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

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**FINANCIAL STATEMENTS**

**MARCH 31, 2009**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying Statement of Financial Position of American Civil Liberties Union Foundation of Northern California, Inc. (a nonprofit organization) as of March 31, 2009 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of American Civil Liberties Union Foundation of Northern California, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from American Civil Liberties Union Foundation of Northern California, Inc.'s March 31, 2008 financial statements and in our report dated December 2, 2008 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of American Civil Liberties Union Foundation of Northern California, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Civil Liberties Union Foundation of Northern California, Inc. as of March 31, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

San Francisco, California  
August 27, 2009

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

STATEMENT OF FINANCIAL POSITION

March 31, 2009

With comparative totals at March 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
<b>Assets</b>					
Cash and cash equivalents (Note 2)	\$ 1,302,619	\$ -	\$ -	\$ 1,302,619	\$ 1,517,545
Pledges receivable (Note 3)	881,077	2,557,313		3,438,390	4,381,492
Other accounts receivable	4,421			4,421	-
Receivable from National (Note 14)	1,638,545			1,638,545	-
Other assets	86,391			86,391	83,355
Deposit (Note 5)	1,000,000			1,000,000	1,000,000
Investments (Note 6)	2,701,186	5,795,744	2,730,304	11,227,234	12,436,228
Property and equipment (Note 8)	1,699,827			1,699,827	1,842,099
<b>Total assets</b>	<b>\$ 9,314,066</b>	<b>\$ 8,353,057</b>	<b>\$ 2,730,304</b>	<b>\$ 20,397,427</b>	<b>\$ 21,260,719</b>
<b>Liabilities and net assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 173,571	\$ -	\$ -	\$ 173,571	\$ 87,892
Accrued liabilities (Note 9)	1,757,749			1,757,749	1,899,649
Line of credit (Note 10)				-	-
Payable to ACLU-NC	164,935			164,935	7,729
Payable to National (Note 14)				-	52,537
<b>Total liabilities</b>	<b>2,096,255</b>	<b>-</b>	<b>-</b>	<b>2,096,255</b>	<b>2,047,807</b>
<b>Net assets</b>					
Unrestricted	471,883			471,883	1,945,021
Unrestricted - board designated (Note 11)	6,745,928			6,745,928	6,739,331
Temporarily restricted (Note 12)		8,353,057		8,353,057	6,988,349
Permanently restricted (Note 13)			2,730,304	2,730,304	3,540,211
<b>Total net assets</b>	<b>7,217,811</b>	<b>8,353,057</b>	<b>2,730,304</b>	<b>18,301,172</b>	<b>19,212,912</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,314,066</b>	<b>\$ 8,353,057</b>	<b>\$ 2,730,304</b>	<b>\$ 20,397,427</b>	<b>\$ 21,260,719</b>

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

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

STATEMENT OF ACTIVITIES

For the year ended March 31, 2009

With comparative totals for the year ended March 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
<b>Revenue and support</b>					
Contributions	\$ 4,039,310	\$ 4,263,347	\$ 33,000	\$ 8,335,657	\$ 10,959,498
Bequests	2,515,690			2,515,690	725,911
In-kind contributions (Note 15)	1,319,913			1,319,913	1,081,888
Grants		969,000		969,000	839,717
Attorney fee awards (Note 2)	470,000			470,000	170,395
Other revenue	443,324			443,324	282,028
Interest income	246,191	72,787		318,978	348,426
Discount on pledges receivable (Note 3)	55,283	123,108		178,391	(443,686)
Gain (loss) on investments	(1,089,370)	(711,102)	(65,892)	(1,866,364)	253,715
National share (Note 14)	(3,529,912)	(2,269,201)		(5,799,113)	(4,890,624)
Net assets released from capital restrictions	546,826	(546,826)		-	-
Net assets released from program restrictions	1,313,420	(1,313,420)		-	-
<b>Total revenue and support</b>	<b>6,330,675</b>	<b>587,693</b>	<b>(32,892)</b>	<b>6,885,476</b>	<b>9,327,268</b>
<b>Expenses</b>					
Program services	5,556,810			5,556,810	4,704,932
Management and general	1,033,935			1,033,935	1,009,753
Fundraising	1,206,471			1,206,471	1,418,360
<b>Total expenses</b>	<b>7,797,216</b>	<b>-</b>	<b>-</b>	<b>7,797,216</b>	<b>7,133,045</b>
<b>Change in net assets</b>	<b>(1,466,541)</b>	<b>587,693</b>	<b>(32,892)</b>	<b>(911,740)</b>	<b>2,194,223</b>
<b>Net assets, beginning of year</b>	<b>8,684,352</b>	<b>6,988,349</b>	<b>3,540,211</b>	<b>19,212,912</b>	<b>17,018,689</b>
<b>Net assets reclassification on change in law</b>	<b>-</b>	<b>777,015</b>	<b>(777,015)</b>	<b>-</b>	<b>-</b>
<b>Net assets after reclassification</b>	<b>8,684,352</b>	<b>7,765,364</b>	<b>2,763,196</b>	<b>19,212,912</b>	<b>17,018,689</b>
<b>Net assets, end of year</b>	<b>\$ 7,217,811</b>	<b>\$ 8,353,057</b>	<b>\$ 2,730,304</b>	<b>\$ 18,301,172</b>	<b>\$ 19,212,912</b>

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

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

**STATEMENT OF FUNCTIONAL EXPENSES**

For the year ended March 31, 2009

With comparative totals for the year ended March 31, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>	
				2009	2008
Personnel costs	\$ 2,365,705	\$ 605,539	\$ 865,308	\$ 3,836,552	\$ 3,444,869
In-kind expenses (Note 15)	1,319,913			1,319,913	1,081,888
Occupancy costs	366,522	64,392	151,505	582,419	542,965
Professional and consulting fees	317,971	146,188	35,385	499,544	366,889
Legislative	294,900			294,900	320,400
Printing, publications, and public education	247,889		164	248,053	215,407
Meetings and travel	159,618	37,494	9,968	207,080	259,404
Depreciation	119,044	22,321	44,642	186,007	176,278
Law intern	159,937			159,937	221,522
Cost of recruitment		68,561		68,561	19,349
Insurance	39,295	21,848		61,143	52,768
Fundraising			56,742	56,742	174,314
Equipment and maintenance	675	48,090	4,349	53,114	42,901
Office supplies	33,435	5,798	11,596	50,829	53,030
Telephone	31,752	5,172	10,344	47,268	45,687
Library materials	45,228			45,228	37,741
Other	17,305	8,532	5,646	31,483	32,377
Postage	26,168			26,168	948
Litigation costs	11,453			11,453	31,418
Bank charges			10,822	10,822	12,890
<b>Total 2009 functional expenses</b>	<b><u>\$ 5,556,810</u></b>	<b><u>\$ 1,033,935</u></b>	<b><u>\$ 1,206,471</u></b>	<b><u>\$ 7,797,216</u></b>	
<b>Total 2008 functional expenses</b>	<b><u>\$ 4,704,932</u></b>	<b><u>\$ 1,009,753</u></b>	<b><u>\$ 1,418,360</u></b>		<b><u>\$ 7,133,045</u></b>

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

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

STATEMENT OF CASH FLOWS

For the year ended March 31, 2009

With comparative totals for the year ended March 31, 2008

	2009	2008
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (911,740)	\$ 2,194,223
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	186,007	176,278
(Gain) loss on investments	1,866,364	(253,715)
Reinvested interest	(179,346)	(222,003)
Change in discount on pledges receivable	(178,391)	443,686
Change in allowance for doubtful pledges receivable	-	(55,000)
Changes in operating assets and liabilities:		
(Increase) decrease in pledges receivable	1,121,493	(3,910,158)
(Increase) decrease in other accounts receivable	(4,421)	36,860
(Increase) decrease in receivable from National	(1,638,545)	588,305
(Increase) decrease in other assets	(3,036)	108,733
Decrease in prepaid pension expense	-	89,842
Increase (decrease) in accounts payable	85,679	(138,372)
Increase (decrease) in accrued liabilities	(141,900)	1,605,661
Increase (decrease) in payable to ACLU-NC	157,206	(24,863)
Increase (decrease) in payable to National	(52,537)	52,537
<b>Net cash provided by operating activities</b>	<b>306,833</b>	<b>692,014</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(43,735)	(66,844)
Proceeds from sale of investments	1,284,783	2,658,552
Purchase of investments	(1,762,807)	(3,413,024)
<b>Net cash (used) by investing activities</b>	<b>(521,759)</b>	<b>(821,316)</b>
<b>Net (decrease ) in cash and cash equivalents</b>	<b>(214,926)</b>	<b>(129,302)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,517,545</b>	<b>1,646,847</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,302,619</b>	<b>\$ 1,517,545</b>

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

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

**NOTES TO FINANCIAL STATEMENTS**

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**1. Organization**

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

Known for its legal activities and litigation to preserve constitutional rights, the Foundation also engages in policy work to address governmental over-reaching and effect legislation to improve justice and fairness. The Foundation participates in public forums and debates, interacts with the media, and engages in education and action through 50 staff members, over 52,000 members and activists, and 22 local grassroots chapters. In addition, the Foundation works with students in high schools and middle schools to develop new leadership and educate young people about the Bill of Rights and its relevance to their lives. The ambitious legal docket includes more than 70 cases addressing a wide range of constitutional issues: free speech; discrimination (racial, religious, language, and immigrant minorities - including Muslims and Southeast Asians -; lesbians/gay men, youth and students, and people with AIDS); due process (search and seizure, police abuse, torture, prisoner's rights); privacy (Internet, drug and HIV testing, domestic spying and surveillance, reproductive rights); and government intrusion resulting from the war on terrorism and the abuse of Presidential power.

The Foundation is headquartered in San Francisco, with a branch office in San Jose, and conducts advocacy in the vast northern and central California regions stretching from Fresno up to the Oregon border. The Foundation is affiliated with the American Civil Liberties Union of Northern California, Inc. ("ACLU-NC") and the National organization, American Civil Liberties Union, Inc. ("National").

In order to stabilize occupancy costs and thereby provide a more predictable stream of funding for program activities, the Foundation has initiated a fundraising campaign and entered into a contract to purchase an office condominium. The facility will provide sufficient space for current staff, future staff growth, coalition and community meetings and national ACLU projects working on immigration and lesbian, gay, bi-sexual, and transgender ("LGBT") issues. It is accessible by public transportation while being near to the legal community of downtown San Francisco.

**2. Summary of Significant Accounting Policies**

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

**Basis of Presentation**

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

continued

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

NOTES TO FINANCIAL STATEMENTS

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2. **Summary of Significant Accounting Policies, continued**

**Accounting**

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

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

**Unrestricted-Board Designated.** These are comprised of resources that the Board of Directors has established as being designated for the future program and capital expansion, and cash flow resources. For the purposes of complying with net asset accounting, this fund is included in unrestricted net assets at March 31, 2009 (see Note 11).

**Temporarily Restricted.** The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions (see Note 12).

**Permanently Restricted.** These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets (see Note 13).

**Cash and Cash Equivalents**

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

continued

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

NOTES TO FINANCIAL STATEMENTS

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**2. Summary of Significant Accounting Policies, continued**

**Contributions and Pledges Receivable**

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

**Investments**

The Foundation values its investments at fair value. Gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain on investments.

Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

**Concentration of Credit Risks**

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

The Foundation holds investments in the form of short-term money market investments, federal agency bonds, and common stocks of publicly held companies, as well as mutual funds. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

**Property and Equipment**

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

**Attorney Fees Awarded**

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

continued

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

**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

**Donated Materials and Services**

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received (see Note 15).

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

**Income Taxes**

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

**Functional Allocation of Expenses**

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

**Use of Estimates**

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

**Comparative Totals**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended March 31, 2008 from which the summarized information was derived.

continued

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

**NOTES TO FINANCIAL STATEMENTS**

**3. Pledges Receivable**

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at their estimated fair present value at March 31, 2009. A discount rate of 5.0% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at March 31, 2009 of \$3,438,390 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2010	\$1,537,589
2011	1,176,560
2012	1,107,347
2013	101,037
2014	<u>21,233</u>
	3,943,766
Less: allowance for doubtful pledges receivable	(150,000)
Less: unamortized discount on pledges receivable	<u>(355,376)</u>
	<u>\$3,438,390</u>

**4. Pension Plan**

The Foundation is part of National's multi-employer defined benefit pension plan. Employees must complete one full year of service before being eligible to participate. Pension expense for the year ended March 31, 2009 was \$187,793.

**5. Deposit**

The Foundation entered into a lease-purchase agreement for certain office space. The stated purchase price is \$9,250,000. Terms of the lease-purchase agreement call for an initial lease of the premises with an eventual purchase of the property one year after occupancy but, in any event, not later than May 31, 2009. The lease-purchase agreement also states that no rent shall be paid during the first year of occupancy and that the lessor will provide the Foundation with a \$500,000 credit to be applied against the purchase price. A monthly rent of \$50,000 shall be paid until the purchase agreement is executed. The Foundation occupied the building in May 2006 and payment of rent commenced in January 2007. The Foundation also paid \$1,000,000 into an escrow account as part of the purchase agreement, which is reflected as a deposit at March 31, 2009.

continued

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

NOTES TO FINANCIAL STATEMENTS

**6. Investments**

Investments at March 31, 2009 consist of the following:

Money market funds	\$ 5,569,334
Mutual funds	2,730,304
Fixed income	1,570,980
Marketable equity securities	<u>1,356,616</u>
	<u>\$11,227,234</u>

**7. Fair Value Measurements**

Fair value of assets measured on a recurring basis at March 31, 2009 are as follows:

	<u>Fair Value</u>	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>
Money market	\$ 5,569,334	\$ 5,569,334
Mutual funds	2,730,304	2,730,304
Fixed income	1,570,980	1,570,980
Marketable equity securities	<u>1,356,616</u>	<u>1,356,616</u>
	<u>\$11,227,234</u>	<u>\$11,227,234</u>

*Fair Value Measurements*

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. The Foundation used Level 1 inputs when disclosing its investments. No Level 2 and 3 inputs were available to the Foundation.

*Level 1 Fair Value Measurements*

The Foundation's investments are from active markets and therefore Level 1 Fair Value Measurement is used whereby Level 1 inputs are quoted prices (unadjusted) from these active markets for identical assets or liabilities that the Foundation has the ability to access at year end. The fair values of money market, mutual funds, fixed income and securities are based on quoted market prices.

continued

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

NOTES TO FINANCIAL STATEMENTS

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**8. Property and Equipment**

Property and equipment at March 31, 2009 consist of the following:

Leasehold improvements	\$1,111,929
Equipment	841,597
Construction in progress	<u>361,829</u>
	2,315,355
Less: accumulated depreciation	<u>(615,528)</u>
	<u>\$1,699,827</u>

**9. Accrued Liabilities**

Accrued liabilities at March 31, 2009 consist of the following:

Accrued liability to National (Note 14)	\$1,278,657
Accrued vacation	291,081
Accrued pension liability	183,889
Other liabilities	<u>4,122</u>
	<u>\$1,757,749</u>

**10. Line of Credit**

The Foundation has a line of credit in the amount of \$1,000,000 from a bank, at an interest rate of 1.00% above the bank's index rate in effect per annum, currently at 8.35%, due September 30, 2009. No amount was outstanding at March 31, 2009.

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

NOTES TO FINANCIAL STATEMENTS

**11. Board Designated Funds**

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

	<b>Major Attorney Fees</b>	<b>Board Designated Building Fund</b>	<b>Other Board Designated Funds</b>	<b>Interest</b>	<b>Total</b>
Opening balances, April 1, 2008	\$2,902,414	\$2,015,259	\$1,821,658	\$ -	\$6,739,331
Transfer in	470,000		941,746	164,097	1,575,843
Transfer out	<u>(483,842)</u>	<u>(419,000)</u>	<u>(502,307)</u>	<u>(164,097)</u>	<u>(1,569,246)</u>
Ending balances, March 31, 2009	<u>\$2,888,572</u>	<u>\$1,596,259</u>	<u>\$2,261,097</u>	<u>\$ -</u>	<u>\$6,745,928</u>

**12. Temporarily Restricted Net Assets**

Temporarily restricted net assets at March 31, 2009 consist of the following:

AIDS related and gay/lesbian rights	\$ 87,256
Separation of church and state	35,114
Death penalty (Heller)	<u>22,103</u>
Total bequests	<u>144,473</u>
Building	7,416,236
Donor-restricted endowment funds	323,718
Technology and civil liberties	309,431
General support – time restriction	200,364
Reproductive rights	80,324
Disproportionate minority confinement	50,000
Death penalty	45,833
Racial justice	36,416
Executive director search	17,187
Organizational effectiveness	14,583
Immigrants rights	13,670
Safer schools	8,854
Gay/lesbian rights	8,854
Friedman project	5,832
Sex education	833
Government spying	<u>167</u>
Total grants	<u>8,532,302</u>
	<u>\$8,676,775</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

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**13. Permanently Restricted Net Assets**

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of California enacted UPMIFA effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Foundation has adopted FSP FAS 117-1 for the year ending March 31, 2009. The Board of Directors has determined that the majority of the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Foundation's interpretation of UPMIFA, the Foundation has reviewed all of its endowment funds and has reclassified \$777,015 from permanently restricted net assets to temporarily restricted net assets as of March 31, 2009.

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

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

continued

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

NOTES TO FINANCIAL STATEMENTS

**13. Permanently Restricted Net Assets, continued**

*Investment Return Objectives, Risk Parameters and Strategies*

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

*Spending Policy*

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

Endowment Net Assets Composition by Type of Fund as of March 31, 2009 is as follows:

	<b>Temporarily Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total Endowment Assets</b>
Donor-restricted endowment funds	\$ _____	\$2,730,304	\$2,730,304
Total funds	\$ _____	\$2,730,304	\$2,730,304

**AMERICAN CIVIL LIBERTIES UNION FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS

**13. Permanently Restricted Net Assets, continued**

Changes in endowment net assets as of March 31, 2009 are as follows:

	<u>Temporarily Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$3,540,211	\$3,540,211
Net assets reclassification on change of law	777,015	(777,015)	-
Contributions		33,000	33,000
Interest income	72,787		72,787
Distributions	(138,700)		(138,700)
Investment return: net depreciation (realized and unrealized)	<u>(711,102)</u>	<u>(65,892)</u>	<u>(776,994)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$2,730,304</u>	<u>\$2,730,304</u>

Permanently restricted net assets at March 31, 2009 consist of the following:

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

**14. Related Party Transactions**

The Foundation and ACLU-NC share rent and overhead expenses. The basis for allocation of these indirect expenses is the salary of employees, which relates to the time spent on programs of the respective organizations. At March 31, 2009, the amount due to ACLU-NC by the Foundation was \$164,935. Additionally, for the year ended March 31, 2009, the Foundation paid ACLU-NC for advocacy services in the amount of \$294,900.

Contributions received by the Foundation are subject to a Revenue Sharing agreement (the "Agreement") between the Foundation and National to ensure that the parties to the agreement receive the same level of income as was received in an average base year, as defined, and any subsequent growth or decline is shared equally. Income from bequests is shared as follows: National (37.5%), the Foundation (37.5%), and the Affiliate Development Fund (25%). For the year ended March 31, 2009, National's portion of contributions received amounted to \$5,799,113, which is reflected as an offset of revenue. At March 31, 2009, the Foundation has a receivable of \$1,638,545 from National. Additionally, the Foundation has recorded an estimated liability in the amount of \$1,278,657 for National's share of its pledges receivable.

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**AMERICAN CIVIL LIBERTIES UNION FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS

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**15. In-kind Contributions and Expense**

The Foundation received pro-bono legal services from certain attorneys who support ACLU-NC. Such services were provided in support of ACLU-NC's basic charter for protection of individual rights. The established fair value of legal services received for the year ended March 31, 2009 amounted to \$1,319,913 and was based upon the number of hours contributed at appropriate billing rates, and has been recorded as an in-kind contribution and expense.

**16. Subsequent Event**

Subsequent to year-end, the Foundation purchased office space in the amount of \$9,250,000. The Foundation remitted \$4,750,000 in cash and borrowed \$4,500,000 to complete the purchase. No adjustments related to this transaction have been made to the financial statements for the year ended March 31, 2009.

Additionally, subsequent to year-end the National's multi-employer defined benefit pension plan was frozen; accordingly no new participants will be added to the defined benefit plan census. In its place, the National office is offering a multi-employer defined contribution plan and the employees of the Foundation who meet the eligibility criteria may participate in the new plan. No adjustments related to this transaction have been made to the financial statements for the year ended March 31, 2009.