

ACLU of Arizona
(A nonprofit corporation)

Financial Statements
Year ended March 31, 2006

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Independent Auditor's Report

To the Board of Directors
ACLU of Arizona
Phoenix, Arizona

We have audited the accompanying statement of financial position of the ACLU of Arizona (a nonprofit organization) as of March 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACLU of Arizona as of March 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Walker & Armstrong, LLP

Phoenix, Arizona
September 14, 2006

ACLU of Arizona
(A nonprofit corporation)

STATEMENT OF FINANCIAL POSITION

March 31, 2006

Assets

Current Assets

Cash and cash equivalents	\$ 228,309
Certificate of deposit- American Trust CD	30,522
Receivable from American Civil Liberties Union, Inc.	<u>15,552</u>
Total current assets	274,383

Other Assets

Certificate of deposit – Ted Mote Fund	<u>5,725</u>
Total assets	<u>\$ 280,108</u>

Liabilities and Net Assets

Current Liabilities

Due to ACLU Foundation of Arizona	<u>\$ 29,238</u>
Total current liabilities	29,238

Net Assets

Unrestricted:	
Designated	5,725
Undesignated	<u>245,145</u>
Total net assets	<u>250,870</u>
Total liabilities and net assets	<u>\$ 280,108</u>

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

ACLU of Arizona
(A nonprofit corporation)

STATEMENT OF ACTIVITIES

Year ended March 31, 2006

Changes in unrestricted net assets

Revenues	
Shared membership fees	\$ 166,276
Bequests	275
Contributions	644
Investment income	717
	<hr/>
	167,912
Expenses	
<i>Program services</i>	
Legislative	30,117
Public education	64,166
	<hr/>
Total program services	94,283
<i>Supporting services</i>	
Membership	19,225
Management and general	25,318
	<hr/>
Total supporting services	44,543
Total expenses	<hr/>
	138,826
Increase in net assets	29,086
Net assets at beginning of year	<hr/>
	221,784
Net assets at end of year	<hr/> <hr/>
	\$ 250,870

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

ACLU of Arizona
(A nonprofit corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year ended March 31, 2006

	Program Services			Supporting Services			Total Program and Supporting Services
	Legislative	Public Education	Total	Membership	Management and General	Total	
Salaries and related expenses	\$ 23,488	\$ 40,399	\$ 63,887	\$ 15,032	\$ 15,032	\$ 30,064	\$ 93,951
Occupancy	2,086	6,259	8,345	2,086	3,477	5,563	13,908
Office expenses	1,006	1,730	2,736	644	644	1,288	4,024
Telephone	696	1,196	1,892	445	445	890	2,782
Insurance	194	334	528	124	124	248	776
Maintenance and repairs	234	403	637	150	150	300	937
Public education forums	182	1,641	1,823	-	-	-	1,823
Depreciation	707	1,216	1,923	453	453	906	2,829
Loss on disposal of equipment	67	115	182	43	43	86	268
Newsletter	658	5,263	5,921	-	658	658	6,579
Dues and subscriptions	95	95	190	71	214	285	475
Licenses and permits	-	-	-	-	20	20	-
Postage	144	933	1,077	144	215	359	1,436
Accounting	-	-	-	-	3,250	3,250	3,250
Board and volunteer expenses	-	100	100	33	33	66	166
Travel, meals and entertainment	560	4,482	5,042	-	560	560	5,602
Total expenses	\$ 30,117	\$ 64,166	\$ 94,283	\$ 19,225	\$ 25,318	\$ 44,543	\$ 138,826

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

ACLU of Arizona
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STATEMENT OF CASH FLOWS

Year ended March 31, 2006

Cash flows from operating activities:	
Cash received from members and others	\$ 165,853
Interest income	717
Cash paid to vendors and employees	<u>(99,779)</u>
Net cash provided by operating activities	66,791
Cash flows from financing activities:	
Purchase of certificate of deposit	<u>(30,580)</u>
Net increase in cash	36,211
Cash at beginning of year	<u>192,098</u>
Cash at end of year	<u><u>\$ 228,309</u></u>
Reconciliation of increase in net assets to net cash provided by operating activities:	
Increase in net assets	\$ 29,086
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in receivable from American Civil Liberties Union, Inc.	(1,342)
Increase in amount due to ACLU Foundation of Arizona	39,067
Decrease in accounts payable	<u>(20)</u>
Net cash provided by operating activities	<u><u>\$ 66,791</u></u>

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

ACLU of Arizona
(A nonprofit corporation)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2006

Note 1 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the financial statements follows:

Organization

The purpose of the ACLU of Arizona (the Union) is to maintain and protect civil liberties in Arizona through legislative advocacy and public education. The ACLU of Arizona 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 Union oversees the operations of the ACLU Foundation of Arizona (the Foundation).

The Board of Directors of the ACLU of Arizona authorizes the creation of volunteer-run chapters who serve as the eyes and ears of the ACLU around the state. There are 10 chapters in Arizona, including several university groups at Arizona State University and the University of Arizona.

The Union shares equipment, office space, personnel and operating costs with the Foundation. The Union and Foundation reimburse each other to support their respective share of operations.

In August 2005, the executive director of the Union retired. The board of directors filled that position in February 2006. From September 2005 through February 2006, board member Dawn Wyland resigned from the board and accepted a position as interim director. Both the interim and executive director positions are shared with the Foundation.

Basis of Presentation

The Union reports 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. The ACLU of Arizona reports its revenue and other support as unrestricted if there are no donor-imposed restrictions which limit its use. The Union had no temporarily or permanently restricted net assets for the year ended March 31, 2006.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The ACLU of Arizona is exempt from income taxes under Section 501(c) 4 of the Internal Revenue Code.

Donated Services

A substantial number of unpaid volunteers have contributed significant amounts of time to develop the programs of the Union. For example, there are 10 chapters across the state that are completely volunteer-run. The value of this time is not reflected in the financial statements because it is not susceptible to objective valuation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Union considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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 statement of activities unless the income or loss is restricted.

Designated Net Assets

Designated net assets represent a board-approved reservation of funds for the Ted Mote Fund administered by the Union for support of educational purposes.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Note 2 – Cash and Cash Equivalents

Cash and cash equivalents of \$228,309 as of March 31, 2006 are comprised of demand deposits held by a bank.

This balance at March 31, 2006 exceeded FDIC insurance by \$128,309. The Board of Directors has authorized the creation of an Investment Committee that will be researching alternatives to diversify Union assets.

Note 3 – Pension Plan

Defined Benefit Plan

The American Civil Liberties Union Retirement Plan is a defined benefit multiemployer 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 affiliates, which include the Union and the Foundation.

All funds of the plan are held by Principal Mutual Life Insurance Company under a benefit index payment plan.

The retirement 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 entire American Civil Liberties Union are presented in the organization's consolidated financial statements.

Contributions to the plan allocated to the Union for the year ended March 31, 2006 were \$1,876.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 3 – Pension Plan - Continued

401(k) Plan

On July 1, 2000, the American Civil Liberties Union, Inc. and the American Civil Liberties Foundation, Inc. and its affiliates established a 401(k) pension plan for the benefit of regular employees. Benefits depend solely on amounts contributed to the plan plus investment earnings. To be eligible to participate in the plan, all participants must be at least 21 years old, must have 12 months of service and worked at least 1,000 hours during that period. Employees may contribute up to the maximum amount allowed by current legislation. The Union does not contribute to the plan.

Note 4 – Commitments

The ACLU of Arizona has renegotiated an agreement to lease office space under an operating lease expiring April 2009. The Union's share of the lease expense for the year ended March 31, 2006 was \$13,908. The total future minimum lease payments, which are allocated between the Union and Foundation, are as follows:

<u>Year ending March 31</u>	
2007	\$ 32,195
2008	33,964
2009	35,722
2010	<u>2,989</u>
	<u>\$ 104,870</u>

Note 5 – Related Party Transactions

For the year ended March 31, 2006, the Foundation incurred \$135,494 of 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. As of March 31, 2006, the Union had outstanding amount payable to the Foundation of \$29,238. As of March 31, 2006, the Union had a receivable from National in the amount of \$15,552 for revenues shared by the National office with its affiliates.