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

FINANCIAL STATEMENTS

MARCH 31, 2008

CONTENTS

	Pages
Independent Auditors' Report.....	1
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Functional Expenses.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6-13



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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, 2008 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, 2007 financial statements and in our report dated November 16, 2007 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 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, 2008 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
December 2, 2008

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

STATEMENT OF FINANCIAL POSITION

March 31, 2008

With comparative totals at March 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008	2007
Assets					
Cash and cash equivalents (Note 2)	\$ 1,517,545	\$ -	\$ -	\$ 1,517,545	\$ 1,646,847
Pledges receivable (Note 3)	1,226,873	3,154,619		4,381,492	860,020
Other accounts receivable				-	36,860
Receivable from National				-	588,305
Other assets	83,355			83,355	192,088
Prepaid pension expense (Note 4)				-	89,842
Deposit (Note 5)	1,000,000			1,000,000	1,000,000
Investments (Note 6)	5,062,287	3,833,730	3,540,211	12,436,228	11,206,038
Property and equipment (Note 7)	1,842,099			1,842,099	1,951,533
	\$ 10,732,159	\$ 6,988,349	\$ 3,540,211	\$ 21,260,719	\$ 17,571,533
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 87,892	\$ -	\$ -	\$ 87,892	\$ 226,264
Accrued liabilities (Note 8)	1,899,649			1,899,649	293,988
Line of credit (Note 9)				-	-
Payable to ACLU Northern California (Note 13)	7,729			7,729	32,592
Payable to National (Note 13)	52,537			52,537	-
	2,047,807	-	-	2,047,807	552,844
Net assets					
Unrestricted	1,945,021			1,945,021	1,847,504
Unrestricted - board designated (Note 10)	6,739,331			6,739,331	6,186,184
Temporarily restricted (Note 11)		6,988,349		6,988,349	5,603,881
Permanently restricted (Note 12)			3,540,211	3,540,211	3,381,120
	8,684,352	6,988,349	3,540,211	19,212,912	17,018,689
	\$ 10,732,159	\$ 6,988,349	\$ 3,540,211	\$ 21,260,719	\$ 17,571,533

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, 2008
With comparative totals for the year ended March 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008</u>	<u>2007</u>
Revenue and support					
Contributions	\$ 6,857,299	\$ 4,086,199	\$ 16,000	\$ 10,959,498	\$ 7,837,144
In-kind contributions (Note 14)	1,081,888			1,081,888	1,753,257
Grants		839,717		839,717	968,619
Bequests	725,911			725,911	251,621
Interest income	348,426			348,426	339,472
Gain on investments	110,624		143,091	253,715	423,006
Other revenue	282,028			282,028	93,453
Attorney fee awards (Note 2)	170,395			170,395	173,493
Amortization of charitable lead trust				-	6,270
Net assets released from program restrictions	338,016	(338,016)		-	-
Net assets released from capital restrictions	663,700	(663,700)		-	-
Discount on pledges receivable (Note 3)	(141,542)	(302,144)		(443,686)	20,555
National share (Note 13)	(2,653,036)	(2,237,588)		(4,890,624)	(3,074,073)
Total revenue and support	<u>7,783,709</u>	<u>1,384,468</u>	<u>159,091</u>	<u>9,327,268</u>	<u>8,792,817</u>
Expenses					
Program services	4,704,932			4,704,932	4,912,090
Management and general	1,009,753			1,009,753	1,040,879
Fundraising	1,418,360			1,418,360	1,365,307
Total expenses	<u>7,133,045</u>			<u>7,133,045</u>	<u>7,318,276</u>
Change in net assets	650,664	1,384,468	159,091	2,194,223	1,474,541
Net assets, beginning of year	<u>8,033,688</u>	<u>5,603,881</u>	<u>3,381,120</u>	<u>17,018,689</u>	<u>15,544,148</u>
Net assets, end of year	<u>\$ 8,684,352</u>	<u>\$ 6,988,349</u>	<u>\$ 3,540,211</u>	<u>\$ 19,212,912</u>	<u>\$ 17,018,689</u>

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, 2008

With comparative totals for the year ended March 31, 2007

	Program Services	Management and General	Fundraising	Total Expenses	
				2008	2007
Personnel costs	\$ 1,925,817	\$ 626,271	\$ 892,781	\$ 3,444,869	\$ 3,381,153
In-kind expenses (Note 14)	1,081,888			1,081,888	1,291,967
Occupancy costs	341,462	60,154	141,349	542,965	627,390
Professional and consulting fees	163,877	122,818	80,194	366,889	446,494
Legislative	320,400			320,400	201,000
Meetings and travel	195,285	46,071	18,048	259,404	360,467
Law intern	221,522			221,522	125,761
Printing, publications, and public education	190,902		24,505	215,407	230,086
Depreciation	112,818	21,153	42,307	176,278	157,460
Fundraising			174,314	174,314	125,412
Office supplies	34,917	6,038	12,075	53,030	95,252
Insurance	262	52,506		52,768	31,575
Telephone	30,258	5,143	10,286	45,687	49,903
Equipment and maintenance	24	38,695	4,182	42,901	56,435
Library materials	37,741			37,741	34,117
Other	15,849	11,555	4,973	32,377	32,831
Litigation costs	31,418			31,418	6,890
Cost of recruitment		19,349		19,349	14,741
Bank charges			12,890	12,890	12,288
Postage	492		456	948	37,054
Total 2008 functional expenses	\$ 4,704,932	\$ 1,009,753	\$ 1,418,360	\$ 7,133,045	
Total 2007 functional expenses	\$ 4,912,090	\$ 1,040,879	\$ 1,365,307		\$ 7,318,276

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, 2008

With comparative totals for the year ended March 31, 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	\$ 2,194,223	\$ 1,474,541
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	176,278	157,460
(Gain) on investments	(253,715)	(423,006)
Reinvested interest	(222,003)	(225,282)
Discount on pledges receivable	-	(20,555)
Change in allowance for doubtful pledges receivable	(55,000)	(95,000)
Changes in operating assets and liabilities:		
(Increase) decrease in pledges receivable	(3,466,472)	338,633
(Increase) decrease in other accounts receivable	36,860	(27,197)
(Increase) decrease in receivable from National	588,305	(588,305)
(Increase) decrease in other assets	108,733	(64,699)
(Increase) decrease in prepaid pension expense	89,842	(7,673)
Decrease in charitable lead trust	-	89,569
Increase (decrease) in accounts payable	(138,372)	66,015
Increase in accrued liabilities	1,605,661	46,673
(Decrease) in payable to ACLU Northern California	(24,863)	(184,224)
Increase (decrease) in payable to National	52,537	(69,210)
Net cash provided by operating activities	692,014	467,740
Cash flows from investing activities:		
Purchase of property and equipment	(66,844)	(1,543,532)
Proceeds from sale of investments	2,658,552	2,505,394
Purchase of investments	(3,413,024)	(4,817,833)
Net cash (used) by investing activities	(821,316)	(3,855,971)
Net (decrease) in cash and cash equivalents	(129,302)	(3,388,231)
Cash and cash equivalents, beginning of year	1,646,847	5,035,078
Cash and cash equivalents, end of year	\$ 1,517,545	\$ 1,646,847

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

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

NOTES TO FINANCIAL STATEMENTS

1. Organization

The 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 55,000 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 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 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

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, 2008 (see Note 10).

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 11).

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 12).

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.

Contributions and Pledges Receivable

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenues in the period received. The Foundation reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

continued

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

Donated Materials and Services

Contributions of donated noncash 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.

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.

continued

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

Attorney Fee Award

The Foundation may receive attorney fees awarded by the court as a result of 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.

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, 2007 from which the summarized information was derived.

**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 the estimated fair present value at March 31, 2008. 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, 2008 of \$4,381,492 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2009	\$1,583,478
2010	1,332,459
2011	1,092,801
2012	1,016,123
2013	10,288
Thereafter	<u>30,110</u>
	5,065,259
Less: allowance for doubtful pledges receivable	(150,000)
Less: unamortized discount on pledges receivable	<u>(533,767)</u>
	<u>\$4,381,492</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, 2008 was \$168,068.

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 in the subsequent period 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.

continued

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

NOTES TO FINANCIAL STATEMENTS

6. Investments

Investments at March 31, 2008 consist of the following:

Money market funds	\$ 3,917,873
Mutual funds	3,540,211
Marketable equity securities	3,095,174
Fixed income	<u>1,882,970</u>
	<u>\$12,436,228</u>

7. Property and Equipment

Property and equipment at March 31, 2008 consist of the following:

Leasehold improvements	\$1,111,424
Equipment	798,368
Construction in progress	<u>361,829</u>
	2,271,621
Less: accumulated depreciation	<u>(429,522)</u>
	<u>\$1,842,099</u>

8. Accrued Liabilities

Accrued liabilities at March 31, 2008 consist of the following:

Accrued liability to National (Note 13)	\$1,577,309
Accrued vacation	321,855
Other liabilities	<u>485</u>
	<u>\$1,899,649</u>

9. 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, 2008. No amount was outstanding at March 31, 2008.

continued

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

NOTES TO FINANCIAL STATEMENTS

10. 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.

	Major Attorney Fees	Board Designated Building Fund	Other Board Designated Funds	Interest	Total
Opening balances, April 1, 2007	\$2,732,019	\$2,015,259	\$1,438,906	\$ -	\$6,186,184
Transfer in	170,395		401,217	216,996	788,608
Transfer out	-	-	(18,465)	(216,996)	(235,461)
Ending balances, March 31, 2008	<u>\$2,902,414</u>	<u>\$2,015,259</u>	<u>\$1,821,658</u>	<u>\$ -</u>	<u>\$6,739,331</u>

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2008 consist of the following:

AIDS Related and Gay/Lesbian Rights	\$ 99,721
Separation of church and state	40,114
Death Penalty (Heller)	<u>22,103</u>
Total bequests	<u>161,938</u>
Building	5,851,197
Technology and Civil Liberties	457,565
General support – time restriction	201,613
Reproductive rights	172,805
Religious outreach	35,417
Immigrants rights	32,941
Safer schools	30,000
Marriage equality	13,125
Friedman Project	5,832
Death penalty	7,500
Sex education	7,500
Every vote counts	7,500
Racial justice	2,916
Government spying	<u>500</u>
Total grants	<u>6,826,411</u>
	<u>\$6,988,349</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions, which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends from there may be expended for restricted purposes. Permanently restricted net assets at March 31, 2008 consist of the following:

Trust for the Bill of Rights	\$2,239,952
Howard A. Friedman Endowment	1,248,431
Henry Sinton Fund Freedom of Expression	27,567
Ehrlich Emerging Issues Fund	12,130
39 Drumm Street Endowment	<u>12,131</u>
	<u>\$3,540,211</u>

13. 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, 2008, the amount due to ACLU-NC by the Foundation was \$7,729. Additionally, for the year ended March 31, 2008, the Foundation paid to ACLU-NC for advocacy services the amount of \$320,400.

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, 2008, National's portion of contributions amounted to \$4,890,624. As of March 31, 2008, the Foundation has an amount of \$52,537 due to National. Additionally, the Foundation has recorded an estimated liability in the amount of \$1,577,309 for National share of pledges receivable.

14. In-kind Contributions and Expense

The Foundation received pro-bono legal services from certain attorneys who support the ACLU. Such services were provided in support of the ACLU's basic charter for protection of individual rights. The established fair value of legal services received for the year ended March 31, 2008 amounted to \$1,081,888 and was based upon the number of hours contributed at appropriate billing rates, and has been recorded as an in-kind contribution and expense.