



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

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

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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, 2012, 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, 2011 consolidated financial statements and, in our report dated August 23, 2011, 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, 2012, 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 28, 2012

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

March 31, 2012

With comparative totals at March 31, 2011

	Unrestricted	Temporarily Restricted	2012	2011
Assets				
Cash and cash equivalents (Note 2)	\$ 2,356,791	\$ 75,000	\$ 2,431,791	\$ 1,931,406
Receivables from affiliated organizations (Note 8)				
National	81,956		81,956	106,922
Southern California	17,822		17,822	21,324
Foundation	211,971		211,971	109,904
San Diego	8,666		8,666	14,307
Other assets	18,841		18,841	20,210
Investments (Note 3)	620,898		620,898	620,819
Property and equipment (Note 5)			-	834
Total assets	\$ 3,316,945	\$ 75,000	\$ 3,391,945	\$ 2,825,726
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 92,323	\$ -	\$ 92,323	\$ 29,428
Accrued liabilities (Note 6)	102,794		102,794	89,222
Total liabilities	195,117	-	195,117	118,650
Net assets				
Unrestricted	592,990		592,990	257,366
Unrestricted - Board designated (Note 7)	2,528,838		2,528,838	2,449,710
Temporarily restricted		75,000	75,000	-
Total net assets	3,121,828	75,000	3,196,828	2,707,076
Total liabilities and net assets	\$ 3,316,945	\$ 75,000	\$ 3,391,945	\$ 2,825,726

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

**AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
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CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended March 31, 2012
With comparative totals for the year ended March 31, 2011

	Unrestricted	Temporarily Restricted	2012	2011
Revenue and support				
Membership renewals	\$ 2,308,297	\$ -	\$ 2,308,297	\$ 2,101,521
Bequests	649,611		649,611	998,861
Special appeals	569,471		569,471	468,083
Advocacy services	403,600		403,600	-
Reimbursements from:				
Southern California (Note 8)	117,554		117,554	149,381
San Diego (Note 8)	64,038		64,038	47,726
Grants		75,000	75,000	-
New memberships	31,346		31,346	24,061
First renewals	12,407		12,407	19,523
Interest income	2,178		2,178	2,355
Miscellaneous	1,249		1,249	4,660
National share (Note 8)	(1,930,497)		(1,930,497)	(2,038,052)
Total revenue and support	<u>2,229,254</u>	<u>75,000</u>	<u>2,304,254</u>	<u>1,778,119</u>
Expenses				
Program services	1,515,978		1,515,978	1,247,465
Management and general	222,176		222,176	261,098
Fundraising	76,348		76,348	37,009
Total expenses	<u>1,814,502</u>	<u>-</u>	<u>1,814,502</u>	<u>1,545,572</u>
Change in net assets	414,752	75,000	489,752	232,547
Net assets, beginning of year	<u>2,707,076</u>	<u>-</u>	<u>2,707,076</u>	<u>2,474,529</u>
Net assets, end of year	<u><u>\$ 3,121,828</u></u>	<u><u>\$ 75,000</u></u>	<u><u>\$ 3,196,828</u></u>	<u><u>\$ 2,707,076</u></u>

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

**AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2012

With comparative totals for the year ended March 31, 2011

	Program Services	Management and General	Fundraising	Total Expenses	
				2012	2011
Personnel costs	\$ 1,016,030	\$ 161,434	\$ 60,283	\$ 1,237,747	\$ 1,021,548
Occupancy costs	117,697	19,722	4,696	142,115	160,955
Contributions	108,367			108,367	9,785
Professional and consulting fees	55,508	16,853	1,544	73,905	45,546
Chapter expenses	59,483			59,483	56,020
Printing and public education	53,100			53,100	47,555
Meetings and travel	34,433	260	67	34,760	33,934
Costs of membership	17,362		5,787	23,149	92,688
Other	4,474	15,466	2,133	22,073	21,577
Telephone	12,941	1,802	429	15,172	16,985
Legislative expenses	9,209			9,209	9,755
Office supplies	5,887	1,382	329	7,598	9,613
Insurance	5,616	1,594	379	7,589	56
Office equipment	4,851	1,366	325	6,542	7,283
Postage	4,532	1,286	306	6,124	5,183
Conferences and special events	5,296	177	70	5,543	4,742
Dues and subscriptions	1,192			1,192	1,453
Depreciation		834		834	894
Total 2012 functional expenses	\$ 1,515,978	\$ 222,176	\$ 76,348	\$ 1,814,502	
Total 2011 functional expenses	\$ 1,247,465	\$ 261,098	\$ 37,009		\$ 1,545,572

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

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

For the year ended March 31, 2012

With comparative totals for the year ended March 31, 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 489,752	\$ 232,547
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	834	894
Changes in operating assets and liabilities:		
(Increase) decrease in receivables from affiliated organizations	(67,958)	359,587
Decrease (increase) in other assets	1,369	(3,626)
Increase (decrease) in accounts payable	62,895	(3,703)
Increase in accrued liabilities	<u>13,572</u>	<u>15,498</u>
 Net cash provided by operating activities	 <u>500,464</u>	 <u>601,197</u>
 Cash flows from investing activities:		
Net (purchase) of investments	<u>(79)</u>	<u>(416)</u>
 Net cash (used) by investing activities	 <u>(79)</u>	 <u>(416)</u>
 Net increase in cash and cash equivalents	 500,385	 600,781
 Cash and cash equivalents, beginning of year	 <u>1,931,406</u>	 <u>1,330,625</u>
 Cash and cash equivalents, end of year	 <u><u>\$ 2,431,791</u></u>	 <u><u>\$ 1,931,406</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 50,000 members organized in 17 chapters and 7 campus clubs 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.

**AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
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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, 2012 (see Note 7).

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.

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, 2012.

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 Consolidated Statement of Activities. 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.

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 measured on a non-recurring basis and 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 ACLU-NC in its 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 consolidated financial statements for the year ended March 31, 2011, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through August 28, 2012, the date which the consolidated financial statements were available.

**AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments

Investments at March 31, 2012 consist of money market funds of \$650,898.

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, 2012 was \$48,852.

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, 2012 was \$5,407.

5. Property and Equipment

Property and equipment at March 31, 2012 consist of the following:

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

6. Accrued Liabilities

Accrued liabilities at March 31, 2012 consist of the following:

Accrued vacation	\$ 57,065
Accrued pension liability	44,280
Other liabilities	<u>1,449</u>
	<u>\$102,794</u>

continued

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Monterey (Sansome/ (Bowen/ Rykken) Kotsch)		BARK	Bowen	Robeson	Sonoma Chapter	Interest	Special Gifts Funds	Total
Opening balances, April 1, 2011	\$12,099	\$50,436	\$7,439	\$35,940	\$56,669	\$24,687	\$982,002	\$1,280,438	\$2,449,710
Transfer in	121	504	74	360	566	247	105,160	224,126	331,158
Transfer out	—	(3,611)	—	(5,000)	(1,050)	—	(242,369)	—	(252,030)
Ending balances, March 31, 2012	<u>\$12,220</u>	<u>\$47,329</u>	<u>\$7,513</u>	<u>\$31,300</u>	<u>\$56,185</u>	<u>\$24,934</u>	<u>\$844,793</u>	<u>\$1,504,564</u>	<u>\$2,528,838</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. At March 31, 2012, ACLU-NC has accounts receivable from the Foundation of \$211,971.

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, 2012, National's portion of ACLU-NC's membership dues totaled to \$1,930,497. 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, 2012, ACLU-NC has account receivable from National in the amount of \$81,956.

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, 2012, ACLU-NC recognized \$181,592 as reimbursement revenue (\$117,554 from Southern California and \$64,038 from San Diego). At March 31, 2012, ACLU-NC has accounts receivable from Southern California and San Diego of \$17,822 and \$8,666, respectively.