

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**FISCAL YEARS ENDED MARCH 31, 2014
AND 2013**

September 15, 2014

**Lumbard & Associates, P.L.L.C.
4143 North 12th Street, Suite 100
Phoenix, Arizona 85014
(602) 274-9966 Phone
(602) 265-0021 Fax**

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
TABLE OF CONTENTS
YEARS ENDED MARCH 31, 2014 AND 2013**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3 - 4
Consolidated Statements of Activities	5 - 6
Consolidated Statements of Cash Flows	7
Notes to Financial Statements	8 - 17
SUPPLEMENTAL INFORMATION	
Fiscal Year Ended March 31, 2014	
Consolidating Schedules of Financial Position	18 - 21
Consolidating Schedules of Activities	22 - 23
Schedule of Functional Expenses for ACLU of Arizona	24 - 25
Schedule of Functional Expenses for ACLU Foundation of Arizona	26 - 27
Fiscal Year Ended March 31, 2013	
Consolidating Schedules of Financial Position	28 - 31
Consolidating Schedules of Activities	32 - 33
Schedule of Functional Expenses for ACLU of Arizona	34 - 35
Schedule of Functional Expenses for ACLU Foundation of Arizona	36 - 37



Lisa B. Lumbard, C.P.A., C.G.F.M.

Carlos E. Valdivia, C.P.A.
C. Cristine Swan, C.P.A.
A. Jake Litwiller
Jeffrey D. Cosper
Maria G. Ward

Stephanie M. Canez

American Institute of
Certified Public
Accountants
Government Audit
Quality Center

Government Finance
Officers Association

Arizona Society of
Certified Public
Accountants

Association of
Government
Accountants

Arizona Hispanic
Chamber of
Commerce

Independent Auditor’s Report

Board of Directors
ACLU of Arizona and ACLU Foundation of Arizona

We have audited the accompanying consolidated financial statements of the ACLU of Arizona, a not-for-profit organization, and its affiliate, the ACLU Foundation of Arizona (the Organization) which comprise the consolidated statements of financial position as of March 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACLU of Arizona and its affiliate, the ACLU Foundation of Arizona as of March 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules and the schedules of functional expenses on pages 18 through 37 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Sumbard & Associates, PLLC

Phoenix, Arizona
September 15, 2014

FINANCIAL STATEMENTS

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	836,207	746,050
Investments	163,803	47,885
Due from American Civil Liberties Union, Inc.	3,546	-
Grants receivable	-	150,000
Other accounts receivable	27	1,848
Prepaid expenses	22,312	17,331
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,025,895	963,114
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Furniture and equipment	100,085	95,688
	<hr/>	<hr/>
TOTAL PROPERTY AND EQUIPMENT	100,085	95,688
	<hr/>	<hr/>
Less: Accumulated depreciation	(64,522)	(57,115)
	<hr/>	<hr/>
NET PROPERTY AND EQUIPMENT	35,563	38,573
	<hr/>	<hr/>
TOTAL ASSETS	1,061,458	1,001,687
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Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2014 AND 2013**

<u>LIABILITIES</u>	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts payable	14,121	9,617
Accrued payroll and related costs	35,507	36,362
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	<u>231,189</u>	<u>69,285</u>
TOTAL CURRENT LIABILITIES	<u>280,817</u>	<u>115,264</u>
TOTAL LIABILITIES	<u>280,817</u>	<u>115,264</u>
 <u>NET ASSETS</u>		
Unrestricted	728,134	679,488
Temporarily restricted	41,031	196,186
Permanently restricted	<u>11,476</u>	<u>10,749</u>
TOTAL NET ASSETS	<u>780,641</u>	<u>886,423</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>1,061,458</u></u>	<u><u>1,001,687</u></u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2014 AND 2013**

<u>SUPPORT AND OTHER REVENUES</u>	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT				
Donations	\$ 524,301	\$ 37,775	\$ -	\$ 562,076
Bequests	40,422	-	-	40,422
Special event revenue	-	-	-	-
Legal services donated	2,406,164	-	-	2,406,164
Other in-kind donations	845	-	-	845
TOTAL PUBLIC SUPPORT	2,971,732	37,775	-	3,009,507
OTHER REVENUES				
Grant revenue	362,914	30,000	-	392,914
Shared membership revenues	162,738	-	-	162,738
Legal fees awarded	-	-	-	-
Investment income, net	8,003	-	727	8,730
TOTAL OTHER REVENUES	533,655	30,000	727	564,382
NET ASSETS RELEASED FROM RESTRICTIONS	222,930	(222,930)	-	-
TOTAL SUPPORT AND OTHER REVENUES	3,728,317	(155,155)	727	3,573,889
<u>EXPENSES</u>				
Program services	3,301,981	-	-	3,301,981
Management and general	223,810	-	-	223,810
Fundraising and development	153,880	-	-	153,880
TOTAL EXPENSES	3,679,671	-	-	3,679,671
CHANGE IN NET ASSETS	48,646	(155,155)	727	(105,782)
NET ASSETS, Beginning of year	679,488	196,186	10,749	886,423
NET ASSETS, End of year	\$ 728,134	\$ 41,031	\$ 11,476	\$ 780,641

Read the accompanying notes to the financial statements.

2013

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 334,441	\$ 60,375	\$ -	\$ 394,816
43,245	-	-	43,245
10,945	-	-	10,945
2,088,388	-	-	2,088,388
2,075	-	-	2,075
2,479,094	60,375	-	2,539,469
321,849	195,000	-	516,849
168,305	-	-	168,305
15,792	-	-	15,792
1,769	-	761	2,530
507,715	195,000	761	703,476
161,921	(161,921)	-	-
3,148,730	93,454	761	3,242,945
2,931,754	-	-	2,931,754
248,317	-	-	248,317
152,739	-	-	152,739
3,332,810	-	-	3,332,810
(184,080)	93,454	761	(89,865)
863,568	102,732	9,988	976,288
\$ 679,488	\$ 196,186	\$ 10,749	\$ 886,423

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2014 AND 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2014</u>	<u>2013</u>
Change in Net Assets	(105,782)	(89,865)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,950	16,977
Net realized and unrealized gains and losses on investments	(7,595)	-
(Increase)/decrease in assets:		
Due from American Civil Liberties Union, Inc.	(3,546)	-
Grants receivable	150,000	(150,000)
Pledges receivable	-	2,500
Other receivable	1,821	19,341
Prepaid expenses	(4,981)	324
Increase/(decrease) in liabilities:		
Accounts payable	4,504	4,151
Accrued payroll and taxes	(855)	3,009
Deferred revenue	-	(1,275)
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	161,904	(62,570)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>213,420</u>	<u>(257,408)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	24,638	240
Purchase of investments	(132,961)	-
Purchase of equipment	(14,940)	(12,605)
NET CASH (USED BY) INVESTING ACTIVITIES	<u>(123,263)</u>	<u>(12,365)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	-	(2,342)
NET CASH USED BY FINANCING ACTIVITIES	<u>-</u>	<u>(2,342)</u>
Net increase/(decrease) in cash and cash equivalents	90,157	(272,115)
Cash and cash equivalents at beginning of year	<u>746,050</u>	<u>1,018,165</u>
Cash and cash equivalents at end of year	<u><u>836,207</u></u>	<u><u>746,050</u></u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The ACLU of Arizona (the "Organization") is comprised of two separate corporate entities, the ACLU of Arizona, (the "Union") and the ACLU Foundation of Arizona, (the "Foundation")

The ACLU of Arizona is a not-for-profit membership organization which was incorporated in Arizona in 1968 as a 501(c)(4) organization. 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 Board of Directors of the Union authorizes the creation of volunteer-run chapters who serve as the eyes and ears of the ACLU around the state. During the reported fiscal years there were three active chapters in Arizona.

The ACLU Foundation of Arizona is an Arizona not-for-profit corporation organized to maintain and protect civil liberties in Arizona through public education and litigation. The Foundation was incorporated in 1971 as a 501(c)(3) organization. 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 share equipment, office space, personnel and operating costs. The Union and the Foundation reimburse each other to support their respective share of operations.

The Financial Accounting Standards Board (FASB) sets U.S. generally accepted accounting principles (GAAP) to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification (FASB ASC).

A summary of the Union's and Foundation's more significant accounting policies follows.

Basis of Consolidation

ACLU of Arizona and ACLU Foundation of Arizona have adopted the provisions of FASB ASC 958-810, *Not-for-Profit Entities – Consolidation*, which requires consolidated financial statements for certain related entities. Accordingly, the financial statements include the consolidated transactions and balances of the Union and Foundation and have been prepared in accordance with the accrual basis of accounting. Significant transactions and balances between the Union and the Foundation have been eliminated.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accompanying general purpose financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other assets and liabilities. Revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The accompanying financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Union or Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes. Only the Foundation had permanently restricted net assets during the fiscal years presented.

Cash and Cash Equivalents - For purpose of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. Cash held in financial institutions are insured up to a maximum limit of \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Management does not believe there is a material risk due to balances held in excess of FDIC coverage.

Investments - Investments are recorded at fair market value as determined by quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change of net assets in the accompanying statements of activities.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - Land, buildings, equipment and furniture with a cost of \$5,000 or more and an estimated life of more than one year are capitalized. Property and equipment are stated at cost or, if acquired through donation, at fair value on the date of acquisition. Expenditures for routine repairs and maintenance are charged to operations as incurred. Expenditures which substantially extend the useful life of an asset are capitalized. Depreciation is calculated on the straight-line method over the following useful lives:

Furniture	7 years
Equipment	5 years
Software	3 years

Donated Services - Donated services are recognized as contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, 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 contributed services are reflected as unrestricted revenues with an equal and offsetting amount in unrestricted expenses in the statements of activities resulting in no net impact on the changes in net assets during the year.

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

Additionally, a substantial number of unpaid volunteers have contributed significant amounts of time to develop the programs of the Union and the Foundation. For example, there are two active chapters within the state that are completely volunteer-run. Chapter members organize public education events to advocate on a wide range of public policies that impact civil liberties issues. The value of this time is not reflected in the financial statements because it does not meet the requirements of FASB ASC 958-605 for recognition.

Major Revenue Sources - The Union's major sources of revenue are base renewable income (shared membership revenues) and bequests. The Foundation's major sources of revenue are donated legal services, contributions, legal fee awards and grants from the National ACLU Foundation and other institutional funders.

Concentration of Credit Risk - The Organization places its cash with established financial institutions. At times, cash may be in excess of FDIC insurance limits.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of certain contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status - The Union and the Foundation are exempt from Federal and Arizona income taxes. The Union is exempt under Section 501(c)(4) of the Internal Revenue Code, as amended, and the Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code, as amended. Neither the Union nor the Foundation accrued any income or excise tax because they did not have any unrelated business income activities subject to those taxes.

Expense Allocation – Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense 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.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Union and Foundation maintain their cash with four different financial institutions.

As of March 31, 2014 and 2013 the carrying amounts of deposits were \$836,157 and \$758,954, respectively. The Foundation maintained cash balances in excess of the FDIC Insurance by \$172,443 and \$11,933 as of March 31, 2014 and 2013, respectively.

NOTE 3 - INVESTMENTS

Fair Value Measurement – FASB ASC 820-10, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820-10, are used to measure fair value. The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

- *Level 1 investments* – Valuation based on unadjusted quoted prices within active markets for identical assets accessible by the Organization (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade). The Union and the Foundation have no such investments.
- *Level 2 investments* – Valuation based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset.
- *Level 3 investments* – Valuation based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances. The Union and the Foundation have no such investments.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 3 – INVESTMENTS (CONTINUED)

As of March 31, 2014 and 2013, all investments for the Union and the Foundation consisted of level 2 investments in the form of certificates of deposit and a trust held by the American Civil Liberties Union Foundation, Inc. (National ACLUF). The Organization's policy is to liquidate stock donations immediately upon receipt therefore the related gains or losses on the sale of stock are recognized in the financial statements in the year of the acquisition. Net investment income for the year ended March 31, 2014 of \$8,730 was composed of interest income of \$1,135, with \$7,595 in net realized and unrealized investment gains. Net investment income for the year ended March 31, 2013 of \$2,530 was composed of interest income of \$828, with \$1,702 in net realized and unrealized investment gains.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment owned by the Union and Foundation as of March 31, 2014 and 2013 consisted of office furniture and equipment as follows:

	2014	2013
Union	\$ 8,229	\$ 8,229
Foundation	91,856	87,459
Total	\$ 100,085	\$ 95,688

Depreciation expense for the Union for the years ended March 31, 2014 and 2013 were \$1,993 and \$2,551 respectively. Depreciation expense for the Foundation for the years ended March 31, 2014 and 2013 were \$15,957 and \$14,426 respectively.

NOTE 5 – ACCRUED PAYROLL AND RELATED COSTS

The Union and the Foundation employees are permitted to carry forward compensated absences for accrued vacation. Per the Organization's personnel policy, no more than five days of vacation can be carried over past hire date anniversary. The accrued compensated absences, wages and related costs payable for the years ended March 31, 2014 and 2013 are as follows:

	2014	2013
Compensated absences	\$ 19,870	\$ 14,572
Accrued wages	14,030	20,298
Other related costs	1,607	1,492
Total accrued payroll & taxes	\$ 35,507	\$ 36,362

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

As of March 31, 2014 and 2013, the Union did not have any temporarily restricted net assets.

The Foundation receives grants from the American Civil Liberties Union Foundation, Inc. and other organizations, as well as private donations earmarked for specific projects. These projects are tracked as they progress, and any unexpended monies for those earmarked projects are carried forward as temporarily restricted net assets.

As of March 31, 2014 and 2013, the temporarily restricted net assets for the Foundation included:

	<u>2014</u>	<u>2013</u>
US Mexico Border Litigation Project	\$ 37,019	\$ 150,000
Immigration Rights Organizer	-	45,000
Staff Enhancement Development Director grant	-	1,186
Marriage Equality	<u>4,012</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 41,031</u>	<u>\$ 196,186</u>

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

As of March 31, 2014 and 2013, the Union did not have any permanently restricted net assets.

The Foundation shares in the Bill of Rights Trust pool with other affiliates and the National ACLU Foundation which is classified as permanently restricted. In accordance with the terms of the Trust, the Foundation is permitted to withdraw 4 percent of their balance each year. As of March 31, 2014 and 2013, the Foundation's share of that trust was \$11,476 and \$10,749 respectively.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 8 - RETIREMENT PLAN

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. It is not practicable for the actuary to compute accumulated and projected benefit obligations for individual 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. Employer contributions to the plan for the years ended March 31, 2014 and 2013 were as follows:

Defined Benefit Plan Contribution:	2014	2013
Union	\$ 2,631	\$ 3,283
Foundation	8,900	10,990
Total defined benefit plan contribution	\$ 11,531	\$ 14,273

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) pension 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 Union and Foundation for the years ended March 31, 2014 and 2013 were as follows:

404(c) Plan Contribution:	2014	2013
Union	\$ 3,236	\$ 2,716
Foundation	17,989	17,606
Total 404(c) contribution	\$ 21,225	\$ 20,322

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 9 - RELATED PARTY TRANSACTIONS

The Organization shares both membership and tax-deductible donations with the National ACLU and the National ACLU Foundation. 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 National Office raises on behalf of Arizona, the Arizona affiliate must pay the difference to National and vice versa. The net receivable or payable for the years ended March 31, 2014 and 2013 were as follows:

Due (to)/from National:	<u>2014</u>	<u>2013</u>
Union:		
Base Renewal Income share	\$ 11,571	\$ 12,360
Revenue sharing	(8,025)	(13,323)
Bequests	-	-
Membership dues	-	-
Total due (to)/from National to/(from) Union	<u>3,546</u>	<u>(963)</u>
Foundation:		
Revenue sharing	(231,189)	(113,322)
Grants	-	45,000
Bequests	-	-
Total due (to)/from National to/(from) Foundation	<u>(231,189)</u>	<u>(68,322)</u>
Net due (to)/from National	<u>(\$227,643)</u>	<u>(\$69,285)</u>

For the years ended March 31, 2014 and 2013, the Union received \$162,738 and \$168,305 respectively of Shared Membership income from the National ACLU.

In 2010, the Foundation agreed to participate in the Strategic Affiliate Initiative, a one-time capacity-building grant from the National ACLU Foundation which provides funding for key staff positions. The grant is scheduled to end during the year 2017. For the years ended March 31, 2014 and 2013, the Foundation received \$362,914 and \$321,849 respectively from this grant.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

For the years ended March 31, 2014 and 2013, the Foundation incurred \$200,479 and \$245,994 respectively of net expenses on behalf of the Union to pay for operating costs. During the year, the Union transferred cash to the Foundation based on an estimate of shared expenses. At the financial position dates of March 31, 2014 and 2013, there were outstanding related party balances for the shared expenses as follows:

Due to/from Arizona related entities:	<u>2014</u>	<u>2013</u>
Union:		
Due (to)/from Foundation	\$ (7,823)	\$ 20,527
Foundation:		
Due (to)/from Union	<u>7,823</u>	<u>(20,527)</u>
Total due (to)/from Arizona related entities	<u>\$ -</u>	<u>\$ -</u>

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments – The Organization has two agreements to lease office spaces under operating leases expiring June 14, 2015 and April 30, 2016. The Union's and Foundation's portions of the lease expense for the years ended March 31, 2014 and 2013 were:

Lease expense:	<u>2014</u>	<u>2013</u>
Union	\$ 8,514	\$ 14,196
Foundation	<u>54,258</u>	<u>55,742</u>
Total lease expense	<u>\$ 62,772</u>	<u>\$ 69,938</u>

The total future minimum lease payments are as follows:

Year ending March 31,	
2015	\$ 68,731
2016	55,200
2017	<u>5,800</u>
	<u>\$129,731</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013**

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Risk Management - The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. The Organization carries commercial insurance for all such risks of loss. There were no claims during the audit periods. The insurance coverage is reviewed annually for adequate loss protection. The Organization is insured by Farmers Insurance Group for general liability, by National Legal Aid and Defender's Association for professional and fiduciary liability, and by the State Compensation Fund of Arizona for Workmen's Compensation.

Litigation - The Union and Foundation are contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the Organization's management, their insurance coverage is deemed adequate to cover claims relating to normal operations, and decisions that might adversely impact the Organization would not have a material effect on the financial statements. Accordingly, no provision for possible losses is reflected in the financial statements. The Union and Foundation were not involved, as of the close of field work, in any pending or threatened litigation that could materially affect the Organization's financial position and results of operations at March 31, 2014 or 2013.

NOTE 11 - CONCENTRATIONS

For the fiscal years ended March 31, 2014 and 2013, the Union and the Foundation received a large portion of their revenue from the National ACLU and ACLU Foundation including shared revenues and grants. These concentrations were as follows:

	<u>2014</u>	<u>2013</u>
Union	95%	92%
Foundation	11%	10%

NOTE 12 – RECLASSIFICATION

Rent expense of \$54,437 recorded as administrative expenses in the prior-year have been reclassified to program expenses for comparison purposes to conform with the presentation in the current- year financial statements.

NOTE 13 - SUBSEQUENT EVENTS

The Organization has evaluated events through September 15, 2014 which is the date of the audit report. No significant events that would be expected to materially impact the financial statements were identified.

SUPPLEMENTARY INFORMATION

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
March 31, 2014**

<u>ASSETS</u>	2014		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
CURRENT ASSETS			
Cash and cash equivalents	\$ 172,812	\$ 663,395	\$ 836,207
Investments	36,636	127,167	163,803
Due from American Civil Liberties Union, Inc.	3,546	-	3,546
Due from related entities	-	7,823	7,823
Grants receivable	-	-	-
Other accounts receivable	-	27	27
Prepaid expenses	4,703	17,609	22,312
TOTAL CURRENT ASSETS	217,697	816,021	1,033,718
PROPERTY AND EQUIPMENT			
Furniture and equipment	8,229	91,856	100,085
TOTAL PROPERTY AND EQUIPMENT	8,229	91,856	100,085
Less: Accumulated depreciation	(7,440)	(57,082)	(64,522)
NET PROPERTY AND EQUIPMENT	789	34,774	35,563
TOTAL ASSETS	\$ 218,486	\$ 850,795	\$ 1,069,281

2014

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 836,207
-	163,803
-	3,546
(7,823)	-
-	-
-	27
-	22,312
<hr/>	
(7,823)	1,025,895
<hr/>	
-	100,085
<hr/>	
-	100,085
<hr/>	
-	(64,522)
<hr/>	
-	35,563
<hr/>	
\$ (7,823)	\$ 1,061,458
<hr/> <hr/>	

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
March 31, 2014**

	2014		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	-	14,121	14,121
Accrued payroll and related costs	4,281	31,226	35,507
Due to related entities	7,823	-	7,823
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	-	231,189	231,189
TOTAL CURRENT LIABILITIES	12,104	276,536	288,640
TOTAL LIABILITIES	12,104	276,536	288,640
<u>NET ASSETS</u>			
Unrestricted	206,382	521,752	728,134
Temporarily restricted	-	41,031	41,031
Permanently restricted	-	11,476	11,476
TOTAL NET ASSETS	206,382	574,259	780,641
TOTAL LIABILITIES AND NET ASSETS	218,486	850,795	1,069,281

2014

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
-	14,121
-	35,507
(7,823)	-
<u>-</u>	<u>231,189</u>
<u>(7,823)</u>	<u>280,817</u>
<u>(7,823)</u>	<u>280,817</u>
-	728,134
-	41,031
-	11,476
<u>-</u>	<u>780,641</u>
<u>(7,823)</u>	<u>1,061,458</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2014**

	2014		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 8,025	\$ 554,051	\$ 562,076
Bequests	-	40,422	40,422
Special event revenue	-	-	-
Legal services donated	-	2,406,164	2,406,164
Other in-kind donations	216	629	845
TOTAL PUBLIC SUPPORT	8,241	3,001,266	3,009,507
OTHER REVENUES			
Grant revenue	-	392,914	392,914
Shared membership fees	162,738	-	162,738
Legal fees awarded	-	-	-
Investment income, net	726	8,004	8,730
TOTAL OTHER REVENUES	163,464	400,918	564,382
TOTAL SUPPORT AND OTHER REVENUES	171,705	3,402,184	3,573,889
<u>EXPENSES</u>			
Program services	115,276	3,186,705	3,301,981
Management and general	69,413	154,397	223,810
Fundraising and development	20,849	133,031	153,880
TOTAL EXPENSES	205,538	3,474,133	3,679,671
CHANGE IN NET ASSETS	(33,833)	(71,949)	(105,782)
NET ASSETS, Beginning of year	240,215	646,208	886,423
NET ASSETS, End of year	\$ 206,382	\$ 574,259	\$ 780,641

2014

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 562,076
-	40,422
-	-
-	2,406,164
-	845
-	<u>3,009,507</u>
-	392,914
-	162,738
-	-
-	8,730
-	<u>564,382</u>
-	<u>3,573,889</u>
-	3,301,981
-	223,810
-	153,880
-	<u>3,679,671</u>
-	(105,782)
-	<u>886,423</u>
<u>\$ -</u>	<u>\$ 780,641</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2014**

Program Costs

	<u>Legislative</u>	<u>Public Education</u>	<u>Newsletter</u>
Salaries and related expenses	\$ 31,052	\$ 65,551	\$ -
Accounting and outside services	44	1,270	-
Occupancy	1,476	2,308	-
Printing, publications and postage	9	458	7,825
Information technology	295	299	-
Membership development	-	-	-
Office	3,897	7	-
Travel, meals and entertainment	307	478	-
Insurance	-	-	-
Depreciation	-	-	-
Board and volunteer	-	-	-
Gifts	-	-	-
Total Expenses	<u>\$ 37,080</u>	<u>\$ 70,371</u>	<u>\$ 7,825</u>

Total Program Costs	Support Services		Total
	Administrative Costs	Membership Support	
\$ 96,603	\$ 42,185	\$ 17,202	\$ 155,990
1,314	4,479	-	5,793
3,784	4,430	472	8,686
8,292	706	2	9,000
594	2,930	68	3,592
-	-	2,999	2,999
3,904	1,291	50	5,245
785	966	56	1,807
-	298	-	298
-	1,993	-	1,993
-	9,918	-	9,918
-	217	-	217
<u>\$ 115,276</u>	<u>\$ 69,413</u>	<u>\$ 20,849</u>	<u>\$ 205,538</u>

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2014**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 367,125	\$ 246,296	\$ 613,421
Accounting and outside services	50	13,435	13,485
Occupancy	36,900	10,836	47,736
Printing, publications and postage	657	6,283	6,940
Litigation	2,423,096	-	2,423,096
Information technology	9,355	2,456	11,811
Office expenses	8,134	1,513	9,647
Travel	14,586	9,785	24,371
Depreciation	-	-	-
Insurance	3,601	-	3,601
Professional education	137	-	137
Board and volunteer	-	29	29
Gifts	118	43	161
Public education forums	-	32,270	32,270
Total Expenses	\$ 2,863,759	\$ 322,946	\$ 3,186,705

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 85,920	\$ 101,058	\$ 800,399
15,547	-	29,032
6,140	3,063	56,939
4,009	1,958	12,907
-	-	2,423,096
14,330	8,130	34,271
6,978	6,731	23,356
2,550	11,291	38,212
15,957	-	15,957
1,470	-	5,071
478	110	725
159	165	353
859	525	1,545
-	-	32,270
<u>\$ 154,397</u>	<u>\$ 133,031</u>	<u>\$ 3,474,133</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
March 31, 2013**

<u>ASSETS</u>	2013		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
CURRENT ASSETS			
Cash and cash equivalents	\$ 190,050	\$ 556,000	\$ 746,050
Investments	36,396	11,489	47,885
Due from American Civil Liberties Union, Inc.	-	-	-
Due from related entities	20,527	-	20,527
Grants receivable	-	150,000	150,000
Other accounts receivable	-	1,848	1,848
Prepaid expenses	2,220	15,111	17,331
TOTAL CURRENT ASSETS	249,193	734,448	983,641
PROPERTY AND EQUIPMENT			
Furniture and equipment	8,229	87,459	95,688
TOTAL PROPERTY AND EQUIPMENT	8,229	87,459	95,688
Less: Accumulated depreciation	(5,447)	(51,668)	(57,115)
NET PROPERTY AND EQUIPMENT	2,782	35,791	38,573
TOTAL ASSETS	\$ 251,975	\$ 770,239	\$ 1,022,214

2013

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 746,050
-	47,885
-	-
(20,527)	-
-	150,000
-	1,848
-	17,331
<u>(20,527)</u>	<u>963,114</u>
<u>-</u>	<u>95,688</u>
<u>-</u>	<u>95,688</u>
<u>-</u>	<u>(57,115)</u>
<u>-</u>	<u>38,573</u>
<u>\$ (20,527)</u>	<u>\$ 1,001,687</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
March 31, 2013**

	2013		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 4,838	\$ 4,779	\$ 9,617
Accrued payroll and related costs	5,959	30,403	36,362
Due to related entities	-	20,527	20,527
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	963	68,322	69,285
TOTAL CURRENT LIABILITIES	11,760	124,031	135,791
TOTAL LIABILITIES	11,760	124,031	135,791
<u>NET ASSETS</u>			
Unrestricted	240,215	439,273	679,488
Temporarily restricted	-	196,186	196,186
Permanently restricted	-	10,749	10,749
TOTAL NET ASSETS	240,215	646,208	886,423
TOTAL LIABILITIES AND NET ASSETS	\$ 251,975	\$ 770,239	\$ 1,022,214

2013

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 9,617
-	36,362
(20,527)	-
-	69,285
(20,527)	115,264
(20,527)	115,264
-	679,488
-	196,186
-	10,749
-	886,423
<u>\$ (20,527)</u>	<u>\$ 1,001,687</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013**

	2013		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 10,102	\$ 384,714	\$ 394,816
Bequests	5,000	38,245	43,245
Special event revenue	4,265	6,680	10,945
Legal services donated	-	2,088,388	2,088,388
Other in-kind donations	-	2,075	2,075
TOTAL PUBLIC SUPPORT	19,367	2,520,102	2,539,469
OTHER REVENUES			
Grant revenue	-	516,849	516,849
Shared membership fees	168,305	-	168,305
Legal fees awarded	-	15,792	15,792
Investment income, net	(271)	2,801	2,530
TOTAL OTHER REVENUES	168,034	535,442	703,476
TOTAL SUPPORT AND OTHER REVENUES	187,401	3,055,544	3,242,945
<u>EXPENSES</u>			
Program services	176,923	2,754,831	2,931,754
Management and general	75,524	172,793	248,317
Fundraising and development	24,436	128,303	152,739
TOTAL EXPENSES	276,883	3,055,927	3,332,810
CHANGE IN NET ASSETS	(89,482)	(383)	(89,865)
NET ASSETS, Beginning of year	329,697	646,591	976,288
NET ASSETS, End of year	\$ 240,215	\$ 646,208	\$ 886,423

2013

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 394,816
-	43,245
-	10,945
-	2,088,388
-	2,075
-	<u>2,539,469</u>
-	516,849
-	168,305
-	15,792
-	2,530
-	<u>703,476</u>
-	<u>3,242,945</u>
-	2,931,754
-	248,317
-	152,739
-	<u>3,332,810</u>
-	(89,865)
-	<u>976,288</u>
<u>\$ -</u>	<u>\$ 886,423</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2013**

Program Costs

	Legislative	Public Education	Newsletter
Salaries and related expenses	\$ 75,246	\$ 65,893	\$ -
Accounting and outside services	-	-	1,616
Occupancy	2,456	789	3,861
Printing, publications and postage	-	193	17,275
Information technology	-	-	-
Membership development	-	-	-
Office	5,151	3	-
Travel, meals and entertainment	1,677	1,241	-
Insurance	-	-	-
Depreciation	-	-	-
Interest	-	-	-
Event	-	-	-
Board and volunteer	-	7	-
Gifts	-	-	-
Public education forums	-	1,515	-
Total Expenses	\$ 84,530	\$ 69,641	\$ 22,752

Total Program Costs	Support Services		Total
	Administrative Costs	Membership Support	
\$ 141,139	\$ 41,925	\$ 17,406	\$ 200,470
1,616	5,427	-	7,043
7,106	7,719	-	14,825
17,468	937	-	18,405
-	4,547	-	4,547
-	-	5,293	5,293
5,154	1,777	-	6,931
2,918	1,549	16	4,483
-	1,061	-	1,061
-	2,551	-	2,551
-	47	-	47
-	-	1,721	1,721
7	7,809	-	7,816
-	175	-	175
1,515	-	-	1,515
<u>\$ 176,923</u>	<u>\$ 75,524</u>	<u>\$ 24,436</u>	<u>\$ 276,883</u>

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2013**

	Program Costs		
	Legal	Public Education	Total Program Costs
Salaries and related expenses	\$ 330,419	\$ 209,823	\$ 540,242
Accounting and outside services	7,660	4,604	12,264
Occupancy	34,533	16,345	50,878
Printing, publications and postage	-	10,666	10,666
Litigation	2,107,175	-	2,107,175
Information technology	3,039	5,495	8,534
Office expenses	4,032	1,007	5,039
Travel	7,979	8,802	16,781
Event	-	-	-
Depreciation	-	-	-
Insurance	531	-	531
Professional education	1,055	-	1,055
Interest	-	-	-
Board and volunteer	-	58	58
Gifts	152	8	160
Public education forums	-	1,448	1,448
Bad debt expense (pledges)	-	-	-
Total Expenses	\$ 2,496,575	\$ 258,256	\$ 2,754,831

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 96,460	\$ 97,862	\$ 734,564
14,706	520	27,490
8,253	4,009	63,140
4,765	3,657	19,088
-	-	2,107,175
17,466	9,125	35,125
7,457	4,451	16,947
3,064	6,931	26,776
-	1,686	1,686
14,426	-	14,426
2,632	-	3,163
2,301	62	3,418
213	-	213
345	-	403
705	-	865
-	-	1,448
-	-	-
<u>\$ 172,793</u>	<u>\$ 128,303</u>	<u>\$ 3,055,927</u>