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

FINANCIAL STATEMENTS

MARCH 31, 2011

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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, 2011, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization'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, 2010 financial statements and, in our report dated August 31, 2010, 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 the 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, 2011, 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.

Harrington Group

San Francisco, California
August 23, 2011

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

STATEMENT OF FINANCIAL POSITION

March 31, 2011

With comparative totals at March 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Assets					
Cash and cash equivalents (Note 2)	\$ 3,185,182	\$ -	\$ -	\$ 3,185,182	\$ 5,143,980
Pledges receivable (Note 3)	389,665	1,721,334		2,110,999	2,814,495
Other accounts receivable	56,780			56,780	4,364
Other assets	115,288			115,288	99,842
Deposit	18,001			18,001	13,252
Investments (Note 4)	3,871,548	2,130,117	2,730,304	8,731,969	8,036,008
Property and equipment (Note 6)	10,170,529			10,170,529	10,582,753
Total assets	\$ 17,806,993	\$ 3,851,451	\$ 2,730,304	\$ 24,388,748	\$ 26,694,694
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 95,406	\$ -	\$ -	\$ 95,406	\$ 132,190
Accrued liabilities (Note 7)	558,631			558,631	551,851
Line of credit (Note 8)				-	-
Payable to ACLU-NC	109,905			109,905	555,175
Payable to National (Note 13)	1,134,803			1,134,803	790,713
Note payable (Note 9)	2,642,764			2,642,764	4,352,851
Total liabilities	4,541,509	-	-	4,541,509	6,382,780
Net assets					
Unrestricted	6,184,393			6,184,393	4,536,226
Unrestricted - board designated (Note 10)	7,081,091			7,081,091	7,716,222
Temporarily restricted (Note 11)		3,851,451		3,851,451	5,329,162
Permanently restricted (Note 12)			2,730,304	2,730,304	2,730,304
Total net assets	13,265,484	3,851,451	2,730,304	19,847,239	20,311,914
Total liabilities and net assets	\$ 17,806,993	\$ 3,851,451	\$ 2,730,304	\$ 24,388,748	\$ 26,694,694

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, 2011

With comparative totals for the year ended March 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Revenue and support					
Contributions	\$ 5,241,989	\$ 1,762,323	\$ -	\$ 7,004,312	\$ 6,377,236
Bequests	411,105			411,105	3,136,186
In-kind contributions (Note 15)	835,736			835,736	1,270,263
Grants		466,500		466,500	1,175,525
Attorney fee awards (Note 2)	12,300			12,300	91,643
Other revenue	150,017			150,017	154,373
Interest income	123,910	84,220		208,130	336,214
Discount on pledges receivable (Note 3)	43,264	76,768		120,032	87,330
Gain (loss) on investments	278,015	328,865		606,880	1,229,044
National share (Note 13)	(2,267,484)	(985,672)		(3,253,156)	(4,743,233)
Net assets released from capital restrictions	2,366,565	(2,366,565)		-	-
Net assets released from program restrictions	844,150	(844,150)		-	-
Total revenue and support	<u>8,039,567</u>	<u>(1,477,711)</u>	<u>-</u>	<u>6,561,856</u>	<u>9,114,581</u>
Expenses					
Program services	4,573,476			4,573,476	4,707,346
Management and general	1,018,513			1,018,513	923,888
Fundraising	1,434,542			1,434,542	1,472,605
Total expenses	<u>7,026,531</u>	<u>-</u>	<u>-</u>	<u>7,026,531</u>	<u>7,103,839</u>
Change in net assets	<u>1,013,036</u>	<u>(1,477,711)</u>	<u>-</u>	<u>(464,675)</u>	<u>2,010,742</u>
Net assets, beginning of year	<u>12,252,448</u>	<u>5,329,162</u>	<u>2,730,304</u>	<u>20,311,914</u>	<u>18,301,172</u>
Net assets, end of year	<u>\$ 13,265,484</u>	<u>\$ 3,851,451</u>	<u>\$ 2,730,304</u>	<u>\$ 19,847,239</u>	<u>\$ 20,311,914</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, 2011

With comparative totals for the year ended March 31, 2010

	Program Services	Management and General	Fundraising	Total Expenses 2011	2010
Personnel costs	\$ 2,273,303	\$ 633,370	\$ 960,216	\$ 3,866,889	\$ 3,904,963
In-kind legal expenses (Note 15)	835,736			835,736	770,263
Occupancy costs	308,361	57,125	121,612	487,098	510,102
Professional and consulting fees	249,933	145,559	14,279	409,771	431,376
Depreciation	285,645	53,558	107,117	446,320	411,821
Printing, publications, and public education	136,470	39	348	136,857	166,756
Law intern	127,704			127,704	163,837
Legislative				-	146,164
Meetings and travel	158,839	15,254	7,753	181,846	131,603
Fundraising			176,075	176,075	127,594
Insurance	46,498	41,231		87,729	55,231
Office supplies	30,994	5,879	11,759	48,632	48,670
Telephone	26,225	4,784	9,567	40,576	47,489
Equipment and maintenance		40,247	4,365	44,612	40,128
Library materials	44,127			44,127	39,776
Bank charges		13,693	16,569	30,262	32,673
Other	13,167	3,336	4,882	21,385	24,808
Postage	21,545			21,545	21,535
Litigation costs	14,929			14,929	20,609
Cost of recruitment		4,438		4,438	8,441
Total 2010 functional expenses	\$ 4,573,476	\$ 1,018,513	\$ 1,434,542	\$ 7,026,531	
Total 2009 functional expenses	\$ 4,707,346	\$ 923,888	\$ 1,472,605		\$ 7,103,839

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, 2011

With comparative totals for the year ended March 31, 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (464,675)	\$ 2,010,742
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	446,320	411,821
(Gain) loss on investments	(606,880)	(1,229,044)
Reinvested interest	(105,848)	(122,397)
Change in discount on pledges receivable	(120,032)	(87,330)
Changes in operating assets and liabilities:		
Decrease in pledges receivable	823,528	711,225
(Increase) decrease in other accounts receivable	(52,416)	57
Decrease in receivable from National	-	359,888
(Increase) in other assets	(15,446)	(13,451)
(Increase) decrease in deposit	(4,749)	986,748
(Decrease) in accounts payable	(36,784)	(41,381)
Increase in accrued liabilities	6,780	72,759
(Decrease) increase in payable to ACLU-NC	(445,270)	390,240
Increase in payable to National	344,090	790,713
Net cash (used) provided by operating activities	(231,382)	4,240,590
Cash flows from investing activities:		
Purchase of property and equipment	(34,096)	(4,794,747)
Proceeds from sale of investments	2,933,509	6,238,370
Purchase of investments	(2,916,742)	(1,695,703)
Net cash (used) by investing activities	(17,329)	(252,080)
Cash flows from financing activities:		
Payments on note payable	(1,710,087)	(147,149)
Net cash (used) by financing activities	(1,710,087)	(147,149)
Net (decrease) increase in cash and cash equivalents	(1,958,798)	3,841,361
Cash and cash equivalents, beginning of year	5,143,980	1,302,619
Cash and cash equivalents, end of year	\$ 3,185,182	\$ 5,143,980
Supplemental disclosure:		
Operating activities reflects interest paid of:	\$ 276,173	\$ 149,877
Non-cash investing and financing activities transactions:		
Acquisition of property and equipment with note payable	\$ -	\$ 4,500,000

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**

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 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 50 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.

The Foundation is headquartered in San Francisco 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 conducted a fundraising campaign and purchased an office condominium. The facility provides sufficient space for current staff, future staff growth, coalition and community meetings and national ACLU-NC 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.

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 revenues 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 purposes of complying with net assets accounting, this fund is included in unrestricted net assets at March 31, 2011 (see Note 9).

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 10).

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 11).

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 promises to give that are expected to be collected within one year are recorded at 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.

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. Unrealized 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.

Fair Value Measurements

Generally Accepted Accounting Principles ("GAAP") 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 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).
- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

The Foundation is required to measure three types of assets and the related revenues at fair value: pledged contributions, non-cash contributions and certain investments. The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

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.

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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.

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 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.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

**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.

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, 2010 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through August 23, 2011, the date which the financial statements were available.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. An allowance for doubtful accounts has been established for uncollectible pledges. Additionally, all pledges are valued at their estimated fair value at March 31, 2011. A discount rate of 5% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at March 31, 2011, of \$2,110,999, is expected to be collected as follows:

continued

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

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable, continued

<u>Year ended March 31,</u>	
2012	\$1,648,785
2013	455,784
2014	226,629
2015	59,130
2016	10,780
Thereafter	<u>7,905</u>
	2,409,013
Less: allowance for doubtful pledges receivable	(150,000)
Less: unamortized discount on pledges receivable	<u>(148,014)</u>
	<u>\$2,110,999</u>

4. Investments

Investments at March 31, 2011 consist of the following:

Mutual funds	\$3,664,937
Equities	2,771,178
Fixed income	1,198,403
Money market	779,998
Bond funds	198,907
Equity funds	<u>118,546</u>
	<u>\$8,731,969</u>

5. Fair Value Measurements

The table below presents the balances of assets measures at fair value at March 31, 2011 on a recurring and non-recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$3,664,937	\$ -	\$ -	\$ 3,664,937
Equities	2,771,178			2,771,178
Fixed income		1,198,403		1,198,403
Bond funds		198,907		198,907
Equity funds	118,546			118,546
Pledges receivable			<u>2,110,999</u>	<u>2,110,999</u>
	<u>\$6,554,661</u>	<u>\$1,397,310</u>	<u>\$2,110,999</u>	<u>\$10,062,970</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

The fair values of mutual funds, equities, and equity funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of fixed income and bond funds has been measured on a recurring basis using quoted prices in active markets for the same or similar assets (Level 2 inputs).

The fair value of pledges receivable is measured on a non-recurring basis by estimating future cash flows, based on pledge commitments and previous experience and discounting the carrying amount to present value using a rate of 5% (Level 3 inputs).

6. Property and Equipment

Property and equipment at March 31, 2011 consist of the following:

Building	\$ 9,649,913
Leasehold improvements	1,146,026
Equipment	<u>848,260</u>
	11,644,199
Less: accumulated depreciation	<u>(1,473,670)</u>
	<u>\$10,170,529</u>

7. Accrued Liabilities

Accrued liabilities at March 31, 2011 consist of the following:

Accrued vacation	\$313,354
Accrued pension liability	204,442
Other liabilities	<u>40,835</u>
	<u>\$558,631</u>

8. 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 reference rate in effect per annum, currently at 6.25%, due October 31, 2011. No amount was outstanding at March 31, 2011.

continued

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

NOTES TO FINANCIAL STATEMENTS

9. Note Payable

Note payable at March 31, 2011 consists of the following:

Note payable to a bank, secured by real property, including variable note rate at 2%, per annum in excess of Bank's LIBOR rate, due June 1, 2024.

\$2,642,764
\$2,642,764

Maturities for notes payable are as follows:

Year ended March 31,

2012	\$ 303,707
2013	321,062
2014	339,409
2015	358,804
2016	379,308
Thereafter	<u>940,474</u>
	<u>\$2,642,764</u>

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 of Directors designated funds.

	Major Attorney Fees	Board Designated Building Fund	Other Board Designated Funds	Interest	Total
Opening balances, April 1, 2010	\$3,376,621	\$1,311,399	\$3,028,202	\$ -	\$7,716,222
Transfer in	12,300		155,723	109,235	277,258
Transfer out	<u>(187,700)</u>	<u>(327,500)</u>	<u>(287,954)</u>	<u>(109,235)</u>	<u>(912,389)</u>
Ending balances, March 31, 2011	<u>\$3,201,221</u>	<u>\$ 983,899</u>	<u>\$2,895,971</u>	<u>\$ -</u>	<u>\$7,081,091</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2011 consist of the following:

AIDS related and gay/lesbian rights	\$ 112,246
Separation of church and state	27,102
Death penalty (Heller)	<u>19,893</u>
Total bequests	<u>\$ 159,241</u>
Building	\$1,994,540
Donor-restricted endowment funds (Note 11)	934,633
Reproductive rights	307,637
General support – time restriction	183,695
Technology and civil liberties	126,598
Death penalty	63,958
Major gifts program	58,000
Immigrants rights	8,287
Pioneers for justice	5,000
Safer schools	3,473
Marriage equality	3,473
Racial justice	<u>2,916</u>
Total grants	<u>3,692,210</u>
	<u><u>\$3,851,451</u></u>

12. Permanently Restricted Net Assets

GAAP 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”). GAAP 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 Board of Directors has determined that the majority of the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

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

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets, continued

The Board of Directors for the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 UPMIFA. In accordance with UPMIFA, 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.

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 proceeding 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.

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

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets, continued

Endowment Net Assets Composition by Type of Fund as of March 31, 2011 is as follows:

	<u>Temporarily Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted endowment funds	<u>\$934,633</u>	<u>\$2,730,304</u>	<u>\$3,664,937</u>
Total funds	<u>\$934,633</u>	<u>\$2,730,304</u>	<u>\$3,664,937</u>

Changes in endowment net assets as of March 31, 2011 are as follows:

	<u>Temporarily Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ 701,608	\$2,730,304	\$3,431,912
Interest income	35,825		35,825
Distributions	(131,665)		(131,665)
Investment return: net appreciation (realized and unrealized)	<u>328,865</u>		<u>328,865</u>
Endowment net assets, end of year	<u>\$ 934,633</u>	<u>\$2,730,304</u>	<u>\$3,664,937</u>

Permanently restricted net assets at March 31, 2011 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>

continued

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2011, the amount due to ACLU-NC by the Foundation was \$109,905.

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, 2011, National's portion of contributions received amounted to \$3,253,156, which is reflected as an offset of revenue. At March 31, 2011, the Foundation has a payable of \$274,136 to National. Additionally, the Foundation has recorded an estimated liability in the amount of \$860,667 for National's share of its pledges receivable. The net of \$1,134,803 is shown on the Statement of Financial Position as payable to National.

14. Pension Plan

The Foundation is part of National's multi-employer defined benefit pension plan which was frozen effective April 1, 2009, accordingly no new participants has been added to the defined benefit plan census. Pension expense for the year ended March 31, 2011 was \$160,391.

The Foundation is also part of National's multi-employer defined contribution plan and the employees of the Foundation who meet the eligibility criteria may participate in the new plan. Pension expense for the year ended March 31, 2011 was \$10,692.

15. 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 (Level 2) received for the year ended March 31, 2011 amounted to \$835,736, and was based upon the number of hours contributed at appropriate billing rates and has been recorded as an in-kind contribution and expense.