

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA**

Financial Statements

Year Ended March 31, 2019



KALLMAN+THOMPSON+LOGAN, LLP

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA**

MARCH 31, 2019

CONTENTS

| | Page |
|----------------------------------|------|
| Independent auditor's report | 1-2 |
| Financial statements: | |
| Statement of financial position | 3 |
| Statement of activities | 4 |
| Statement of functional expenses | 5 |
| Statement of cash flows | 6 |
| Notes to financial statements | 7-19 |



KALLMAN+THOMPSON+LOGAN, LLP

INDEPENDENT AUDITOR'S REPORT

MICHAEL CARTER
ANDREW KALLMAN
FRANCES KALLMAN
MICHAEL R. KALVIN
STEPHEN LOGAN
THOMAS P. MCMILLAN
ABRAHAM MIZRAHI
STANLEY F. SHIMOHARA
MICHAEL G. THOMPSON
GREGG R. WIND
ADA M. WONG

Board of Directors
American Civil Liberties Union
of Southern California
Los Angeles, California

We have audited the accompanying financial statements of the American Civil Liberties Union of Southern California (the "Union") which comprise the statement of financial position as of March 31, 2019, 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.

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. 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 Union'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 Union'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.

(Continued)

125 SOUTH
BARRINGTON PLACE
LOS ANGELES,
CALIFORNIA
90049
310.909.1900
FAX 310.909.1909
WWW.KTLCPAS.COM

MEMBER AMERICAN
INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
AND CALIFORNIA
SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 American Civil Liberties Union of Southern California as of March 31, 2019, 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.

A handwritten signature in black ink that reads "Kallman, Thompson, Logan, LLP". The signature is written in a cursive, flowing style.

KALLMAN+THOMPSON+LOGAN, LLP

November 26, 2019

**AMERICAN CIVIL LIBERTIES
UNION OF SOUTHERN CALIFORNIA
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2019**

ASSETS

| | |
|----------------------------|---------------------|
| Cash and equivalents | \$ 2,393,342 |
| Receivables | 19,063 |
| Investments, at fair value | 1,750,707 |
| Due from National Office | 341,205 |
| Other assets | <u>50,976</u> |
| Total assets | <u>\$ 4,555,293</u> |

LIABILITIES AND NET ASSETS

| | |
|--|---------------------|
| Accounts payable and accrued liabilities | <u>\$ 817,337</u> |
| Total liabilities | <u>817,337</u> |
| Net assets: | |
| Without donor restrictions | 3,617,560 |
| With donor restrictions | <u>120,396</u> |
| Total net assets | <u>3,737,956</u> |
| Total liabilities and net assets | <u>\$ 4,555,293</u> |

**AMERICAN CIVIL LIBERTIES
UNION OF SOUTHERN CALIFORNIA
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2019**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---|--|---------------------|
| Revenue and support: | | | |
| Support: | | | |
| Contributions | \$ 176,727 | \$ 634 | \$ 177,361 |
| Membership contributions | 3,925,449 | - | 3,925,449 |
| Contributed legal services | 22,309 | - | 22,309 |
| Special events, net of expenses of \$159,685 | 84,620 | - | 84,620 |
| Bequests | <u>107,524</u> | <u>61,975</u> | <u>169,499</u> |
| Total support | <u>4,316,629</u> | <u>62,609</u> | <u>4,379,238</u> |
| Revenue: | | | |
| Investment income, net | 21,806 | 2,373 | 24,179 |
| Other income | <u>3,220</u> | <u>-</u> | <u>3,220</u> |
| Total revenue | <u>25,026</u> | <u>2,373</u> | <u>27,399</u> |
| Net assets released from restrictions | <u>33,527</u> | <u>(33,527)</u> | <u>-</u> |
| Total revenue and support | <u>4,375,182</u> | <u>31,455</u> | <u>4,406,637</u> |
| Expenses: | | | |
| Program services | <u>2,106,567</u> | <u>-</u> | <u>2,106,567</u> |
| Supporting services: | | | |
| Development | 236,719 | - | 236,719 |
| Administrative | <u>642,954</u> | <u>-</u> | <u>642,954</u> |
| Total supporting services | <u>879,673</u> | <u>-</u> | <u>879,673</u> |
| Total expenses | <u>2,986,240</u> | <u>-</u> | <u>2,986,240</u> |
| Change in net assets | 1,388,942 | 31,455 | 1,420,397 |
| Net assets, beginning of year | <u>2,228,618</u> | <u>88,941</u> | <u>2,317,559</u> |
| Net assets, end of year | <u>\$ 3,617,560</u> | <u>\$ 120,396</u> | <u>\$ 3,737,956</u> |

See accompanying notes to financial statements

**AMERICAN CIVIL LIBERTIES
UNION OF SOUTHERN CALIFORNIA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2019**

| | Program Services | | | | | | | | | Supporting Services | | | Total | |
|---------------------------------|------------------|-------------------|-------------------|-------------------|--------------------|------------------|------------------------------------|------------------|---------------------------------------|------------------------|-------------------|-------------------|-------------------|---------------------------|
| | First Amend-ment | Criminal Justice | Police Practices | Economic Justice | Educational Equity | Jails | LGBT / Gender Repro-ductive Rights | Immigrant Rights | Activist Engage-ment and Develop-ment | Total Program Services | Develop-ment | Admini-strative | | Total Supporting Services |
| Salaries | \$ 2,204 | \$ 95,261 | \$ 28,747 | \$ 209,179 | \$ 144,461 | \$ 1,102 | \$ 3,306 | \$ 28,491 | \$ 354,626 | \$ 867,377 | \$ 125,802 | \$ 263,282 | \$ 389,084 | \$ 1,256,461 |
| Employee Benefits | 684 | 27,005 | 6,329 | 59,927 | 30,026 | 585 | 991 | 6,210 | 95,072 | 226,829 | 28,740 | 72,040 | 100,780 | 327,609 |
| Chapter Development | - | - | - | - | - | - | - | - | 5,548 | 5,548 | - | - | - | 5,548 |
| Contracted Services | 17 | 3,208 | 91,696 | 25,980 | 18,645 | 1,713 | 3,109 | 4,305 | 93,781 | 242,454 | 29,802 | 96,001 | 125,803 | 368,257 |
| Equipment & Software/IT | 1 | 59 | 39 | 202 | 147 | 1 | 2 | 25 | 3,625 | 4,101 | 174 | 4,808 | 4,982 | 9,083 |
| Facilities | 166 | 8,500 | 3,471 | 26,989 | 19,421 | 207 | 250 | 3,390 | 39,162 | 101,556 | 26,184 | 31,296 | 57,480 | 159,036 |
| Grants | 1,487 | 5,071 | 9,543 | 9,595 | 11,842 | 1,926 | 3,893 | 8,123 | 1,502 | 52,982 | 10,620 | 15,328 | 25,948 | 78,930 |
| Insurance | 1 | 70 | 42 | 292 | 218 | - | 1 | 42 | 361 | 1,027 | 291 | 8,238 | 8,529 | 9,556 |
| Lobbying | 1,770 | 74,669 | 35,187 | 143,140 | 108,927 | 50,885 | 3,866 | 11,296 | 3,001 | 432,741 | - | - | - | 432,741 |
| Meetings & Conferences | 6 | 422 | 200 | 2,481 | 1,283 | 676 | 2,057 | 455 | 11,706 | 19,286 | 390 | 4,264 | 4,654 | 23,940 |
| Other Expenses | 67 | 3,129 | 957 | 6,226 | 4,982 | 57 | 200 | 640 | 12,550 | 28,808 | 13,440 | 25,931 | 39,371 | 68,179 |
| Other Program Expenses | 48 | 7,284 | 3,945 | 18,786 | 4,619 | 1,024 | 15,332 | 1,037 | 40,070 | 92,145 | - | - | - | 92,145 |
| Professional Services | - | - | - | - | - | - | - | - | - | - | - | 92,940 | 92,940 | 92,940 |
| Professional Services - Donated | - | - | - | - | - | - | - | - | - | - | - | 22,309 | 22,309 | 22,309 |
| Travel | 77 | 939 | 1,099 | 5,839 | 5,268 | 320 | 1,373 | 1,346 | 15,452 | 31,713 | 1,276 | 6,517 | 7,793 | 39,506 |
| Total | \$ 6,528 | \$ 225,617 | \$ 181,255 | \$ 508,636 | \$ 349,839 | \$ 58,496 | \$ 34,380 | \$ 65,360 | \$ 676,456 | \$ 2,106,567 | \$ 236,719 | \$ 642,954 | \$ 879,673 | \$ 2,986,240 |

See accompanying notes to financial statements

**AMERICAN CIVIL LIBERTIES
UNION OF SOUTHERN CALIFORNIA
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2019**

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 1,420,397 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Reinvested interest and dividends | (24,866) |
| Net realized and unrealized loss on investments | 687 |
| Changes in operating assets and liabilities: | |
| Receivables | 11,937 |
| Other assets | (45,125) |
| Accounts payable and accrued liabilities | 668,058 |
| Due from National Office | (23,246) |
| Net cash provided by operating activities | <u>2,007,842</u> |
| Cash flows from investing activities: | |
| Purchases of investments | (3,152,859) |
| Proceeds from redemption of investments | 3,148,400 |
| Withdrawal from investments | <u>52,893</u> |
| Net cash provided by investing activities | <u>48,434</u> |
| Net increase in cash and equivalents | 2,056,276 |
| Cash and equivalents, beginning of the year | <u>337,066</u> |
| Cash and equivalents, end of the year | <u>\$ 2,393,342</u> |

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The American Civil Liberties Union of Southern California (the "Union") is a nonprofit organization located in Los Angeles, California. The Union is affiliated with the American Civil Liberties Union Inc. (the "National Office") and the ACLU Foundation of Southern California (the "Foundation"). The Union shares the same general mission and purpose as the National Office, which is to defend and preserve the individual rights and liberties guaranteed by the Constitution and laws of the United States. As regional affiliates, the Union and the Foundation focus on civil liberties issues and initiatives in Southern California, through the Union's legislative lobbying, community education and engagement and media advocacy, and the Foundation's community education and engagement, media advocacy, policy research and advocacy and litigation efforts.

The Union is a tax-exempt organization for both federal and state purposes.

Financial Statement Presentation

The financial statements of the Union have been prepared on the accrual basis of accounting to conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to non-profit organizations. Net assets, support, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities"* ("ASU 2016-14"). The Union has adopted ASU 2016-14 effective April 1, 2018. Accordingly, net assets and the changes therein have been classified and reported as follows:

- Without donor restrictions – These consist of amounts that have no donor-imposed stipulations and can be spent or utilized at the discretion of the Union.
- With donor restrictions – These include contributions that are restricted by the donor for a specific purpose or time period. These restrictions may expire with time or may be satisfied and removed by actions of the Union's Board of Directors according to the intentions of the donor. The Union's net assets with donor restrictions include contributed assets, which require, by donor restriction, that the principal be invested in perpetuity, that 90% of the earnings, including interest, dividends and realized gains be available to the Union, and that 10% to be added to the principal.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

For purposes of the statement of cash flows, the Union considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and equivalents held temporarily in the investment portfolio are included in investments.

Receivables

Unconditional promises to give are recorded at their net realizable value in the year made by the donor. Unconditional promises to give that are expected to be collected in future years are discounted to their estimated present values using a risk-free interest rate. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promises are recognized when the conditions on which they depend are substantially met.

Receivables are written off when they are determined to be uncollectable. Management believes that all receivables are fully collectable. Accordingly, there is no allowance for doubtful accounts.

Investments

Investments are carried at fair value as determined by quoted market prices, or based on quotations of similar securities, or other estimates where market quotes are not available. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Gains and losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur. Realized gains or losses on sales of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value of Financial Instruments

The Union's financial instruments include cash and equivalents, receivables, other assets, accounts payable, accrued expenses, and due from/to affiliates. The carrying values of these instruments approximate their fair values due to the short-term nature of the instruments. The fair value of investments is determined as described in Note 2.

Revenue recognition

Contributions are recognized as revenues when they are received or unconditionally pledged. The Union reports gifts of cash and other assets as contributions with donor restrictions 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 purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restriction.

Revenue sharing

Certain revenues are subject to a revenue sharing agreement with the National Office. Revenues subject to this agreement include certain membership renewals, special appeals, and bequests. The National Office's sharing rules specify the circumstances under which revenue shall be shared and the methodology for determining the specific portion of various categories of revenue that will be shared with the Union. Shared revenues are reported net of the National Office's share in the Statement of Activities.

Bequests

The Union is a beneficiary under various wills and trust agreements, the total realizable amounts of which are not determinable at present. The Union's share of such bequests is recorded when probate courts declare the testamentary instrument valid and the proceeds are measurable.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Contributed services

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

The Union received contributions of legal services with a fair value of \$22,309, which are reflected in contribution revenue and program and supporting services expenses.

A number of individuals have made a contribution of their time to serve on the Union's board. The value of their contributed time is not reflected in these financial statements as those services would not typically be purchased had they not been provided by donation.

Income Taxes

The Union is exempt from income taxes under Section 501(c)(4) of the U.S. Internal Revenue Code and is subject to taxes on unrelated business income. The Union recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Union believes that it has appropriate support for the tax positions taken and, as such does not have any uncertain tax positions that result in a material impact on the Union's financial position or statement of activities.

Concentration of Credit Risk

The Union maintains cash in bank and brokerage accounts located in Los Angeles.

The Federal Deposit Insurance Corporation insures cash in checking, money market and saving accounts up to \$250,000. The Union has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk for cash and cash equivalents. Cash balances in excess of insured limits amounted to \$2,204,435 as of March 31, 2019.

Investments are exposed to various risks, such as interest rate, credit and overall market volatility. To address these risks, the Union maintains an investment policy that sets out performance criteria, as well as investment and asset allocation guidelines. The Union monitors its investments and has not experienced any credit losses.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Functional Expenses

The cost of providing the various program and supporting services of the Union have been summarized on a functional basis in the accompanying financial statements. Expenses have been charged directly to program and supporting services based on direct expenses incurred. Any expenses not directly chargeable are allocated to program and supporting services based on management's analysis of which program or supporting service was benefited by the expense. Management's analysis primarily includes estimates of employee time incurred.

In addition, certain expenses, predominantly salaries and employee benefits, are shared between the Union and the Foundation.

Adoption of new accounting standard

As discussed in the Financial Statement Presentation section above, the Union adopted ASU 2016-14 effective April 1, 2018. ASU 2016-14 improves reporting requirements including:

- Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions);
- Reporting investment return at net of investment expenses;
- Enhancing disclosures about:
 - Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
 - Qualitative and quantitative information about how the Union manages its liquid resources to meet cash needs for general expenditures within one year from the date of the statement of financial position;
 - Amounts of expenses by functional and natural classifications;
 - Methods used to allocate costs among functions.

As a result of the adoption of ASU 2016-14, unrestricted net assets amounting to \$2,228,618 as of March 31, 2018 was reclassified as net assets without donor restrictions on April 1, 2018. In addition, temporarily restricted net assets of \$30,140 and permanently restricted net assets of \$58,801 as of March 31, 2018 were reclassified as net assets with donor restrictions as of April 1, 2018.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

2. INVESTMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
- Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Union assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. There were no transfers among Levels 1, 2 and 3 during the year.

Mutual funds listed on a national securities exchange are stated at fair value based on the last quoted price at the date of valuation and are classified as Level 1 in the fair value hierarchy.

The following table summarizes the levels in the fair value hierarchy of the Union's investments at March 31, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|----------------|----------------|---------------------|
| Money funds | \$ 1,692,648 | \$ - | \$ - | \$ 1,692,648 |
| Mutual funds: | | | | |
| U.S. equity funds | 19,932 | - | - | 19,932 |
| International equity funds | 12,805 | - | - | 12,805 |
| U.S. bond funds | 13,676 | - | - | 13,676 |
| International bond funds | 2,833 | - | - | 2,833 |
| REIT | <u>8,813</u> | <u>-</u> | <u>-</u> | <u>8,813</u> |
| Total | <u>\$ 1,750,707</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,750,707</u> |

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

2. INVESTMENTS (CONTINUED)

Activities in the investment accounts, including endowment net assets, for the year ended March 31, 2019 are as follows:

| | |
|--|----------------------------|
| Balance, beginning of year | \$ 1,774,962 |
| Purchases of investments | 3,152,859 |
| Redemption of investments | (3,148,400) |
| Withdrawals from investments | (52,893) |
| | <u>1,726,528</u> |
| Interest and dividends, net of fees of \$733 | 24,866 |
| Net realized and unrealized loss | (687) |
| Investment income, net | <u>24,179</u> |
| Balance, end of year | <u><u>\$ 1,750,707</u></u> |

3. ENDOWMENT FUND

Endowment funds are established by donor-restricted gifts and bequests to provide a permanent endowment which provides a permanent source of income to the Union. Endowment pledges receivable are not considered part of the Union's endowment until collected.

The Union's endowment consists of a fund established by the donor for general support of the Union. As discussed in Note 1, the endowment fund provides for 90% of the earnings, including interest, dividends and realized gains (as defined) to be utilized by the Union and 10% to be added to the endowment.

The Union is subject to the California Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and therefore, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Union's Board appropriates amounts for expenditure and any purpose restrictions have been met. The Union has interpreted the 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 Union classifies as net assets with donor restrictions to be held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts, if any, 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.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

3. ENDOWMENT FUND (CONTINUED)

The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Union's Board of Directors in a manner consistent with donor instructions and the standard of prudence prescribed by UPMIFA.

The primary long-term financial objective for the Union's endowments is to preserve the real purchasing power of the endowment assets and income after accounting for endowment spending, inflation and costs for portfolio management. The endowments are managed to optimize the long run total rate of return on invested funds, assuming a prudent level of risk. The goal for this rate of return is one that funds the Union's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price Index).

The Union's Board of Directors has adopted the spending requirements of the donor as its spending policy with respect to the endowment fund. Such a policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy minimizes the probability of invading the principal over the long term.

However, at times, the fair value of assets associated with the endowment fund may fall below the level that the donor requires the Union to retain as funds of perpetual duration. A deficiency of this nature exists in the Union's endowment fund, which has a principal amount of \$59,140 (original gift plus additions to principal as required by the donor), a fair value of \$58,281, and a deficiency of \$859 at March 31, 2019. This deficiency resulted from unfavorable market fluctuations and continued appropriation in accordance with the donor's restrictions. As of October 31, 2019, the market value of the fund has increased and accordingly, the deficiency has been cured.

Activities in the endowment net assets for the year ended March 31, 2019 are as follows:

| | |
|---|------------------|
| Endowment net assets, beginning of year | <u>\$ 58,801</u> |
| Investment return: | |
| Interest and dividends | 3,385 |
| Net realized and unrealized loss | (687) |
| Fees | <u>(325)</u> |
| Investment return, net | 2,373 |
| Appropriation for expenditure | <u>(2,893)</u> |
| Endowment net assets, end of year | <u>\$ 58,281</u> |

At March 31, 2019, all of the above net assets were held with donor restrictions.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

4. RETIREMENT BENEFITS

The Union participates in the American Civil Liberties Union Retirement Plan (the "Pension Plan"), a retirement plan covering eligible employees of the National Office and its affiliates, including the Union and the Foundation. The Union records expense related to the Pension Plan when the contribution is due. The Pension Plan is a defined benefit plan covering employees who had at least one year of service, or at least 1,000 hours worked per year, and were at least 21 years of age. Benefits are based on service to date on an average of career earnings. The Union's policy is to fund pension costs by contribution of at least the minimum amount required by the Employee Retirement Income Security Act of 1974 ("ERISA"). For the year ended March 31, 2019, the cost incurred by the Union in connection with the Pension Plan amounted to \$44,409, of which \$9,712 is included as a reduction of event revenue.

The Pension Plan, as amended and restated on January 1, 2015, provides that in the event an employer ceases to be an employer or, with the consent of the National Office (the "Primary Employer"), freezes additional accruals with respect to its employees, an additional, "Withdrawal Contribution" will be due from such employer or former employer. The additional Withdrawal Contribution will be determined based upon the sum of the present value of the accrued benefits for each of the participants associated with the employer or former employer determined as of the last day of the plan year preceding the date on which the withdrawal is calculated. Disclosures regarding the funded status of the Pension Plan are included in the consolidated financial statements of the Primary Employer. As management of the Union has no intention of ceasing to be an employer or, with the consent of the National Office, freezing additional accruals with respect to its employees, no accrual for an additional Withdrawal Contribution has been calculated or provided for in the accompanying financial statements.

Effective March 31, 2009, a "soft freeze" was implemented. Employees hired on or after April 1, 2009 may participate in the ACLU Defined Contribution Plan (the "DC Plan"), which is a defined contribution 401(k) salary reduction plan covering substantially all employees of the Union, the Foundation and their affiliates. The DC Plan provides for an employer contribution of 2% and an employer match of 100% of the first 1% of the employee's contribution and 50% of the next 5% of an employee's contribution, for a total match of 3.5% and a total employer contribution of 5.5%. For the year ended March 31, 2019, total employer matching contributions amounted to \$38,560, of which \$934 is included as a reduction of event revenue.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

5. RELATED PARTY TRANSACTIONS

National Office

Amounts due from the National Office represent the Union's share of membership contributions, special appeals, and bequests that were collected by the National Office for the Union. In relation to the revenue sharing agreement, the Union has a net receivable from the National Office at March 31, 2019, which consists of:

| | |
|--|-------------------|
| Receivable from National Office for membership contributions | \$ 442,237 |
| Revenue sharing due to National Office | <u>(101,032)</u> |
| Due from National Office | <u>\$ 341,205</u> |

Accounts payable and accrued expenses include reimbursement to the National Office for contributions payable to the pension plan for the Union's employees, which amounted to \$13,256 as of March 31, 2019.

Foundation

The Union shares common workspace, personnel and other operating expenses with the Foundation. These expenses are apportioned between the Union and the Foundation based on management's estimates. Shared expenses which were apportioned to the Union totaled \$1,788,901 for the year ended March 31, 2019.

During the year, the Union awarded a grant of \$78,929 to the Foundation which was paid subsequent to year-end. In addition, the Union incurred rent expense of \$119,268 for space occupied by the Union at the Foundation's office for the year ended March 31, 2019. The office space is leased by the Union on a month-to-month basis. Monthly rent during the year ended March 31, 2019 was \$9,939.

During the year ended March 31, 2019, the Union purchased the rights and ownership of social media assets from the Foundation. The social media assets amounted to \$30,370 as of March 31, 2019, and are included in Other Assets.

As of March 31, 2019, accounts payable and accrued expenses include a payable of \$161,555 to the Foundation which consists of the following:

| | |
|---|-------------------|
| Due to Foundation | \$ 371,555 |
| Advance pursuant to Resource Sharing Agreement (Note 8) | <u>(210,000)</u> |
| Due to Foundation, net | <u>\$ 161,555</u> |

Subsequent to year-end, the amount owed to Foundation of \$161,555 was paid in full.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

5. RELATED PARTY TRANSACTIONS (CONTINUED)

ACLU-NC

The Union shares the expenses of the Sacramento legislative office with the ACLU of Northern California ("ACLU-NC") and ACLU of San Diego and Imperial Counties ("ACLU-SDIC"). Expenses of the Sacramento legislative office are paid by ACLU-NC and reimbursed by the Union on a monthly basis. Included on the accompanying Statement of Activities is \$432,741 of lobbying expenses which includes a grant of \$290,000, representing the Union's share of Sacramento legislative expenses for the year ended March 31, 2019.

As of March 31, 2019, accounts payable and accrued liabilities include a grant of \$290,000 payable to ACLU NC.

6. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions are available for the following purposes or periods:

| | |
|--|-------------------|
| Subject to expenditure for specified purposes: | |
| Protection of civil liberties and advocacy | \$ 62,115 |
| Endowment funds to be retained in perpetuity | <u>58,281</u> |
| Total | <u>\$ 120,396</u> |

As discussed in Note 3, the donor-restricted endowment is invested in perpetuity as required by the donor. Of the income earned from the resources invested, 10% must be added to the endowment and the remaining 90% is available for appropriation and expenditure for general purposes.

7. LIQUIDITY

The Union's financial assets available within one year of March 31, 2019 to meet general expenditures include:

| | |
|-----------------------------------|---------------------|
| Cash equivalents | \$ 2,393,342 |
| Receivables | 19,063 |
| Investments (excluding endowment) | 1,692,426 |
| Due from National Office | <u>341,205</u> |
| Total | <u>\$ 4,446,036</u> |

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

7. LIQUIDITY (CONTINUED)

The Union's cash flows have seasonal variations due to the timing of contributions, grants, membership contributions, and vendor payments. The Union has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Union's liquidity management, the Union retains cash in checking account and invests in liquid securities. Although the Union does not intend to use all of its cash and liquid securities in the short-term, they are available for use to meet cash needs for general expenditures.

8. SUBSEQUENT EVENTS

Management of the Union has performed an evaluation of subsequent events through November 26, 2019, which is the date the consolidated financial statements were available to be issued, and has concluded that there are no other recognized or non-recognized subsequent events relevant for financial statement adjustment or disclosure, except as described below.

As discussed in Note 5, the Union shares common workspace, personnel and other operating expenses with the Foundation. To address the financial and other issues arising from this arrangement, the Union entered into a Resource Sharing Agreement (the "Agreement") with the Foundation, effective April 1, 2019. The Agreement shall remain in force until terminated by mutual written consent of the Union and Foundation, by 90 days' written notice to the other party with or without cause, or in the event of a material and continuing breach of the Agreement. In addition, the Agreement provides, among other things, the following:

- The Foundation shall act as the common paymaster and payroll agent for the Union with respect to the Union's employees ("Exclusive Employees") and employees that are employed by both the Union and Foundation ("Dual Employees").
- The Union shall reimburse the Foundation for the salaries, wages, and benefits of Union's Exclusive Employees, as well as the Union's allocable share of the salaries, wages, and benefits of Dual Employees, as calculated based on defined methodologies.
- The Union shall reimburse the Foundation for office space and overhead costs paid by the Foundation that are attributable to Exclusive Employees of the Union, as well as the Union's allocable share of office space and overhead costs that are used by Dual Employees, as calculated based on defined methodologies.

**AMERICAN CIVIL LIBERTIES UNION
OF SOUTHERN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

8. SUBSEQUENT EVENTS (CONTINUED)

- The Union shall advance \$210,000 to the Foundation, which shall be retained by the Foundation until the Agreement is terminated. The monthly advance shall increase when the actual amount of reimbursement is more than the advance for three consecutive months.
- The Foundation shall charge the Union for staff time spent tracking, computing, allocating, and billing all amounts charged to the Union under the agreement.

The Union paid the \$210,000 advance required by the Agreement to the Foundation on March 28, 2019. As of March 31, 2019, the advance is included as a reduction in the amount due to the Foundation, which is included in Accounts Payable and Accrued Liabilities, as described in Note 5.