



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington
Emeritus

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

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

FINANCIAL STATEMENTS

MARCH 31, 2010

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11



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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, 2010 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, 2009 financial statements and, in our report dated August 25, 2009, 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, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Harrington Group

San Francisco, California
August 31, 2010

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

STATEMENT OF FINANCIAL POSITION

March 31, 2010

With comparative totals at March 31, 2009

	2010	2009
Assets		
Cash and cash equivalents (Note 2)	\$ 1,330,625	\$ 1,574,990
Receivables from affiliated organizations (Note 8)		
National	33,000	66,808
Southern California	14,886	13,981
Foundation	555,174	164,934
San Diego	8,984	8,543
Other assets	16,584	8,028
Investments (Note 3)	620,403	619,995
Property and equipment (Note 5)	1,728	2,879
	\$ 2,581,384	\$ 2,460,158
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 33,131	\$ 17,232
Accrued liabilities (Note 6)	73,724	76,642
	106,855	93,874
Net assets		
Unrestricted	490,323	617,962
Unrestricted - board designated (Note 7)	1,984,206	1,748,322
	2,474,529	2,366,284
Total net assets	2,474,529	2,366,284
Total liabilities and net assets	\$ 2,581,384	\$ 2,460,158

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, 2010

With comparative totals for the year ended March 31, 2009

	<u>2010</u>	<u>2009</u>
Revenue and support		
Membership renewals	\$ 1,986,006	\$ 1,990,963
Special appeals	508,747	505,220
Bequests	249,797	477,178
Advocacy services (Note 8)	147,364	294,900
Reimbursements from:		
Southern California	172,761	168,190
San Diego	30,969	29,615
Interest income	7,510	29,354
New memberships	35,048	47,405
First renewals	19,721	25,117
Miscellaneous	700	3,000
National share (Note 8)	<u>(1,520,948)</u>	<u>(1,618,916)</u>
Total revenue and support	<u>1,637,675</u>	<u>1,952,026</u>
Expenses		
Program services	1,226,479	1,246,103
Management and general	256,962	282,938
Fundraising	<u>45,989</u>	<u>47,800</u>
Total expenses	<u>1,529,430</u>	<u>1,576,841</u>
Change in net assets	108,245	375,185
Net assets, beginning of year	<u>2,366,284</u>	<u>1,991,099</u>
Net assets, end of year	<u>\$ 2,474,529</u>	<u>\$ 2,366,284</u>

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, 2010
With comparative totals for the year ended March 31, 2009

	Program Services	Management and General	Fundraising	Total Expenses	
				2010	2009
Personnel costs	\$ 764,545	\$ 153,446	\$ 33,080	\$ 951,071	\$ 927,701
Occupancy costs	118,749	21,467	5,111	145,327	176,125
Costs of membership	106,193	35,398		141,591	163,117
Professional and consulting fees	44,934	13,779	1,140	59,853	86,805
Chapter expenses	53,805			53,805	53,419
Printing and public education	53,674			53,674	50,528
Meetings and travel	30,922	441	105	31,468	22,322
Other	4,676	15,345	4,785	24,806	10,547
Telephone	16,030	2,231	531	18,792	20,206
Insurance	7,009	1,989	474	9,472	7,558
Office supplies	7,236	1,436	342	9,014	13,023
Legislative expenses	8,715			8,715	5,887
Contributions		8,506		8,506	15,756
Postage	4,639	1,065	253	5,957	6,240
Office equipment	3,595	708	168	4,471	2,674
Dues and subscriptions	1,757			1,757	7,298
Depreciation		1,151		1,151	1,487
Conferences and special events				-	6,148
Total 2010 functional expenses	\$ 1,226,479	\$ 256,962	\$ 45,989	\$ 1,529,430	
Total 2009 functional expenses	\$ 1,246,103	\$ 282,938	\$ 47,800		\$ 1,576,841

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, 2010

With comparative totals for the year ended March 31, 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 108,245	\$ 375,185
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,151	1,487
Changes in operating assets and liabilities:		
(Increase) decrease in receivables from affiliated organizations	(357,778)	87,243
(Increase) in other assets	(8,556)	(491)
Increase in accounts payable	15,899	13,658
Increase (decrease) in accrued liabilities	(2,918)	38,376
	(243,957)	515,458
Cash flows from investing activities:		
Net (purchase) of investments	(408)	(11,295)
	(408)	(11,295)
Net increase (decrease) in cash and cash equivalents	(244,365)	504,163
Cash and cash equivalents, beginning of year	1,574,990	1,070,827
Cash and cash equivalents, end of year	\$ 1,330,625	\$ 1,574,990

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 and Sacramento 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, 2010 (see Note 7).

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, 2010.

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, 2010.

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.

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 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).

continued

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

Property and Equipment

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

Donated 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.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation's returns for years ended 2009, 2008, and 2007 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

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.

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2009 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through August 31, 2010, the date which the financial statements were available.

3. Investments

Investments at March 31, 2010 consist of money market funds of \$620,403, which are valued on a recurring basis using Level 1 inputs.

4. Pension Plan

ACLU-NC is part of National's multi-employer defined benefit pension plan which was frozen effective April 1, 2009, accordingly no new participants has been added to the defined benefit plan census. Pension expense for the year ended March 31, 2010 was \$48,584.

ACLU-NC is also part of National's multi-employer defined contribution plan and the employees of the Foundation who meet the eligibility criteria may participate in the new plan. Pension expense for the year ended March 31, 2010 was \$570.

5. Property and Equipment

Property and equipment at March 31, 2010 consist of the following:

Computer equipment	\$10,490
Less: accumulated depreciation	<u>(8,762)</u>
	<u>\$ 1,728</u>

continued

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

6. Accrued Liabilities

Accrued liabilities at March 31, 2010 consist of the following:

Accrued vacation	\$40,273
Accrued pension liability	29,802
Other liabilities	<u>3,649</u>
	<u>\$73,724</u>

7. 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, 2009	\$11,860	\$57,861	\$8,084	\$35,232	\$55,552	\$1,151	\$24,201	\$717,660	\$836,721	\$1,748,322
Transfer in	119	809	81	352	556	12	242	152,752	89,694	244,617
Transfer out	<u> </u>	<u>(8,733)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(8,733)</u>
Ending balances, March 31, 2010	<u>\$11,979</u>	<u>\$49,937</u>	<u>\$8,165</u>	<u>\$35,584</u>	<u>\$56,108</u>	<u>\$1,163</u>	<u>\$24,443</u>	<u>\$870,412</u>	<u>\$926,415</u>	<u>\$1,984,206</u>

8. 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 \$147,364 for advocacy services provided to the Foundation during the year ended March 31, 2010. At March 31, 2010, ACLU-NC has accounts receivable from the Foundation of \$555,174.

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, 2010, National's portion of ACLU-NC's membership dues totaled to \$1,520,948. 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, 2010, ACLU-NC has account receivable from National in the amount of \$33,000.

continued

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.

NOTES TO FINANCIAL STATEMENTS

8. **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, 2010, ACLU-NC recognized \$203,730 as reimbursement revenue. At March 31, 2010, ACLU-NC has accounts receivable from Southern California and San Diego of \$14,886 and \$8,984, respectively.