



Certified Public Accountants, LLP

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

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

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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, 2016, 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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
September 8, 2016

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

March 31, 2016

With comparative totals at March 31, 2015

	2016	2015
ASSETS		
Cash and cash equivalents (Note 2)	\$ 3,197,693	\$ 2,545,148
Receivables from affiliated organizations (Note 8)		
National	554,587	14,894
Southern California	73,141	82,025
San Diego	18,117	17,475
Other assets	25,870	47,653
Investments	-	621,084
Property and equipment (Note 4)	-	-
	\$ 3,869,408	\$ 3,328,279
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 4,298	\$ 21,020
Payable to affiliated organizations (Note 8)		
Foundation	396,582	204,859
Accrued liabilities (Note 5)	119,980	96,698
	520,860	322,577
NET ASSETS		
Unrestricted	734,721	606,597
Unrestricted - Board designated (Note 6)	2,613,827	2,399,105
	3,348,548	3,005,702
	\$ 3,869,408	\$ 3,328,279

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, 2016
With comparative totals for the year ended March 31, 2015

	Unrestricted	Temporarily Restricted	2016	2015
REVENUE AND SUPPORT				
Membership renewals	\$ 2,227,282	\$ -	\$ 2,227,282	\$ 2,114,384
Bequests	1,393,854	2,051	1,395,905	581,962
Contributions	29,000		29,000	49,100
Special appeals	365,326		365,326	354,733
Advocacy services	393,050	90,000	483,050	370,698
Reimbursements from:				
Southern California (Note 8)	268,500		268,500	222,700
San Diego (Note 8)	138,500		138,500	42,381
Grants			-	-
New memberships	6,917		6,917	10,770
First renewals	3,852		3,852	2,835
Interest income	2,379		2,379	2,135
Miscellaneous	5,393		5,393	7,379
National share (Note 8)	(2,143,081)		(2,143,081)	(1,739,986)
Net assets released from purpose restrictions	92,051	(92,051)	-	-
TOTAL REVENUE AND SUPPORT	2,783,023	-	2,783,023	2,019,091
EXPENSES				
Program services	2,138,753		2,138,753	1,794,202
Management and general	299,654		299,654	365,241
Fundraising	1,770		1,770	4,455
TOTAL EXPENSES	2,440,177	-	2,440,177	2,163,898
CHANGE IN NET ASSETS	342,846	-	342,846	(144,807)
NET ASSETS, BEGINNING OF YEAR	3,005,702	-	3,005,702	3,150,509
NET ASSETS, END OF YEAR	\$ 3,348,548	\$ -	\$ 3,348,548	\$ 3,005,702

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, 2016

With comparative totals for the year ended March 31, 2015

	Program	Management		Total Expenses	
	Services	and General		Fundraising	2016
Personnel costs	\$ 1,250,835	\$ 238,538	\$ 1,491	\$ 1,490,864	\$ 1,581,838
Contributions and program grants	297,000			297,000	-
Professional and consulting fees	88,862	16,946	106	105,914	81,333
Occupancy costs	85,044	16,218	101	101,363	101,296
Conferences and special events	97,936			97,936	49,118
Other	91,139			91,139	48,202
Meetings and travel	53,456	10,258		63,714	58,710
Chapter expenses	55,835			55,835	35,825
Equipment and maintenance	38,008	7,248	45	45,301	89,637
Printing and public education	32,569			32,569	38,318
Insurance	15,437	2,944		18,381	4,909
Telephone	12,480	2,381	15	14,876	17,563
Office supplies	8,413	1,604	10	10,027	11,870
Law interns	5,605			5,605	25,345
Legislative expenses	4,344			4,344	6,383
Cost of recruitment		3,090		3,090	11,190
Postage	1,790	341	2	2,133	1,833
Bank charges		86		86	528
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 2,138,753	\$ 299,654	\$ 1,770	\$ 2,440,177	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 1,794,202	\$ 365,241	\$ 4,455		\$ 2,163,898

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, 2016
With comparative totals for the year ended March 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 342,846	\$ (144,807)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in operating assets:		
Receivables from affiliated organizations	(531,451)	53,513
Other assets	21,783	(8,923)
Increase (decrease) in operating liabilities:		
Accounts payable	(16,722)	(12,030)
Payable to affiliated organizations	191,723	(55,918)
Accrued liabilities	23,282	(43,683)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	31,461	(211,848)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale/transfer of investments	621,084	(63)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	621,084	(63)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	652,545	(211,911)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,545,148	2,757,059
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,197,693	\$ 2,545,148

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 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.
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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, 2016 (see Note 6).

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, 2016.

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.

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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.
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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, 2015, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 8, 2016, the date which the consolidated financial statements were available for issue. No event or transaction have occurred during this period that appears to require recognition or disclosure in the consolidated financial statements.

3. 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, 2016 was \$79,063.

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, 2016 was \$25,987.

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3. Pension Plan, continued

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.

4. Property and Equipment

Property and equipment at March 31, 2016 consist of the following:

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

5. Accrued Liabilities

Accrued liabilities at March 31, 2016 consist of the following:

Accrued vacation	\$ 90,618
Accrued pension liability (Note 3)	19,362
Other liabilities	<u>10,000</u>
	<u>\$119,980</u>

6. 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/ Rykkken)	Monterey Chapter	BARK Chapter	Bowen	Robeson Chapter	Sonoma Chapter	Interest	Planned Giving Bequest Fund	Total
Opening balances, April 1, 2015	\$58,157	\$48,762	\$6,741	\$23,768	\$53,304	\$72,479	\$ 856,607	\$1,279,287	\$2,399,105
Transfers in	582	27,488	67	27,238	533	5,235	41,499	440,247	542,889
Transfers out	<u> </u>	<u>(5,000)</u>	<u> </u>	<u> </u>	<u>(3,000)</u>	<u>(10,000)</u>	<u>(250,000)</u>	<u>(83,200)</u>	<u>(351,200)</u>
Ending balances, March 31, 2016	<u>\$58,739</u>	<u>\$71,250</u>	<u>\$6,808</u>	<u>\$51,006</u>	<u>\$50,837</u>	<u>\$67,714</u>	<u>\$ 648,106</u>	<u>\$1,636,334</u>	<u>\$2,590,794</u>

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

7. 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:

<u>Year ended December 31,</u>	
2017	\$ 66,420
2018	66,420
2019	66,420
2020	<u>44,280</u>
	<u>\$243,540</u>

Rent expense under operating leases for the years ended March 31, 2016 was \$70,401.

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, 2016, ACLU-NC has accounts payable to the Foundation in the amount of \$396,582.

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, 2016, National's portion of ACLU-NC's membership dues and bequests totaled to \$2,143,081. 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, 2016, ACLU-NC has net accounts receivable from National in the amount of \$522,918.

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, 2016, ACLU-NC recognized \$407,000 as reimbursement revenue (\$268,500 from Southern California and \$138,500 from San Diego). At March 31, 2016, ACLU-NC has accounts receivable from Southern California and San Diego in the amount of \$73,141 and \$18,117, respectively. During the year ended March 31, 2016 ACLU-NC wrote-off outstanding accounts receivable from Southern California related to prior years in the amount of \$74,787.