

American Civil Liberties Union Foundation, Inc. and Subsidiary

Consolidated Financial Report

March 31, 2010

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Independent Auditor's Report

To the Board of Directors
American Civil Liberties Union Foundation, Inc.
New York, New York

We have audited the accompanying consolidated statement of financial position of the American Civil Liberties Union Foundation, Inc. and Subsidiary (collectively, the "Foundation") (an organization which is consolidated into the financial statements of American Civil Liberties Union, Inc. and Consolidated Entities for accounting purposes) as of March 31, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year consolidated summarized comparative information has been derived from the Foundation's 2009 consolidated financial statements and, in our report dated February 8, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Civil Liberties Union Foundation, Inc. and Subsidiary as of March 31, 2010, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities. The consolidating information as of and for the year ended March 31, 2010 has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole. The consolidating information as of and for the year ended March 31, 2009 was derived from the Foundation's 2009 consolidated financial statements and, in our report dated February 8, 2010, we expressed an unqualified opinion on such information in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

New York, New York
November 16, 2010

American Civil Liberties Union Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

March 31, 2010

(with summarized comparative information as of March 31, 2009)

	2010	2009
ASSETS		
Cash and Cash Equivalents (including cash and cash equivalents restricted for the Bill of Rights Trust of \$3,931,638 and \$1,208,629 at March 31, 2010 and 2009, respectively)	\$ 22,257,962	\$ 25,427,149
Pledges and Contributions Receivable, net	29,337,451	14,886,168
Investments	246,860,926	180,754,019
Other Assets	2,318,022	1,485,037
Due From Affiliates	7,353,387	2,482,632
Beneficial Interest in Trusts	287,484	275,881
Office Buildings and Furniture and Equipment, net of accumulated depreciation	36,270,718	37,273,451
Assets Limited or Restricted as to Use	-	172,472
Total assets	\$ 344,685,950	\$ 262,756,809
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,423,836	\$ 1,722,597
Due to American Civil Liberties Union, Inc.	7,195,796	8,565,627
Liabilities under split-interest agreements	11,261,514	11,417,458
IDA bond	18,290,000	18,705,000
Mortgage payable	3,976,563	4,039,936
Bill of Rights Trust held for affiliates	22,495,290	14,282,358
Accrued pension liability	1,991,013	1,471,612
Due to affiliates	15,197,201	4,947,471
Total liabilities	82,831,213	65,152,059
Commitments and Contingency		
Net Assets:		
Unrestricted:		
Bill of Rights Trust	9,616,373	(1,842,937)
Board-designated	116,164,344	72,233,266
Undesignated	52,721,284	32,848,196
Total unrestricted	178,502,001	103,238,525
Temporarily restricted	44,565,082	55,941,293
Permanently restricted - Bill of Rights Trust	38,787,654	38,424,932
Total net assets	261,854,737	197,604,750
Total liabilities and net assets	\$ 344,685,950	\$ 262,756,809

See Notes to Consolidated Financial Statements.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Consolidated Statements of Activities

Year Ended March 31, 2010

(with summarized comparative information for the year ended March 31, 2009)

	2010			2009	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue:					
Support:					
Grants and contributions	\$ 25,943,958	\$ 22,726,145	\$ 109,597	\$ 48,779,700	\$ 55,354,731
Donated legal services	5,518,497	-	-	5,518,497	-
Bequests	28,240,313	934,864	253,125	29,428,302	6,876,572
Total support	59,702,768	23,661,009	362,722	83,726,499	62,231,303
Revenue:					
Rental income	1,394,876	-	-	1,394,876	1,477,091
Other income	49,404	-	-	49,404	92,348
Total revenue	1,444,280	-	-	1,444,280	1,569,439
Net Assets Released From Restrictions	30,865,119	(30,865,119)	-	-	-
Total support and revenue	92,012,167	(7,204,110)	362,722	85,170,779	63,800,742
Expenses:					
Program services:					
Legal	29,483,509	-	-	29,483,509	28,438,997
Public education	10,121,677	-	-	10,121,677	18,994,396
Civil liberties policy formulation	928,973	-	-	928,973	-
Affiliate support	29,927,806	-	-	29,927,806	6,734,770
Total program services	70,461,965	-	-	70,461,965	54,168,163
Supporting services:					
Management and general	3,871,598	-	-	3,871,598	7,381,443
Fund-raising	6,729,813	-	-	6,729,813	7,089,000
Total supporting services	10,601,411	-	-	10,601,411	14,470,443
Total expenses	81,063,376	-	-	81,063,376	68,638,606
Change in net assets before other changes	10,948,791	(7,204,110)	362,722	4,107,403	(4,837,864)
Other Changes in Net Assets:					
Legal expenses awarded, net	4,246,555	-	-	4,246,555	1,805,989
Net investment income, gains and losses	60,719,710	678,978	-	61,398,688	(65,326,115)
Changes in value of split-interest agreements	(651,580)	(228,857)	-	(880,437)	(424,985)
Provision for uncollectible pledge	-	(4,622,222)	-	(4,622,222)	-
Total other changes in net assets	64,314,685	(4,172,101)	-	60,142,584	(63,945,111)
Changes in net assets	75,263,476	(11,376,211)	362,722	64,249,987	(68,782,975)
Net Assets:					
Beginning	103,238,525	55,941,293	38,424,932	197,604,750	266,387,725
Ending	\$ 178,502,001	\$ 44,565,082	\$ 38,787,654	\$ 261,854,737	\$ 197,604,750

See Notes to Consolidated Financial Statements.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Consolidated Statements of Functional Expenses

Year Ended March 31, 2010

(with summarized comparative information for the year ended March 31, 2009)

	2010								2009	
	Legal	Public Education	Civil Liberties Policy Formulation	Affiliate Support	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	Total	Summarized Comparative Information
Salaries	\$ 12,289,231	\$ 4,402,296	\$ 211,222	\$ 1,433,315	\$ 18,336,064	\$ 1,201,273	\$ 2,542,820	\$ 3,744,093	\$22,080,157	\$ 25,582,643
Employee benefits	4,022,807	1,448,346	69,492	471,557	6,012,202	395,216	856,905	1,252,121	7,264,323	6,897,204
Rent and occupancy	1,597,572	577,512	27,805	187,966	2,390,855	401,896	347,840	749,736	3,140,591	2,404,351
Books	155,445	56,192	2,705	18,289	232,631	15,330	33,845	49,175	281,806	396,366
Building depreciation	1,419,549	513,158	24,706	167,021	2,124,434	139,999	309,079	449,078	2,573,512	2,322,014
Equipment depreciation	300,439	108,607	5,229	35,349	449,624	29,630	64,782	94,412	544,036	244,558
Equipment rental and maintenance	156,802	56,683	2,729	18,449	234,663	15,464	34,140	49,604	284,267	287,556
Grants to affiliates	-	-	-	4,936,789	4,936,789	-	-	-	4,936,789	5,904,956
Shared portion of contributions	-	-	-	8,436,902	8,436,902	-	-	-	8,436,902	-
Shared portion of bequest	-	-	-	9,973,282	9,973,282	-	-	-	9,973,282	-
Meetings/conferences	59,288	-	22,110	65,692	147,090	-	26,297	26,297	173,387	1,078,863
Legal fees	1,336,041	482,971	23,252	157,196	1,999,460	131,763	290,896	422,659	2,422,119	340,690
Donated legal services	5,518,497	-	-	-	5,518,497	-	-	-	5,518,497	-
Public information	-	-	-	-	-	-	-	-	-	236,948
Accounting fees	-	-	-	-	-	196,757	-	196,757	196,757	187,500
Professional fund-raising services	-	-	-	-	-	-	396,418	396,418	396,418	565,511
Other professional services	253,753	1,095,274	276,354	413,646	2,039,027	1,041,105	655,687	1,696,792	3,735,819	9,482,997
Interest expense	461,864	166,961	8,038	54,342	691,205	45,550	100,562	146,112	837,317	878,732
Postage and supplies	120,527	15,045	17,017	21,629	174,218	82,495	437,548	520,043	694,261	1,119,402
Publishing, printing and mailing	69,197	568,265	2,144	11,618	651,224	-	246,362	246,362	897,586	1,248,409
Special affiliate subsidies	-	-	-	3,189,076	3,189,076	-	-	-	3,189,076	2,964,600
Grants and awards	-	-	-	108,477	108,477	-	-	-	108,477	-
Telephone and telemarketing	303,474	302,309	5,282	35,706	646,771	29,929	130,277	160,206	806,977	763,609
Travel	648,452	49,502	217,477	100,841	1,016,272	69,198	91,313	160,511	1,176,783	1,963,512
Other expenses	770,571	278,556	13,411	90,664	1,153,202	75,993	165,042	241,035	1,394,237	3,768,185
Total - 2010	\$ 29,483,509	\$ 10,121,677	\$ 928,973	\$29,927,806	\$70,461,965	\$ 3,871,598	\$ 6,729,813	\$ 10,601,411	\$81,063,376	
Total - 2009	\$ 28,438,997	\$ 18,994,396	\$ -	\$ 6,734,770	\$54,168,163	\$ 7,381,443	\$ 7,089,000	\$ 14,470,443		\$ 68,638,606

See Notes to Consolidated Financial Statements.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Year Ended March 31, 2010

(with summarized comparative information for the year ended March 31, 2009)

	2010	2009
Cash Flows From Operating Activities:		
Changes in net assets	\$ 64,249,987	\$ (68,782,975)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,117,548	2,566,572
Provision for uncollectible pledge	4,622,222	-
Discount on pledges receivable	(385,738)	(637,072)
Changes in value of split-interest agreements	1,011,607	138,796
Net realized and unrealized (gains) losses on investments, net of adjustments for affiliate holdings	(55,967,715)	72,827,038
Contributions restricted for endowment	(362,722)	(321,382)
Contributions restricted for investments subject to split-interest agreements	(357,538)	(418,961)
Changes in operating assets and liabilities:		
Due from/to affiliates	5,378,975	2,629,384
Pledges and contributions receivable	(18,687,767)	1,646,870
Other assets	(832,985)	267,765
Beneficial interest in trusts	(11,603)	286,189
Accounts payable and accrued expenses	701,239	(1,638,104)
Due to American Civil Liberties Union, Inc.	(1,369,831)	1,537,829
Accrued pension liability	519,401	276,553
Net change in Bill of Rights Trust held for affiliates	47,614	705,428
Net cash provided by operating activities	1,672,694	11,083,930
Cash Flows From Investing Activities:		
Proceeds from sale of marketable securities	9,053,642	33,261,969
Purchase of marketable securities	(11,027,516)	(47,702,431)
Assets restricted as to use	172,472	1,066,008
Purchase of office buildings and equipment	(2,114,815)	(4,513,615)
Net cash used in investing activities	(3,916,217)	(17,888,069)
Cash Flows From Financing Activities:		
Contributions restricted for:		
Investments in endowments	362,722	321,382
Investments subject to split-interest agreements	357,538	418,961
Payments on split-interest agreements	(1,372,803)	(1,632,993)
Terminated split-interest agreements	205,252	505,200
Mortgage payments	(63,373)	(58,653)
Principal payments on IDA bonds	(415,000)	(395,000)
Net cash used in financing activities	(925,664)	(841,103)
Net decrease in cash and cash equivalents	(3,169,187)	(7,645,242)
Cash and Cash Equivalents:		
Beginning	25,427,149	33,072,391
Ending	\$ 22,257,962	\$ 25,427,149
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 837,317	\$ 878,732
Increase (decrease) in investments for Bill of Rights Trust held for affiliates	\$ 8,165,318	\$ (5,532,807)

See Notes to Consolidated Financial Statements.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2010

(with summarized comparative information as of and for the year ended March 31, 2009)

Note 1. Organization

The American Civil Liberties Union Foundation, Inc. (the "Foundation") was established as a nonprofit corporation to preserve and promote individual civil rights and civil liberties as guaranteed by the United States Constitution. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Foundation is affiliated with the American Civil Liberties Union, Inc. (the "Union"), an organization that is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code.

The American Civil Liberties Union Foundation, Inc. and the American Civil Liberties Union, Inc. are collectively referred to as the "ACLU."

Both the Foundation and the Union are affiliated with 50 nonprofit, tax-exempt organizations in several states in the United States, all of which include reference to the "American Civil Liberties Union" or some variation thereof in their names (the "affiliates"). Each affiliate also operates through related Section 501(c)(3) and Section 501(c)(4) organizations. The affiliates share the same overall mission and purpose as the ACLU but their programs focus more on local or regional issues, while the ACLU's program activities are focused on overarching civil liberties issues and initiatives. Although the ACLU plays no direct role in the governance of, and, except in very limited instances, does not share employees with, the affiliates, the organizations jointly fund-raise and work together on certain programs, and the ACLU, through either the Union or the Foundation, as appropriate, at its sole discretion provides targeted financial and other support to the affiliates.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the American Civil Liberties Union Foundation, Inc. and its subsidiary, 915 15th Street, LLC (the "LLC") (collectively referred to as the "Foundation"). The LLC is a single-member limited liability company of which the Foundation is the sole member. All significant interorganizational accounts and transactions have been eliminated in consolidation.

The accounts and activities of the affiliates are not included in these consolidated financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Standards: In June 2009, the Financial Accounting Standards Board (the "FASB") established the FASB Accounting Standards Codification (the "ASC" or the "Codification") as the source of authoritative generally accepted accounting principles ("GAAP") recognized by the FASB to be applied to nongovernmental entities, and rules and interpretative releases of the U.S. Securities and Exchange Commission (the "SEC") as authoritative GAAP for SEC registrants. The Codification superseded all the existing non-SEC accounting and reporting standards upon its effective date and, subsequently, the FASB will not issue new standards in the form of statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. This guidance also replaced the prior guidance regarding the GAAP hierarchy and the guidance within the Codification carries the same level of authority. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The guidance is limited to disclosure in the financial statements and the terms by which the Foundation refers to GAAP authoritative literature in the financial statements. There was no impact on the Foundation's consolidated financial statements.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2010

(with summarized comparative information as of and for the year ended March 31, 2009)

Note 2. Summary of Significant Accounting Policies (Continued)

In January 2010, the FASB issued an amendment, *Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"), which requires new disclosures concerning the reasons for transferring financial assets and liabilities between Levels 1 and 2. This amendment also clarifies that fair value measurement disclosures are required for each class of financial assets and liabilities, and disclosures about inputs and valuation techniques are required for both Level 2 and Level 3 measurements. It further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances, and settlements instead of netting these changes. With respect to matters other than Level 3 measurements, the amendment is effective for the period beginning on April 1, 2010 and has not yet been adopted. The guidance related to Level 3 measurements is effective for periods beginning on April 1, 2011 and has not yet been adopted. The Foundation's management is currently evaluating the impact this new accounting standard will have on the financial statement disclosures.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments in Marketable Securities: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices with gains and losses included in the consolidated statements of activities. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the security sold (see Note 5).

Fair Value Implementation: The Foundation applies FASB ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America, and applies to all financial instruments that are being measured and reported on a fair value basis.

FASB ASC 820 sets out a fair value hierarchy and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In 2010, the Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2009-12"), to certain investments that do not have readily determinable fair values. This guidance amends FASB ASC 820 and allows for the estimation of the fair value of certain investments in investment companies using the reported net asset value per share and classifying those investments within the fair value hierarchy. The adoption of this guidance did not have an effect on the classification of the fair value hierarchy of the Foundation's financial instruments as of March 31, 2010.

The fair value hierarchy is defined as follows:

- Level 1: Inputs that reflect unadjusted quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimates.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2010

(with summarized comparative information as of and for the year ended March 31, 2009)

Note 2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments: The estimated fair value of the Foundation's financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts. The following methods and assumptions were used in estimating the fair values of significant financial instruments at March 31, 2010:

Cash and cash equivalents - The carrying amount approximates fair value because the instruments are liquid in nature and have short-term maturities.

Investments - The fair value is determined as described in Note 5.

Pledges and contributions receivable - The carrying amount is based on estimated present values and approximates fair value.

Other assets, due to/from affiliates, and accounts payable and accrued expenses - The carrying amounts approximate fair values because of the short-term nature of the instruments.

Beneficial interest in trusts - The carrying amount is based on estimated present values and approximates fair value.

Liabilities under split-interest agreements - The carrying amount is based on estimated present values and approximates fair value.

Long-term debt (IDA bond and mortgage payable) - The carrying amount approximates fair value because the interest rates are variable and reflect market conditions.

Concentration of Market and Credit Risks: The Foundation's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments in marketable securities.

The Foundation maintains its cash and cash equivalents in bank deposits and money market accounts. Exposure to credit risk is reduced by federal guarantees, and by placing such funds in high credit quality financial institutions and financial instruments. At March 31, 2010, the Foundation's bank deposits were held in Federal Deposit Insurance Corporation ("FDIC")-insured institutions. The main operating accounts for the Foundation are held at a major money center bank. At March 31, 2010, the majority of the Foundation's money market accounts were in funds that invest solely in short-term direct government obligations, such as U.S. Treasury Bills, that are backed by the full faith and credit of the U.S. government.

In order to control market risk, the Foundation has an investment committee that oversees its investment portfolio and engages the services of an independent investment consultant to perform due diligence services and ongoing evaluation of investment managers. The Foundation also routinely monitors the market risk of its investment portfolio via asset allocation formulas and confirmation of values with investment custodians.

The clearing and depository operations for the Foundation's portfolio of investments held in managed accounts are provided principally by two financial institutions that hold approximately 91% of the total portfolio at March 31, 2010 and 2009.

Office Buildings and Furniture and Equipment: Office buildings and furniture and equipment are carried at cost, less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2010

(with summarized comparative information as of and for the year ended March 31, 2009)

Note 2. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets: The Foundation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of any asset may not be recoverable and, if so, the carrying value is reduced to the estimated fair value.

Net Assets: The Foundation reports information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets consist of amounts that can be spent at the discretion of the Foundation and have no donor restrictions associated with them. A portion of unrestricted net assets have been designated by the board of directors for certain purposes, including amounts held in connection with the Bill of Rights Trust. Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific time period and/or purpose. Permanently restricted net assets consist of endowment funds which are held pursuant to the terms of agreement for the establishment of the Bill of Rights Trust.

Endowment: The Foundation's board of directors has determined that when the Foundation receives a contribution and the donor restricts the Foundation from spending the principal, the Foundation is required to maintain the historical dollar value of the contribution received as an endowment under the New York Not-for-Profit Corporation Law. Such amount is recorded as permanently restricted and investment returns are recorded as temporarily restricted or unrestricted based on the purpose for which the endowment was created.

Effective September 17, 2010, the State of New York adopted the Uniform Prudent Management of Institutional Funds Act (the "UPMIFA"). The impact of the Foundation's adoption of the UPMIFA on its endowment funds and consolidated financial statements has not yet been determined.

Contributions and Related Receivables: The Foundation reports contributions as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recorded as pledges and contributions receivable when the promise is received. Pledges and contributions receivable due within one year are recorded at their net realizable value. Pledges and contributions receivable due in more than one year are recorded at the present value of their net realizable value, using risk-free interest rates to discount the amounts. Allowances for doubtful pledges and contributions receivable are provided by management based on the Foundation's experience with the donors and their ability to pay.

Contributions of cash and other assets are reported 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions that are to be maintained permanently by the Foundation are recorded as permanently restricted support.

Contributions of donated noncash assets are recorded at fair value in the period received.

Donated services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2010

(with summarized comparative information as of and for the year ended March 31, 2009)

Note 2. Summary of Significant Accounting Policies (Continued)

Due to the nature of the Foundation's operations, in-kind professional services are from time to time provided on a pro bono basis by outside attorneys. These services are recorded as revenue and expenses at fair value based on the attorneys' average billing rates.

A number of individuals have made a contribution of their time to serve on the Foundation's board. The value of their contributed time is not reflected in these consolidated financial statements inasmuch as those services would not typically be purchased had they not been provided by donation.

Bequests: The Foundation is a beneficiary under various wills and trust agreements, the total realizable amounts of which are not determinable at present. The Foundation's share of such bequests is recorded when the probate courts declare the testamentary instrument valid and the proceeds are measurable.

Donor Concentration: Approximately 23% of the total grants, contributions and bequests revenue for the year ended March 31, 2010 were provided by three donors. Pledges and contributions receivable from these three donors account for approximately 55% of the gross pledges and contributions receivable at March 31, 2010.

Approximately 38% of the total grants and contributions revenue for the year ended March 31, 2009 were provided by five donors. In addition, approximately 45% of the pledges and contributions receivable at March 31, 2009 is due from one donor.

Functional Expenditures: The cost of providing the various program and supporting services of the Foundation have been summarized on a functional basis in the accompanying consolidated financial statements. Certain costs and expenses have been allocated between program services and supporting services on a reasonable basis as determined by management.

In addition, certain expenses, predominantly salaries and employee benefits, are shared between the Union and the Foundation. Expenses paid by the Union and allocated to the Foundation during the years ended March 31, 2010 and 2009 amounted to \$4,097,310 and \$6,182,465, respectively.

Legal Awards: Pursuant to the Civil Rights Attorneys Fee Awards Act of 1976, legal fees and expenses may be awarded in certain legal actions. The amounts of these awards are the result of court determinations and/or negotiations between the parties to the matters. Management anticipates that the Foundation will be the recipient of legal awards of a substantial amount, but is unable to determine the amounts receivable with any degree of accuracy. Accordingly, the Foundation's accounting policy is to accrue an award only when, in management's judgment, the amount appears relatively certain of collection.

Income Taxes: The Foundation is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation is subject to taxes on unrelated business income. The LLC is treated as a disregarded (tax) entity.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 2. Summary of Significant Accounting Policies (Continued)

The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the consolidated statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of activities.

Reclassifications: Certain 2009 amounts have been reclassified to conform with the 2010 consolidated financial statement presentation. The reclassifications have no effect on the 2009 total assets, liabilities, net assets and changes in net assets.

Evaluation of Subsequent Events: The Foundation evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was November 16, 2010.

Note 3. Related Party Transactions

Amounts due from and to affiliates represent receivables and payables which result from affiliate support and revenue sharing. Amounts due to affiliates include the portion of contributions that are shared in accordance with the Foundation sharing rules specifying the circumstances under which income shall be shared and the methodology for determining the specific portion of various categories of revenue that will be shared by the Foundation and the affiliates. Also included in amounts due to affiliates are payments related to certain affiliate subsidy programs. Amounts due from affiliates include income generated by the affiliates that is subject to the application of the Foundation's sharing rules, and reimbursement to the Foundation for expenses paid by the Foundation on behalf of the affiliates.

During the years ended March 31, 2010 and 2009, the Foundation received approximately \$252,000 and \$263,000, respectively, from the New York Civil Liberties Union, Inc. and the New York Civil Liberties Union Foundation, Inc. in payments for the use of space occupied at the Foundation's offices at 125 Broad Street. The Foundation also recognized rental income of approximately \$784,000 and \$431,000 for space occupied by the Union at the Foundation's offices during the years ended March 31, 2010 and 2009, respectively.

Note 4. Pledges and Contributions Receivable

Pledges and contributions receivable which are expected to be collected after one year have been discounted at rates ranging from 2.5% to 8.0% and are reflected in the consolidated financial statements at their net present value. Pledges and contributions receivable at March 31, 2010 and 2009 are comprised of the following:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 20,638,434	\$ 6,865,000
Receivable in one to five years	13,820,880	8,906,547
	34,459,314	15,771,547
Less provision for uncollectible pledge	(4,622,222)	-
Less discount to present value	(499,641)	(885,379)
Total	\$ 29,337,451	\$ 14,886,168

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 4. Pledges and Contributions Receivable (Continued)

In addition to the contributions receivable noted above, a certain donor has confirmed his intentions to recommend annual contributions aggregating approximately \$12,000,000 over a period of three to eight years from donor-advised funds. These anticipated contributions have not been recognized in the accompanying consolidated financial statements as they do not meet the criteria for recognition of contributions revenue under FASB ASC 958-605.

Note 5. Investments and Cash Equivalents

The following tables present the fair value hierarchy, based on the definitions provided in FASB ASC 820 and ASU 2009-12, of the Foundation's investments and cash equivalents that are measured on a recurring basis at March 31, 2010 and 2009:

	Fair Value Measurements at March 31, 2010 Using			
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Equities	\$ 2,456,026	\$ 2,456,026	\$ -	\$ -
Corporate Bonds (by S&P rating)				
AAA	1,292,925	-	1,292,925	-
AA+	546,250	-	546,250	-
AA	262,730	-	262,730	-
A+	375,981	-	375,981	-
A	2,374,884	-	2,374,884	-
A-	217,150	-	217,150	-
BBB+	980,504	-	980,504	-
Total corporate bonds	6,050,424	-	6,050,424	-
U.S. Treasury Notes, agency and related	17,034,386	-	17,034,386	-
Mutual Funds:				
Large-cap U.S. equity	97,748,788	97,748,788	-	-
Small/mid-cap U.S. equity	18,098,497	18,098,497	-	-
International equity	27,655,315	27,655,315	-	-
World stock	5,533,116	5,533,116	-	-
Balanced fund	1,513,484	1,513,484	-	-
Intermediate-term bond	36,894,450	36,894,450	-	-
Short-term bond	14,940,922	14,940,922	-	-
Total mutual funds	202,384,572	202,384,572	-	-

(continued)

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2010

(with summarized comparative information as of and for the year ended March 31, 2009)

Note 5. Investments and Cash Equivalents (Continued)

	Total	Fair Value Measurements at March 31, 2010 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Trust Funds:				
Large-cap U.S. equity	\$ 5,342,637	\$ -	\$ 5,342,637	\$ -
Small/mid-cap U.S. equity	1,330,263	-	1,330,263	-
International equity	1,651,520	-	1,651,520	-
Intermediate-term bond	4,146,017	-	4,146,017	-
Total common trust funds	12,470,437	-	12,470,437	-
Exchange-Traded Funds:				
Large-cap U.S. equity	880,042	880,042	-	-
Small/mid-cap U.S. equity	175,804	175,804	-	-
International equity	246,032	246,032	-	-
Short-term bond	5,163,203	5,163,203	-	-
Total exchange-traded funds	6,465,081	6,465,081	-	-
Total investments	246,860,926	211,305,679	35,555,247	-
Money market accounts included in cash and cash equivalents	8,072,808	8,072,808	-	-
Total	\$ 254,933,734	\$ 219,378,487	\$ 35,555,247	\$ -
		Fair Value Measurements at March 31, 2009 Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 5,915,554	\$ -	\$ 5,915,554	\$ -
U.S. Treasury Notes, agency and related	3,939,619	-	3,939,619	-
Mutual funds	148,700,420	148,700,420	-	-
Common trust funds	9,570,783	-	9,570,783	-
Federal agency bonds	12,627,643	-	12,627,643	-
Total investments	180,754,019	148,700,420	32,053,599	-
Money market accounts included in cash and cash equivalents	9,227,796	9,227,796	-	-
Total	\$ 189,981,815	\$ 157,928,216	\$ 32,053,599	\$ -

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 5. Investments and Cash Equivalents (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Below are the valuation techniques used by the Foundation to measure different financial instruments at fair value and the level within the fair value hierarchy in which the financial instrument is categorized.

Investments in securities traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Corporate bonds are valued based on the last reported bid price provided by broker-dealers.

Investments in mutual funds are stated at fair value based on quoted market prices.

Investments in common trust funds are valued at fair value based on the applicable percentage ownership of the underlying net assets as of the measurement date, as determined by the Foundation. In determining fair value, the Foundation utilized valuations provided by the underlying common trust funds. The underlying common trust funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying common trust funds, which may include private placements and other securities for which prices are not readily available, are determined by the trustee of the common trust funds and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's investments in common trust funds generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the common trust fund excluding any redemption charges that may apply. In accordance with ASU 2009-12, the ACLU categorizes its investments in common trust funds as a Level 2 fair value measurement because the ACLU had the ability to redeem the investments from daily to monthly.

The investments and cash equivalents are held for the following purposes:

	<u>2010</u>	<u>2009</u>
Bill of Rights Trust, inclusive of endowments of \$38,787,654 and \$38,424,932 at March 31, 2010 and 2009, respectively (Note 10)	\$ 72,551,947	\$ 50,459,131
Split-interest agreements (Note 7)	16,856,939	13,700,589
Special projects, program support and general operating reserves	<u>165,524,848</u>	<u>125,822,095</u>
	<u>\$ 254,933,734</u>	<u>\$ 189,981,815</u>

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 5. Investments and Cash Equivalents (Continued)

Net investment gains (losses) reported in the accompanying consolidated statements of activities for the years ended March 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 5,899,380	\$ 8,082,352
Net realized and unrealized gains (losses) on investments	<u>60,684,580</u>	<u>(78,340,545)</u>
Total	66,583,960	(70,258,193)
Adjustment for allocation to affiliates holding units in the Bill of Rights Trust	<u>(5,185,272)</u>	<u>4,932,078</u>
Net investment gains (losses)	<u><u>\$ 61,398,688</u></u>	<u><u>\$ (65,326,115)</u></u>

Note 6. Office Buildings and Furniture and Equipment

Office buildings and furniture and equipment consist of the following:

	<u>2010</u>	<u>2009</u>	<u>Range of Estimated Useful Life</u>
Office buildings and office condominium	\$ 45,921,096	\$ 47,001,760	50 years
Furniture and equipment	<u>2,147,446</u>	<u>4,406,314</u>	5 to 10 years
	48,068,542	51,408,074	
Less accumulated depreciation	<u>(11,797,824)</u>	<u>(14,134,623)</u>	
	<u><u>\$ 36,270,718</u></u>	<u><u>\$ 37,273,451</u></u>	

Note 7. Split-Interest Agreements

The Foundation receives contributions under split-interest agreements, which include a charitable gift annuity program whereby in exchange for gifts of cash or securities, the Foundation promises to pay a fixed annual amount for life to the annuitant.

The difference between the fair value of the assets received and the present value of the future distributions to the donor is recognized as contribution revenue.

Upon the death of the annuitant, the balance of the amount in the split-interest account reverts to the Foundation.

The Foundation has received gifts under this program on which it is obligated to make annual annuity payments of approximately \$1,400,000 in accordance with the agreements.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 7. Split-Interest Agreements (Continued)

In addition, the Foundation has nine unitrust agreements, on which the income is paid to the donor for life. Upon the death of the donor, the balance in the trust account shall be distributed to the Foundation for its general purposes.

Assets and liabilities related to the split-interest agreements are as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 226,955	\$ 509,320
Investments	<u>16,629,984</u>	<u>13,191,269</u>
Total assets	16,856,939	13,700,589
Liabilities under split-interest agreements	<u>11,261,514</u>	<u>11,417,458</u>
Net assets	<u>\$ 5,595,425</u>	<u>\$ 2,283,131</u>

Asset balances at March 31, 2010 and 2009 exceeded the reserve requirements of the New York State Insurance Commission as well as the reserve requirements of the relevant regulatory bodies in all other states that require a reserve fund and in which the Foundation issues gift annuities. Reserves are included in liabilities under split-interest agreements on the accompanying consolidated statements of financial position.

The present value of obligations under split-interest agreements was calculated using interest rates ranging from 4.75% to 9.50% and the 2000 New York State Mortality Tables.

Beneficial interests in trusts ("BITS") are recorded based on the present value of the estimated future receipts from the trust discounted at 2.42%. These rates approximate the rates of return on U.S. government securities of similar duration and are commensurate with the risk that management associates with the ultimate collection of the trust. The initial gift and any subsequent adjustments to the nonperpetual BITS' carrying value are recognized as temporarily restricted contributions. The temporary restriction relates to the extended time period over which the gift is expected to be received and may also include purpose restrictions to benefit specific Foundation programs.

Adjustments to reflect revaluations of the present value of estimated future payments and changes in actuarial assumptions are recognized in the consolidated statements of activities as changes in value of split-interest agreements.

Note 8. IDA Bond Financing

In June 1997, the Foundation received financing of \$6,000,000 as a result of the IDA's issuance of bonds in that amount, which money was used to finance a portion of the cost of the acquisition, renovation, improvement, equipping and furnishing of its office building condominium units constituting the 17th and 18th floors of 125 Broad Street, New York, New York, which units are collateral for the debt (the "1997 IDA bonds"). On January 5, 2005, the 1997 IDA bonds were redeemed and new bonds in the amount of \$20,000,000 were issued by the IDA, the proceeds of which were delivered to the Foundation in order for the Foundation to pay for the redemption of the 1997 bonds, to purchase the 19th floor condominium unit and a proportional common interest in the land associated with the 17th, 18th and 19th floor condominium units at 125 Broad Street, New York, New York (together with the 17th and 18th floor condominium units, the "Realty") and to finance renovation, improvements, equipping and furnishing of the 19th floor condominium unit (the Realty and all property financed with the 2005 IDA bonds are referred to herein as the "Premises"). The 2005 IDA bonds mature on June 1, 2035.

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 8. IDA Bond Financing (Continued)

Pursuant to the 2005 IDA bond agreements, an irrevocable direct pay letter of credit was established with a bank in order to secure payments of principal and a portion of the interest on the 2005 IDA bonds. Interest on the bonds is variable, is computed based on predetermined factors set forth in the 2005 IDA bond agreements, and may not exceed a maximum rate of 10% per annum. The letter of credit was amended March 1, 2010 to terminate on the earlier of January 4, 2013 or upon the occurrence of certain events set forth in the letter of credit agreement, including a redemption of the 2005 IDA bonds. Interest and other charges related to the 2005 IDA bonds were approximately \$526,000 and \$562,000 for the years ended March 31, 2010 and 2009, respectively.

The letter of credit agreement, as amended, includes various covenants which, among other matters, require the Foundation to maintain a specified debt service coverage ratio, maintain a specified level of unrestricted net assets, maintain a specified ratio of cash and cash equivalents to total commitment, and not incur any new indebtedness except as defined. The Foundation is currently in compliance with these covenants. The Foundation has agreed to various additional covenants and entered into various guarantees and pledges in connection with the issuance of the 2005 IDA bonds and the letter of credit.

In connection with the issuance of the 2005 IDA bonds, the Foundation entered into a lease agreement to lease the Premises to the IDA. Concurrently with the execution of the lease agreement, the IDA agreed to sell and assign its leasehold interest in the Premises to the Foundation on an installment basis as the Foundation makes payments due on the bonds. A failure by the Foundation to pay principal and interest as due under the terms of the 2005 IDA bonds and to pay amounts due under the letter of credit could lead to the Foundation being required to surrender the Premises.

Principal payments under the above obligation in each of the five years subsequent to March 31, 2010 and thereafter are as follows:

Year ending March 31,

2011	\$ 425,000
2012	445,000
2013	460,000
2014	480,000
2015	495,000
Thereafter	<u>15,985,000</u>
	<u>\$ 18,290,000</u>

Note 9. Mortgage Payable

The Foundation assumed a mortgage payable to a financial institution for the purchase of property in Washington, D.C. owned by 915 15th Street, LLC of which the Foundation is the sole member. The mortgage is payable in monthly installments of \$31,249, including interest at 7.66%. Interest expense amounted to approximately \$312,000 and \$316,000 for the years ended March 31, 2010 and 2009, respectively. A final payment of \$3,908,089 is due on April 1, 2011. The mortgage is collateralized by the property in Washington, D.C.

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Notes to Consolidated Financial Statements

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Note 9. Mortgage Payable (Continued)

Principal payments under this obligation in each of the years subsequent to March 31, 2010 are as follows:

Year ending March 31,

2011	\$ 68,474
2012	<u>3,908,089</u>
	<u>\$ 3,976,563</u>

Note 10. The Bill of Rights Trust

In 1997, the Foundation and the 501(c)(3) arms of the affiliates (the "Affiliate Foundations") established the Bill of Rights Trust (the "Trust"). The purpose of the Trust, a portion of which is an endowment fund of the Foundation, is to build an enduring endowment to carry out the work of the ACLU and its affiliates in protecting, preserving and expanding the civil liberties of all persons in the United States. The Trust has 100,000,000 authorized units, which are issued to or among the Foundation and Affiliate Foundations based upon their respective interests in the Trust. Unit shares held by the affiliates have a unit value based upon the fair value of the net assets of the Trust divided by the total number of unit shares outstanding. The Trust provides for annual distributions to the Foundation and Affiliate Foundations in accordance with the Foundation's approved spending policy, prorated in accordance with the percentage of the fair value of each unit share. For each of the years ended March 31, 2010 and 2009, the approved distribution amount was equal to 4% of the average year-end value of total funds over the preceding three calendar years (e.g., at December 31, 2007, 2008 and 2009 for fiscal 2010 and December 31, 2006, 2007 and 2008 for fiscal 2009).

The investment goals of the Trust are to invest assets in a prudent manner that will balance reasonable annual distributions to the Foundation and Affiliate Foundations with long-term growth in the value of the assets of the Trust. The Foundation's share of the net assets in the Trust is included in the unrestricted and permanently restricted net assets in the consolidated statements of financial position. The Foundation's share of distributions is recorded as unrestricted support when received.

American Civil Liberties Union Foundation, Inc. and Subsidiary

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Note 10. The Bill of Rights Trust (Continued)

At March 31, 2010 and 2009, the Trust was comprised of the following accounts and amounts that are included in the consolidated statements of financial position:

	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	\$ 3,931,638	\$ 1,208,629
Investments	68,620,309	49,250,502
Pledges and contributions receivable	152,548	152,548
Other assets	676	252,674
	<u>\$ 72,705,171</u>	<u>\$ 50,864,353</u>
Liabilities and Net Assets:		
Held for Affiliate Foundations	\$ 22,495,290	\$ 14,282,358
Due to other funds	1,805,854	-
Unrestricted net assets	9,616,373	(1,842,937)
Permanently restricted net assets	38,787,654	38,424,932
	<u>\$ 72,705,171</u>	<u>\$ 50,864,353</u>

The following summarizes the endowment-related activities of the Trust for the years ended March 31, 2010 and 2009:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, April 1, 2009	\$ (1,842,937)	\$ 38,424,932	\$ 36,581,995
Investment Return:			
Interest and dividends	1,204,481	-	1,204,481
Net realized and unrealized gain on investments	12,129,076	-	12,129,076
Investment fees and expenses	(68,393)	-	(68,393)
Net investment return	<u>13,265,164</u>	<u>-</u>	<u>13,265,164</u>
Contributions	<u>-</u>	<u>362,722</u>	<u>362,722</u>
Appropriation of endowment assets for expenditures	<u>(1,805,854)</u>	<u>-</u>	<u>(1,805,854)</u>
Endowment net assets, March 31, 2010	<u>\$ 9,616,373</u>	<u>\$ 38,787,654</u>	<u>\$ 48,404,027</u>

(continued)

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Notes to Consolidated Financial Statements

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 10. The Bill of Rights Trust (Continued)

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, April 1, 2008	\$ 12,234,202	\$ 38,103,550	\$ 50,337,752
Investment Return:			
Interest and dividends	1,557,838	-	1,557,838
Net realized and unrealized loss on investments	(14,347,922)	-	(14,347,922)
Investment fees and expenses	<u>(86,115)</u>	<u>-</u>	<u>(86,115)</u>
Net investment return	<u>(12,876,199)</u>	<u>-</u>	<u>(12,876,199)</u>
Contributions	<u>-</u>	<u>321,382</u>	<u>321,382</u>
Appropriation of endowment assets for expenditures	<u>(1,200,940)</u>	<u>-</u>	<u>(1,200,940)</u>
Endowment net assets, March 31, 2009	<u><u>\$ (1,842,937)</u></u>	<u><u>\$ 38,424,932</u></u>	<u><u>\$ 36,581,995</u></u>

Note 11. Commitments and Contingency

The Foundation leases office space in various locations under various operating leases.

The Foundation is involved in legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the consolidated financial position of the Foundation or the consolidated results of its activities.

Note 12. Retirement Plans

The Foundation participates in the American Civil Liberties Union Retirement Plan (the "Pension Plan"), a multi-employer plan covering eligible employees of the Union, the Foundation and their affiliates.

The Pension Plan is a defined benefit plan covering those employees who have at least one year of service, or at least 1,000 hours worked per year, and are at least 21 years of age. Benefits are based on service to date on an average of career earnings. The Foundation's policy is to fund pension costs by contributing at least the minimum amount required by the Employee Retirement Income Security Act of 1974 ("ERISA").

For the years ended March 31, 2010 and 2009, the cost incurred by the Foundation in connection with the Pension Plan amounted to \$1,991,013 and \$1,471,612, respectively.

The Union implemented a "soft freeze" of the Pension Plan effective March 31, 2009. Employees hired on or after April 1, 2009 by the National Office and the 44 affiliates which elected to participate in the soft freeze will be enrolled in a new Defined Contribution ("DC") 401(k) plan. The new DC plan includes an employer contribution of 2% and an employer match of 100% of the first 1% of the employee's contribution and 50% of the next 5% of an employee's contribution, for a total match of 3.5% and a total employer contribution of 5.5%. The soft freeze applies only to employees hired on or after April 1, 2009, and does not affect current plan participants, or employees hired before March 31, 2009 but not yet in the plan.

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(with summarized comparative information as of and for the year ended March 31, 2009)

Note 12. Retirement Plans (Continued)

Eligible Foundation employees may also participate in the ACLU 401(k) plan (the "401(k) Plan"), which is a defined contribution 401(k) salary-reduction plan covering substantially all employees of the Foundation, the Union and their affiliates. Under the 401(k) Plan, employees may voluntarily contribute up to 20% of their pretax compensation to the 401(k) Plan subject to Internal Revenue Service limits. There is no employer match or other contributions.

Note 13. Net Assets

Net assets at March 31, 2010 and 2009 are comprised of the following:

	<u>2010</u>	<u>2009</u>
Unrestricted:		
Bill of Rights Trust	<u>\$ 9,616,373</u>	<u>\$ (1,842,937)</u>
Undesignated	<u>52,721,284</u>	<u>32,848,196</u>
Board-designated:		
Litigation Fund	13,750,045	10,427,863
California Annuity Fund	510,610	-
Annuity Reserve	4,331,605	1,690,806
Development Fund	21,218,779	28,537,885
Jacobs Affiliate Development Fund	15,689,346	11,482,186
Dividend Distribution Fund	48,827,610	7,352,637
John Adams Fund	<u>11,836,349</u>	<u>12,741,889</u>
Total board-designated	<u>116,164,344</u>	<u>72,233,266</u>
Total unrestricted	<u>178,502,001</u>	<u>103,238,525</u>
Temporarily Restricted:		
Donor-restricted funds/special projects	25,317,989	35,319,560
Trusts	1,040,692	868,206
Time-restricted gifts	<u>18,206,401</u>	<u>19,753,527</u>
Total temporarily restricted	<u>44,565,082</u>	<u>55,941,293</u>
Permanently Restricted - Bill of Rights Trust	<u>38,787,654</u>	<u>38,424,932</u>
Total net assets	<u><u>\$ 261,854,737</u></u>	<u><u>\$ 197,604,750</u></u>

American Civil Liberties Union Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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Note 14. Net Assets Released From Restrictions

Net assets were released from donor restrictions during the year ended March 31, 2010 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

Special Projects:

Capital Punishment Project	\$ 1,051,104
Prisoners' Rights	1,801,346
Immigrants' Rights	2,581,039
Reproductive Freedom	1,977,302
Women's Rights	1,289,349
Voting Rights	1,100,942
Other special projects	<u>5,786,402</u>
Total special projects	15,587,484
Time-restricted gifts	<u>15,277,635</u>
Total released from restrictions	<u>\$ 30,865,119</u>

Note 15. Prior-Year Summarized Comparative Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset or by functional expense classifications. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements as of and for the year ended March 31, 2009, from which the summarized information was derived.

American Civil Liberties Union Foundation, Inc. and Subsidiary

Supplementary Information

Consolidating Statement of Financial Position

March 31, 2010

See Auditor's Report

	American Civil Liberties Union Foundation, Inc.	915 15th Street, LLC	Eliminations	Consolidated
ASSETS				
Cash and Cash Equivalents (including cash and cash equivalents restricted for the Bill of Rights Trust of \$3,931,638)	\$ 21,743,979	\$ 513,983	\$ -	\$ 22,257,962
Pledges and Contributions Receivable, net	29,337,451	-	-	29,337,451
Investments	246,860,926	-	-	246,860,926
Other Assets	2,306,427	11,595	-	2,318,022
Due From Affiliates	7,353,387	-	-	7,353,387
Investment in 915 15th Street, LLC	(899,898)	-	899,898	-
Beneficial Interest in Trusts	287,484	-	-	287,484
Office Buildings and Furniture and Equipment, net of accumulated depreciation	27,220,803	9,049,915	-	36,270,718
Total assets	\$ 334,210,559	\$ 9,575,493	\$ 899,898	\$ 344,685,950
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 1,855,208	\$ 568,628	\$ -	\$ 2,423,836
Due to American Civil Liberties Union, Inc.	1,265,596	5,930,200	-	7,195,796
Liabilities under split-interest agreements	11,261,514	-	-	11,261,514
IDA bond	18,290,000	-	-	18,290,000
Mortgage payable	-	3,976,563	-	3,976,563
Bill of Rights Trust Held for affiliates	22,495,290	-	-	22,495,290
Accrued pension liability	1,991,013	-	-	1,991,013
Due to affiliates	15,197,201	-	-	15,197,201
Total liabilities	72,355,822	10,475,391	-	82,831,213
Commitments and Contingency				
Net Assets:				
Unrestricted:				
Bill of Rights Trust	9,616,373	-	-	9,616,373
Board-designated	116,164,344	-	-	116,164,344
Undesignated	52,721,284	(899,898)	899,898	52,721,284
Total unrestricted	178,502,001	(899,898)	899,898	178,502,001
Temporarily restricted	44,565,082	-	-	44,565,082
Permanently restricted - Bill of Rights Trust	38,787,654	-	-	38,787,654
Total net assets	261,854,737	(899,898)	899,898	261,854,737
Total liabilities and net assets	\$ 334,210,559	\$ 9,575,493	\$ 899,898	\$ 344,685,950

American Civil Liberties Union Foundation, Inc. and Subsidiary

Supplementary Information

Consolidating Statement of Financial Position

March 31, 2009

See Auditor's Report

	American Civil Liberties Union Foundation, Inc.	915 15th Street, LLC	Eliminations	Consolidated
ASSETS				
Cash and Cash Equivalents (including cash and cash equivalents restricted for the Bill of Rights Trust of \$1,208,629)	\$ 25,209,277	\$ 217,872	\$ -	\$ 25,427,149
Pledges and Contributions Receivable, net	14,886,168	-	-	14,886,168
Investments	180,754,019	-	-	180,754,019
Other Assets	1,485,037	-	-	1,485,037
Due From Affiliates	2,482,632	-	-	2,482,632
Investment in 915 15th Street, LLC	(576,097)	-	576,097	-
Beneficial Interest in Trusts	275,881	-	-	275,881
Office Buildings and Furniture and Equipment, net of accumulated depreciation	27,931,982	9,341,469	-	37,273,451
Assets Limited or Restricted as to Use	172,472	-	-	172,472
Total assets	\$ 252,621,371	\$ 9,559,341	\$ 576,097	\$ 262,756,809
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 1,675,393	\$ 47,204	\$ -	\$ 1,722,597
Due to American Civil Liberties Union, Inc.	2,517,329	6,048,298	-	8,565,627
Liabilities under split-interest agreements	11,417,458	-	-	11,417,458
IDA bond	18,705,000	-	-	18,705,000
Mortgage payable	-	4,039,936	-	4,039,936
Bill of Rights Trust Held for affiliates	14,282,358	-	-	14,282,358
Accrued pension liability	1,471,612	-	-	1,471,612
Due to affiliates	4,947,471	-	-	4,947,471
Total liabilities	55,016,621	10,135,438	-	65,152,059
Commitments and Contingency				
Net Assets:				
Unrestricted:				
Bill of Rights Trust	(1,842,937)	-	-	(1,842,937)
Board-designated	72,233,266	-	-	72,233,266
Undesignated	32,848,196	(576,097)	576,097	32,848,196
Total unrestricted	103,238,525	(576,097)	576,097	103,238,525
Temporarily restricted	55,941,293	-	-	55,941,293
Permanently restricted - Bill of Rights Trust	38,424,932	-	-	38,424,932
Total net assets	197,604,750	(576,097)	576,097	197,604,750
Total liabilities and net assets	\$ 252,621,371	\$ 9,559,341	\$ 576,097	\$ 262,756,809

American Civil Liberties Union Foundation, Inc. and Subsidiary

Supplementary Information

Consolidating Statement of Activities

Year Ended March 31, 2010

See Auditor's Report

	American Civil Liberties Union Foundation, Inc.				915 15th Street, LLC		Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:										
Support:										
Grants and contributions	\$ 25,943,958	\$ 22,726,145	\$ 109,597	\$ 48,779,700	\$ -	\$ -	\$ 25,943,958	\$ 22,726,145	\$ 109,597	\$ 48,779,700
Donated legal services	5,518,497	-	-	5,518,497	-	-	5,518,497	-	-	5,518,497
Bequests	28,240,313	934,864	253,125	29,428,302	-	-	28,240,313	934,864	253,125	29,428,302
Total support	59,702,768	23,661,009	362,722	83,726,499	-	-	59,702,768	23,661,009	362,722	83,726,499
Revenue:										
Rental income	527,428	-	-	527,428	1,013,872	(146,424)	1,394,876	-	-	1,394,876
Other income	49,404	-	-	49,404	-	-	49,404	-	-	49,404
Total revenue	576,832	-	-	576,832	1,013,872	(146,424)	1,444,280	-	-	1,444,280
Net Assets Released From Restrictions	30,865,119	(30,865,119)	-	-	-	-	30,865,119	(30,865,119)	-	-
Total support and revenue	91,144,719	(7,204,110)	362,722	84,303,331	1,013,872	(146,424)	92,012,167	(7,204,110)	362,722	85,170,779
Expenses:										
Program services:										
Legal	29,557,992	-	-	29,557,992	-	(74,483)	29,483,509	-	-	29,483,509
Public education	10,148,602	-	-	10,148,602	-	(26,925)	10,121,677	-	-	10,121,677
Civil liberties policy formulation	930,269	-	-	930,269	-	(1,296)	928,973	-	-	928,973
Affiliate support	29,936,570	-	-	29,936,570	-	(8,764)	29,927,806	-	-	29,927,806
Total program services	70,573,433	-	-	70,573,433	-	(111,468)	70,461,965	-	-	70,461,965
Supporting services:										
Management and general	2,552,663	-	-	2,552,663	1,337,673	(18,738)	3,871,598	-	-	3,871,598
Fund-raising	6,746,031	-	-	6,746,031	-	(16,218)	6,729,813	-	-	6,729,813
Total supporting services	9,298,694	-	-	9,298,694	1,337,673	(34,956)	10,601,411	-	-	10,601,411
Total expenses	79,872,127	-	-	79,872,127	1,337,673	(146,424)	81,063,376	-	-	81,063,376
Change in net assets before other changes	11,272,592	(7,204,110)	362,722	4,431,204	(323,801)	-	10,948,791	(7,204,110)	362,722	4,107,403
Other Changes in Net Assets:										
Legal expenses awarded, net	4,246,555	-	-	4,246,555	-	-	4,246,555	-	-	4,246,555
Net investment income, gains and losses	60,719,710	678,978	-	61,398,688	-	-	60,719,710	678,978	-	61,398,688
Changes in value of split-interest agreements	(651,580)	(228,857)	-	(880,437)	-	-	(651,580)	(228,857)	-	(880,437)
Provision for uncollectible pledge	-	(4,622,222)	-	(4,622,222)	-	-	-	(4,622,222)	-	(4,622,222)
Net loss on investment in 915 15th Street, LLC	(323,801)	-	-	(323,801)	-	323,801	-	-	-	-
Total other changes in net assets	63,990,884	(4,172,101)	-	59,818,783	-	323,801	64,314,685	(4,172,101)	-	60,142,584
Changes in net assets	75,263,476	(11,376,211)	362,722	64,249,987	(323,801)	323,801	75,263,476	(11,376,211)	362,722	64,249,987
Net Assets:										
Beginning	103,238,525	55,941,293	38,424,932	197,604,750	(576,097)	576,097	103,238,525	55,941,293	38,424,932	197,604,750
Ending	\$ 178,502,001	\$ 44,565,082	\$ 38,787,654	\$ 261,854,737	\$ (899,898)	\$ 899,898	\$ 178,502,001	\$ 44,565,082	\$ 38,787,654	\$ 261,854,737

American Civil Liberties Union Foundation, Inc. and Subsidiary

Supplementary Information

Consolidating Statement of Activities

Year Ended March 31, 2009

See Auditor's Report

	American Civil Liberties Union Foundation, Inc.				915 15th Street, LLC		Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:										
Support:										
Grants and contributions	\$ 16,537,399	\$ 38,495,950	\$ 321,382	\$ 55,354,731	\$ -	\$ -	\$ 16,537,399	\$ 38,495,950	\$ 321,382	\$ 55,354,731
Bequest	6,781,698	94,874	-	6,876,572	-	-	6,781,698	94,874	-	6,876,572
Total support	23,319,097	38,590,824	321,382	62,231,303	-	-	23,319,097	38,590,824	321,382	62,231,303
Revenue:										
Rent income	861,204	-	-	861,204	1,199,242	(583,355)	1,477,091	-	-	1,477,091
Other income	34,904	54,196	-	89,100	3,248	-	38,152	54,196	-	92,348
Total revenue	896,108	54,196	-	950,304	1,202,490	(583,355)	1,515,243	54,196	-	1,569,439
Net Assets Released From Restrictions	25,654,420	(25,654,420)	-	-	-	-	25,654,420	(25,654,420)	-	-
Total support and revenue	49,869,625	12,990,600	321,382	63,181,607	1,202,490	(583,355)	50,488,760	12,990,600	321,382	63,800,742
Expenses:										
Program services:										
Legal	28,970,929	-	-	28,970,929	-	(531,932)	28,438,997	-	-	28,438,997
Public education	18,994,396	-	-	18,994,396	-	-	18,994,396	-	-	18,994,396
Affiliate support	6,734,770	-	-	6,734,770	-	-	6,734,770	-	-	6,734,770
Total program services	54,700,095	-	-	54,700,095	-	(531,932)	54,168,163	-	-	54,168,163
Supporting services:										
Management and general	6,104,115	-	-	6,104,115	1,328,751	(51,423)	7,381,443	-	-	7,381,443
Fund-raising	7,089,000	-	-	7,089,000	-	-	7,089,000	-	-	7,089,000
Total supporting services	13,193,115	-	-	13,193,115	1,328,751	(51,423)	14,470,443	-	-	14,470,443
Total expenses	67,893,210	-	-	67,893,210	1,328,751	(583,355)	68,638,606	-	-	68,638,606
Change in net assets before other changes	(18,023,585)	12,990,600	321,382	(4,711,603)	(126,261)	-	(18,149,846)	12,990,600	321,382	(4,837,864)
Other Changes in Net Assets:										
Legal expenses awarded, net	1,805,989	-	-	1,805,989	-	-	1,805,989	-	-	1,805,989
Net investment income, gains and losses	(63,298,887)	(2,027,228)	-	(65,326,115)	-	-	(63,298,887)	(2,027,228)	-	(65,326,115)
Changes in value of split-interest agreements	(206,496)	(218,489)	-	(424,985)	-	-	(206,496)	(218,489)	-	(424,985)
Net loss on investment in 915 15th Street, LLC	(126,261)	-	-	(126,261)	-	126,261	-	-	-	-
Total other changes in net assets	(61,825,655)	(2,245,717)	-	(64,071,372)	-	126,261	(61,699,394)	(2,245,717)	-	(63,945,111)
Changes in net assets	(79,849,240)	10,744,883	321,382	(68,782,975)	(126,261)	126,261	(79,849,240)	10,744,883	321,382	(68,782,975)
Net Assets at Beginning of Year, as previously reported	148,840,249	76,963,918	38,103,550	263,907,717	(449,836)	449,836	148,840,249	76,963,918	38,103,550	263,907,717
Adjustments to Accrued Pension Liability	2,480,008	-	-	2,480,008	-	-	2,480,008	-	-	2,480,008
Reclassifications of Net Assets	31,767,508	(31,767,508)	-	-	-	-	31,767,508	(31,767,508)	-	-
Net Assets:										
Beginning (restated)	183,087,765	45,196,410	38,103,550	266,387,725	(449,836)	449,836	183,087,765	45,196,410	38,103,550	266,387,725
Ending	\$ 103,238,525	\$ 55,941,293	\$ 38,424,932	\$ 197,604,750	\$ (576,097)	\$ 576,097	\$ 103,238,525	\$ 55,941,293	\$ 38,424,932	\$ 197,604,750