



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Consolidated Statement of Financial Position of American Civil Liberties Union of Northern California, Inc. and Subsidiary (a nonprofit organization) as of March 31, 2011, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidated 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, 2010 financial statements and, in our report dated August 31, 2010, we expressed an unqualified opinion on those consolidated 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 consolidated 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. and Subsidiary'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of American Civil Liberties Union of Northern California, Inc. and Subsidiary as of March 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Harrington Group

San Francisco, California
August 23, 2011

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.**and
SUBSIDIARY****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

March 31, 2011

With comparative totals at March 31, 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 1,931,406	\$ 1,330,625
Receivables from affiliated organizations (Note 9)		
National	106,922	33,000
Southern California	21,324	14,886
Foundation	109,904	555,174
San Diego	14,307	8,984
Other assets	20,210	16,584
Investments (Note 3)	620,819	620,403
Property and equipment (Note 6)	834	1,728
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 2,825,726</u></u>	<u><u>\$ 2,581,384</u></u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 29,428	\$ 33,131
Accrued liabilities (Note 7)	89,222	73,724
	<u> </u>	<u> </u>
Total liabilities	<u>118,650</u>	<u>106,855</u>
Net assets		
Unrestricted	257,366	490,323
Unrestricted - Board designated (Note 8)	2,449,710	1,984,206
	<u> </u>	<u> </u>
Total net assets	<u>2,707,076</u>	<u>2,474,529</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$ 2,825,726</u></u>	<u><u>\$ 2,581,384</u></u>

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

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.**and
SUBSIDIARY****CONSOLIDATED STATEMENT OF ACTIVITIES**

For the year ended March 31, 2011

With comparative totals for the year ended March 31, 2010

	<u>2011</u>	<u>2010</u>
Revenue and support		
Membership renewals	\$ 2,101,521	\$ 1,986,006
Bequests	998,861	249,797
Special appeals	468,083	508,747
Reimbursements from:		
Southern California	149,381	172,761
San Diego	47,726	30,969
New memberships	24,061	35,048
First renewals	19,523	19,721
Miscellaneous	4,660	700
Interest income	2,355	7,510
Advocacy services	-	147,364
National share (Note 9)	<u>(2,038,052)</u>	<u>(1,520,948)</u>
Total revenue and support	<u>1,778,119</u>	<u>1,637,675</u>
Expenses		
Program services	1,247,465	1,226,479
Management and general	261,098	256,962
Fundraising	<u>37,009</u>	<u>45,989</u>
Total expenses	<u>1,545,572</u>	<u>1,529,430</u>
Change in net assets	232,547	108,245
Net assets, beginning of year	<u>2,474,529</u>	<u>2,366,284</u>
Net assets, end of year	<u><u>\$ 2,707,076</u></u>	<u><u>\$ 2,474,529</u></u>

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

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.

**and
SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2011

With comparative totals for the year ended March 31, 2010

	Program Services	Management and General	Fundraising	Total Expenses	
				2011	2010
Personnel costs	\$ 824,775	\$ 170,282	\$ 26,491	\$ 1,021,548	\$ 951,071
Occupancy costs	132,979	22,596	5,380	160,955	145,327
Costs of membership	69,516	23,172		92,688	141,591
Chapter expenses	56,020			56,020	53,805
Printing and public education	47,555			47,555	53,674
Professional and consulting fees	30,013	14,177	1,356	45,546	59,853
Meetings and travel	33,371	428	135	33,934	31,468
Other	4,312	14,826	2,439	21,577	24,806
Telephone	14,338	2,138	509	16,985	18,792
Contributions		9,785		9,785	8,506
Legislative expenses	9,755			9,755	8,715
Office supplies	7,753	1,502	358	9,613	9,014
Office equipment	7,059	181	43	7,283	4,471
Postage	3,872	1,059	252	5,183	5,957
Conferences and special events	4,653	46	43	4,742	-
Dues and subscriptions	1,453			1,453	1,757
Depreciation		894		894	1,151
Insurance	41	12	3	56	9,472
Total 2011 functional expenses	\$ 1,247,465	\$ 261,098	\$ 37,009	\$ 1,545,572	
Total 2010 functional expenses	\$ 1,226,479	\$ 256,962	\$ 45,989		\$ 1,529,430

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

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.**and
SUBSIDIARY****CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended March 31, 2011

With comparative totals for the year ended March 31, 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 232,547	\$ 108,245
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	894	1,151
Changes in operating assets and liabilities:		
(Increase) decrease in receivables from affiliated organizations	359,587	(357,778)
(Increase) in other assets	(3,626)	(8,556)
Increase (decrease) in accounts payable	(3,703)	15,899
Increase (decrease) in accrued liabilities	15,498	(2,918)
Net cash provided (used) by operating activities	<u>601,197</u>	<u>(243,957)</u>
Cash flows from investing activities:		
Net (purchase) of investments	<u>(416)</u>	<u>(408)</u>
Net cash (used) by investing activities	<u>(416)</u>	<u>(408)</u>
Net increase (decrease) in cash and cash equivalents	600,781	(244,365)
Cash and cash equivalents, beginning of year	<u>1,330,625</u>	<u>1,574,990</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,931,406</u></u>	<u><u>\$ 1,330,625</u></u>

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

American Civil Liberties Union of Northern California, Inc. and Subsidiary (“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.

During its 2011 fiscal year, ACLU-NC established the California My ACLU Campaign, LLC (“ACLU-LLC”) for the purpose of facilitating the community membership drive and provides a single entity that will report to the Attorney General’s office on an annual basis. ACLU-LLC is 100% owned by American Civil Liberties Union of Northern California, Inc. 501(c)(4) and is considered a disregarded entity for United States tax purposes. ACLU-LLC’s activity is consolidated for the purpose of financial statement presentation.

Financial Accounting Standards Board Accounting Standards provides guidance for the reporting and disclosure of financially interrelated not-for-profit organizations. Based upon the nature of the relationship between ACLU-NC and ACLU-LLC consolidated financial statements are presented. The two organizations together are collectively referred to as ACLU-NC in these consolidated financial statements.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of ACLU-NC and ACLU-LLC. The entities are consolidated since ACLU-NC has both an economic interest and control of ACLU-LLC through a majority voting interest in its governing board. All inter-organization transactions have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

continued

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
and SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of 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, 2011 (see Note 8).

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 Consolidated Statement of Activities as net assets released from program or capital restrictions. ACLU-NC had no temporarily restricted net assets at March 31, 2011.

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, 2011.

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.

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
and SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

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

ACLU-NC is required to measure an investment and the related revenues at fair value. The specific techniques used to measure fair value for consolidated financial statement elements are described in the notes below that relate to each element.

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.

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
and SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 ACLU-NC in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. ACLU-NC's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing ACLU-NC's programs and other activities have been presented in the Consolidated 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 consolidated 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. Actual results could differ from those estimates.

Comparative Totals

The consolidated 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, 2010 from which the summarized information was derived.

Subsequent Events

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

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
and SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments

Investments at March 31, 2011 consist of money market funds of \$620,819.

4. Fair Value Measurements

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

	<u>Level 1</u>	<u>Total</u>
Money market fund	<u>\$620,819</u>	<u>\$620,819</u>
	<u>\$620,819</u>	<u>\$620,819</u>

The fair values of money market funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

5. 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, 2011 was \$30,952.

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, 2011 was \$1,588.

6. Property and Equipment

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

Computer equipment	\$10,490
Less: accumulated depreciation	<u>(9,656)</u>
	<u>\$ 834</u>

7. Accrued Liabilities

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

Accrued vacation	\$47,587
Accrued pension liability	31,386
Other liabilities	<u>10,249</u>
	<u>\$89,222</u>

continued

AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
and SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

	<u>LGBTI</u> <u>(Sansome/</u> <u>Rykken)</u>	<u>Monterey</u> <u>(Bowen/</u> <u>Kotsch)</u>	<u>BARK</u>	<u>Bowen</u>	<u>Robeson</u>	<u>San</u> <u>Francisco</u>	<u>Sonoma</u> <u>Chapter</u>	<u>Interest</u>	<u>Special</u> <u>Gifts</u> <u>Funds</u>	<u>Total</u>
Opening balances, April 1, 2010	\$11,979	\$49,937	\$8,165	\$35,584	\$56,108	\$1,163	\$24,443	\$870,412	\$ 926,415	\$1,984,206
Transfer in	120	499	82	356	561	12	244	111,590	354,023	467,487
Transfer out	—	—	(808)	—	—	(1,175)	—	—	—	(1,983)
Ending balances, March 31, 2011	<u>\$12,099</u>	<u>\$50,436</u>	<u>\$7,439</u>	<u>\$35,940</u>	<u>\$56,669</u>	<u>\$ —</u>	<u>\$24,687</u>	<u>\$982,002</u>	<u>\$1,280,438</u>	<u>\$2,449,710</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. At March 31, 2011, ACLU-NC has accounts receivable from the Foundation of \$109,904.

After providing for a 29.5% administrative fee paid to National, membership dues are allocated in the ratio of 60.5% and 39.5% between ACLU-NC and National, respectively. For the year ended March 31, 2011, National's portion of ACLU-NC's membership dues totaled to \$2,038,052. This amount is shown as an offset to revenue in these consolidated 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 \$106,922.

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, 2011, ACLU-NC recognized \$197,107 as reimbursement revenue. At March 31, 2011, ACLU-NC has accounts receivable from Southern California and San Diego of \$21,324 and \$14,307, respectively.