PACIFIC LEGAL FOUNDATION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED
DECEMBER 31, 2016 AND 2015

Gilbert Associates, Inc.
CPAs and Advisors
Relax. We got this.℠

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pacific Legal Foundation and Subsidiary
Sacramento, California

We have audited the accompanying consolidated financial statements of Pacific Legal Foundation and Subsidiary (Organization), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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 the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 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.

2880 GATEWAY OAKS DRIVE, SUITE 100, SACRAMENTO, CA 95833 • 101 PARKSHORE DRIVE, SUITE 100, FOLSOM, CA 95630
PHONE:916.646.6464 • FAX:916.929.6836 • GilbertCPA.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2016 and 2015, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

June 7, 2017

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS:		
Cash and cash equivalents	$ 2,413,940	$ 2,445,950
Investments	39,020,056	36,713,198
Contributions and other receivables	1,208,485	1,935,294
Prepaid expenses and deposits	158,916	120,158
Other assets	30,171	59,710
Charitable remainder trust assets	1,285,935	1,314,624
Property and equipment, net	3,747,020	3,979,518
TOTAL ASSETS	$ 47,864,523	$ 46,568,452
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 131,014	$ 181,687
Payable to secondary beneficiary from charitable remainder trust	250,152	47,529
Accrued expenses and other liabilities	465,479	1,138,506
Capital lease obligations	43,615	60,306
Liability to beneficiaries	722,383	884,800
Total liabilities	1,612,643	2,312,828
NET ASSETS:		
Unrestricted:		
Undesignated	7,070,315	6,686,941
Board designated	36,015,653	33,301,790
Temporarily restricted	2,017,624	3,169,881
Permanently restricted	1,148,288	1,097,012
Total net assets	46,251,880	44,255,624
TOTAL LIABILITIES AND NET ASSETS	$ 47,864,523	$ 46,568,452

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

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Contributions	$ 5,948,707	$ 819,787		$ 6,768,494
Grants	2,945,262			2,945,262
Court-awarded attorney fees	167,147			167,147
Other income	40,099			40,099
Net assets released from restrictions	2,019,560	(2,019,560)		
Total revenues	11,120,775	(1,199,773)		9,921,002
OPERATING EXPENSES:				
Program services:				
Legal activities	5,142,544			5,142,544
Public education	1,943,313			1,943,313
Total program services	7,085,857			7,085,857
Supporting services:				
Revenue development	1,984,711			1,984,711
General and administrative	1,512,587			1,512,587
Total expenses	10,583,155			10,583,155
NET OPERATING INCOME (LOSS)	537,620	(1,199,773)		(662,153)
OTHER INCOME (LOSSES):				
Investment income	2,666,988		$ 51,276	2,718,264
Change in value of split-interest agreements	(107,371)	47,516		(59,855)
INCREASE (DECREASE) IN NET ASSETS	3,097,237	(1,152,257)	51,276	1,996,256
NET ASSETS, Beginning of year	39,988,731	3,169,881	1,097,012	44,255,624
NET ASSETS, End of year	$ 43,085,968	$ 2,017,624	$ 1,148,288	$ 46,251,880

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

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Contributions	$ 5,935,914	$ 1,183,318		$ 7,119,232
Grants	2,901,574			2,901,574
Court-awarded attorney fees	186,827			186,827
Other income	45,776			45,776
Net assets released from restrictions	2,513,980	(2,513,980)		
Total revenues	11,584,071	(1,330,662)		10,253,409
OPERATING EXPENSES:				
Program services:				
Legal activities	4,460,308			4,460,308
Public education	1,741,045			1,741,045
Total program services	6,201,353			6,201,353
Supporting services:				
Revenue development	2,318,525			2,318,525
General and administrative	959,354			959,354
Total expenses	9,479,232			9,479,232
NET OPERATING INCOME (LOSS)	2,104,839	(1,330,662)		774,177
OTHER LOSSES:				
Investment loss	(709,299)		$ (61,652)	(770,951)
Change in value of split-interest agreements	(44,551)	(268,346)		(312,897)
INCREASE (DECREASE) IN NET ASSETS	1,350,989	(1,599,008)	(61,652)	(309,671)
NET ASSETS, Beginning of year	38,637,742	4,768,889	1,158,664	44,565,295
NET ASSETS, End of year	$ 39,988,731	$ 3,169,881	$ 1,097,012	$ 44,255,624

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

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services		
	Legal Activities	Public Education	Total Program Services	Revenue Development	General & Admin.	Total
Salaries	$ 3,547,982	$ 1,205,478	$ 4,753,460	$ 881,843	$ 707,921	$ 6,343,224
Employee benefits and insurance	402,560	98,933	501,493	95,058	90,652	687,203
Payroll taxes	231,636	66,944	298,580	61,561	72,153	432,294
Total compensation	4,182,178	1,371,355	5,553,533	1,038,462	870,726	7,462,721
Communications		339,319	339,319	720,696		1,060,015
Professional services		403	403	7,650	330,126	338,179
Depreciation	161,122	54,743	215,865	40,046	30,638	286,549
Rent	128,556	43,679	172,235	31,952	24,446	228,633
Equipment rental	98,534	33,478	132,012	24,490	18,736	175,238
Case costs	145,751		145,751			145,751
Travel	67,010	15,662	82,672	46,109	10,917	139,698
Office expenses	37,469	10,685	48,154	17,789	68,899	134,842
Telephone	61,369	20,851	82,220	15,253	11,489	108,962
Library and research	97,180		97,180			97,180
Insurance	50,167	17,044	67,211	12,468	9,539	89,218
Miscellaneous expenses	113,208	36,094	149,302	29,796	137,071	316,169
Total expenses	$ 5,142,544	$ 1,943,313	$ 7,085,857	$ 1,984,711	$ 1,512,587	$ 10,583,155

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

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services			Supporting Services		
	Legal Activities	Public Education	Total Program Services	Revenue Development	General & Admin.	Total
Salaries	$ 3,056,224	$ 1,136,942	$ 4,193,166	$ 838,463	$ 380,460	$ 5,412,089
Employee benefits and insurance	382,443	86,423	468,866	93,730	102,578	665,174
Payroll taxes	207,168	59,454	266,622	57,410	56,728	380,760
Total compensation	3,645,835	1,282,819	4,928,654	989,603	539,766	6,458,023
Communications		235,918	235,918	1,050,589		1,286,507
Professional services	8,840		8,840		127,896	136,736
Depreciation	177,921	67,188	245,109	48,812	21,150	315,071
Rent	145,662	54,188	199,850	39,962	18,135	257,947
Equipment rental	52,583	19,561	72,144	14,722	6,251	93,117
Case costs	118,243		118,243			118,243
Travel	49,394	20,252	69,646	23,130	10,110	102,886
Office expenses	4,579	1,290	5,869	23,740	95,740	125,349
Telephone	57,788	21,498	79,286	15,689	7,194	102,169
Library and research	83,531		83,531			83,531
Insurance	49,189	18,575	67,764	13,495	5,847	87,106
Miscellaneous expenses	66,743	19,756	86,499	98,783	127,265	312,547
Total expenses	$ 4,460,308	$ 1,741,045	$ 6,201,353	$ 2,318,525	$ 959,354	$ 9,479,232

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

PACIFIC LEGAL FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 1,996,256	$ (309,671)
Reconciliation to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(1,955,223)	1,610,041
Donated investments	(133,684)	(15,000)
Depreciation	286,549	315,071
Changes in:		
Contributions and other receivables	726,809	1,799,458
Prepaid expenses and deposits	(38,758)	70,593
Other assets	29,539	(11,281)
Charitable remainder trust assets	(38,852)	342,155
Accounts payable	(50,673)	67,019
Accrued expenses and other liabilities	(665,793)	79,276
Liability to beneficiaries	40,206	(84,359)
Net cash provided by operating activities	196,376	3,863,302
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(47,531)	(628,716)
Purchase of investments	(21,292,899)	(22,744,639)
Proceeds from sale of investments	21,135,255	18,473,326
Net cash used by investing activities	(205,175)	(4,900,029)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(23,211)	(16,690)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,010)	(1,053,417)
CASH AND CASH EQUIVALENTS, Beginning of year	2,445,950	3,499,367
CASH AND CASH EQUIVALENTS, End of year	$ 2,413,940	$ 2,445,950
NON-CASH TRANSACTIONS:		
Charitable remainder trust assets transferred to investments	$ 67,541	$
Net realized and unrealized loss in investments held for supplemental pension plan and related change in liability	$ (7,234)	$ (47,934)

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

1. ORGANIZATION

Pacific Legal Foundation (Foundation) is a nonprofit public benefit corporation operating on voluntary, tax-deductible donations from the private sector, or through court-awarded attorneys' fees. Contributors consist of individuals, businesses, associations, and foundations from across the United States. The Foundation litigates nationwide to secure all Americans' inalienable rights to live responsibly and productively in their pursuit of happiness. The Foundation combines strategic and principled litigation, communications and research to achieve landmark court victories enforcing the Constitution's guarantee of individual liberty. The Foundation is headquartered in Sacramento, California, with additional locations in the states of Alaska, Florida, Hawaii, Washington, and Virginia.

PLF Building, LLC (LLC) is a wholly-owned subsidiary of the Foundation established to act as a title holding company.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The accompanying financial statements reflect the consolidation of the Foundation and the LLC (collectively, the Organization). Material transactions between entities have been eliminated in consolidation.

Basis of accounting and financial statement presentation – The consolidated financial statements are prepared on the accrual basis of accounting in conformity with professional standards applicable to not-for-profit entities. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Contributions, grants, and promises to give are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the *Consolidated Statement of Activities* as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Court-awarded attorney fees are recorded when received.

Cash and cash equivalents – For financial statement purposes, the Organization considers all investments with a maturity at purchase of three months or less to be cash equivalents, unless held for long-term purposes.

The Organization minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Investments are stated at fair value.

Property and equipment – Furniture, office equipment, library, leasehold improvements, building and land are recorded at cost. The Organization capitalizes all expenditures of property and equipment in excess of $250. Depreciable assets are depreciated using the straight-line method over estimated useful lives of three to thirty years.

Charitable remainder trust assets include the estimated fair value of irrevocable charitable trusts in which the Organization is both the trustee and secondary beneficiary, as well as the estimated fair value of the Organization's remainder interest in irrevocable trusts for which the Organization is the secondary beneficiary. The fair value of the Organization's remainder interest in irrevocable trusts is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and relevant discount rate. Irrevocable charitable trusts whose use is limited by the Organization due to time or donor-imposed restrictions increase temporarily restricted net assets.

Liability to beneficiaries represents the present value of the liability due to primary beneficiaries and other secondary beneficiaries of the irrevocable charitable remainder trusts and charitable gift annuities for which the Organization is both trustee and secondary beneficiary. On an annual basis, the Organization reviews the need to revalue the liability to make distributions to the designated beneficiaries based upon actuarial assumptions. The present value of the estimated future payments is calculated using discount rates ranging from 2.0% to 8.92% and applicable mortality tables. The current portion of the liability to beneficiaries at December 31, 2016 and 2015 was $122,157 and $132,467, respectively.

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the *Consolidated Statement of Activities* and *Consolidated Statement of Functional Expenses*. Accordingly, certain costs have been allocated to program and supporting services in proportion to the estimated benefit received by each activity.

Income taxes – The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3), and is classified as a public charity within the meaning of Internal Revenue Code Section 509(a).

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events have been evaluated through June 7, 2017, the date the consolidated financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2016 that require recognition or disclosure in the financial statements.

3. RECEIVABLES

Receivables consist of the following:

	2016	2015
Pledges receivable	$ 335,825	$ 638,650
Contributions receivable	872,660	1,296,644
Total	$ 1,208,485	$ 1,935,294

Pledges, contributions, and other receivables are due to be collected as follows:

	2016	2015
Within one year	$ 1,208,485	$ 1,410,294
In one to five years		525,000
Total	$ 1,208,485	$ 1,935,294

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Building and related property	$ 3,500,000	$ 3,500,000
Office furniture and equipment	495,619	485,406
Furniture	386,411	367,620
Leasehold improvements	999,895	987,900
Library	24,239	24,239
Total	5,406,164	5,365,165
Less accumulated depreciation and amortization	(1,659,144)	(1,385,647)
Property and equipment, net	$ 3,747,020	$ 3,979,518

5. CHARITABLE REMAINDER TRUST ASSETS

Charitable remainder trust assets consist of the following:

	2016	2015
Assets held in charitable remainder trusts in which the Organization is both trustee and secondary beneficiary	$ 507,046	$ 572,209
Charitable remainder interests receivable from third parties	778,889	742,415
Total	$ 1,285,935	$ 1,314,624

6. INVESTMENTS

Investments consist of the following:

	2016	2015
Money market funds	$ 2,958,692	$ 3,735,845
Mutual funds (equity):		
Value	4,120,410	1,472,529
Growth	2,323,681	4,097,100
Blend		104,569
Foreign	2,888,246	3,648,883
Core	2,770,185	4,883,663
Mutual funds (fixed income):		
High yield	1,532,150	1,449,460
Emerging markets	803,433	700,808
Short-term	23,498	691,500
Intermediate-term	145,699	215,575
World bond	463,209	422,545
Income fund		925,772
Other	39,258	29,855
Equity securities:		
Value		4,818
Growth		394,897
Core	5,170,976	3,195,279
Foreign	2,686,790	1,100,168
Real estate investment trusts	1,794,976	1,668,689
Other real assets	1,504,508	934,567
Hedge funds:		
Macro	688,638	752,182
Event driven	1,115,460	1,137,020
Equity	1,521,174	1,493,601
Relative value	1,559,447	
Corporate bonds	2,590,556	1,837,430
Government bonds	2,319,070	1,816,443
Total	$ 39,020,056	$ 36,713,198

Investment income (loss) consists of the following:

	2016	2015
Interest and dividends	$ 763,041	$ 839,090
Net realized and unrealized gain (loss)	1,955,223	(1,610,041)
Total	$ 2,718,264	$ (770,951)

Investment income is reported net of broker fees and commissions of $114,457 and $145,738 in 2016 and 2015, respectively.

7. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the assets or liabilities.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The Organization's assets subject to fair value are classified as follows:

Year ending December 31, 2016:	**Level 1**	**Level 2**	**Level 3**
Investments	$ 29,225,711	$ 5,598,264	
Investments held in charitable remainder trusts in which the Foundation is both trustee and secondary beneficiary	507,046		
Charitable remainder interests receivable from third parties			$ 778,889
Total	$ 29,732,757	$ 5,598,264	$ 778,889

Year ending December 31, 2015:	Level 1	Level 2	Level 3
Investments	$ 31,922,305	$ 3,653,873	
Investments held in charitable remainder trusts in which the Organization is both trustee and secondary beneficiary	572,209		
Charitable remainder interests receivable from third parties			$ 742,415
Total	$ 32,494,514	$ 3,653,873	$ 742,415

The Organization's investments and investments held in charitable remainder trusts in which the Organization is both trustee and secondary beneficiary are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative sources with reasonable levels of price transparency. The Organization's charitable remainder interests receivable from third parties are classified within Level 3 of the hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. The Organization's investments are classified within Level 2 of the hierarchy because the value is calculated on the basis of pricing information obtained from various pricing sources and from inputs other than quoted prices in active markets.

Changes in the Level 3 assets consist of:

	2016	2015
January 1	$ 742,415	$ 1,000,656
Maturity of charitable remainder interests receivable	(2,703)	
Unrealized gain (loss) in fair value	39,177	(258,241)
December 31	$ 778,889	$ 742,415

The Foundation has four investments totaling $4,196,081 and $1,137,020 at December 31, 2016 and 2015, respectively, in multi-adviser hedge funds that are valued using the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value. There are no outstanding capital calls on these investments and they are fully redeemable on a quarterly tender basis. One of the investments totaling $1,115,460 and $1,137,020 at December 31, 2016 and 2015, respectively, is subject to a 5% holdback for 12 months.

8. LINE OF CREDIT

The Organization has a $3,000,000 revolving line of credit agreement with Wells Fargo Bank that expires on July 10, 2017. The interest on the line of credit is variable and is equal to the Daily One Month LIBOR plus 1.5%. There was no outstanding balance as of December 31, 2016 or 2015.

9. LEASE OBLIGATIONS

The Organization leases certain equipment and office space under long-term operating lease agreements, which expire at various dates through 2019. Rental expense for 2016 and 2015 was $403,872 and $299,306, respectively. Future minimum lease payments are as follows:

Fiscal year ending December 31:	
2017	$ 178,541
2018	124,242
2019	7,688
Total	$ 310,471

10. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Time Restriction:		
Charitable remainder trusts	$ 939,206	$ 953,765
Litigation	747,137	1,538,650
General operations	317,281	24,000
Purpose Restriction:		
Litigation	10,000	432,074
Liberty Clinic		211,893
Other	4,000	9,499
Total	$ 2,017,624	$ 3,169,881

The Organization's endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) 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. Permanently restricted net assets as of December 31, 2016 and 2015, consist of one endowment fund, and are to be invested in perpetuity with gains and losses. Interest and dividends are to be used for operating or other purposes as designated by the Board of Trustees.

Board endowments of $36,015,653 and $33,301,790 at December 31, 2016 and 2015, respectively, have been designated to provide annual income that is predictable and reliable to assure the ability of the Organization to meet long-term professional obligations inherent in the nature of its litigation services.

The endowment investment policy, approved by the Board of Trustees, emphasizes preservation of capital as its primary objective and growth and income as secondary objectives. Changes in endowment net assets are as follows:

Year ending December 31, 2016:	Board Designated Unrestricted	Permanently Restricted
Endowment net assets, beginning of year	$ 33,301,790	$ 1,097,012
Investment income	2,609,648	51,276
Contributions	2,457,552	
Endowment funds used for operations	(2,250,639)	
Endowment expenditures	(102,698)	
Endowment net assets, end of year	$ 36,015,653	$ 1,148,288

Year ending December 31, 2015:	Board Designated Unrestricted	Permanently Restricted
Endowment net assets, beginning of year	$ 30,523,119	$ 1,158,664
Investment loss	(710,245)	(61,652)
Contributions	3,615,011	
Endowment expenditures	(126,095)	
Endowment net assets, end of year	$ 33,301,790	$ 1,097,012

11. PENSION PLANS

The Organization had established a defined contribution supplemental pension plan for certain executive employees. The Organization annually accrues a fixed percentage of the covered executive employees' annual compensation. Pension expense for this plan was $10,067 and $23,040 for 2016 and 2015, respectively. This plan was discontinued in 2016 as all covered employees have left the Organization.

The Organization has a defined contribution pension plan under Internal Revenue Code Section 403(b). Employees are eligible to participate upon date of hire and are eligible to receive employer contributions after completing six months of service. On a discretionary basis, the Organization may make nonelective contributions. Plan expense was $207,594 and $189,033 for 2016 and 2015, respectively.