

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

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**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2015**

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Certified Public Accountants, LLP

## INDEPENDENT AUDITORS' REPORT

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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, 2015, and the related consolidated Statements of Activities, 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.

### Auditors' 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 auditors' 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, 2015, 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.

### Report of Summarized Comparative Information

We have previously audited American Civil Liberties Union of Northern California, Inc. and Subsidiary's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harrington Group*

San Francisco, California  
October 8, 2015

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

March 31, 2015

With comparative totals at March 31, 2014

	2015	2014
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 2,570,148	\$ 2,782,059
Receivables from affiliated organizations (Note 9)		
National	14,894	131,401
Southern California	82,025	36,506
San Diego	17,475	-
Other assets	22,653	13,730
Investments (Note 3)	621,084	621,021
Property and equipment (Note 5)	-	-
	-	-
<b>Total assets</b>	<b>\$ 3,328,279</b>	<b>\$ 3,584,717</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 21,020	\$ 33,050
Payable to affiliated organizations (Note 9)		
Foundation	204,859	257,203
San Diego	-	3,574
Accrued liabilities (Note 6)	96,698	140,381
	322,577	434,208
<b>Total liabilities</b>	<b>322,577</b>	<b>434,208</b>
<b>Net assets</b>		
Unrestricted	606,597	459,311
Unrestricted - Board designated (Note 7)	2,399,105	2,606,478
Temporarily restricted	-	84,720
	3,005,702	3,150,509
<b>Total net assets</b>	<b>3,005,702</b>	<b>3,150,509</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,328,279</b>	<b>\$ 3,584,717</b>

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, 2015  
With comparative totals for the year ended March 31, 2014

	Unrestricted	Temporarily Restricted	2015	2014
<b>Revenue and support</b>				
Membership renewals	\$ 2,114,384	\$ -	\$ 2,114,384	\$ 2,292,344
Bequests	581,962		581,962	527,445
Contributions	49,100		49,100	25,000
Special appeals	354,733		354,733	463,865
Advocacy services	370,698		370,698	-
Reimbursements from:				
Southern California (Note 9)	222,700		222,700	209,497
San Diego (Note 9)	42,381		42,381	44,022
Grants			-	70,000
New memberships	10,770		10,770	8,398
First renewals	2,835		2,835	6,694
Interest income	2,135		2,135	2,553
Miscellaneous	7,379		7,379	1,621
National share (Note 9)	(1,739,986)		(1,739,986)	(1,717,268)
Net assets released from purpose restrictions	84,720	(84,720)	-	-
<b>Total revenue and support</b>	<b>2,103,811</b>	<b>(84,720)</b>	<b>2,019,091</b>	<b>1,934,171</b>
<b>Expenses</b>				
Program services	1,794,202		1,794,202	1,679,669
Management and general	365,241		365,241	357,783
Fundraising	4,455		4,455	11,511
<b>Total expenses</b>	<b>2,163,898</b>	<b>-</b>	<b>2,163,898</b>	<b>2,048,963</b>
<b>Change in net assets</b>	<b>(60,087)</b>	<b>(84,720)</b>	<b>(144,807)</b>	<b>(114,792)</b>
<b>Net assets, beginning of year</b>	<b>3,065,789</b>	<b>84,720</b>	<b>3,150,509</b>	<b>3,265,301</b>
<b>Net assets, end of year</b>	<b>\$ 3,005,702</b>	<b>\$ -</b>	<b>\$ 3,005,702</b>	<b>\$ 3,150,509</b>

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

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

For the year ended March 31, 2015

With comparative totals for the year ended March 31, 2014

	Program	Management		Total Expenses	
	Services	and General		Fundraising	2015
Personnel costs	\$ 1,327,162	\$ 253,094	\$ 1,582	\$ 1,581,838	\$ 1,480,080
Occupancy costs	84,988	16,207	101	101,296	92,119
Equipment and maintenance	75,205	14,342	90	89,637	59,680
Professional and consulting fees	35,927	45,406		81,333	94,036
Meetings and travel	49,258	9,452		58,710	59,771
Conferences and special events	49,118			49,118	63,793
Other	40,441	7,761		48,202	1,599
Printing and public education	38,318			38,318	28,944
Chapter expenses	35,825			35,825	57,123
Law interns	25,345			25,345	92
Telephone	14,735	2,810	18	17,563	20,454
Office supplies	9,959	1,899	12	11,870	8,465
Cost of recruitment		8,540	2,650	11,190	1,837
Legislative expenses	6,383			6,383	5,670
Insurance		4,909		4,909	4,522
Postage	1,538	293	2	1,833	2,921
Bank charges		528		528	2,487
Contributions and program grants				-	59,847
Fundraising				-	5,523
<b>Total 2015 functional expenses</b>	<b>\$ 1,794,202</b>	<b>\$ 365,241</b>	<b>\$ 4,455</b>	<b>\$ 2,163,898</b>	
Total 2014 functional expenses	\$ 1,679,669	\$ 357,783	\$ 11,511		\$ 2,048,963

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, 2015  
With comparative totals for the year ended March 31, 2014

	2015	2014
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (144,807)	\$ (114,792)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Changes in operating assets and liabilities:		
Decrease in receivables from affiliated organizations	53,513	300,830
(Increase) decrease in other assets	(8,923)	11,316
(Decrease) increase in accounts payable	(12,030)	18,819
(Decrease) increase in payable to affiliated organizations	(55,918)	260,777
(Decrease) increase in accrued liabilities	(43,683)	23,395
	<b>(211,848)</b>	500,345
<b>Cash flows from investing activities:</b>		
Net (purchase) of investments	(63)	(107)
	<b>(63)</b>	(107)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(211,911)</b>	500,238
<b>Cash and cash equivalents, beginning of year</b>	<b>2,782,059</b>	2,281,821
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,570,148</b>	\$ 2,782,059

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

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### 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 48,000 members organized in 18 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, 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.



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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**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, 2015 (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, 2015.

**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

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**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

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**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, 2014, from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through October 8, 2015, the date which the consolidated financial statements were available.

**3. Investments**

Investments at March 31, 2015 consist of money market funds of \$621,084.

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

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**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 have been added to the defined benefit plan census. Pension expense for the year ended March 31, 2015 was \$103,095.

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, 2015 was \$24,796.

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 has recently changed its investment manager and investment strategy and these changes have yet to make an impact on the projections.

**5. Property and Equipment**

Property and equipment at March 31, 2015 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, 2015 consist of the following:

Accrued vacation	\$71,558
Accrued pension liability (Note 4)	23,934
Other liabilities	<u>1,206</u>
	<u>\$96,698</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.

	<b>LGBTI (Sansome/ Rykken)</b>	<b>Monterey Chapter</b>	<b>BARK Chapter</b>	<b>Bowen</b>	<b>Robeson Chapter</b>	<b>Sonoma Chapter</b>	<b>Interest</b>	<b>Planned Giving Bequest Fund</b>	<b>Total</b>
Opening balances, April 1, 2014	\$ 58,127	\$48,280	\$7,664	\$23,768	\$52,776	\$20,435	\$853,383	\$1,542,015	\$2,606,478
Transfers in		482	77		528	52,044	3,224	207,585	263,940
Transfers out			(1,000)					(470,313)	(471,313)
Ending balances, March 31, 2015	<u>\$ 58,157</u>	<u>\$48,762</u>	<u>\$6,741</u>	<u>\$23,768</u>	<u>\$53,304</u>	<u>\$72,479</u>	<u>\$856,607</u>	<u>\$1,279,287</u>	<u>\$2,399,105</u>

**8. Commitments and Contingencies**

**Obligations Under Operating Leases**

ACLU-NC leases various facilities under operating leases with various terms. Future minimum payments by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year ended December 31,

2016	\$ 66,420
2017	66,420
2018	66,420
2019	66,420
2020	<u>44,280</u>
	<u>\$309,960</u>

Rent expense under operating leases for the years ended March 31, 2015 was \$63,824.

**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, 2015, ACLU-NC has accounts payable to the Foundation in the amount of \$204,859.

continued

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

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**9. Related Party Transactions, continued**

After providing for approximately 24% administrative fee paid to National, membership dues are allocated in the ratio of 60.5% and 39.5% between ACLU-NC and National, respectively. Income from bequests is shared as follows: National (40%), ACLU-NC (40%), and the Affiliate Development Fund (20%). For the year ended March 31, 2015, National's portion of ACLU-NC's membership dues and bequests totaled to \$1,739,986. 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, 2015, ACLU-NC has net accounts receivable from National in the amount of \$14,894.

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, 2015, ACLU-NC recognized \$265,081 as reimbursement revenue (\$222,700 from Southern California and \$42,381 from San Diego). At March 31, 2015, ACLU-NC has accounts receivable from Southern California and San Diego in the amount of \$82,025 and \$17,475, respectively. During the year ended March 31, 2015 ACLU-NC wrote-off outstanding accounts receivable from Southern California related to prior years in the amount of \$36,506.