



FEDERATION FOR AMERICAN
IMMIGRATION REFORM

**FEDERATION FOR AMERICAN
IMMIGRATION REFORM AND AFFILIATES**

**Consolidated Financial Statements and
Supplemental Information**

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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**and
Report Thereon**
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FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

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For the Year Ended December 31, 2016

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Federation for American Immigration Reform
and Affiliates

We have audited the accompanying consolidated financial statements of the Federation for American Immigration Reform (FAIR) and Affiliates (collectively referred to as FAIR and Affiliates), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federation for American Immigration Reform and Affiliates as of December 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited FAIR and Affiliates' 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 20 and 21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Raffa P.C.

Raffa, P.C.

Washington, DC
May 18, 2017

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016

(With Summarized Financial Information as of December 31, 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,899,072	\$ 5,851,724
Grants receivable	12,500	4,338
Prepaid expenses	24,160	478,346
Total Current Assets	5,935,732	6,334,408
Investments	9,507,415	9,087,322
Property and equipment, net	263,055	372,750
Artwork collections	15,000	15,000
Other assets	63,353	57,925
Security deposits	38,611	38,611
TOTAL ASSETS	\$ 15,823,166	\$ 15,906,016
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 229,046	\$ 182,760
Deferred rent and lease incentive liabilities	175,293	157,483
Total Current Liabilities	404,339	340,243
Deferred rent and lease incentive liabilities, noncurrent	-	175,293
TOTAL LIABILITIES	404,339	515,536
Net Assets		
Unrestricted		
Undesignated	2,271,846	1,487,236
Board-designated		
Reserve	3,010,554	2,946,783
Quasi-endowment fund	4,364,914	4,590,306
Total Unrestricted Net Assets	9,647,314	9,024,325
Temporarily restricted	3,240,189	3,834,831
Permanently restricted	2,531,324	2,531,324
TOTAL NET ASSETS	15,418,827	15,390,480
TOTAL LIABILITIES AND NET ASSETS	15,823,166	\$ 15,906,016

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

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUE AND SUPPORT					
Grants	\$ 5,925,243	\$ 5,492,400	\$ -	\$ 11,417,643	\$ 7,558,080
Investment income	258,480	104,197	-	362,677	1,059,773
Contributions and bequests	720,310	-	-	720,310	648,389
Online marketing	66,252	-	-	66,252	78,287
Royalty income	15,516	-	-	15,516	40,994
Other income	40,450	-	-	40,450	685
Net assets released from restrictions:					
Satisfaction of program restrictions	6,090,997	(6,090,997)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	13,117,248	(494,400)	-	12,622,848	9,386,208
EXPENSES					
Program Services:					
Media	6,345,555	-	-	6,345,555	1,381,786
Government relations	1,096,492	-	-	1,096,492	982,797
Public education	954,682	-	-	954,682	697,204
Immigration Reform Law Institute (IRLI)	928,799	-	-	928,799	691,579
Field	535,151	-	-	535,151	582,491
Research and publications	405,948	-	-	405,948	440,191
Membership education and service	375,093	-	-	375,093	475,603
Lobbying	171,035	-	-	171,035	212,533
Public interest legal	45,477	-	-	45,477	46,878
FAIR Congressional Task Force (FCTF)	4,226	-	-	4,226	5,390
Total Program Services	10,862,458	-	-	10,862,458	5,516,452
Supporting Services:					
Management and general	971,193	-	-	971,193	973,820
Fundraising	427,385	-	-	427,385	485,719
Total Supporting Services	1,398,578	-	-	1,398,578	1,459,539
TOTAL EXPENSES	12,261,036	-	-	12,261,036	6,975,991
Change in net assets before unrealized losses on investments	856,212	(494,400)	-	361,812	2,410,217
NONOPERATING LOSS					
Unrealized losses on investments	(233,223)	(100,242)	-	(333,465)	(1,141,575)
CHANGE IN NET ASSETS	622,989	(594,642)	-	28,347	1,268,642
NET ASSETS, BEGINNING OF YEAR	9,024,325	3,834,831	2,531,324	15,390,480	14,121,838
NET ASSETS, END OF YEAR	\$ 9,647,314	\$ 3,240,189	\$ 2,531,324	15,418,827	\$ 15,390,480

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

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 28,347	\$ 1,268,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized gains on sales of investments	(150,816)	(815,990)
Unrealized losses on investments	333,465	1,141,575
Depreciation and amortization	134,387	136,556
Changes in assets and liabilities:		
Grants receivable	(8,162)	(4,338)
Prepaid expenses	454,186	(466,789)
Other assets	(5,428)	1,714
Accounts payable and accrued expenses	46,286	(69,218)
Deferred rent and lease incentive liabilities	<u>(157,483)</u>	<u>(140,115)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>674,782</u>	<u>1,052,037</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	16,008,063	13,528,517
Purchases of investments	(16,610,805)	(12,876,994)
Purchases of furniture and equipment	<u>(24,692)</u>	<u>(11,195)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(627,434)</u>	<u>640,328</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	47,348	1,692,365
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,851,724</u>	<u>4,159,359</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,899,072</u>	<u>\$ 5,851,724</u>

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

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

The Federation for American Immigration Reform (FAIR) is a District of Columbia nonprofit public interest organization working to end illegal immigration and set reasonable levels of legal immigration. FAIR funds its activities primarily through grants and contributions.

The FAIR Congressional Task Force, Inc. (FCTF) is a nonprofit organization incorporated under the laws of the District of Columbia in 1982. FCTF was organized exclusively to serve public, social and economic welfare by developing and promoting immigration policies that are consistent with the economic, social and demographic interests of the United States of America; to restrict illegal immigration into the United States of America; and to limit legal admissions into the United States of America to reasonable levels. FCTF funds its activities primarily through grants and contributions.

The Immigration Reform Law Institute (IRLI) is a District of Columbia nonprofit public charity organized to run FAIR's legal program. IRLI funds its activities primarily through grants and contributions.

Principles of Consolidation

The accompanying consolidated financial statements include the account balances and transactions of FAIR, FCTF and IRLI (collectively referred to as FAIR and Affiliates). FAIR's, FCTF's and IRLI's financial statements have been consolidated due to the presence of common control and economic interest, as required under generally accepted accounting principles (GAAP) in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

FAIR and Affiliates considers all checking accounts, demand deposits and money market accounts to be cash and cash equivalents.

Investments

Investments are recorded in the accompanying consolidated financial statements at fair value and consist of mutual and exchange-traded funds, fixed income securities and common stocks. 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.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized gains or losses are determined by a comparison of the fair value at the beginning and end of the reporting period.

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement

Accounting standards define fair value and establish a framework for measuring fair value for those assets and liabilities that are measured at fair value on a recurring basis. In accordance with the fair value measurement standards, FAIR and Affiliates has categorized their applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the fair value hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement of the instrument. The applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

Property and Equipment and Related Depreciation and Amortization

Property and equipment consist of office furniture and equipment, leasehold improvements and website costs and are recorded at cost. Office furniture and equipment are depreciated over their estimated useful lives of five years using the straight-line method. Website costs are amortized over their estimated useful lives of five years using the straight-line method. Leasehold improvements are amortized over the lesser of the remaining office lease term or the estimated useful lives of the improvements. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of the assets, the cost and accumulated depreciation or amortization are eliminated from the respective accounts, and the resulting gain or loss is included in operating revenue and support or expenses in the accompanying consolidated statement of activities.

Net Assets

FAIR and Affiliates' net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of FAIR and Affiliates' operations as follows:

Undesignated net assets – represents resources that are to be used for the general operations of FAIR and Affiliates.

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Board-designated reserves – represent unrestricted donor contributions that have been restricted by the Board as operating reserves and can only be expended by action of the Board of Directors.

Board-designated quasi-endowment – represents an endowment fund established by the Board of Directors for all unrestricted donor bequests contributed to FAIR and Affiliates. Investment income earned by this fund is reinvested within the fund.

- Temporarily restricted represents net assets that have resulted from contributions and other unconditional promises to give in which the use of the funds is limited by donor-imposed stipulations that expire either with the passage of time or fulfillment of the purpose restriction.
- Permanently restricted represents net assets that have resulted from contributions in which the use of the funds is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by FAIR and Affiliates' actions.

Revenue Recognition

FAIR and Affiliates recognizes revenue from grants, contributions and bequests in the year in which the promise to give becomes unconditional. Grants and contributions are recorded as temporarily restricted support if those grants and contributions are received with donor or grantor 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 (i.e., funds are spent or released based on spending policy), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Definition of Operations

Income from investments, including realized gains and losses on investment transactions, is considered to be revenue generated from operations. Unrealized gains or losses recognized from the change in the fair value of investments are not considered to be from operations until such time as those gains or losses are realized through investment sale transactions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services in proportion to the amount of time spent on a particular program to the total time spent by all employees.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

2. Investments

Investments, at fair value, consisted of the following at December 31, 2016:

Common stocks	\$ 6,437,243
Mutual and exchange-traded funds	1,713,306
Fixed-income securities	<u>1,356,866</u>
Total Investments	<u>\$ 9,507,415</u>

For the year ended December 31, 2016, investment income consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 158,382	\$ 53,479	\$ 211,861
Realized gains	<u>100,098</u>	<u>50,718</u>	<u>150,816</u>
Total Investment Income	258,480	104,197	362,677
Unrealized losses	<u>(233,223)</u>	<u>(100,242)</u>	<u>(333,465)</u>
Total	<u>\$ 25,257</u>	<u>\$ 3,955</u>	<u>\$ 29,212</u>

Interest and dividends reported above are net of \$39,293 of investment expense incurred during the year ended December 31, 2016.

3. Fair Value Measurement

The following table summarizes FAIR and Affiliates' assets measured at fair value on a recurring basis as of December 31, 2016:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Common stocks:				
Information technology	\$ 1,792,232	\$ 1,792,232	\$ -	\$ -
Financials	955,000	955,000	-	-
Industrial sector	952,765	952,765	-	-
Consumer discretionary	615,843	615,843	-	-

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

3. Fair Value Measurement (continued)

<i>(Continued)</i>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Common stocks:				
Healthcare sector	\$ 555,830	\$ 555,830	\$ -	\$ -
Utilities	505,851	505,851	-	-
Telecommunications	411,142	411,142	-	-
Consumer staples	242,048	242,048	-	-
Energy	205,247	205,247	-	-
Materials	<u>201,285</u>	<u>201,285</u>	<u>-</u>	<u>-</u>
Total Common Stocks	<u>6,437,243</u>	<u>6,437,243</u>	<u>-</u>	<u>-</u>
Fixed-income securities:				
Corporate bonds	<u>1,356,866</u>	<u>-</u>	<u>1,356,866</u>	<u>-</u>
Total Fixed-Income Securities	<u>1,356,866</u>	<u>-</u>	<u>1,356,866</u>	<u>-</u>
Mutual and exchange-traded funds:				
Fixed-income:				
US Treasury Bond	66,115	66,115	-	-
Commodities	8,829	8,829	-	-
Other	7,895	7,895	-	-
Real asset:	153,720	153,720	-	-
Equities:				
Large growth	449,696	449,696	-	-
Large value	333,001	333,001	-	-
Large growth-foreign	316,419	316,419	-	-
Small growth	263,457	263,457	-	-
Medium value	52,259	52,259	-	-
Emerging markets	36,234	36,234	-	-
Small value	17,802	17,802	-	-
Medium growth	<u>7,879</u>	<u>7,859</u>	<u>-</u>	<u>-</u>
Total Mutual and Exchange-Traded Funds	<u>1,713,306</u>	<u>1,713,306</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,507,415</u>	<u>\$ 8,150,549</u>	<u>\$ 1,356,866</u>	<u>\$ -</u>

Continued

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

3. Fair Value Measurement (continued)

FAIR and Affiliates used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value:

Common stocks – Valued at the closing price reported in the active market in which the individual stocks are traded.

Fixed-income securities – Valued based on current yields, the securities' terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news.

Mutual and exchange-traded funds – Valued at net asset value at the closing price reported in the active market in which the mutual and exchange-traded funds are traded.

4. Property and Equipment and Accumulated Depreciation and Amortization

FAIR and Affiliates held the following property and equipment as of December 31, 2016:

Leasehold improvements	\$ 1,175,653
Office furniture and equipment	253,602
Website costs	<u>92,728</u>
Total Property and Equipment	1,521,983
Less: Accumulated Depreciation and Amortization	<u>(1,258,928)</u>
Property and Equipment, Net	<u>\$ 263,055</u>

For the year ended December 31, 2016, depreciation and amortization expense totaled \$134,387.

5. Commitments and Risks

Office Lease

FAIR leases office space under a noncancelable operating lease for its Washington, D.C. office. The operating lease expires in December 2017, and the lease includes certain incentives and an annual escalation clause. Under GAAP, all lease incentives and fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and lease incentive liabilities in the accompanying consolidated statement of financial position. Rent expense totaled \$559,026 for the year ended December 31, 2016, and is included in the accompanying consolidated statement of functional expenses. The total rent payments required under lease for the year ending December 31, 2017, is \$182,230.

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

5. Commitments and Risks (continued)

Concentration of Risk

Concentration of Credit Risk

FAIR and Affiliates maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balances may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2016, FAIR and Affiliates had \$5,825,000 composed of demand deposits which exceeded the maximum limit insured by the FDIC by approximately \$4,773,000. FAIR and Affiliates monitors the creditworthiness of these institutions and has not experienced any historical credit losses on its cash and cash equivalents.

FAIR and Affiliates also invests in various investment securities that are exposed to various risks, including market, interest rate and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

Concentration of Revenue

During the year ended December 31, 2016, FAIR and Affiliates received \$10,754,375 in grants and contributions from five donors. Grants and contributions from the five donors represented approximately 85% of the total operating revenue and support recognized by FAIR and Affiliates for the year ended December 31, 2016. If a significant reduction in funding from these grantors were to occur, it might adversely impact FAIR and Affiliates' financial position and ability to carry out its program activities.

6. Board-Designated Reserve

The Boards of Directors of FAIR and IRLI have adopted resolutions to designate certain net assets as reserve funds. These funds can be drawn upon to fund FAIR's and IRLI's operations in time of need, as approved by the Boards of Directors. In accordance with these resolutions, FAIR and IRLI transfer funds from general operations to the board-designated reserve fund in an amount equal to 5% of all unrestricted contributions that are greater than \$50,000 and \$20,000, respectively. All investment income accumulates in the funds. FAIR's and IRLI's board-designated reserve net asset balances totaled \$2,609,820 and \$400,734, respectively, as of December 31, 2016.

FAIR's Board of Directors has authorized a \$100,000 revolving line of credit against the board-designated reserve funds that is intended to allow FAIR's management to bridge shortfalls in operating revenue without the Board of Directors' approval. Any borrowings from the reserve fund in excess of \$100,000 require approval from FAIR's Board of Directors. There were no borrowings or repayments during the year ended December 31, 2016, and there was no outstanding balance as of December 31, 2016.

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

7. Temporarily Restricted Net Assets

Temporarily restricted net assets that remained as of December 31, 2016, were available for the following programs or purposes:

Public education	\$ 2,402,156
Immigration policy	239,312
Swensrud Memorial Internship program	<u>115,658</u>
Total Program-Restricted	2,757,126
Time restricted for board appropriation	<u>483,063</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,240,189</u>

8. Endowment Funds

FAIR's Board of Directors has interpreted the District of Columbia's 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, FAIR classifies as permanently restricted net assets (a) the original value of gifts donated 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 portion 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 FAIR in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, FAIR considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds.
- The purposes of FAIR and the donor-restricted endowment funds.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of FAIR.
- The investment policies of FAIR.

Return Objectives and Risk Parameters

FAIR has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

8. Endowment Funds (continued)

Return Objectives and Risk Parameters (continued)

include those assets of donor-restricted funds that FAIR must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Under these policies, as approved by the Board of Directors, the endowment assets are invested in funds to achieve growth in principal value and income over time sufficient to preserve or increase the purchasing power of the funds, thus protecting the funds against inflation. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy FAIR's long-term rate-of-return objectives, FAIR relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). FAIR's current asset allocation for board-designated and endowment funds targets a composition of 15% fixed income, 10% money market funds and 75% stocks.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Excluding the Swensrud Memorial Internship Fund, FAIR's endowment spending policy takes the average combined value of the endowment fund during the previous 10 quarters, and calculates 5% annually of the rolling amount for release into current operations. Expenditures from the Swensrud Memorial Internship Fund are released from restrictions as the scholarships are awarded, in accordance with donor stipulations. If an endowment fund has a deficiency, the Board of Directors has the discretion to forgo any appropriation from that fund until the fund deficiency is replenished. In establishing this policy, FAIR considered the long-term expected return on its endowment. This is consistent with FAIR's objective to maintain the purchasing power of the endowment assets for a specified term, as well as to provide additional real growth through investment returns.

In June 2013, FAIR's Board unanimously passed a resolution authorizing management to withdraw up to \$1,500,000 from the Swensrud Endowment Fund for the purpose of funding current operations. For the year ended December 31, 2016, there were no funds transferred to fund operations.

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires FAIR to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2016.

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

8. Endowment Funds (continued)

Composition and Activity of Endowment Funds by Net Asset Category

The endowment's net asset composition by type of fund is as follows as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 598,721	\$ 2,531,324	\$ 3,130,045
Board-designated fund	<u>4,364,914</u>	<u>-</u>	<u>-</u>	<u>4,364,914</u>
Total Funds	<u>\$ 4,364,914</u>	<u>\$ 598,721</u>	<u>\$ 2,531,324</u>	<u>\$ 7,494,959</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	\$ 4,590,306	\$ 734,520	\$ 2,531,324	\$ 7,856,150
Investment returns:				
Interest and dividends, net of investment expense	96,979	53,479	-	150,458
Net depreciation (realized and unrealized)	<u>(89,806)</u>	<u>(49,524)</u>	<u>-</u>	<u>(139,330)</u>
Total Investment Returns	7,173	3,955	-	11,128
Contributions	85,948	-	-	85,948
Spending policy	<u>(318,513)</u>	<u>(139,754)</u>	<u>-</u>	<u>(458,267)</u>
Endowment Net Assets, December 31, 2016	<u>\$ 4,364,914</u>	<u>\$ 598,721</u>	<u>\$ 2,531,324</u>	<u>\$ 7,494,959</u>

Permanently Restricted Net Assets

Swensrud Endowment Fund	\$ 2,427,571
Swensrud Memorial Internship Fund	<u>103,753</u>

The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA

\$ 2,531,324

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

8. Endowment Funds (continued)

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a purpose restriction under UPMIFA:

With purpose restriction	\$ 115,658
Without purpose restriction	<u>483,063</u>
Total Endowment Funds Classified as Temporarily Restricted	<u>\$ 598,721</u>

9. Savings Plans

FAIR sponsors a contributory tax-deferred savings plan for eligible employees whereby FAIR matches contributions for employees who meet certain length of service requirements. Under the terms of the plan, FAIR matches participants' contributions on a one-for-one basis up to a maximum of 2 1/2% of the gross salaries for employees who have one to three years of eligible service. After an employee reaches three years of eligible service, FAIR's contribution increases to a maximum of 5%, and after five years of service, a maximum of 7 1/2%. All eligible employees must contribute a minimum of 2 1/2% of their gross salaries in order to participate in the employer match. FAIR and Affiliates' plan contributions totaled \$128,327 for the year ended December 31, 2016, and are included in employee benefits and payroll taxes in the accompanying consolidated statement of functional expenses.

FAIR has also established a deferred compensation plan for certain key employees. The deferred compensation plan is intended to be a nonqualified deferred compensation plan that is governed by Section 457(b) of the Internal Revenue Code (the IRC). FAIR's deferred compensation plan contributions totaled \$2,836 for the year ended December 31, 2016, and are included in employee benefits and payroll taxes in the accompanying consolidated statement of functional expenses. As of December 31, 2016, the deferred compensation plan assets and liabilities totaled \$35,619 and are included in other assets and accounts payable and accrued expenses, respectively, in the accompanying consolidated statement of financial position.

10. Allocation of Joint Costs

During the year ended December 31, 2016, FAIR and Affiliates incurred joint costs of \$475,634 for informational materials and activities, which included fundraising appeals. Of these costs, \$86,259 was allocated to fundraising expenses and \$389,375 was allocated to program service expenses in the accompanying consolidated statement of functional expenses.

Continued

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

11. Income Taxes

FAIR, FCTF and IRLI are exempt from the payment of income taxes under Sections 501(c)(3), 501(c)(4) and 501(c)(3) of the IRC, respectively. As such, these organizations are taxed only on their net unrelated business income. In addition, FAIR has filed an election under IRC Section 501(h), which permits FAIR to engage in a limited amount of legislative lobbying. No provision for income taxes has been made in the accompanying consolidated financial statements for the year ended December 31, 2016, as there was no significant net unrelated business income or excess lobbying expenditures.

FAIR and Affiliates adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FAIR and Affiliates performed an evaluation of uncertain tax positions for the year ended December 31, 2016, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on their tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which FAIR and Affiliates files tax returns. As of December 31, 2016, FAIR and Affiliates had no accruals for interest and/or penalties.

12. Prior Year Summarized Financial Information

The accompanying consolidated 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 FAIR and Affiliates' consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

13. Subsequent Events

In preparing these consolidated financial statements, FAIR and Affiliates has evaluated events and transactions for potential recognition or disclosure through May 18, 2017, the date the consolidated financial statements were available to be issued. Except for the office space lease agreement amendment described below, there were no other subsequent events identified through May 18, 2017.

On March 22, 2017, FAIR amended its office space lease extending the lease term by 11 years with a new expiration date of December 2028. The amended lease agreement contains a fixed escalation clause for increases in the annual minimum rent at a rate of 2.5% per year

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

13. Subsequent Events (continued)

along with certain incentives consisting of rent abatements and improvement allowances. FAIR will also be required to pay for its proportionate share of operating expenses and real estate taxes.

The total future minimum rental payments required under this amended lease agreement are as follows:

For the Year Ending December 31,	
2018	\$ 337,929
2019	593,863
2020	608,568
2021	623,868
Thereafter	<u>4,826,213</u>
Total	<u>\$ 6,990,441</u>

SUPPLEMENTAL INFORMATION

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016

	<u>FAIR</u>	<u>FCTF</u>	<u>IRLI</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 4,899,799	\$ 44,933	\$ 954,340	\$ -	\$ 5,899,072
Grants receivable	12,500	-	-	-	12,500
Affiliate receivable	1,251	-	-	(1,251)	-
Prepaid expenses	24,160	-	-	-	24,160
Total Current Assets	4,937,710	44,933	954,340	(1,251)	5,935,732
Investments	9,113,739	-	393,676	-	9,507,415
Property and equipment, net	257,278	-	5,777	-	263,055
Artwork collections	15,000	-	-	-	15,000
Other assets	63,353	-	-	-	63,353
Security deposits	38,611	-	-	-	38,611
TOTAL ASSETS	\$ 14,425,691	\$ 44,933	\$ 1,353,793	\$ (1,251)	\$ 15,823,166
LIABILITIES AND NET ASSETS					
Liabilities					
Current liabilities					
Accounts payable and accrued expenses	\$ 205,710	\$ -	\$ 23,336	\$ -	\$ 229,046
Affiliate payable	-	-	1,251	(1,251)	-
Deferred rent and lease incentive liabilities	175,293	-	-	-	175,293
Total Current Liabilities	381,003	-	24,587	(1,251)	404,339
Deferred rent and lease incentive liabilities, noncurrent	-	-	-	-	-
TOTAL LIABILITIES	381,003	-	24,587	(1,251)	404,339
Net Assets					
Unrestricted	8,512,487	44,933	1,089,894	-	9,647,314
Temporarily restricted	3,000,877	-	239,312	-	3,240,189
Permanently restricted	2,531,324	-	-	-	2,531,324
TOTAL NET ASSETS	14,044,688	44,933	1,329,206	-	15,418,827
TOTAL LIABILITIES AND NET ASSETS	\$ 14,425,691	\$ 44,933	\$ 1,353,793	\$ (1,251)	\$ 15,823,166

FEDERATION FOR AMERICAN IMMIGRATION REFORM AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	FAIR	FCTF	IRLI	Eliminations	Total
OPERATING REVENUE AND SUPPORT					
Grants	\$ 9,931,371	\$ 10,286	\$ 1,475,986	\$ -	\$ 11,417,643
Investment income	358,385	39	4,253	-	362,677
Contributions and bequests	720,310	-	-	-	720,310
Online marketing	66,252	-	-	-	66,252
Royalty income	15,516	-	-	-	15,516
Other income	65,879	-	5,072	(30,501)	40,450
TOTAL OPERATING REVENUE AND SUPPORT	11,157,713	10,325	1,485,311	(30,501)	12,622,848
EXPENSES					
Program Services:					
Media	6,345,555	-	-	-	6,345,555
Government relations	1,096,492	-	-	-	1,096,492
Public education	954,682	-	-	-	954,682
Immigration Reform Law Institute (IRLI)	-	-	928,799	-	928,799
Field	535,151	-	-	-	535,151
Research and publications	405,948	-	-	-	405,948
Membership education and service	375,093	-	-	-	375,093
Lobbying	171,035	-	-	-	171,035
Public interest legal	45,477	-	-	-	45,477
FAIR Congressional Task Force (FCTF)	-	4,226	-	-	4,226
Total Program Services	9,929,433	4,226	928,799	-	10,862,458
Supporting Services:					
Management and general	889,909	948	110,837	(30,501)	971,193
Fundraising	427,385	-	-	-	427,385
Total Supporting Services	1,317,294	948	110,837	(30,501)	1,398,578
TOTAL EXPENSES	11,246,727	5,174	1,039,636	(30,501)	12,261,036
Change in net assets before unrealized losses on investments	(89,014)	5,151	445,675	-	361,812
Unrealized gains (losses) on investments	(364,189)	-	30,724	-	(333,465)
CHANGE IN NET ASSETS	(453,203)	5,151	476,399	-	28,347
NET ASSETS, BEGINNING OF YEAR	14,497,891	39,782	852,807	-	15,390,480
NET ASSETS, END OF YEAR	\$ 14,044,688	\$ 44,933	\$ 1,329,206	\$ -	\$ 15,418,827