243

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

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

STATEMENT OF CASH FLOWS

For the year ended March 31, 2016

With comparative totals for the year ended March 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,234,116	\$ 3,144,176
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	328,333	325,680
(Gain) on investments	(46,244)	(673,695)
Reinvested interest and dividends	(236,471)	(225,127)
Change in discount on pledges receivable	243,864	-
(Increase) decrease in operating assets:		
Pledges receivable	(3,768,017)	(975)
Other accounts receivable	(218,476)	190,777
Due from National	1,301,398	(2,138,864)
Due from ACLU-NC	(191,723)	52,344
Other assets	13,108	93,523
Increase (decrease) in operating liabilities:		
Accounts payable	(187,332)	77,581
Accrued liabilities	63,989	(226,241)
Payable to National	-	(957,796)
	1,536,545	(338,617)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(81,814)	(44,866)
Proceeds from sale of investments	1,573,402	887,757
Purchase of investments	(1,346,229)	(853,033)
	145,359	(10,142)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(1,481,013)	(119,149)
	(1,481,013)	(119,149)
NET CASH (USED) BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	200,891	(467,908)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,611,646	3,079,554
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,812,537	\$ 2,611,646
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	\$ 232,240	\$ 94,847

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

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

American Civil Liberties Union Foundation of Northern California, Inc. (“the Foundation”) is a tax-exempt corporation founded in 1934. The Foundation conducts litigation, policy research and advocacy, public education, and community organizing in order to protect and defend civil liberties and civil rights. Acting on the firm belief that liberty must be protected for everyone if it is to be enjoyed by anyone; the Foundation works to defend the rights of all. The Foundation is particularly concerned about freedom of expression, the right to privacy, and the right to be free from discrimination.

Known for its legal activities and litigation to preserve constitutional rights, the Foundation also engages in policy work to address governmental over-reaching and effect legislation to improve justice and fairness. The Foundation participates in public forums and debates, interacts with the media, and engages in education and action through 60 staff and partnerships with clients, community leaders and community based organizations. The ambitious legal docket includes more than 50 cases addressing a wide range of constitutional issues: free speech; discrimination (racial, religious, language, and immigrant minorities - including Muslims and Southeast Asians; lesbians/gay men, youth and students, and people with AIDS); due process (search and seizure, police abuse, prisoner’s rights); criminal justice; privacy (internet, drug and HIV testing, domestic spying and surveillance, reproductive rights); and government intrusion resulting from the war on terrorism.

The Foundation is headquartered in San Francisco and conducts advocacy in the Northern and Central California regions stretching from Fresno up to the Oregon border. The Foundation is affiliated with the American Civil Liberties Union of Northern California, Inc. (“ACLU-NC”) and the National organization, American Civil Liberties Union, Inc. (“National”).

In order to stabilize occupancy costs and thereby provide a more predictable stream of funding for program activities, the Foundation conducted a fundraising campaign from 2005 – 2010, and purchased an office condominium. The mortgage was completely paid off in 2015 from final pledge payments from the campaign. The facility provides sufficient space for current staff and allows for future staff growth, as well as a national ACLU project working immigration issues. It also provides some rental income. It is accessible by public transportation while being near the legal community in downtown San Francisco.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Unrestricted Board-Designated. These are comprised of resources that the Board of Directors has established as being designated for the future program and capital expansion, and cash flow resources. For purposes of complying with net assets accounting, this fund is included in unrestricted net assets at March 31, 2016 (see Note 9).

Temporarily Restricted. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions (see Note 10).

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets (see Note 11).

Cash and Cash Equivalents

The Foundation has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Investments

The Foundation values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Foundation is required to measure certain types of assets, pledged contributions, non-cash contributions, and certain investments at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

The Foundation places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Foundation has not incurred losses related to these investments or cash equivalents and transfers funds to other institutions on a regular basis to manage this risk.

The Foundation holds investments in the form of short-term money market investments, U.S. treasury notes, fixed income, and common stocks of publicly held companies, as well as mutual funds. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Attorney Fees Awarded

The Foundation may receive attorney fees awarded by the court as a result of the settlement of certain types of litigation. Because awards are not determinable until resolution of the litigation, such amounts are not recorded until received. This may be several years after litigation began. Moreover, attorney's fees received in any given year may reflect awards arising from several cases over a period of many years.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to the Foundation. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

Income Taxes

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing the Foundation's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Foundation uses full-time employee equivalents to allocate indirect costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. 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 the Foundation's financial statements for the year ended March 31, 2015, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 8, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. Management deemed pledges collectible; accordingly no allowance for doubtful accounts has been established for uncollectible pledges. Additionally, all pledges are valued at their estimated fair value at March 31, 2016 and a discount rate of 3.0% has been used to calculate the present value of pledges receivables. Total amount of pledges receivable at March 31, 2016, of \$3,632,928 is expected to be collected as follows:

<u>Year ended March 31,</u>	
2017	\$1,163,803
2018	1,151,903
2019	1,134,418
2020	<u>426,668</u>
	3,876,792
Less: Unamortized discount on pledges receivable	<u>(243,864)</u>
	<u>\$3,632,928</u>

4. Investments

Investments at March 31, 2016 consist of the following:

Equities/common stock	\$ 6,809,280
Fixed income	2,291,249
Money market	1,551,479
U.S. treasury notes, agency and related	1,197,700
Mutual funds	<u>378,166</u>
	<u>\$12,227,874</u>

continued

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at March 31, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities/common stock				
Information technology	\$ 801,679	\$ -	\$ -	\$ 801,679
Healthcare	601,015			601,015
Financials	569,357			569,357
Industrials	464,071			464,071
Consumer staples	415,735			415,735
Consumer discretionary	389,445			389,445
Energy transformation	280,033			280,033
Materials	127,090			127,090
Telecommunications services	95,743			95,743
Utilities	76,620			76,620
Other	<u>2,988,492</u>			<u>2,988,492</u>
	<u>6,809,280</u>	-	-	<u>6,809,280</u>
Fixed income				
Corporate bonds		1,634,632		1,634,632
Government bonds		656,617		656,617
Intermediate government	279,600			279,600
World stock	<u>98,566</u>			<u>98,566</u>
	<u>378,166</u>	<u>2,291,249</u>	-	<u>2,669,415</u>
Money market funds	<u>1,551,479</u>			<u>1,551,479</u>
U.S. treasury notes, agency and related	<u>1,197,700</u>			<u>1,197,700</u>
	<u>\$9,936,625</u>	<u>\$2,291,249</u>	<u>\$ -</u>	<u>\$12,227,874</u>

The fair values of equities, fixed income, money market, U.S. treasury notes, and mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of fixed income has been measured on a recurring basis using quoted prices in active markets for the same or similar assets (Level 2 inputs).

continued

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

The table below present transaction measured at fair value on a non-recurring basis during the year ended March 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$5,791,314	\$ -	\$ 5,791,314
Pledged contributions – current year	<u> </u>	<u> </u>	5,302,980	<u>5,302,980</u>
	<u>\$ -</u>	<u>\$5,791,314</u>	<u>\$5,302,980</u>	<u>\$11,094,294</u>

The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions – current year has been measured on a non-recurring basis using the value provided by the donor at the date of pledge and based on evaluating the credit worthiness of the donor (Level 3 inputs).

6. Property and Equipment

Property and equipment at March 31, 2016 consist of the following:

Building	\$ 9,649,913
Leasehold improvements	1,384,021
Equipment	<u>901,649</u>
	11,935,583
Less: accumulated depreciation	<u>(3,139,918)</u>
	<u>\$ 8,795,665</u>

7. Accrued Liabilities

Accrued liabilities at March 31, 2016 consist of the following:

Accrued vacation	\$359,322
Accrued pension liability (Note 12)	74,423
Other liabilities	<u>43,520</u>
	<u>\$477,265</u>

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

8. Board Designated Funds

Under a policy established by the Board of Directors, the Foundation has set aside certain funds for specific projects and expenditures. Presented below is a summary of all activity in the Board of Directors designated funds.

	Major Attorney Fees	Board Designated Building Fund	Planned Giving Bequest Fund	Interest	Total
Opening balances,					
April 1, 2015	\$1,672,597	\$ 529,881	\$1,858,334	\$ -	\$4,060,812
Transfers in	873,630		389,976	3,092	1,266,698
Transfers out	<u>(340,000)</u>	<u>(199,685)</u>	<u>(318,000)</u>	<u>(3,092)</u>	<u>(860,777)</u>
Ending balances,					
March 31, 2016	<u>\$2,206,227</u>	<u>\$ 330,196</u>	<u>\$1,930,310</u>	<u>\$ -</u>	<u>\$4,466,733</u>

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2016 consist of the following:

Criminal justice	\$ 452,634
First amendment rights	271,493
AIDS related and gay/lesbian rights	159,207
Legal intern	18,352
Executive director	10,077
Separation of church and state	<u>10,000</u>
Total bequests	<u>921,763</u>
Centennial campaign	3,430,141
Annual campaign	2,387,149
Donor – restricted endowment funds (Note 10)	1,835,386
Reproductive rights	191,771
Communications capacity building	87,500
Criminal justice	93,750
Immigrants rights	29,167
General support – time restriction	<u>5,000</u>
Total grants	<u>8,059,864</u>
	<u>\$8,981,627</u>

continued

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

10. Permanently Restricted Net Assets

Generally accepted accounting principles (“GAAP”) provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). GAAP also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and Board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Board of Directors has determined that the majority of the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The Foundation's Endowment Fund is held and managed by National and consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors for the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make a reasonable annual distribution, while growing the funds if possible. Therefore, the Foundation targets its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

continued

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

10. Permanently Restricted Net Assets, continued

Spending Policy

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average of the fair market value of each unit share of the fund as of December 31 of the three immediately preceding calendar years proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation target is to allow its endowment funds to grow at a nominal average rate of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net assets composition by type of fund as of March 31, 2016 is as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Endowment <u>Assets</u>
Donor-restricted endowment funds	<u>\$1,835,386</u>	<u>\$2,730,304</u>	<u>\$4,565,690</u>

Changes in endowment net assets for the year ended March 31, 2016 are as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Endowment <u>Assets</u>
Endowment net assets, beginning of year	\$1,794,835	\$2,730,304	\$4,525,139
Interest income	107,085		107,085
Contribution	110,408		110,408
Custodian and administrative fees	(61,384)		(61,384)
Distributions	(175,989)		(175,989)
Investment return: net appreciation (realized and unrealized)	<u>60,431</u>		<u>60,431</u>
Endowment net assets, end of year	<u>\$1,835,386</u>	<u>\$2,730,304</u>	<u>\$4,565,690</u>

Permanently restricted net assets at March 31, 2016 consist of the following:

Trust for the Bill of Rights	\$1,714,044
Howard A. Friedman Endowment	950,654
Henry Sinton Fund Freedom of Expression	20,992
Ehrlich Emerging Issues Fund	22,307
Cheri Bryant Building Sustainability Endowment	<u>22,307</u>
	<u>\$2,730,304</u>

continued

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF NORTHERN CALIFORNIA, INC.**

NOTES TO FINANCIAL STATEMENTS

11. Related Party Transactions

The Foundation and ACLU-NC share payroll and overhead expenses. The basis for allocation of these indirect expenses is the salary of employees, which relates to the time spent on programs of the respective organizations. At March 31, 2016, the amount due from ACLU-NC for such expenses was \$396,582.

Contributions received by the Foundation are subject to a Revenue Sharing agreement (“the Agreement”) between the Foundation and National to ensure that the parties to the Agreement receive the same level of income as was received in an average base year, as defined, and any subsequent growth or decline is shared equally. Income from bequests is shared as follows: National (40%), the Foundation (40%), and the Affiliate Development Fund (20%). For the year ended March 31, 2016, National’s portion of contributions received amounted to \$4,589,973, which is reflected as an offset of revenue and support. At March 31, 2016, the Foundation has a receivable from National in the amount of \$837,466.

12. Pension Plan

The Foundation is part of National’s multi-employer defined benefit pension plan which was frozen effective April 1, 2009. Accordingly, no new participants have been added to the defined benefit plan census. Pension expense for the year ended March 31, 2016 was \$296,068

The Foundation is also part of National’s multi-employer defined contribution plan and the employees of the Foundation who meet the eligibility criteria may participate in the new plan. Pension expense for the year ended March 31, 2016 was \$63,503.

As a result of the Recession of 2008-2009 and continuing low interest rates in recent years, the nationwide ACLU-NC’s defined benefit pension plan, like many defined benefit pension plans of public and private organizations, is currently underfunded according to actuarial projections. A portion of the unfunded liability of the nationwide plan is for employees of the ACLU-NC and the Foundation. This unfunded liability is not reflected in these financial statements for two reasons: 1) the national ACLU-NC carries the liability on its financial statements and has yet to indicate that its affiliates should do so, and 2) the national ACLU-NC board has recently changed its investment manager and investment strategy and these changes have yet to make an impact on the projections.

13. In-Kind Contributions and Expense

The Foundation received pro-bono legal services from certain attorneys who support the Foundation. Such services were provided in support of the Foundation’s basic charter for protection of individual rights. The established fair value of legal services received for the year ended March 31, 2016 amounted to \$7,646,372, and was based upon the number of hours contributed at appropriate billing rates and has been recorded as an in-kind contribution and expense (see Note 5).