



and

ACLU Foundation of Arizona

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2019 and 2018

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

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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Henry + Horne, LLP

Tempe, Arizona  
September 24, 2019

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
March 31, 2019 and 2018

	<u>2019</u>	<u>2018 *</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,147,201	\$ 4,052,828
Due from National American Civil Liberties Union, Inc., net	363,282	-
Prepaid expenses and other assets	<u>49,231</u>	<u>57,327</u>
TOTAL CURRENT ASSETS	<u>4,559,714</u>	<u>4,110,155</u>
INVESTMENTS		
Endowment	216,734	211,951
Other investments	<u>1,260,852</u>	<u>1,206,112</u>
TOTAL INVESTMENTS	<u>1,477,586</u>	<u>1,418,063</u>
PROPERTY AND EQUIPMENT, NET	-	-
OTHER ASSETS - Deposits	<u>5,800</u>	<u>5,800</u>
TOTAL ASSETS	<u>\$ 6,043,100</u>	<u>\$ 5,534,018</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 31,652	\$ 27,922
Accrued expenses	115,618	98,776
Due to National American Civil Liberties Union, Inc., net	-	284,118
TOTAL CURRENT LIABILITIES	<u>147,270</u>	<u>410,816</u>
NET ASSETS		
Without donor restrictions	5,136,117	4,300,741
With donor restrictions	<u>759,713</u>	<u>822,461</u>
TOTAL NET ASSETS	<u>5,895,830</u>	<u>5,123,202</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,043,100</u>	<u>\$ 5,534,018</u>

\* Reclassified to conform to current year presentation.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
For the Years Ended March 31, 2019 and 2018

	2019			2018 *		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
<b>SUPPORT AND REVENUE</b>						
Donations	\$ 1,222,646	\$ -	\$ 1,222,646	\$ 673,226	\$ 16,715	\$ 689,941
Bequests	168,133	-	168,133	523,417	-	523,417
In-kind donations	607,967	-	607,967	969,052	-	969,052
Grant revenue	517,100	475,500	992,600	197,134	595,817	792,951
Shared membership contribution	826,302	-	826,302	684,878	-	684,878
Legal fees awarded	95,978	-	95,978	612,621	-	612,621
Investment income, net	64,060	4,784	68,844	64,324	16,296	80,620
Net assets released from restrictions	543,032	(543,032)	-	499,162	(499,162)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>4,045,218</b>	<b>(62,748)</b>	<b>3,982,470</b>	<b>4,223,814</b>	<b>129,666</b>	<b>4,353,480</b>
<b>EXPENSES</b>						
Program services expenses	2,708,147	-	2,708,147	2,486,227	-	2,486,227
Supporting services expenses						
Management and general	243,975	-	243,975	194,847	-	194,847
Fundraising	257,720	-	257,720	209,707	-	209,707
<b>TOTAL EXPENSES</b>	<b>3,209,842</b>	<b>-</b>	<b>3,209,842</b>	<b>2,890,781</b>	<b>-</b>	<b>2,890,781</b>
<b>CHANGE IN NET ASSETS</b>	<b>835,376</b>	<b>(62,748)</b>	<b>772,628</b>	<b>1,333,033</b>	<b>129,666</b>	<b>1,462,699</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>4,300,741</b>	<b>822,461</b>	<b>5,123,202</b>	<b>2,967,708</b>	<b>692,795</b>	<b>3,660,503</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 5,136,117</b>	<b>\$ 759,713</b>	<b>\$ 5,895,830</b>	<b>\$ 4,300,741</b>	<b>\$ 822,461</b>	<b>\$ 5,123,202</b>

\* Reclassified to conform to current year presentation.

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended March 31, 2019

	Program Services					Total Program Services	Supporting Services		Totals
	Legal	Public Education	Communications	Organizing Advocacy	Lobbying/Policy		Management and General	Fundraising	
Personnel expenses:									
Payroll	\$ 405,935	\$ 125,788	\$ 192,252	\$ 296,643	\$ 73,323	\$ 1,093,941	\$ 85,652	\$ 151,205	\$ 1,330,798
Payroll taxes	31,230	9,890	14,367	22,363	6,280	84,130	6,642	11,648	102,420
Employee benefits	66,676	19,813	23,784	30,732	38,973	179,978	51,851	23,240	255,069
<b>TOTAL PERSONNEL EXPENSES</b>	<b>503,841</b>	<b>155,491</b>	<b>230,403</b>	<b>349,738</b>	<b>118,576</b>	<b>1,358,049</b>	<b>144,145</b>	<b>186,093</b>	<b>1,688,287</b>
Operating expenses:									
Accounting	-	-	-	-	-	-	16,500	-	16,500
Advocacy Infrastructure	-	1,438	-	13,411	-	14,849	-	-	14,849
Bank and credit card fees	-	-	-	-	-	-	1,130	5,049	6,179
Board and volunteer support	73	12,899	-	259	-	13,231	13,701	-	26,932
Communications	-	-	18,588	-	-	18,588	-	-	18,588
Conference fees	375	1,044	1,050	6,999	350	9,818	35	1,634	11,487
Database fees	-	-	-	-	-	-	-	3,465	3,465
Donated legal services	607,917	-	-	-	-	607,917	-	-	607,917
Dues and subscriptions	9,281	90	2,201	509	5,328	17,409	3,820	1,089	22,318
Equipment lease	4,264	392	78	350	33	5,117	1,302	267	6,686
Gifts	419	-	-	-	-	419	1,612	-	2,031
Information technology	21,055	374	2,827	33,536	1,553	59,345	6,741	1,676	67,762
Insurance	6,556	-	-	-	-	6,556	3,560	-	10,116
Legal	99,379	-	2,313	-	4,932	106,624	-	-	106,624
Licenses, fees, and permits	-	-	-	-	-	-	20	-	20
Meals and entertainment	2,459	3,605	807	4,651	215	11,737	5,086	8,964	25,787
Occupancy	45,135	14,992	6,995	56,758	2	123,882	11,793	7,936	143,611
Postage	244	1,171	2,976	177	51	4,619	1,902	6,384	12,905
Printing	31	3,178	11,692	1,117	547	16,565	2,158	7,025	25,748
Professional services	10,943	72,055	40,454	2,713	38,736	164,901	11,586	11,915	188,402
Project coordinator	-	17,500	-	-	-	17,500	-	-	17,500
Public education forums	5,100	15,205	5,412	25,018	-	50,735	-	7,381	58,116
Supplies and office expense	1,324	1,848	420	36,651	23	40,266	6,195	289	46,750
Telephone	3,225	1,155	2,394	5,553	1,218	13,545	10,503	409	24,457
Travel	10,794	10,708	7,743	12,550	4,680	46,475	2,186	8,144	56,805
<b>TOTAL OPERATING EXPENSES</b>	<b>828,574</b>	<b>157,654</b>	<b>105,950</b>	<b>200,252</b>	<b>57,668</b>	<b>1,350,098</b>	<b>99,830</b>	<b>71,627</b>	<b>1,521,555</b>
<b>TOTAL EXPENSES</b>	<b>\$ 1,332,415</b>	<b>\$ 313,145</b>	<b>\$ 336,353</b>	<b>\$ 549,990</b>	<b>\$ 176,244</b>	<b>\$ 2,708,147</b>	<b>\$ 243,975</b>	<b>\$ 257,720</b>	<b>\$ 3,209,842</b>

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended March 31, 2018

	Program Services				Supporting Services		Totals	
	Legal	Public Education	Organizing Advocacy	Lobbying/ Policy	Total Program Services	Management and General		Fundraising
Personnel expenses:								
Payroll	\$ 255,395	\$ 383,036	\$ 163,695	\$ 33,171	\$ 835,297	\$ 75,303	\$ 136,679	\$ 1,047,279
Payroll taxes	29,391	20,669	12,386	2,109	64,555	5,913	10,520	80,988
Employee benefits	62,999	42,879	18,132	3,630	127,640	31,409	12,375	171,424
<b>TOTAL PERSONNEL EXPENSES</b>	<b>347,785</b>	<b>446,584</b>	<b>194,213</b>	<b>38,910</b>	<b>1,027,492</b>	<b>112,625</b>	<b>159,574</b>	<b>1,299,691</b>
Operating expenses:								
Accounting	-	-	-	-	-	16,500	-	16,500
Bank and credit card fees	-	-	-	-	-	480	8,054	8,534
Board and volunteer support	-	99	-	-	99	13,682	-	13,781
Communications	-	28,412	4,478	-	32,890	-	-	32,890
Conference fees	-	465	-	-	465	-	-	465
Database fees	-	-	-	-	-	-	7,663	7,663
Depreciation	-	-	-	-	-	2,683	-	2,683
Donated legal services	968,602	-	-	-	968,602	-	-	968,602
Dues and subscriptions	7,942	2,275	-	4,693	14,910	4,012	929	19,851
Equipment lease and repairs	3,533	765	-	33	4,331	1,026	241	5,598
Gifts	1,184	-	-	-	1,184	2,320	360	3,864
Information technology	10,534	3,369	119	446	14,468	3,164	1,337	18,969
Insurance	5,490	-	-	-	5,490	1,821	-	7,311
Legal	25,520	-	-	-	25,520	-	-	25,520
Licenses, fees, and permits	-	-	-	-	-	43	-	43
Lobbying expense	-	-	-	23,025	23,025	-	-	23,025
Meals and entertainment	3,158	4,733	679	45	8,615	3,300	6,677	18,592
Occupancy	44,465	25,479	-	552	70,496	7,257	8,441	86,194
Postage	1,277	1,933	262	-	3,472	2,025	672	6,169
Printing	110	2,614	3,277	39	6,040	-	4,567	10,607
Professional services	16,780	80,540	1,121	508	98,949	7,767	-	106,716
Project coordinator	-	77,000	-	-	77,000	-	-	77,000
Public education forums	1,782	11,001	-	-	12,783	-	-	12,783
Supplies and office expense	8,407	6,643	26,219	3,322	44,591	6,385	2,029	53,005
Telephone	3,095	6,556	2,448	427	12,526	8,595	258	21,379
Travel	5,896	18,240	7,819	1,324	33,279	1,162	8,905	43,346
<b>TOTAL OPERATING EXPENSES</b>	<b>1,107,775</b>	<b>270,124</b>	<b>46,422</b>	<b>34,414</b>	<b>1,458,735</b>	<b>82,222</b>	<b>50,133</b>	<b>1,591,090</b>
<b>TOTAL EXPENSES</b>	<b>\$ 1,455,560</b>	<b>\$ 716,708</b>	<b>\$ 240,635</b>	<b>\$ 73,324</b>	<b>\$ 2,486,227</b>	<b>\$ 194,847</b>	<b>\$ 209,707</b>	<b>\$ 2,890,781</b>

See accompanying notes.



ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 772,628	\$ 1,462,699
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	-	2,683
Net realized/unrealized gain on investments	(31,651)	(48,701)
(Increase) decrease in:		
Promises to give	-	50,000
Due from/due to National ACLU	(647,400)	288,602
Prepaid expenses and other assets	8,096	(33,949)
Increase (decrease) in:		
Accounts payable	3,730	15,403
Accrued expenses	16,842	34,631
Deferred revenue	-	(18,173)
	<u>122,245</u>	<u>1,753,195</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	-	(524,509)
Reinvestment of investment proceeds	(27,872)	(23,658)
Proceeds from sales of investments	-	12,548
	<u>(27,872)</u>	<u>(535,619)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	94,373	1,217,576
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>4,052,828</u>	<u>2,835,252</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 4,147,201</u>	<u>\$ 4,052,828</u>

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2019 and 2018

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. We leverage the growing capacity of our 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 our legal program work in close coordination with our policy, organizing, and communications teams, the national ACLU staff, and other local and national partners to advance our 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. We launch 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  
March 31, 2019 and 2018

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 our multi-year campaign goals in the areas of education and criminal justice reform. We 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 our communications work is aimed 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. We believe in centering the voices of directly impacted people through a new ladder of engagement model created for our 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. We've 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. We draft legislation, conduct research and policy analysis and testify for/against bills. Occasionally, we 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  
March 31, 2019 and 2018

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 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  
March 31, 2019 and 2018

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"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> <p>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.</p>
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 (including realized and unrealized gains and losses) 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.

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  
March 31, 2019 and 2018

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  
March 31, 2019 and 2018

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.* The Organization 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. The Organization's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of the Organization 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.* The Organization's policy is to disburse from the endowment fund at the discretion of the Board of Directors.

Contributions

Contributions 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. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the fiscal year in which the contribution is recognized.

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

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.

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 it is 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.

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.



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

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, 2019 and 2018, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended March 31, 2019 and 2018, 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.

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

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 24, 2019, the date the financial statements were available to be issued.

New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented and resulted in temporarily and permanently restricted net asset balances (\$822,461) and the unrestricted net asset balance (\$4,300,741) as of March 31, 2018 being renamed net assets with donor restrictions and net assets without donor restrictions, respectively. Also, a new disclosure about liquidity and availability of resources has been added.

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.

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NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

Amounts available for expenditures in the following year include the following:

Cash and cash equivalents	\$ 4,147,201
Due from National	363,282
Prepaid expenses	39,376
Other investments	<u>1,260,852</u>
Financial assets available to be used within one year	<u>\$ 5,810,711</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, 2019 and 2018, 42% and 30%, respectively, of the Organization's total support and revenue was received from this affiliate.

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).

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

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and short term investments	\$ 14,620	\$ -	\$ -	\$ 14,620
Equity securities	555,136	-	-	555,136
Fixed income	9,320	-	-	9,320
Fixed rate cap securities	14,410	-	-	14,410
Investments held with ACLU National:				
Endowment	-	216,734	-	216,734
Other investments	-	132,206	-	132,206
Investments held at ACF	-	-	535,160	535,160
	<u>\$ 593,486</u>	<u>\$ 348,940</u>	<u>\$ 535,160</u>	<u>\$ 1,477,586</u>

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and short term investments	\$ 12,321	\$ -	\$ -	\$ 12,321
Equity securities	509,137	-	-	509,137
Fixed income	9,900	-	-	9,900
Fixed rate cap securities	15,501	-	-	15,501
Investments held with ACLU National:				
Endowment	-	211,951	-	211,951
Other investments	-	129,288	-	129,288
Investments held with ACF	-	-	529,965	529,965
	<u>\$ 546,859</u>	<u>\$ 341,239</u>	<u>\$ 529,965</u>	<u>\$ 1,418,063</u>

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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 input during the years ended March 31:

Balance at March 31, 2017	\$ -
Purchases	500,000
Realized and unrealized gains	28,984
Dividends	5,104
Fees	<u>(4,123)</u>
Balance at March 31, 2018	529,965
Realized and unrealized gains	4,554
Dividends	5,799
Fees	<u>(5,158)</u>
Balance at March 31, 2018	<u>\$ 535,160</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 50,392	\$ 43,184
Realized gain (loss)	55,317	(243)
Unrealized gain (loss)	(23,666)	48,944
Investment fees	<u>(13,199)</u>	<u>(11,265)</u>
	<u>\$ 68,844</u>	<u>\$ 80,620</u>

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NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 52,790	\$ 90,453
Accumulated depreciation	<u>(52,790)</u>	<u>(90,453)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Organization had no depreciation expense for the year ended March 31, 2019. Depreciation expense was \$2,683 for the year ended March 31, 2018.

NOTE 6 ENDOWMENTS

Endowments consist 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, 2019 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	-	40,421	40,421
	<u>\$ -</u>	<u>\$ 216,734</u>	<u>\$ 216,734</u>

Endowment net asset composition at March 31, 2018 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	-	35,638	35,638
	<u>\$ -</u>	<u>\$ 211,951</u>	<u>\$ 211,951</u>

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NOTE 6 ENDOWMENTS (Continued)

Changes in the endowment fund for the years ended March 31, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Fund</u>
Endowment funds, March 31, 2017	\$ -	\$ 178,940	\$ 178,940
Contributions	-	16,715	16,715
Investment income	-	5,790	5,790
Realized and unrealized gains	-	10,833	10,833
Investment fees	-	(327)	(327)
Amounts appropriated for expenditure	-	-	-
Endowment funds, March 31, 2018	\$ -	\$ 211,951	\$ 211,951
Contributions	-	-	-
Investment income	-	7,736	7,736
Realized and unrealized losses	-	(2,084)	(2,084)
Investment fees	-	(869)	(869)
Amounts appropriated for expenditure	-	-	-
Endowment funds, March 31, 2019	<u>\$ -</u>	<u>\$ 216,734</u>	<u>\$ 216,734</u>

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NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
<u>Time restricted:</u>		
Investment income on perpetual endowment funds subject to a time restriction under MCFA	\$ 40,421	\$ 35,638
<u>Purpose restricted:</u>		
Leaders for Change (Demand 2 Learn)	30,000	-
Education equity project (Demand 2 Learn)	10,000	-
Capacity building project (SAI 2.0)	-	95,817
Criminal justice campaign	502,979	514,693
Endowment - subject to spending policy and appropriation	<u>176,313</u>	<u>176,313</u>
Total net assets with donor restrictions	<u>\$ 759,713</u>	<u>\$ 822,461</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, 2019 and 2018 amounted to \$15,205 and \$13,241, respectively.



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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, 2019 and 2018 amounted to \$53,788 and \$39,489, 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, 2021. The other lease, with monthly payments due of \$620, expires March 31, 2020. Lease expense for the years ended March 31, 2019 and 2018 amounted to approximately \$144,000 and \$86,000, respectively.

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

<u>Year Ending March 31,</u>	
2020	\$ 151,400
2021	147,400
2022	<u>74,500</u>
	<u>\$ 373,300</u>

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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, 2019 and 2018, the Organization received (remitted) the following amounts from/to ACLU National:

	<u>2019</u>	<u>2018</u>
Shared membership contributions	\$ 826,302	\$ 684,878
Revenue sharing	7,029	(358,757)
Bequests	<u>158,133</u>	<u>16,715</u>
	<u>\$ 991,464</u>	<u>\$ 342,836</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 \$432,100 and \$112,878 under this grant during the years ended March 31, 2019 and 2018, 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 \$435,000 and \$500,000 under this grant during the years ended March 31, 2019 and 2018, respectively.

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NOTE 10 RELATED PARTY TRANSACTIONS (Continued)

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

	<u>2019</u>	<u>2018</u>
Union:		
Base renewal income share	\$ 97,533	\$ 74,639
Revenue sharing	47,310	(294,150)
Smart Justice Campaign grant	<u>135,500</u>	<u>-</u>
Total due (to) from National	<u>280,343</u>	<u>(219,511)</u>
Foundation:		
Revenue sharing	<u>82,939</u>	<u>(64,607)</u>
Total due (to) from National	<u>82,939</u>	<u>(64,607)</u>
Net due (to) from National	<u>\$ 363,282</u>	<u>\$ (284,118)</u>

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2020. 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 financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.