



and

ACLU Foundation of Arizona

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2021 and 2020

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ACLU of Arizona and ACLU Foundation of Arizona
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of ACLU of Arizona and ACLU Foundation of Arizona (Arizona nonprofit corporations), which comprise the consolidated statements of financial position as of March 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits 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 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 ACLU of Arizona and ACLU Foundation of Arizona as of March 31, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Henry & Horne, CP

Tempe, Arizona
January 20, 2022

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,316,141	\$ 3,158,848
Promise to give, current portion	100,000	-
Due from National American Civil Liberties Union, Inc., net	479,006	658,602
Prepaid expenses and other assets	39,972	40,689
Certificates of deposit	<u>1,420,126</u>	<u>1,406,965</u>
TOTAL CURRENT ASSETS	<u>6,355,245</u>	<u>5,265,104</u>
OTHER ASSETS		
Investments		
Endowment	283,102	198,446
Other investments	<u>1,500,509</u>	<u>1,217,688</u>
	1,783,611	1,416,134
Promise to give, net of current portion	100,000	-
Property and equipment, net	5,000	5,000
Deposits	<u>5,800</u>	<u>5,800</u>
TOTAL OTHER ASSETS	<u>1,894,411</u>	<u>1,426,934</u>
TOTAL ASSETS	<u>\$ 8,249,656</u>	<u>\$ 6,692,038</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 32,912	\$ 34,261
Accrued expenses	<u>154,048</u>	<u>122,314</u>
TOTAL CURRENT LIABILITIES	<u>186,960</u>	<u>156,575</u>
NET ASSETS		
Without donor restrictions	7,131,999	6,154,148
With donor restrictions	<u>930,697</u>	<u>381,315</u>
TOTAL NET ASSETS	<u>8,062,696</u>	<u>6,535,463</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,249,656</u>	<u>\$ 6,692,038</u>

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended March 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
SUPPORT AND REVENUE						
Donations	\$ 1,512,107	\$ 200,000	\$ 1,712,107	\$ 1,009,168	\$ -	\$ 1,009,168
Bequests	62,163	-	62,163	544,147	-	544,147
In-kind donations	2,449,493	-	2,449,493	1,218,506	-	1,218,506
Grant revenue	678,656	372,108	1,050,764	311,182	159,063	470,245
Shared membership contribution	908,473	-	908,473	781,272	-	781,272
Legal fees awarded	35,655	-	35,655	505,326	-	505,326
Investment income (loss), net	324,301	84,656	408,957	(49,953)	(18,288)	(68,241)
Net assets released from restrictions	107,382	(107,382)	-	519,173	(519,173)	-
	<u>6,078,230</u>	<u>549,382</u>	<u>6,627,612</u>	<u>4,838,821</u>	<u>(378,398)</u>	<u>4,460,423</u>
Special events revenue	-	-	-	79,386	-	79,386
Special events contributions	-	-	-	88,754	-	88,754
Direct donor benefits	-	-	-	(56,111)	-	(56,111)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,029</u>	<u>-</u>	<u>112,029</u>
TOTAL SUPPORT AND REVENUE	<u>6,078,230</u>	<u>549,382</u>	<u>6,627,612</u>	<u>4,950,850</u>	<u>(378,398)</u>	<u>4,572,452</u>
EXPENSES						
Program services expenses	4,552,600	-	4,552,600	3,377,984	-	3,377,984
Supporting services expenses						
Management and general	303,736	-	303,736	272,216	-	272,216
Fundraising	244,043	-	244,043	282,619	-	282,619
TOTAL EXPENSES	<u>5,100,379</u>	<u>-</u>	<u>5,100,379</u>	<u>3,932,819</u>	<u>-</u>	<u>3,932,819</u>
CHANGE IN NET ASSETS	<u>977,851</u>	<u>549,382</u>	<u>1,527,233</u>	<u>1,018,031</u>	<u>(378,398)</u>	<u>639,633</u>
NET ASSETS, BEGINNING OF YEAR	<u>6,154,148</u>	<u>381,315</u>	<u>6,535,463</u>	<u>5,136,117</u>	<u>759,713</u>	<u>5,895,830</u>
NET ASSETS, END OF YEAR	<u>\$ 7,131,999</u>	<u>\$ 930,697</u>	<u>\$ 8,062,696</u>	<u>\$ 6,154,148</u>	<u>\$ 381,315</u>	<u>\$ 6,535,463</u>

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2021

	Program Services					Supporting Services		Totals	
	Legal	Public Education	Communications	Organizing Advocacy	Lobbying/ Policy	Total Program Services	Management and General		Fundraising
Personnel expenses:									
Payroll	\$ 409,215	\$ 167,464	\$ 95,462	\$ 354,504	\$ 125,353	\$ 1,151,998	\$ 132,530	\$ 158,946	\$ 1,443,474
Payroll taxes	30,664	13,108	7,058	27,464	9,333	87,627	10,445	11,675	109,747
Employee benefits	68,995	34,163	14,069	61,953	14,562	193,742	54,980	31,034	279,756
Total personnel expenses	508,874	214,735	116,589	443,921	149,248	1,433,367	197,955	201,655	1,832,977
Operating expenses:									
Accounting	-	-	-	-	-	-	14,900	-	14,900
Advocacy infrastructure	-	5,000	1,198	239,470	71,294	316,962	-	-	316,962
Bank and credit card fees	-	-	-	-	-	-	2,928	6,159	9,087
Board and volunteer support	-	-	-	198	-	198	(2,223)	-	(2,025)
Communications	-	-	1,362	178	-	1,540	-	-	1,540
Database fees	-	-	-	-	-	-	-	2,289	2,289
Donated legal services	2,449,493	-	-	-	-	2,449,493	-	-	2,449,493
Dues and subscriptions	10,914	880	2,482	40	4,045	18,361	19,004	927	38,292
Equipment lease	1,501	-	381	502	-	2,384	996	567	3,947
Gifts	51	99	-	765	129	1,044	3,981	589	5,614
Honorariums	-	300	50	325	-	675	-	-	675
Information technology	21,814	-	4,056	26,861	2,318	55,049	7,533	2,318	64,900
Insurance	7,119	-	-	-	-	7,119	4,936	-	12,055
Legal	63,347	-	-	-	-	63,347	-	-	63,347
Meals and entertainment	26	-	50	843	50	969	678	290	1,937
Occupancy	47,297	12,812	7,332	57,891	-	125,332	11,930	9,633	146,895
Postage	709	167	70	-	-	946	2,737	2,824	6,507
Printing	29	-	461	692	-	1,182	24	9,813	11,019
Professional services	298	139	1,200	1,602	32,189	35,428	25,315	1,584	62,327
Supplies and office expense	7,702	4,244	2,035	7,002	1,613	22,596	4,352	3,082	30,030
Telephone	5,472	2,139	1,697	4,621	-	13,929	8,496	2,160	24,585
Travel	401	-	-	1,257	1,021	2,679	194	153	3,026
TOTAL EXPENSES	\$ 3,125,047	\$ 240,515	\$ 138,963	\$ 786,168	\$ 261,907	\$ 4,552,600	\$ 303,736	\$ 244,043	\$ 5,100,379

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2020

	Program Services					Total Program Services	Supporting Services		Direct Donor Benefit	Totals
	Legal	Public Education	Communications	Organizing Advocacy	Lobbying/ Policy		Management and General	Fundraising		
Personnel expenses:										
Payroll	\$ 379,301	\$ 183,521	\$ 107,685	\$ 386,661	\$ 115,510	\$ 1,172,678	\$ 95,105	\$ 159,062	\$ -	\$ 1,426,845
Payroll taxes	30,844	14,070	8,640	28,583	8,318	90,455	7,290	12,573	-	110,318
Employee benefits	66,641	33,457	20,567	52,361	18,900	191,926	70,233	29,123	-	291,282
Total personnel expenses	476,786	231,048	136,892	467,605	142,728	1,455,059	172,628	200,758	-	1,828,445
Operating expenses:										
Accounting	-	-	-	-	-	-	20,196	-	-	20,196
Advocacy infrastructure	-	358	3,486	29,169	52,038	85,051	-	-	-	85,051
Bank and credit card fees	-	-	-	-	-	-	2,281	5,082	-	7,363
Board and volunteer support	-	-	-	21	-	21	11,400	135	-	11,556
Communications	-	-	6,797	501	-	7,298	-	-	-	7,298
Conference fees	217	1,399	-	1,216	-	2,832	36	33	-	2,901
Database fees	-	-	-	-	-	-	-	5,493	-	5,493
Donated legal services	1,213,506	-	-	-	-	1,213,506	-	-	-	1,213,506
Dues and subscriptions	14,891	785	1,987	315	4,636	22,614	5,535	1,270	-	29,419
Equipment lease	3,274	413	290	202	-	4,179	1,416	563	-	6,158
Gifts	(99)	121	-	-	121	143	2,452	395	-	2,990
Information technology	20,246	-	3,818	19,092	2,182	45,338	7,091	2,182	-	54,611
Insurance	6,556	-	-	-	-	6,556	5,098	-	-	11,654
Legal	162,414	-	10,107	760	7,347	180,628	-	-	-	180,628
Licenses, fees, and permits	-	-	-	-	-	-	20	-	-	20
Meals and entertainment	1,220	2,494	314	4,154	1,151	9,333	8,588	6,974	-	24,895
Occupancy	46,172	15,277	7,176	56,734	-	125,359	9,841	8,101	-	143,301
Postage	8	252	-	-	110	370	619	4,599	-	5,588
Printing	361	556	3,201	657	604	5,379	680	1,840	-	7,899
Professional services	-	62,800	39,925	4,575	31,091	138,391	9,747	9,000	-	157,138
Public education forums	-	10,106	-	16,043	-	26,149	-	2,964	-	29,113
Supplies and office expense	2,535	536	489	5,661	1,327	10,548	5,709	59	-	16,316
Telephone	2,510	1,284	1,655	829	414	6,692	8,044	265	-	15,001
Travel	7,912	6,874	1,676	10,920	5,156	32,538	835	6,348	-	39,721
Special events - food	-	-	-	-	-	-	-	-	29,884	29,884
Special events - venue	-	-	-	-	-	-	-	-	8,227	8,227
Special events - entertainment	-	-	-	-	-	-	-	-	18,000	18,000
Special events - other expenses	-	-	-	-	-	-	-	26,558	-	26,558
	1,958,509	334,303	217,813	618,454	248,905	3,377,984	272,216	282,619	56,111	3,988,930
Less amounts reported with total support and revenue	-	-	-	-	-	-	-	-	(56,111)	(56,111)
TOTAL EXPENSES	\$ 1,958,509	\$ 334,303	\$ 217,813	\$ 618,454	\$ 248,905	\$ 3,377,984	\$ 272,216	\$ 282,619	\$ -	\$ 3,932,819

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,527,233	\$ 639,633
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized/unrealized (gain)/loss on investments	(377,173)	83,204
Non-cash donation of property and equipment	-	(5,000)
(Increase) decrease in:		
Promise to give	(200,000)	-
Due from/due to National ACLU	179,596	(295,320)
Prepaid expenses and other assets	717	8,542
Increase (decrease) in:		
Accounts payable	(1,349)	2,609
Accrued expenses	31,734	6,696
	<u>1,160,758</u>	<u>440,364</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	<u>1,160,758</u>	<u>440,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment through dividends reinvested	(12,855)	(21,752)
Sale of investments	22,551	-
Purchases of certificates of deposit and interest reinvested	(1,420,126)	(1,406,965)
Proceeds from redemption of certificates of deposit	1,406,965	-
	<u>(3,465)</u>	<u>(1,428,717)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
	<u>(3,465)</u>	<u>(1,428,717)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,157,293	(988,353)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,158,848</u>	<u>4,147,201</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,316,141</u>	<u>\$ 3,158,848</u>

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

ACLU of Arizona (the “Union”) is a not-for-profit membership organization that was incorporated in Arizona in 1968. The Union's purpose is to maintain and protect civil liberties in Arizona through legislative advocacy and public education. The Union lobbies at the local and state levels, working to influence public policies that threaten individual rights. The Union also is responsible for engaging and informing members on how to safeguard personal freedoms and build political power.

The ACLU Foundation of Arizona (the “Foundation”) is a not-for-profit corporation that was incorporated in 1971. The Foundation was organized to maintain and protect civil liberties in Arizona through public education and litigation. The Foundation defends constitutional guarantees outlined in the Bill of Rights and works to extend rights to segments of the population that have traditionally been denied their rights, including people of color, lesbians, gay men, bisexual and transgendered people, women, mental-health patients, prisoners, people with disabilities, and the poor.

The Union and the Foundation (collectively the “Organization”) share equipment, office space, personnel and operating costs. The Union and the Foundation reimburse each other to support their respective share of operations.

The Organization is affiliated with the American Civil Liberties Union, Inc. and the American Civil Liberties Union Foundation, Inc. (collectively “ACLU National”).

Program Services

Legal: The Foundation provides legal representation – free of charge – to persons whose civil liberties are threatened or violated. The Foundation leverages the growing capacity of its in-house legal team with pro bono resources from volunteer attorneys to engage in strategic litigation and non-litigation legal advocacy in priority areas of criminal justice, immigrants’ rights, education, and LGBTQ equality. Attorneys in the legal program work in close coordination with the teams involved in the policy, organizing advocacy, and communications programs, the national ACLU staff, and other local and national partners to advance the integrated legal and advocacy goals.

Public Education: The Foundation educates and informs key audiences, including elected officials, impacted stakeholders and members of the general public, about civil liberties and civil rights that are protected by the constitution and laws of the United States and Arizona. This education work is done through public awareness campaigns using a combination of strategies, including hosting public education events, releasing data-driven reports, and distributing printed materials in both English and Spanish, to raise awareness among targeted audiences in communities across Arizona.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Program Services (Continued)

Communications: The Foundation and the Union each develop and execute communication strategies that advance its multi-year campaign goals in the areas of education and criminal justice reform. They implement campaign-style communications strategies focused on neutralizing opposition, driving narratives that support ACLU values, rapidly responding to news cycles, and influencing decision makers through traditional and social media. A new focus for this program is aimed at using communications to educate voters about candidates' and office-holders' voting records, public statements, and policy stances on ACLU issues without endorsing or opposing a candidate or party.

Organizing and Advocacy: The Union utilizes grassroots activism to recruit, train and mobilize ACLU members and activists in the fight to protect our civil rights and liberties. The Union believes in centering the voices of directly impacted people through a new ladder of engagement model created for its Campaign for Smart Justice that recruits impacted people who are formerly incarcerated and develops them into leaders and spokespeople who push for transformative policy changes. They have created community-building spaces to engage our formerly incarcerated leaders, ACLU allies and members, including planning committee meetings, campaign meetings, resource breakfasts and welcome sessions.

Lobbying/Policy: The Union lobbies Arizona legislators and members of local government bodies, including city council and school board members, to take action on public policies that impact civil liberties. They draft legislation, conduct research and policy analysis and testify for/against bills. Occasionally, they take positions and issue statements on ballot measures that impact civil liberties.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Union and the Foundation. All material intercompany balances and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Basis of Presentation

The consolidated financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash held in accounts with stock brokerage firms are reported as investments as they represent accounts used for the purchases and sales of investments and are excluded from this definition.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Fair Value of Financial Instruments

Accounting Standards establish a framework for measuring fair value which provides fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
|---------|---|

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
	If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are recorded at fair value in the consolidated statements of financial position. Investment income or loss is included in the change in net assets without donor restrictions in the consolidated statements of activities, unless the income or loss is restricted by donor or law. Investment income or loss consists of interest and dividend income and realized and unrealized gains and losses, less external investment expenses.

Risks and Uncertainty

The Organization invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes, could materially affect the amount reported in the consolidated statements of financial position.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Endowment Funds

The Organization's endowment fund is held and managed by ACLU National in its Bill of Rights Trust (BORT) fund. The BORT fund was established to carry out the work of the ACLU in protecting, preserving, and expanding the civil liberties of all persons in the United States of America. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds when a donor's intent is not expressed. MCFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the funds continue in perpetuity.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Organization's other resources, and (7) the Organization's investment policies.

Return Objectives and Risk Parameters. ACLU Foundation National has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. ACLU Foundation National's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of ACLU Foundation National over time. Endowment assets are invested in a conservative, well diversified asset mix that is intended to result in a consistent inflation-protected rate of return.

Spending Policy. ACLU Foundation National's policy is to disburse to each unit share 6% of the average of the fair market value of each unit share of the fund as of December 31 of the three, immediate preceding calendar years.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Contributions and grants revenue received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to classify donor restricted contributions as support without donor restrictions to the extent that donor restrictions were met in the year the contributions were received.

Donated Services

Donated services are recognized as contributions at their estimated fair value if the services (a) create or enhance the Organization's non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

The Foundation handles litigation by using the services of cooperating attorneys who donate their services to the Foundation and its clients. These services are reported in the consolidated financial statements as described above.

Additionally, unpaid volunteers contributed time to develop the programs of the Union and the Foundation. The value of this time is not reflected in the consolidated financial statements because it does not meet the requirements for recognition.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Legal Fees Awarded

The Organization may receive legal fees awarded by the court as a result of the settlement of certain types of litigation. Because awards are not determinable until resolution of the litigation, such amounts are not recorded until received.

Shared Membership Contribution

Shared membership contribution revenue is received from ACLU National based on a revenue sharing agreement and is recognized as revenue in the period to which they relate. This revenue sharing agreement specifies the circumstances under which revenue shall be shared and the methodology for determining the specific portion of revenue that will be shared.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services. The consolidated financial statements of the Organization report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated based on use, square footage basis, as well as salaries and benefits, which are allocated on the basis of time and effort studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

The Union qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code. Contributions to the Union do not qualify for a charitable contribution deduction under Section 170 of the Internal Revenue Code.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization recognizes uncertain tax positions in the consolidated financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of March 31, 2021 and 2020, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Income Tax Status (Continued)

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended March 31, 2021 and 2020, the Organization did not have income tax related interest and penalty expense.

Use of Estimates

The preparation of the 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 20, 2022, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization receives significant contributions each year from donors as well as shared donations and memberships with ACLU National, which are available to meet annual cash needs for operations. The Organization also receives grant revenue with purpose and time restrictions related to the fulfillment of the objectives under the grant. Grant funds that are not expected to be expended within one year are not considered available to meet operations within one year.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended March 31, 2021 and 2020

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

The following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the consolidated statements of financial position date to meet general expenditures as of March 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,316,141	\$ 3,158,848
Promise to give, current portion	100,000	-
Due from National	479,006	658,602
Certificates of deposit	1,420,126	1,406,965
Other investments	<u>1,500,509</u>	<u>1,217,688</u>
Financial assets available to be used within one year	<u>\$ 7,815,782</u>	<u>\$ 6,442,103</u>

NOTE 3 CONCENTRATIONS OF CREDIT RISK AND REVENUE CONCENTRATIONS

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and cash equivalents.

The Organization maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The Organization receives a significant portion of its revenue from ACLU National. For the years ended March 31, 2021 and 2020, 35% and 25%, respectively, of the Organization's total support and revenue was received from this affiliate.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets (Level 1). Investments held with ACLU National are valued based on the fair value of the underlying assets held by ACLU National and the Organization's percentage interest in ACLU National's investment (Level 2). Investments held at ACF are managed by ACF but are accessible to the Organization at any time, upon board approval. The Organization is invested in pools that seek to preserve capital, reduce market volatility and enhance returns through diversifying strategies. Investments held in funds with ACF are valued based on the value of the underlying assets held by ACF and the Organization's percentage in ACF's investment pool (Level 3).

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2021:

	Level 1	Level 2	Level 3	Total
Cash and short term investments	\$ 16,912	\$ -	\$ -	\$ 16,912
Equity securities	613,048	-	-	613,048
Fixed rate cap securities	39,109	-	-	39,109
Investments held with ACLU National:				
Endowment	-	283,102	-	283,102
Other investments	-	172,690	-	172,690
Investments held at ACF	-	-	658,750	658,750
Total investments	<u>\$ 669,069</u>	<u>\$ 455,792</u>	<u>\$ 658,750</u>	<u>\$ 1,783,611</u>

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2020:

	Level 1	Level 2	Level 3	Total
Cash and short term investments	\$ 20,819	\$ -	\$ -	\$ 20,819
Equity securities	527,491	-	-	527,491
Fixed rate cap securities	13,561	-	-	13,561
Investments held with ACLU National:				
Endowment	-	198,446	-	198,446
Other investments	-	121,050	-	121,050
Investments held with ACF	-	-	534,767	534,767
Total investments	<u>\$ 561,871</u>	<u>\$ 319,496</u>	<u>\$ 534,767</u>	<u>\$ 1,416,134</u>

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended March 31, 2021 and 2020

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs during the years ended March 31:

Balance at March 31, 2019	\$ 535,160
Realized and unrealized losses	(2,902)
Dividends	7,808
Fees	<u>(5,299)</u>
Balance at March 31, 2020	534,767
Realized and unrealized losses	121,757
Dividends	7,564
Fees	<u>(5,338)</u>
Balance at March 31, 2021	<u><u>\$ 658,750</u></u>

Investment income (loss) is summarized as follows for the years ended March 31:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 45,467	\$ 28,662
Realized gain	20,288	37,083
Unrealized gain (loss)	356,885	(120,287)
Investment fees	<u>(13,683)</u>	<u>(13,699)</u>
	<u><u>\$ 408,957</u></u>	<u><u>\$ (68,241)</u></u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 57,790	\$ 57,790
Accumulated depreciation	<u>(52,790)</u>	<u>(52,790)</u>
	<u><u>\$ 5,000</u></u>	<u><u>\$ 5,000</u></u>

The Organization had no depreciation expense for the years ended March 31, 2021 and 2020.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 ENDOWMENT

The endowment consists of one fund restricted in perpetuity by the donor and is included in net assets with donor restrictions.

Endowment net asset composition at March 31, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted amount	\$ -	\$ 176,313	\$ 176,313
Accumulated investment earnings	<u>-</u>	<u>106,789</u>	<u>106,789</u>
	<u>\$ -</u>	<u>\$ 283,102</u>	<u>\$ 283,102</u>

Endowment net asset composition at March 31, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted amount	\$ -	\$ 176,313	\$ 176,313
Accumulated investment earnings	<u>-</u>	<u>22,133</u>	<u>22,133</u>
	<u>\$ -</u>	<u>\$ 198,446</u>	<u>\$ 198,446</u>

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 6 ENDOWMENT (Continued)

Changes in the endowment fund for the years ended March 31, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Fund
Endowment funds, March 31, 2019	\$ -	\$ 216,734	\$ 216,734
Contributions	-	-	-
Investment income	-	2,408	2,408
Realized and unrealized losses	-	(20,046)	(20,046)
Investment fees	-	(650)	(650)
Amounts appropriated for expenditure	-	-	-
Endowment funds, March 31, 2020	-	198,446	198,446
Contributions	-	-	-
Investment income	-	11,277	11,277
Realized and unrealized gains	-	83,452	83,452
Investment fees	-	(780)	(780)
Amounts appropriated for expenditure	-	(9,293)	(9,293)
Endowment funds, March 31, 2021	<u>\$ -</u>	<u>\$ 283,102</u>	<u>\$ 283,102</u>

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended March 31, 2021 and 2020

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows at March 31:

	<u>2021</u>	<u>2020</u>
<u>Time restricted:</u>		
Promise to give	\$ 200,000	\$ -
<u>Purpose restricted:</u>		
Criminal justice campaign	133,671	87,306
Immigrants' rights project	168,924	85,563
Education equity project (Demand 2 Learn)	10,000	10,000
Border conversation	135,000	-
<u>Endowment Funds:</u>		
Perpetual in nature, earnings from which are subject to endowment spending policy/appropriations	176,313	176,313
Endowment earnings subject to appropriation when a specific event occurs	<u>106,789</u>	<u>22,133</u>
Total net assets with donor restrictions	<u>\$ 930,697</u>	<u>\$ 381,315</u>

NOTE 8 RETIREMENT PLANS

Defined Benefit Plan

The American Civil Liberties Union Retirement Plan is a defined benefit multi-employer plan which covers eligible employees of the national organization of the American Civil Liberties Union, Inc., and the American Civil Liberties Union Foundation, Inc., and state affiliates, which includes the Union and the Foundation. Effective April 1, 2009, this plan was frozen for new participants. All funds of the plan are held by Principal Mutual Life Insurance Company under a benefit index payment plan.

The defined benefit plan includes numerous participating affiliates. Accumulated and projected benefit obligations and other required disclosures for the plan covering all participating entities are presented in the National ACLU consolidated financial statements. The annual required employer contributions to the plan for the years ended March 31, 2021 and 2020 amounted to \$26,370 and \$22,061, respectively.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended March 31, 2021 and 2020

NOTE 8 RETIREMENT PLANS (Continued)

401(k) Plan

On July 1, 2000, the American Civil Liberties Union, Inc. and the American Civil Liberties Union Foundation, Inc., and affiliates, established a 401(k) plan for the benefit of regular employees. This plan is available for eligible employees hired before April 1, 2009. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate in the 401(k) plan on the first day of the calendar quarter following thirty days of service. Employees may contribute up to the maximum allowed by current legislation.

ERISA 404(c) Plan

This plan is available for eligible employees hired after April 1, 2009. Employees that are at least 21 years old and not enrolled in any other ACLU qualified plan are eligible to participate immediately. Plan participants may contribute up to 80% of their pay each year up to a maximum amount permitted per the current tax laws. The Organization contributes 2% of the participant's gross wages, as well as matching the first 1% employee deferral and 50% of the next 5% deferred. Participants are always 100% vested in their employee deferrals. The Plan follows a two-year vesting schedule for employer contributions and matches. Employer contributions to the ERISA 404(c) plan for the years ended March 31, 2021 and 2020 amounted to \$52,862 and \$60,560, respectively.

NOTE 9 OPERATING LEASES

The Organization leases office spaces under two operating lease agreements. One lease, which calls for gradual lease payments, expires September 30, 2023. The other lease, with monthly payments due of \$645, expired March 31, 2021. This lease agreement was renewed through March 31, 2022. Lease expense for the years ended March 31, 2021 and 2020 amounted to approximately \$147,000 and \$143,000, respectively.

Approximate future operating lease payments are as follows for the years ending March 31:

<u>Year Ending March 31,</u>	
2022	\$ 156,744
2023	150,802
2024	<u>76,332</u>
	<u>\$ 383,878</u>

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended March 31, 2021 and 2020

NOTE 10 RELATED PARTY TRANSACTIONS

The Organization shares both membership contribution revenue and donations with ACLU National. The ACLU National office utilizes a complex revenue sharing formula for distributing and collecting funds from local affiliates. For any year in which the Arizona affiliates raise more in donations than the ACLU National raises on behalf of Arizona, the Arizona affiliate must remit the difference to ACLU National and vice versa. For the years ended March 31, 2021 and 2020, the Organization received (remitted) the following amounts from/to ACLU National:

	<u>2021</u>	<u>2020</u>
Shared membership contributions	\$ 908,473	\$ 781,272
Revenue sharing	278,260	(82,074)
Bequests	<u>(8,847)</u>	<u>539,147</u>
	<u>\$ 1,177,886</u>	<u>\$ 1,238,345</u>

The Union was chosen by ACLU National to participate in the new Strategic Affiliate Initiative 2.0 (SAI 2.0), a capacity building grant to enhance the ACLU and its affiliate's ability to lead multi-year, layered campaigns to achieve policy reform on issues such as criminal justice reform and education equity. The Union received \$386,764 and \$219,245 under this grant during the years ended March 31, 2021 and 2020, respectively.

The Union was awarded a grant from ACLU National to support the ACLU's Campaign for Smart Justice dedicated to reducing prison and jail populations and addressing racial disparities in the criminal justice system. The Union received \$300,000 and \$73,500 under this grant during the years ended March 31, 2021 and 2020, respectively.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2021 and 2020

NOTE 10 RELATED PARTY TRANSACTIONS (Continued)

The net amount due (to) from ACLU National was as follows at March 31:

	<u>2021</u>	<u>2020</u>
Union:		
Base renewal income share	\$ 111,602	\$ 60,380
Revenue sharing	26,387	32,021
Smart Justice Campaign grant	-	141,425
IRP Border Advocacy & Outreach grant	<u>110,000</u>	<u>-</u>
Total due (to) from National	<u>247,989</u>	<u>233,826</u>
Foundation:		
FY20 Pension Cost	(26,370)	-
All Voting is Local grant	15,000	-
Bequest payable	(8,847)	-
Revenue sharing	<u>251,234</u>	<u>424,776</u>
Total due (to) from National	<u>231,017</u>	<u>424,776</u>
Net due (to) from National	<u>\$ 479,006</u>	<u>\$ 658,602</u>

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.