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

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013

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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 financial statements of American Civil Liberties Union of Northern California, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of March 31, 2013, and the related consolidated Statements of Activities, Statement of Functional Expenses and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 of Northern California, Inc. and Subsidiary as of March 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Summarized Comparative Information

The summarized comparative information presented herein as of and for the year ended March 31, 2012 was derived from the consolidated financial statements American Civil Liberties Union of Northern California, Inc. and Subsidiary as of March 31, 2012, which were audited by other auditors whose report dated August 28, 2012, expressed an unmodified opinion on those statements.

Harrington Group

San Francisco, California
September 12, 2013

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

March 31, 2013

With comparative totals at March 31, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Assets				
Cash and cash equivalents (Note 2)	\$ 2,206,821	\$ 75,000	\$ 2,281,821	\$ 2,431,791
Receivables from affiliated organizations (Note 8)				
National	292,223	100,000	392,223	81,956
Southern California	19,222		19,222	17,822
Foundation	32,326		32,326	211,971
San Diego	22,181		22,181	8,666
Other assets	25,046		25,046	18,841
Investments (Note 3)	620,914		620,914	620,898
Property and equipment (Note 5)	-		-	-
Total assets	\$ 3,218,733	\$ 175,000	\$ 3,393,733	\$ 3,391,945
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 14,231	\$ -	\$ 14,231	\$ 92,323
Accrued liabilities (Note 6)	116,986		116,986	102,794
Total liabilities	131,217	-	131,217	195,117
Net assets				
Unrestricted	466,461		466,461	592,990
Unrestricted - Board designated (Note 7)	2,621,055		2,621,055	2,528,838
Temporarily restricted (Note 8)		175,000	175,000	75,000
Total net assets	3,087,516	175,000	3,262,516	3,196,828
Total liabilities and net assets	\$ 3,218,733	\$ 175,000	\$ 3,393,733	\$ 3,391,945

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, 2013
With comparative totals for the year ended March 31, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Revenue and support				
Membership renewals	\$ 2,160,257	\$ -	\$ 2,160,257	\$ 2,308,297
Bequests	501,018		501,018	649,611
Contributions	20,000		20,000	-
Special appeals	467,003		467,003	569,471
Advocacy services	348,965		348,965	403,600
Reimbursements from:				
Southern California (Note 8)	148,917		148,917	117,554
San Diego (Note 8)	41,267		41,267	64,038
Grants		200,000	200,000	75,000
New memberships	9,139		9,139	31,346
First renewals	11,064		11,064	12,407
Interest income	2,280		2,280	2,178
Miscellaneous	-		-	1,249
National share (Note 8)	(1,707,358)		(1,707,358)	(1,930,497)
Net assets released from program restrictions	100,000	(100,000)	-	-
Total revenue and support	<u>2,102,552</u>	<u>100,000</u>	<u>2,202,552</u>	<u>2,304,254</u>
Expenses				
Program services	1,806,823		1,806,823	1,515,978
Management and general	265,514		265,514	222,176
Fundraising	64,527		64,527	76,348
Total expenses	<u>2,136,864</u>	<u>-</u>	<u>2,136,864</u>	<u>1,814,502</u>
Change in net assets	(34,312)	100,000	65,688	489,752
Net assets, beginning of year	<u>3,121,828</u>	<u>75,000</u>	<u>3,196,828</u>	<u>2,707,076</u>
Net assets, end of year	<u>\$ 3,087,516</u>	<u>\$ 175,000</u>	<u>\$ 3,262,516</u>	<u>\$ 3,196,828</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, 2013

With comparative totals for the year ended March 31, 2012

	Program Services	Management and General	Fundraising	Total Expenses	
				2013	2012
Personnel costs	\$ 1,360,048	\$ 171,464	\$ 50,055	\$ 1,581,567	\$ 1,237,747
Professional and consulting fees	68,966	44,565		113,531	73,905
Occupancy costs	79,617	20,882	1,305	101,804	142,115
Conferences and special events	59,901			59,901	5,543
Meetings and travel	55,504	2,614		58,118	34,760
Printing and public education	55,257	141		55,398	53,100
Equipment and maintenance	35,888	9,413	588	45,889	-
Chapter expenses	24,264			24,264	59,483
Contributions	18,470	218		18,688	108,367
Law interns	18,313			18,313	-
Telephone	13,928	3,653	228	17,809	15,172
Fundraising			12,182	12,182	-
Office supplies	6,737	1,760	110	8,607	7,598
Legislative expenses	6,338			6,338	9,209
Postage	3,592	942	59	4,593	6,124
Insurance		4,343		4,343	7,589
Cost of recruitment		2,909		2,909	-
Bank charges		2,259		2,259	-
Other		351		351	22,073
Depreciation				-	834
Costs of membership				-	23,149
Office equipment				-	6,542
Dues and subscriptions				-	1,192
Total 2013 functional expenses	\$ 1,806,823	\$ 265,514	\$ 64,527	\$ 2,136,864	
Total 2012 functional expenses	\$ 1,515,978	\$ 222,176	\$ 76,348		\$ 1,814,502

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, 2013
With comparative totals for the year ended March 31, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 65,688	\$ 489,752
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	-	834
Changes in operating assets and liabilities:		
(Increase) decrease in receivables from affiliated organizations	(145,537)	(67,958)
(Increase) decrease in other assets	(6,205)	1,369
Increase (decrease) in accounts payable	(78,092)	62,895
Increase in accrued liabilities	14,192	13,572
	(149,954)	500,464
Cash flows from investing activities:		
Net (purchase) of investments	(16)	(79)
	(16)	(79)
Net (decrease) increase in cash and cash equivalents	(149,970)	500,385
Cash and cash equivalents, beginning of year	2,431,791	1,931,406
Cash and cash equivalents, end of year	\$ 2,281,821	\$ 2,431,791

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, Fresno 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, 2013 (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 (see Note 8).

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, 2013.

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.
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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 thousand 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, 2012, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 12, 2013, the date which the consolidated financial statements were available.

3. Investments

Investments at March 31, 2013 consist of money market funds of \$620,914.

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

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, 2013 was \$105,289.

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, 2013 was \$9,486.

As a result of the Recession of 2008-2009 and continuing low interest rates in recent years, the nationwide ACLU's defined benefit pension plan, like many defined benefit pension plans of public and private organizations, is currently underfunded according to actuarial projections. A portion of the unfunded liability of the nationwide plan is for employees of the ACLU-NC and ACLU Foundation of Northern California. This unfunded liability is not reflected in these financial statements for two reasons: 1) the national ACLU carries the liability on its financial statements and has yet to indicate that its affiliates should do so, and 2) the national ACLU board is considering changes to the investment manager and investment strategy that are yet to be adopted and that will impact the projections.

5. Property and Equipment

Property and equipment at March 31, 2013 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, 2013 consist of the following:

Accrued vacation	\$ 55,096
Accrued pension liability	61,150
Other liabilities	<u>740</u>
	<u>\$116,986</u>

continued

**AMERICAN CIVIL LIBERTIES UNION OF NORTHERN CALIFORNIA, INC.
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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 (Sansome/ Rykken)	Monterey (Bowen/ Kotsch)	<u>BARK</u>	<u>Bowen</u>	<u>Robeson</u>	Sonoma <u>Chapter</u>	<u>Interest</u>	Special Gifts <u>Funds</u>	<u>Total</u>
Opening balances, April 1, 2012	\$12,220	\$47,329	\$7,513	\$31,300	\$56,185	\$24,934	\$ 844,793	\$1,504,564	\$2,528,838
Transfers in	12,729	473	75	313	562	249	117,041	190,436	321,878
Transfers out	—	—	—	(3,130)	—	—	(226,531)	—	(229,661)
Ending balances, March 31, 2013	<u>\$24,949</u>	<u>\$47,802</u>	<u>\$7,588</u>	<u>\$28,483</u>	<u>\$56,747</u>	<u>\$25,183</u>	<u>\$ 735,303</u>	<u>\$1,695,000</u>	<u>\$2,621,055</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2013 in the amount of \$175,000 are restricted for the Educational Equity Project.

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, 2013, ACLU-NC has accounts receivable from the Foundation of \$32,326.

After providing for a 23.3% 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, 2013, National's portion of ACLU-NC's membership dues totaled to \$1,707,358. 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, 2013, ACLU-NC has accounts receivable from National in the amount of \$392,223.

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, 2013, ACLU-NC recognized \$190,184 as reimbursement revenue (\$148,917 from Southern California and \$41,267 from San Diego). At March 31, 2013, ACLU-NC has accounts receivable from Southern California and San Diego of \$19,222 and \$22,181, respectively.

continued

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

10. Ballot Measure Advocacy and Reporting

The ACLU-NC was one of the principle supporters of the campaign to qualify and pass Proposition 34, a measure on the November 2012 ballot to replace the death penalty with life without the possibility of parole. Direct ballot measure activity spanned two fiscal years.

The ACLU-NC supported the passage of Proposition 34 in two ways. First, as a co-sponsor of the Yes on 34 committee, ACLU-NC used non-donor funds consisting of interest income to make monetary and in-kind contributions to the primary Proposition 34 campaign committee. These financial statements reflect a deduction from the Interest Fund totaling \$226,531 for this fiscal year. Second, ACLU-NC also established a recipient committee for the purpose of reporting expenditures made from two grants that were earmarked for the purpose of its death penalty advocacy that it allocated to its work to support Proposition 34.

The ACLU-NC completed a number of reports to the Secretary of State throughout the campaign. Following the election, ACLU-NC conducted a complete internal review of all campaign activity and filings, which revealed that it had failed to timely disclose some expenditures. ACLU-NC reported its omissions to the appropriate state agencies by filing the necessary corrected campaign reports and paid an administrative fine.