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

FINANCIAL STATEMENTS

MARCH 31, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Financial Position of American Civil Liberties Union of Northern California, Inc. (a nonprofit organization) as of March 31, 2009 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of 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 of Northern California, Inc.'s March 31, 2008 financial statements and in our report dated December 2, 2008 we expressed an unqualified opinion on those financial statements.

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

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

San Francisco, California
August 25, 2009

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

STATEMENT OF FINANCIAL POSITION

March 31, 2009

With comparative totals at March 31, 2008

	2009	2008
Assets		
Cash and cash equivalents (Note 2)	\$ 1,574,990	\$ 1,070,827
Receivables from affiliated organizations (Note 9)		
National	66,808	157,069
Southern California	13,981	152,250
Foundation	164,935	7,729
San Diego	8,543	24,462
Other assets	8,027	7,536
Investments (Note 3)	619,995	608,700
Property and equipment (Note 6)	2,879	4,366
	\$ 2,460,158	\$ 2,032,939
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 17,232	\$ 3,574
Accrued liabilities (Note 7)	76,642	38,266
	93,874	41,840
Net assets		
Unrestricted	617,962	566,033
Unrestricted - board designated (Note 8)	1,748,322	1,425,066
	2,366,284	1,991,099
	\$ 2,460,158	\$ 2,032,939

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

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

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2009

With comparative totals for the year ended March 31, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>	
	2009	2008			
Personnel costs	\$ 746,567	\$ 145,167	\$ 35,967	\$ 927,701	\$ 898,131
Occupancy costs	141,535	27,938	6,652	176,125	144,086
Costs of membership	122,338	40,779		163,117	141,042
Professional and consulting fees	47,836	38,001	968	86,805	45,160
Chapter expenses	53,419			53,419	69,554
Printing and public education	50,528			50,528	43,644
Meetings and travel	21,354	826	142	22,322	34,219
Telephone	17,415	2,254	537	20,206	18,976
Contributions		15,756		15,756	26,542
Office supplies	10,326	2,178	519	13,023	14,089
Other	5,398	2,963	2,186	10,547	10,220
Insurance	4,140	3,138	280	7,558	15,438
Dues and subscriptions	7,298			7,298	8,203
Postage	4,775	1,183	282	6,240	7,860
Conferences and special events	5,154	831	163	6,148	11,606
Legislative expenses	5,887			5,887	5,375
Office equipment	2,133	437	104	2,674	3,707
Depreciation		1,487		1,487	1,661
Total 2009 functional expenses	\$ 1,246,103	\$ 282,938	\$ 47,800	\$ 1,576,841	
Total 2008 functional expenses	\$ 1,201,851	\$ 249,499	\$ 48,163		\$ 1,499,513

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

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

STATEMENT OF ACTIVITIES

For the year ended March 31, 2009

With comparative totals for the year ended March 31, 2008

	2009	2008
Revenue and support		
Membership renewals	\$ 1,990,963	\$ 2,003,043
Special appeals	505,220	608,445
Bequests	477,178	291,291
Advocacy services (Note 9)	294,900	327,400
Reimbursements from:		
Southern California	168,190	170,757
San Diego	29,615	32,412
Interest income	29,354	49,501
New memberships	47,405	45,669
First renewals	25,117	27,219
Miscellaneous	3,000	6,418
* National share (Note 8)	(1,618,916)	(1,621,302)
 Total revenue and support	 1,952,026	 1,940,853
 Expenses		
Program services	1,246,103	1,201,851
Management and general	282,938	249,499
Fundraising	47,800	48,163
 Total expenses	 1,576,841	 1,499,513
 Change in net assets	 375,185	 441,340
 Net assets, beginning of year	 1,991,099	 1,549,759
 Net assets, end of year	 \$ 2,366,284	 \$ 1,991,099

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

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

STATEMENT OF CASH FLOWS

For the year ended March 31, 2009

With comparative totals for the year ended March 31, 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 375,185	\$ 441,340
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,487	1,661
Changes in operating assets and liabilities:		
(Increase) decrease in receivables from affiliated organizations	87,243	(49,214)
(Increase) decrease in other assets	(491)	325
Decrease in prepaid pension	-	31,297
Increase (decrease) in accounts payable	13,658	(25,135)
Increase in accrued liabilities	38,376	3,714
	515,458	403,988
Cash flows from investing activities:		
Net (purchase) of investments	(11,295)	(26,865)
	(11,295)	(26,865)
Net increase in cash and cash equivalents	504,163	377,123
Cash and cash equivalents, beginning of year	1,070,827	693,704
Cash and cash equivalents, end of year	\$ 1,574,990	\$ 1,070,827

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

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

NOTES TO FINANCIAL STATEMENTS

1. Organization

American Civil Liberties Union of Northern California, Inc. ("ACLU-NC") is a tax-exempt corporation founded in 1934. ACLU-NC is affiliated with the national organization, the American Civil Liberties Union, Inc. ("National"). ACLU-NC is also affiliated with the American Civil Liberties Union Foundation of Northern California ("the Foundation"). ACLU-NC has over 52,000 members organized in 22 chapters throughout the mid and northern part of the state to extend the organization's impact and voice. It conducts legislative advocacy and public policy research as well as community organizing and grassroots activism 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; ACLU-NC works to defend the rights of all. ACLU-NC is particularly concerned about freedom of expression, the right to privacy, and the right to be free of discrimination.

ACLU-NC has offices in San Francisco, Sacramento, and San Jose, and reaches out to rural areas of Northern California from Fresno to the Oregon border.

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.

Accounting

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

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

Unrestricted-Board Designated. These are comprised of resources that the Board of Directors has established as being designated for future program and capital expansion, and cash flow resources. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at March 31, 2009 (see Note 8).

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. ACLU-NC 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. ACLU-NC had no temporarily restricted net assets at March 31, 2009.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit ACLU-NC to expend all of the income (or other economic benefits) derived from the donated assets. ACLU-NC had no permanently restricted net assets at March 31, 2009.

Cash and Cash Equivalents

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

Membership Renewal

Membership and renewal dues are recognized as revenue in the period to which they relate.

Investments

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

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

Concentration of Credit Risks

ACLU-NC 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. ACLU-NC 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.

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.

continued

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

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Material 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 recorded at fair value in the period received. A number of unpaid volunteers have made significant contributions of their time to ACLU-NC. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied or there was no reliable method of tracking these services.

Income Taxes

ACLU-NC is exempt from taxation under Internal Revenue Code Section 501(c)(4) and California Revenue and Taxation Code Section 23701f.

Functional Allocation of Expenses

Costs of providing ACLU-NC'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. ACLU-NC 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 ACLU-NC's financial statements for the year ended March 31, 2008 from which the summarized information was derived.

3. Investments

Investments at March 31, 2009 consist of money market funds of \$619,995.

continued

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

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements

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

	<u>Fair Value</u>	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>
Money market funds	<u>\$619,995</u>	<u>\$619,995</u>
	<u>\$619,995</u>	<u>\$619,995</u>

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

Level 1 Fair Value Measurements. ACLU-NC's investments are from active markets and therefore Level 1 Fair Value Measurement is used whereby Level 1 inputs are quoted prices (unadjusted) from these active markets for identical assets or liabilities that ACLU-NC has the ability to access at year end. The fair value of the money market funds is based on quoted market prices.

5. Pension Plan

ACLU-NC is part of National's multi-employer defined-benefit plan. New employees must complete one full year of service before becoming eligible to participate. Pension plan expense for the year ended March 31, 2009 was \$38,261.

6. Property and Equipment

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

Computer equipment	\$10,490
Less: accumulated depreciation	<u>(7,611)</u>
	<u>\$ 2,879</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

7. Accrued Liabilities

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

Accrued pension liability	\$38,364
Accrued vacation	37,589
Other liabilities	<u>689</u>
	<u>\$76,642</u>

8. Board Designated Funds

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

	LGBTI (Sansome/ Rykken)	Monterey (Bowen/ Kotsch)	BARK	Bowen	Robeson	San Francisco	Sonoma Chapter	Interest	Special Gifts Funds	Total
Opening balances, April 1, 2008	\$11,743	\$56,174	\$8,004	\$34,883	\$55,002	\$1,139	\$ -	\$568,362	\$689,759	\$1,425,066
Transfer in	117	1,687	80	349	550	12	24,201	191,783	146,962	365,741
Transfer out	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(42,485)</u>	<u> </u>	<u>(42,485)</u>
Ending balances, March 31, 2009	<u>\$11,860</u>	<u>\$57,861</u>	<u>\$8,084</u>	<u>\$35,232</u>	<u>\$55,552</u>	<u>\$1,151</u>	<u>\$24,201</u>	<u>\$717,660</u>	<u>\$836,721</u>	<u>\$1,748,322</u>

9. Related Party Transactions

ACLU-NC and the Foundation 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. Additionally, ACLU-NC received for advocacy services \$320,400 provided to the Foundation during the year ended March 31, 2009. At March 31, 2009 ACLU-NC has accounts receivable from the Foundation of \$164,934.

After providing for a 23.89% administrative fee paid to National, membership dues are allocated in the ratio of 61.5% and 38.5% between ACLU-NC and National, respectively. For the year ended March 31, 2009, National's portion of ACLU-NC's membership dues totaled to \$1,618,916. This amount is shown as an offset to revenue in these financial statements. Unrestricted new membership and first renewal contributions are exempt from sharing. At March 31, 2009 ACLU-NC has accounts receivable from National of \$66,808.

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

NOTES TO FINANCIAL STATEMENTS

9. Related Party Transactions, continued

ACLU-NC shares the expenses of the Sacramento legislative office with affiliate organizations. The American Civil Liberties Union of Southern California ("Southern California") and San Diego ("San Diego") reimburse ACLU-NC for their respective share of expenses incurred. ACLU-NC recognizes the reimbursement as revenue. For the year ended March 31, 2009, ACLU-NC recognized \$197,805 as reimbursement revenue. At March 31, 2009 ACLU-NC has accounts receivable from Southern California and San Diego of \$13,981 and \$8,543, respectively.

10. Subsequent Event

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