

**ACLU of Texas, Inc. and
ACLU Foundation of Texas, Inc.**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended March 31, 2020 and 2019

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

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Independent Auditors' Report

To the Board of Directors of
ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.:

We have audited the accompanying financial statements of ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc., which comprise the consolidated statements of financial position as of March 31, 2020 and 2019 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 consolidated financial position of ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc. as of March 31, 2020 and 2019 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Information in the supplemental consolidating statements of financial position as of March 31, 2020 and 2019 and supplemental consolidating statements of activities for the years ended March 31, 2020 and 2019 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

November 11, 2020

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Consolidated Statements of Financial Position as of March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents (<i>Notes 3 and 5</i>)	\$ 4,257,846	\$ 3,194,917
Certificates of deposit	395,785	1,028,429
Contributions receivable	258,452	86,334
Receivable from ACLU National Office (<i>Note 9</i>)	1,151,441	1,282,183
Prepaid expenses	<u>74,325</u>	<u>75,968</u>
Total current assets	6,137,849	5,667,831
Contributions receivable		83,333
Property and equipment, net (<i>Note 6</i>)	119,171	139,669
Interest in pooled investments held at ACLU National Office (<i>Notes 4 and 5</i>)	<u>144,980</u>	<u>142,244</u>
TOTAL ASSETS	<u>\$ 6,402,000</u>	<u>\$ 6,033,077</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 66,133	\$ 195,635
Accrued payroll related liabilities	<u>861,374</u>	<u>462,568</u>
Total liabilities	<u>927,507</u>	<u>658,203</u>
Net assets:		
Without donor restrictions	3,914,424	4,072,677
With donor restrictions (<i>Notes 7 and 8</i>)	<u>1,560,069</u>	<u>1,302,197</u>
Total net assets	<u>5,474,493</u>	<u>5,374,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,402,000</u>	<u>\$ 6,033,077</u>

See accompanying notes to consolidated financial statements.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Consolidated Statement of Activities for the year ended March 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions <i>(Note 9)</i>	\$ 2,713,088	\$ 2,473,244	\$ 5,186,332
Membership contributions – allocation from National ACLU <i>(Note 9)</i>	2,129,184		2,129,184
Net change in pooled investments held at ACLU National Office		2,736	2,736
Other revenue	<u>113,779</u>		<u>113,779</u>
Total revenue	4,956,051	2,475,980	7,432,031
Net assets released from restrictions:			
Expenditures for program purposes	<u>2,218,108</u>	<u>(2,218,108)</u>	
Total	<u>7,174,159</u>	<u>257,872</u>	<u>7,432,031</u>
EXPENSES:			
Program services:			
Immigrant rights	2,443,327		2,443,327
Criminal law reform	1,176,447		1,176,447
Other	<u>1,784,107</u>		<u>1,784,107</u>
Total program services	5,403,881		5,403,881
Management and general	1,201,650		1,201,650
Fundraising	<u>726,881</u>		<u>726,881</u>
Total expenses	<u>7,332,412</u>		<u>7,332,412</u>
CHANGES IN NET ASSETS	(158,253)	257,872	99,619
Net assets, beginning of year	<u>4,072,677</u>	<u>1,302,197</u>	<u>5,374,874</u>
Net assets, end of year	<u>\$ 3,914,424</u>	<u>\$ 1,560,069</u>	<u>\$ 5,474,493</u>

See accompanying notes to consolidated financial statements.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Consolidated Statement of Activities for the year ended March 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions (<i>Note 9</i>)	\$ 2,418,659	\$ 2,643,868	\$ 5,062,527
Membership contributions – allocation from National ACLU (<i>Note 9</i>)	2,308,083		2,308,083
Net change in pooled investments held at ACLU National Office		2,164	2,164
Other revenue	<u>29,759</u>	<u></u>	<u>29,759</u>
Total revenue	4,756,501	2,646,032	7,402,533
Net assets released from restrictions:			
Expenditures for program purposes	1,896,369	(1,896,369)	
Expiration of time restrictions	<u>150,000</u>	<u>(150,000)</u>	<u></u>
Total	<u>6,802,870</u>	<u>599,663</u>	<u>7,402,533</u>
EXPENSES:			
Program services:			
Immigrant rights	1,888,159		1,888,159
Criminal law reform	1,363,487		1,363,487
Other	<u>1,591,726</u>	<u></u>	<u>1,591,726</u>
Total program services	4,843,372		4,843,372
Management and general	981,890		981,890
Fundraising	<u>590,436</u>	<u></u>	<u>590,436</u>
Total expenses	<u>6,415,698</u>	<u></u>	<u>6,415,698</u>
CHANGES IN NET ASSETS	387,172	599,663	986,835
Net assets, beginning of year	<u>3,685,505</u>	<u>702,534</u>	<u>4,388,039</u>
Net assets, end of year	<u>\$ 4,072,677</u>	<u>\$ 1,302,197</u>	<u>\$ 5,374,874</u>

See accompanying notes to consolidated financial statements.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Consolidated Statement of Functional Expenses for the year ended March 31, 2020

	IMMIGRANT RIGHTS	CRIMINAL LAW REFORM	OTHER	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 1,733,055	\$ 735,238	\$ 1,215,955	\$ 3,684,248	\$ 832,518	\$ 583,103	\$ 5,099,869
Professional fees	329,653	153,520	88,342	571,515	107,113	5,351	683,979
Travel, meals and conferences	131,549	40,684	98,039	270,272	132,236	36,670	439,178
Occupancy	80,110	93,572	139,500	313,182	38,853	46,221	398,256
Grants to other organizations	33,964	19,903	66,881	120,748	5,941	265	126,954
Dues and subscriptions	23,717	24,263	53,369	101,349	23,408	139	124,896
Direct marketing materials	54,470	39,708	20,989	115,167	4,436	1,184	120,787
Telecommunications	17,724	15,922	30,531	64,177	10,006	6,128	80,311
Professional development	4,320	4,297	7,600	16,217	29,194	3,284	48,695
Insurance	6,851	10,104	17,705	34,660	5,949	1,923	42,532
Depreciation	6,177	9,446	15,986	31,609	4,724	4,987	41,320
Technology	4,177	6,388	10,812	21,377	3,194	16,164	40,735
Office equipment	7,506	7,505	12,887	27,898	4,078	3,163	35,139
Other	10,054	15,897	5,511	31,462		18,299	49,761
Total expenses	<u>\$ 2,443,327</u>	<u>\$ 1,176,447</u>	<u>\$ 1,784,107</u>	<u>\$ 5,403,881</u>	<u>\$ 1,201,650</u>	<u>\$ 726,881</u>	<u>\$ 7,332,412</u>

See accompanying notes to consolidated financial statements.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Consolidated Statement of Functional Expenses for the year ended March 31, 2019

	IMMIGRANT RIGHTS	CRIMINAL LAW REFORM	OTHER	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 1,227,452	\$ 746,185	\$ 937,919	\$ 2,911,556	\$ 536,076	\$ 421,459	\$ 3,869,091
Professional fees	270,368	243,691	73,679	587,738	88,058	6,980	682,776
Travel, meals, and conferences	160,812	119,633	162,947	443,392	167,996	56,053	667,441
Occupancy	80,252	87,175	153,013	320,440	34,943	43,572	398,955
Grants to other organizations	34,771	17,241	40,917	92,929	6,338	2,188	101,455
Dues and subscriptions	16,538	24,494	53,906	94,938	18,345	1,708	114,991
Direct marketing materials	2,956	27,624	18,476	49,056	1,639	1,253	51,948
Telecommunications	18,113	18,039	27,708	63,860	8,249	6,534	78,643
Professional development	2,292	2,973	8,275	13,540	75,853		89,393
Insurance	5,086	7,576	13,367	26,029	5,283	1,321	32,633
Depreciation	9,787	14,965	25,327	50,079	7,482	7,902	65,463
Technology	4,529	5,785	9,791	20,105	5,893	15,095	41,093
Office equipment	27,823	24,538	39,391	91,752	17,258	9,455	118,465
Other	<u>27,380</u>	<u>23,568</u>	<u>27,010</u>	<u>77,958</u>	<u>8,477</u>	<u>16,916</u>	<u>103,351</u>
Total expenses	<u>\$ 1,888,159</u>	<u>\$ 1,363,487</u>	<u>\$ 1,591,726</u>	<u>\$ 4,843,372</u>	<u>\$ 981,890</u>	<u>\$ 590,436</u>	<u>\$ 6,415,698</u>

See accompanying notes to consolidated financial statements.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Consolidated Statements of Cash Flows for the years ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 99,619	\$ 986,835
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	41,320	65,463
Net change in pooled investments held at ACLU National Office	(2,736)	(2,164)
Changes in operating assets and liabilities:		
Contributions receivable	(88,785)	108,333
Receivable from ACLU National Office	130,742	109,964
Prepaid expenses	1,643	29,563
Accounts payable and accrued payroll related liabilities	<u>269,304</u>	<u>174,009</u>
Net cash provided by operating activities	<u>451,107</u>	<u>1,472,003</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,822)	(44,504)
Redemption of certificates of deposit	<u>632,644</u>	<u>379,377</u>
Net cash provided by investing activities	<u>611,822</u>	<u>334,873</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,062,929	1,806,876
Cash and cash equivalents, beginning of year	<u>3,194,917</u>	<u>1,388,041</u>
Cash and cash equivalents, end of year	<u>\$ 4,257,846</u>	<u>\$ 3,194,917</u>

See accompanying notes to consolidated financial statements.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Notes to Consolidated Financial Statements for the years ended March 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc. (the Foundation) are non-profit organizations established in 1991 under the laws of the State of Texas. ACLU of Texas, Inc. and the Foundation operate under the provisions and within the territory covered by a charter granted by the National American Civil Liberties Union (National ACLU), which has developed a strategic plan to fulfill their national purpose: To be the Nation’s foremost champion of individual rights – litigating, legislating, and educating the public on a broad array of issues affecting individual freedoms in the United States.

ACLU of Texas, Inc. programs operate to identify threats to and to defend the civil liberties of Texans. These programs include protecting civil rights and civil liberties in the courtrooms of Texas, at the Texas Legislature, and in large and small communities throughout the Lone Star State. ACLU of Texas, Inc. is supported by annual memberships and private contributions.

The Foundation was organized to (1) encourage, sponsor and facilitate the cultivation and diffusion of knowledge and understanding of various civil liberties and laws of the United States or of the State of Texas, (2) make inquiry into the extent and adequacy of the protection of civil liberties and civil rights in the United States and in the State of Texas, and to publish the results of any such inquiry, (3) supply legal counsel to persons involved in activities wherein their civil liberties are threatened or infringed upon, and (4) engage in litigation that will have a positive impact on the civil liberties of a substantial number of individuals. The Foundation is supported by contributions and grants.

The programs of the Foundation are:

Immigrant Rights

The Foundation identifies appropriate targets for litigation, including sexual assault, the mistreatment and denial of adequate medical care to immigrant detainees and prisoners, the unconstitutional treatment of refugees and asylum seekers, the separation of families and detention of parents and children and the use of racial profiling. In addition, litigation is being investigated around other inappropriate and potentially unconstitutional law enforcement tactics such as violations of the 4th, 5th and 14th amendments by local jurisdictions in the border region.

Criminal Law Reform

The project works to end excessively harsh criminal justice policies that result in mass incarceration and stand in the way of a just and equal society. Project goals are: ending over-incarceration in Texas, with an emphasis on eliminating racial disproportionality; ending the privatization of prisons and jails in Texas; and ending the use of the death penalty in Texas. Other goals include sealing the school-to-prison pipeline and ending the use of solitary confinement of children in Texas prisons and jails.

Other Programs

Abortion Rights seek to protect women’s rights and access to a safe, legal abortion. It includes protecting and expanding legal safeguards of women’s reproductive autonomy through litigation and public policy. The team works to continue to ensure the protections citizens are guaranteed by the U. S. Supreme Court in its decision *Whole Women’s Health vs. Hellerstedt* are not violated; and continue to

develop State law theories for future litigation. Other goals include defending against the criminalization of pregnant women; and defending against expansion of fetal rights. Finally, an additional goal is to promote policy reforms that enhance reproductive and parental autonomy generally, resituating abortion in that broader framework.

LGBT Rights support legal equality for Lesbian, Gay, Bisexual, and Transgender (LGBT) individuals so every person can openly parent, work, live, and love. LGBT Texans lack the most basic protections against discrimination because of their sexual orientation. Neither Federal nor State laws bar discrimination on the basis of sexual orientation or gender identity, and as a result, an LGBT Texan has no recourse if an employer, landlord, or shopkeeper discriminates. The goals are to ensure equality and dignity for all students in Texas schools and to repeal policies that force children raised by same-sex couples to be denied legally recognized relationships with both of their parents, leaving them vulnerable to the loss of the relationship with and support of a parent.

Voting Rights seek to protect every Texan's legal right to vote in local, statewide, and national elections conducted in the State of Texas. Voter suppression laws have existed for decades prior to the Voting Rights Act of 1964 and continue in the State of Texas to this day. The objectives are to (1) ensure laws designed to suppress voter registration and voter turnout do not pass in the State Legislature by educating and informing Texans of their legal rights to vote; (2) if such laws are passed, prevent implementation of the laws by fighting in the State/Federal court systems on the basis of constitutionality; and (3) mobilize Texans to advocate in their communities while also monitoring elections via hotlines and poll watchers to ensure voting rights are not violated during the election process.

Other programs have focused on conditions on death row, religious freedom and the Banned Book Project, one of the high-profile efforts throughout Texas. This 18-year-old project exposes censorship and attempts at thought control taking place in our schools, publishes an annual report citing all books challenged or banned by Texas' 1,260 independent school districts, as well as hosts public readings and events in partnership with bookstores and library groups dedicated to raising awareness about censorship in classrooms and school libraries.

Federal income tax status – ACLU of Texas, Inc. is exempt from federal income tax under §501(c)(4) of the Internal Revenue Code (the Code). The Foundation is exempt from federal income tax under §501(c)(3) of the Code.

Basis of consolidation – These financial statements include the assets, liabilities, net assets and activities of ACLU of Texas, Inc. and the Foundation (collectively ACLU). All balances and transactions between the consolidated entities have been eliminated. Although these financial statements are consolidated, ACLU of Texas, Inc., as a separate corporation, maintains separate financial books and records from the Foundation.

Certificates of deposit are reported at face value plus accrued interest.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. At March 31, 2020, all contributions receivable are due within one year. As of March 31, 2020, 48% of contributions receivable are from one donor. As of March 31, 2019, 100% of contributions receivable are from one donor.

Interest in pooled investments held at ACLU National Office is reported at fair value. Changes in fair value of the interest of these assets are reported as a change in interest in assets and grouped with other revenue.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. Additions with a cost in excess of \$2,500 are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 5 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions have been met is reported as grant advances.

Contributed materials, use of facilities and services are recognized as contributions at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed significant amounts of time in connection with programs for which no amount has been recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and benefits are allocated based on the estimated time and effort expended by employees. Insurance expense, facility rent, telecommunications, IT support, certain professional fees, and certain office equipment are allocated based on employee head counts.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of March 31 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 4,257,846	\$ 3,194,917
Certificates of deposit	395,785	1,028,429
Contributions receivable	258,452	169,667
Receivable from ACLU National Office	1,151,441	1,282,183
Interest in pooled investments held at ACLU National Office	<u>144,980</u>	<u>142,244</u>
Total financial assets	6,208,504	5,817,440
Less financial assets not available for general expenditure:		
Contributions receivable due in more than one year		(83,333)
Donor-restricted assets restricted for future periods	(158,578)	(180,000)
Endowment funds less appropriation for 2020	(139,980)	(130,244)
Board-designated reserve funds	<u>(890,142)</u>	<u>(851,891)</u>
Total financial assets available for general expenditure	<u>\$ 5,019,804</u>	<u>\$ 4,571,972</u>

For purposes of analyzing resources available to meet expenditures over a 12-month period, ACLU defines general expenditures as any expenditure related to its ongoing activities to defend and protect the civil liberties of Texans (see Note 1).

ACLU of Texas, Inc. is substantially supported throughout the year by contributions and regularly monitors liquidity to ensure operating accounts contain sufficient funds to cover all liabilities and contractual obligations. As part of its policies and procedures, ACLU structures its investments in a manner which enables the organization to pull funds into operating accounts as needed to meet its general expenditures, liabilities, and other obligations as they become due. Board-designated assets may be released, as approved by the Board of Directors, in the event additional financial obligations must be met.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2020</u>	<u>2019</u>
Bank deposits	\$ 79,685	\$ 1,544,917
Money market mutual funds	<u>4,178,161</u>	<u>1,650,000</u>
Total cash and cash equivalents	<u>\$ 4,257,846</u>	<u>\$ 3,194,917</u>

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. Demand deposits exceed the federally insured limit per depositor per institution.

NOTE 4 – INTEREST IN POOLED INVESTMENTS HELD AT ACLU NATIONAL OFFICE

The Foundation is party to an agreement with the ACLU National Office whereby amounts deposited by the Foundation with the ACLU National Office will be invested and held for the benefit of the Foundation. The Foundation may receive an annual distribution, as described further in Note 9, but no additional distributions or redemptions are allowed unless under extraordinary circumstances and approved by a vote of two-thirds of the other unit shares outstanding. The investments held by the ACLU National Office are invested for the benefit of the Foundation.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at March 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds held as cash equivalents	\$ 4,178,161			\$ 4,178,161
Interest in pooled investments held at ACLU National Office	_____	\$ 144,980	_____	_____144,980
Total assets measured at fair value	<u>\$ 4,178,161</u>	<u>\$ 144,980</u>	<u>\$ 0</u>	<u>\$ 4,323,141</u>

Assets measured at fair value at March 31, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds held as cash equivalents	\$ 1,650,000			\$ 1,650,000
Interest in pooled investments held at ACLU National Office	_____	\$ 142,244	_____	_____142,244
Total assets measured at fair value	<u>\$ 1,650,000</u>	<u>\$ 142,244</u>	<u>\$ 0</u>	<u>\$ 1,792,244</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of shares held at year end.
- *Interest in pooled investments held at ACLU National Office* is based upon valuations provided by the ACLU National Office in conjunction with the value of the underlying securities maintained and valued by an investment custodian. The Foundation’s investment in the pooled funds is calculated

by National ACLU based on the percentage of total shares in the fund held by the Foundation applied to the total net asset value of the fund. Investment management and custodial fees allocable to the Foundation's investments are deducted from the Foundation's share of investment return of the portfolio.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures, and equipment	\$ 223,588	\$ 202,769
Leasehold improvements	<u>52,147</u>	<u>52,147</u>
Total property and equipment, at cost	275,735	254,916
Accumulated depreciation	<u>(156,564)</u>	<u>(115,247)</u>
Property and equipment, net	<u>\$ 119,171</u>	<u>\$ 139,669</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Immigrant rights	\$ 757,523	\$ 746,040
Political strategies	355,582	24,664
Legal fellow	224,939	228,419
Border rights center	881	159,337
Other programs	<u>76,164</u>	<u>1,493</u>
Total subject to expenditure for specified purpose	<u>1,415,089</u>	<u>1,159,953</u>
Endowments:		
Subject to spending policy and appropriation:		
Bill of Rights Endowment Fund	<u>144,980</u>	<u>142,244</u>
Total net assets with donor restrictions	<u>\$ 1,560,069</u>	<u>\$ 1,302,197</u>

NOTE 8 – ENDOWMENT FUNDS

The National ACLU and its separately incorporated affiliate foundations are cooperatively raising and sharing in a Trust for the Bill of Rights Endowment Fund (the Fund). Endowment gifts are shared equally between National ACLU and the affiliate foundations of the area in which the donors reside, unless otherwise restricted by the donors. Each foundation holds unit shares commensurate with its ownership of endowment fund gifts received. While these endowment gifts are held by National ACLU in a single independent account, financial data on each foundation's shares is allocated and reported separately for each affiliate.

The Foundation's Board of Directors, under the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), requires preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit stipulations to the contrary. As a result, the Foundation classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by TUPMIFA.

Investment Policies

The funds are governed according to the guidelines outlined in two documents:

- Agreement for the Establishment, Management and Operation of the Trust for the Bill of Rights (approved by the National ACLU Board on October 25, 1997 and amended on November 1, 2002).
- American Civil Liberties Union Foundation (National Foundation) Investment Policy Statement (adopted by the National Foundation Executive Committee/Board on September 12, 2014).

The Trust for the Bill of Rights is subject to an investment policy created by the National ACLU Investment Committee. Affiliate foundations may not make independent decisions on how their unit shares are invested, though a screened fund option has been made available.

The investment guidelines target allocations for the endowment assets are established as follows:

<u>ASSET CLASS</u>	<u>TARGET ALLOCATION</u>
Publicly-traded equity securities	40%-70%
Marketable alternative investments	5%-35%
Fixed-income securities and cash	10%-40%

Spending Policy and How the Investment Objective Relates to Spending Policy

The agreement provides for the expenditure of up to 4% of the average of the fair market value of each unit share of the Fund as of December 31 of the three immediately preceding calendar years. The agreement does provide for the withdrawal of unit shares by the affiliate in certain crisis situations.

Changes in the donor-restricted endowment fund are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, March 31, 2018	\$ 15,080	\$ 125,000	\$ 140,080
Net investment return	2,164		2,164
Distributions re-invested	5,424		5,424
Distributions	<u>(5,424)</u>		<u>(5,424)</u>
Endowment net assets, March 31, 2019	17,244	125,000	142,244
Net investment return	8,160		8,160
Distributions	<u>(5,424)</u>		<u>(5,424)</u>
Endowment net assets, March 31, 2020	<u>\$ 19,980</u>	<u>\$ 125,000</u>	<u>\$ 144,980</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

The Foundation, through its affiliation with National ACLU, receives shared contributions. During 2020 and 2019, shared contributions totaled \$1,231,855 and \$1,027,939, which is included in contributions in the accompanying consolidated statement of activities. At March 31, 2020 and 2019, \$1,164,476 and \$940,447 was due from National ACLU.

ACLU of Texas, Inc., through its affiliation with National ACLU, receives shared membership contributions. During 2020 and 2019, ACLU of Texas, Inc. recognized \$2,129,184 and \$2,308,083 in membership contributions from National ACLU. At March 31, 2020, \$73,035 was due back to National ACLU due to an overpayment received during the year, and at March 31, 2019, \$341,736 was due from National ACLU.

NOTE 10 – COMMITMENTS

ACLU leases office space in Houston, Dallas, and Austin, Texas, as well as a copier under operating leases. Future minimum lease payments on the facility lease and equipment lease at December 31, 2020 are payable as follows:

2021	\$ 324,239
2022	231,873
2023	231,747
2024	<u>19,344</u>
Total	<u>\$ 807,203</u>

Lease expense for facility rentals and equipment was \$322,192 in 2020.

NOTE 11 – RETIREMENT PLANS

ACLU participates in The American Civil Liberties Union Retirement Plan (the DB Plan), which includes National ACLU and all of its affiliates (the affiliated entities). The DB Plan is a defined benefit pension plan. The National ACLU implemented a “soft freeze” of the DB Plan effective March 31, 2009. ACLU has four employees continuing to participate in the DB Plan. At March 31, 2020 and 2019, the Foundation has accrued approximately \$299,000 and \$177,000, respectively, for the unfunded portion of the DB Plan related to the four employees continuing to receive credits. Employees may take early retirement at age 55, with 10 years of service. Benefits under the DB Plan are determined based on years of service and compensation. The related pension expense totaled \$175,698 and \$35,759 for the years ended March 31, 2020 and 2019, respectively.

Effective April 1, 2009, National ACLU created the ACLU Defined Contribution Plan (the DC Plan), a §401(k) profit sharing plan under §401(a) of the Code. All ACLU employees are eligible to participate upon the attainment of age 21 and 30 days of service. Entry dates are the first business day of each quarter. Under the DC Plan, eligible employees may contribute up to the statutory Federal limitation with a match of up to 3.5% of their wages. Employer contributions totaled \$151,599 and \$119,201 for the years ended March 31, 2020 and 2019, respectively.

NOTE 12 – SUBSEQUENT EVENTS

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on ACLU's operational and financial performance will depend on developments such as the duration and spread of the outbreak, the impact on donors, employees, and vendors, all of which are uncertain and cannot be predicted. Therefore, while ACLU expects this matter will negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Paycheck Protection Program (PPP) Loan – In May 2020, ACLU received a \$827,180 loan under the PPP, a part of the Coronavirus Aid, Relief and Economic Security (CARES) Act enacted in March 2020. The loan, maturing in two years, bears interest at 1%. The principal and interest on the loan may be wholly or partially forgiven if the proceeds of the loan are used for allowable expenses, primarily certain payroll and other costs not funded by other government grants.

Management has evaluated subsequent events through November 11, 2020, which is the date that the financial statements were available for issuance. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Supplemental Consolidating Statement of Financial Position as of March 31, 2020

	<u>FOUNDATION</u>	ACLU OF <u>TEXAS, INC.</u>	<u>ELIMINATIONS</u>	CONSOLIDATED <u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 1,008,967	\$ 3,248,879		\$ 4,257,846
Certificates of deposit	290,422	105,363		395,785
Contributions receivable	258,334	118		258,452
Receivable from ACLU National Office	1,164,476	(13,035)		1,151,441
Receivable from ACLU of Texas, Inc.		176,639	\$ (176,639)	
Interest in assets of ACLU National Office	144,980			144,980
Prepaid expenses	59,231	15,094		74,325
Property and equipment, net	<u>107,207</u>	<u>11,964</u>		<u>119,171</u>
TOTAL ASSETS	<u>\$ 3,033,617</u>	<u>\$ 3,545,022</u>	<u>\$ (176,639)</u>	<u>\$ 6,402,000</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued payroll related liabilities	\$ 726,885	\$ 200,622		\$ 927,507
Payable to Foundation	<u>176,639</u>		<u>\$ (176,639)</u>	
Total liabilities	<u>903,524</u>	<u>200,622</u>	<u>(176,639)</u>	<u>927,507</u>
Net assets:				
Without donor restrictions	757,788	3,156,636		3,914,424
With donor restrictions	<u>1,372,305</u>	<u>187,764</u>		<u>1,560,069</u>
Total net assets	<u>2,130,093</u>	<u>3,344,400</u>		<u>5,474,493</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,033,617</u>	<u>\$ 3,545,022</u>	<u>\$ (176,639)</u>	<u>\$ 6,402,000</u>

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Supplemental Consolidating Statement of Financial Position as of March 31, 2019

	<u>FOUNDATION</u>	<u>ACLU OF TEXAS, INC.</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 359,647	\$ 2,835,270		\$ 3,194,917
Certificates of deposit	925,377	103,052		1,028,429
Contributions receivable	166,667	3,000		169,667
Receivable from ACLU National Office	940,447	341,736		1,282,183
Receivable from ACLU of Texas, Inc.	110,368		\$ (110,368)	
Interest in assets of ACLU National Office	142,244			142,244
Prepaid expenses	64,495	11,473		75,968
Property and equipment, net	<u>128,008</u>	<u>11,661</u>		<u>139,669</u>
TOTAL ASSETS	<u>\$ 2,837,253</u>	<u>\$ 3,306,192</u>	<u>\$ (110,368)</u>	<u>\$ 6,033,077</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued payroll related liabilities	\$ 540,645	\$ 117,558		\$ 658,203
Payable due to Foundation		<u>110,368</u>	\$ (110,368)	
Total liabilities	<u>540,645</u>	<u>227,926</u>	<u>(110,368)</u>	<u>658,203</u>
Net assets:				
Without donor restrictions	1,019,075	3,053,602		4,072,677
With donor restrictions	<u>1,277,533</u>	<u>24,664</u>		<u>1,302,197</u>
Total net assets	<u>2,296,608</u>	<u>3,078,266</u>		<u>5,374,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,837,253</u>	<u>\$ 3,306,192</u>	<u>\$ (110,368)</u>	<u>\$ 6,033,077</u>

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Supplemental Consolidating Statement of Activities for the year ended March 31, 2020

	<u>FOUNDATION</u>	<u>ACLU OF TEXAS, INC.</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
REVENUE:				
Contributions	\$ 4,319,294	\$ 331,008		\$ 4,650,302
Allocation from National ACLU – membership	536,030	2,129,184		2,665,214
Net change in pooled investments held at ACLU National Office	2,736			2,736
Other revenue	<u>80,149</u>	<u>33,630</u>		<u>113,779</u>
Total revenue	<u>4,938,209</u>	<u>2,493,822</u>		<u>7,432,031</u>
EXPENSES:				
Program services	3,777,123	1,626,758		5,403,881
Management and general	823,837	377,813		1,201,650
Fundraising	<u>503,764</u>	<u>223,117</u>		<u>726,881</u>
Total expenses	<u>5,104,724</u>	<u>2,227,688</u>		<u>7,332,412</u>
CHANGES IN NET ASSETS	(166,515)	266,134		99,619
Net assets, beginning of year	<u>2,296,608</u>	<u>3,078,266</u>		<u>5,374,874</u>
Net assets, end of year	<u>\$ 2,130,093</u>	<u>\$ 3,344,400</u>	<u>\$ 0</u>	<u>\$ 5,474,493</u>

ACLU of Texas, Inc. and ACLU Foundation of Texas, Inc.

Supplemental Consolidating Statement of Activities for the year ended March 31, 2019

	<u>FOUNDATION</u>	<u>ACLU OF TEXAS, INC.</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
REVENUE:				
Contributions	\$ 4,918,079	\$ 144,448		\$ 5,062,527
Allocation from National ACLU – membership		2,308,083		2,308,083
Net change in pooled investments held at ACLU National Office	2,164			2,164
Transfer from Foundation		506,139	\$ (506,139)	
Other revenue	<u>21,769</u>	<u>7,990</u>	<u> </u>	<u>29,759</u>
Total revenue	<u>4,942,012</u>	<u>2,966,660</u>	<u>(506,139)</u>	<u>7,402,533</u>
EXPENSES:				
Program services	3,113,578	1,729,794		4,843,372
Management and general	533,846	448,044		981,890
Fundraising	315,906	274,530		590,436
Foundation transfer to ACLU of Texas, Inc.	<u>506,139</u>	<u> </u>	<u>(506,139)</u>	<u> </u>
Total expenses	<u>4,469,469</u>	<u>2,452,368</u>	<u>(506,139)</u>	<u>6,415,698</u>
CHANGES IN NET ASSETS	472,543	514,292		986,835
Net assets, beginning of year – restated	<u>1,824,065</u>	<u>2,563,974</u>	<u> </u>	<u>4,388,039</u>
Net assets, end of year	<u>\$ 2,296,608</u>	<u>\$ 3,078,266</u>	<u>\$ 0</u>	<u>\$ 5,374,874</u>
