

ACLU Foundation 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 Foundation of Arizona
Phoenix, Arizona

We have audited the accompanying statement of financial position of ACLU Foundation of Arizona (a nonprofit organization) as of March 31, 2006, and the related statements of activities, function expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation'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 Foundation 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 Foundation of Arizona
(A nonprofit corporation)

STATEMENT OF FINANCIAL POSITION

March 31, 2006

Assets

Current Assets

Cash and cash equivalents	\$ 112,711
Certificate of deposit	30,522
Receivables:	
Pledges receivable, net of \$4,125 allowance for uncollectible pledges	18,420
Due from American Civil Liberties Union Foundation, Inc.	118,954
Due from ACLU of Arizona	29,238
Prepaid expenses	<u>8,580</u>
Total current assets	318,425

Long-term pledges receivable

5,000

Equipment, at cost

35,799

Less accumulated depreciation

(17,964)

17,835

Other Assets

Deposits

198

\$ 341,458

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 8,233
Accrued liabilities	<u>11,143</u>
Total current liabilities	19,376

Net Assets

Unrestricted	281,076
Temporarily restricted	<u>41,006</u>
Total net assets	<u>322,082</u>
	<u>\$ 341,458</u>

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

ACLU Foundation of Arizona
(A nonprofit corporation)
STATEMENT OF ACTIVITIES
Year ended March 31, 2006

Changes in Unrestricted Net Assets:

Revenues and Support	
Contributions	\$ 198,336
Bequests	80,550
Grants	3,600
Event revenue	23,814
Investment income	932
Miscellaneous	1,130
Total unrestricted revenues and support	308,362
Net assets released from restrictions	51,648
Total unrestricted revenues and support and reclassifications	360,010
Expenses	
<i>Program services</i>	
Legal	49,241
Public education	47,636
Total program services	96,877
<i>Supporting services</i>	
Development	54,674
Management and general	82,439
Total supporting services	137,113
Total expenses	233,990
Increase in unrestricted net assets	126,020
Changes in Temporarily Restricted Net Assets:	
Contributions	8,779
Grants	22,737
Event revenue	1,000
Net assets released from restrictions	(51,648)
Decrease in temporarily restricted net assets	(19,132)
Increase in net assets	106,888
Net assets at beginning of year	215,194
Net assets at end of year	\$ 322,082

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

ACLU Foundation of Arizona
(A nonprofit corporation)
STATEMENT OF FUNCTIONAL EXPENSES
Year ended March 31, 2006

	Program Services			Supporting Services			Total Program and Supporting Services
	Legal	Public Education	Total	Development	Management and General	Total	
Salaries and related expenses	\$ 22,130	\$ 24,896	\$ 47,026	\$ 23,513	\$ 67,772	\$ 91,285	\$ 138,301
Event expense	-	-	-	16,080	-	16,080	16,080
Occupancy	4,172	4,173	8,345	2,086	3,477	5,563	13,908
Program expense	8,213	-	8,213	-	-	-	8,213
Office expenses	4,572	2,771	7,343	4,159	1,740	5,899	13,242
Telephone	2,325	1,757	4,082	918	1,211	2,129	6,211
Insurance	1,641	361	2,002	256	338	594	2,596
Maintenance and repairs	253	435	688	309	408	717	1,405
Public education forums	-	2,735	2,735	-	-	-	2,735
Depreciation	764	1,315	2,079	934	1,230	2,164	4,243
Loss on disposal of equipment	72	125	197	88	117	205	402
Newsletter	1,973	3,289	5,262	329	987	1,316	6,578
Dues and subscriptions	499	107	606	-	107	107	713
Licenses and Permits	145	-	145	-	36	36	181
Postage	646	862	1,508	431	215	646	2,100
Accounting	-	-	-	-	4,250	4,250	4,250
Board and volunteer expenses	50	50	100	100	50	150	250
Travel, meals and entertainment	1,587	4,760	6,347	1,346	464	1,810	8,157
Bad debt expense	-	-	-	4,125	-	4,125	4,125
Professional education	199	-	199	-	-	-	199
Investment expense	-	-	-	-	37	37	37
Total expenses	\$ 49,241	\$ 47,636	\$ 96,877	\$ 54,674	\$ 82,439	\$ 137,113	\$ 233,990

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

ACLU Foundation of Arizona
(A nonprofit corporation)
STATEMENT OF CASH FLOWS
Year ended March 31, 2006

Cash flows from operating activities:

Cash received from supporters	\$ 295,823
Cash paid to vendors, employees, and pension plan	(236,552)
Interest received	932
	60,203

Cash flows from investing activities:

Acquisition of certificate of deposit	(30,522)
Proceeds from disposal of equipment	825
Acquisition of equipment	(1,058)
	(30,755)
Net cash used for investing activities	(30,755)
Net increase in cash and cash equivalents	29,448
Cash and cash equivalents at beginning of year	83,263
	\$ 112,711

Reconciliation of increase in net assets to net cash provided by operating activities:

Increase in net assets	\$ 106,888
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Loss on disposal of equipment	671
Depreciation	7,071
Decrease in receivables	18,329
Increase in receivable from American Civil Liberties Union Foundation	(25,895)
Increase in receivable from ACLU of Arizona	(29,238)
Increase in prepaid expenses and deposits	(2,368)
Decrease in other assets	100
Increase in accounts payable	1,793
Decrease in accrued liabilities	(7,319)
Decrease in due to the Union	(9,829)
	\$ 60,203

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

**ACLU Foundation 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 Foundation of Arizona (the Foundation) is to maintain and protect civil liberties in Arizona through public education and litigation. We defend constitutional guarantees outlined in the Bill of Rights, and work to extend rights to segments of our population that have traditionally been denied their rights, including Native Americans and other people of color; lesbians, gay men, bisexuals and transgendered people; women; mental-health patients; prisoners; people with disabilities; and the poor.

The ACLU of Arizona (the Union) engages in legislative lobbying to influence public policy, recruits members who enhance our statewide presence by tackling civil liberties threats at the local level and oversees the operations of 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 Foundation shares equipment, office space, personnel and operating costs with the Union. The Union and Foundation reimburse each other to support their respective share of operations. The ACLU of Arizona is a 501(c)(4) organization.

In August 2005, the executive director of the Foundation 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 Union.

Basis of Presentation

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

Temporarily restricted net assets consist of \$33,420 in unconditional promises to give that have not been received and \$7,586 in temporarily restricted donations that have not yet been expended as of March 31, 2006.

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.

Equipment

Property and equipment are stated at cost or, if acquired through donation, at fair market 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

Depreciation of equipment is recorded using the straight-line method over the estimated useful lives (five years) of the assets.

Income Taxes

The ACLU Foundation of Arizona is an organization exempt from income taxes under Section 501(c) 3 of the Internal Revenue Code.

Donated Services

The Foundation handles litigation cases by using the services of cooperating attorneys who donate their services pro bono to the Foundation and its clients. No amounts have been reflected in the financial statements for such services since there is no reasonable basis to evaluate amounts contributed to the Foundation.

Additionally, a substantial number of unpaid volunteers have contributed significant amounts of time to develop the programs of the Foundation. 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 Foundation considers all liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

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 in net assets in the accompanying statement of activities unless the income or loss is restricted.

Pledges Receivable

With one exception (see Note 3), pledges receivable are unconditional promises to give in less than one year.

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 as of March 31, 2006 are comprised of the following:

Demand deposits at bank	\$ 112,511
Cash on hand	<u>200</u>
	<u>\$ 112,711</u>

The bank balance of the demand deposits at March 31, 2006 exceeded FDIC insurance by \$19,664.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 3 – Pledges Receivable

On June 1, 2003, an individual pledged \$25,000 with annual installment payments of \$5,000 over the next five years. Total future pledges receivable are as follows:

Year ending March 31	
2007	\$ 22,545
2008	5,000
Less allowance	<u>(4,125)</u>
Total pledges	<u>\$ 23,420</u>

Note 4 – Retirement Plans

Defined Benefit Plan

The American Civil Liberties Union Retirement Plan is a defined benefit multiemployer plan that 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 Foundation and the Union.

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 Foundation for the year ended March 31, 2006 were \$2,815.

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. 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 twelve months of service and worked at least 1,000 hours during that period. Employees may contribute up to the maximum allowed by current legislation. The Foundation does not contribute to the plan.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5 – Commitments

The related ACLU of Arizona has renegotiated an agreement to lease office space under an operating lease expiring April 2009. The Foundation'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 6 – 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 the estimate of shared expenses. As of March 31, 2006, the Foundation had outstanding receivables from the Union and National of \$29,238 and \$118,954 respectively.