

**ACLU Foundation of Arizona**  
**(A nonprofit corporation)**

---

**Financial Statements**  
**Year ended March 31, 2008**

## Table of Contents

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1
<b>Financial Statements</b>	
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements.....	6-11

**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, 2008, and the related statements of activities, functional 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, 2008, 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 21, 2008

**ACLU Foundation of Arizona**  
**(A nonprofit corporation)**  
**STATEMENT OF FINANCIAL POSITION**  
**March 31, 2008**

<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 176,756
Certificate of deposits	179,132
Receivables:	
Pledges receivable	25,700
Due from American Civil Liberties Union Foundation, Inc.	98,144
Other receivables	65
Prepaid expenses	12,995
Total current assets	492,792
<b>Equipment, at cost</b>	30,698
Less accumulated depreciation	(16,452)
	14,246
Total assets	\$ 507,038
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 20,670
Accrued expenses	27,864
Due to ACLU of Arizona	20,442
Current portion of long-term obligations	1,159
Total current liabilities	70,135
<b>Long-Term Obligations</b>	
Capital lease payable	8,271
Total liabilities	78,406
<b>Net Assets</b>	
Unrestricted	318,275
Temporarily restricted	110,357
Total net assets	428,632
Total liabilities and net assets	\$ 507,038

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, 2008**

---

**Changes in Unrestricted Net Assets:**

**Revenues and support**

Contributions	\$	193,663
Event revenue		41,918
Investment income, net of expense		6,741
Miscellaneous		80
Donated legal services		364,174
Total unrestricted revenues and support		606,576

**Net assets released from restrictions**

		43,981
Total unrestricted revenues and support		650,557

**Expenses**

**Program services**

Legal		495,505
Public education		113,936
Total program services		609,441

**Supporting services**

Development		95,933
Management and general		43,479
Total supporting services		139,412
Total expenses		748,853
Decrease in unrestricted net assets		(98,296)

**Changes in Temporarily Restricted Net Assets**

Contributions		57,985
Grants		119,905
Net assets released from restrictions		(43,981)
Increase in temporarily restricted net assets		133,909

**Increase in net assets**

		35,613
Net assets at beginning of year		393,019
<b>Net assets at end of year</b>	<b>\$</b>	<b>428,632</b>

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, 2008**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total</u> <u>Program and</u> <u>Supporting</u> <u>Services</u>
	<u>Legal</u>	<u>Public</u> <u>Education</u>	<u>Total</u>	<u>Development</u>	<u>Management</u> <u>and</u> <u>General</u>	<u>Total</u>	
Salaries and related expenses	\$ 79,186	\$ 78,586	\$ 157,772	\$ 52,409	\$ 28,836	\$ 81,245	\$ 239,017
Event expense	-	5,832	5,832	23,326	-	23,326	29,158
Occupancy	5,099	5,099	10,198	2,549	4,249	6,798	16,996
Program expense	389,498	-	389,498	-	-	-	389,498
Office expense	3,146	8,883	12,029	9,587	1,643	11,230	23,259
Telephone	2,442	2,427	4,869	1,615	893	2,508	7,377
Insurance	829	824	1,653	548	303	851	2,504
Maintenance and repairs	1,298	1,299	2,597	866	472	1,338	3,935
Public education forums	-	6,788	6,788	-	-	-	6,788
Depreciation	1,404	1,404	2,808	936	510	1,446	4,254
Loss on disposal of equipment	540	540	1,080	360	197	557	1,637
Dues and subscriptions	717	179	896	-	-	-	896
Postage	529	529	1,058	133	132	265	1,323
Accounting	-	-	-	-	5,590	5,590	5,590
Contract labor	274	273	547	182	100	282	829
Board and volunteer expenses	56	56	112	56	112	168	280
Travel, meals and entertainment	10,187	1,217	11,404	3,366	442	3,808	15,212
Professional education	300	-	300	-	-	-	300
	<u>\$ 495,505</u>	<u>\$ 113,936</u>	<u>\$ 609,441</u>	<u>\$ 95,933</u>	<u>\$ 43,479</u>	<u>\$ 139,412</u>	<u>\$ 748,853</u>

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, 2008**

**Cash flows from operating activities:**

Cash received from supporters	\$ 387,865
Cash paid to vendors, employees, and pension plan	(325,112)
Interest received	6,741
	69,494

**Cash flows from investing activities:**

Acquisition of certificate of deposit	(4,132)
Principal payments on capital lease obligations	(246)
	(4,378)

Total cash flows used for investing activities	(4,378)
--	---------

Net increase in cash and cash equivalents	65,116
---	--------

Cash and cash equivalents at beginning of year	111,640
--	---------

<b>Cash and cash equivalents at end of year</b>	<b>\$ 176,756</b>
---	-------------------

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

Increase in net assets	\$ 35,613
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Loss on disposal of equipment	2,237
Depreciation	4,274
Reimbursement non-cash expense	2,083
Increase in receivables	(6,191)
Increase in receivables from American Civil Liberties Union Foundation	(21,513)
Decrease in prepaid expenses and deposits	5,298
Increase in other assets	(65)
Increase in accounts payable	16,437
Increase in accrued liabilities	12,654
Increase in due to the Union	18,667
	69,494
Net cash provided by operating activities	\$ 69,494

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, 2008**

---

**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 and recruits members who enhance our statewide presence by tackling civil liberties threats at the local level. 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 two chapters in 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.

***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, 2008.

Temporarily restricted net assets consist of \$25,700 in unconditional promises to give that have not yet been received and \$84,657 in temporarily restricted donations that have not yet been expended as of March 31, 2008.

## 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.

#### ***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 (three and 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***

Amounts have been reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills, which would be typically purchased if not provided by donation. The Foundation handles litigation cases by using the services of cooperating attorneys who donate their services pro bono to the Foundation and its clients.

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***

Pledges receivable are unconditional promises to give with collection for time periods from one to five years. Pledges receivable are reported at their outstanding principal balance and allowed for as of March 31, 2008 based on the Foundation's evaluation of collectibility which is reviewed on a case-by-case basis. Amounts deemed to be uncollectible are charged to bad debts expense upon approval by management. Subsequent collection of these receivables is recorded by the Foundation as revenue.

#### ***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 equivalent bank balances as of March 31, 2008 were comprised of the following:

Demand deposits at bank	\$ 176,556
Cash on hand	<u>200</u>
	<u>\$ 176,756</u>

The bank balance of the demand deposits at March 31, 2008 exceeded FDIC insurance by \$97,305.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

---

### **Note 3 – 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, 2008 were \$4,083.

#### ***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. 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. The Foundation does not contribute to the plan.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### Note 4 – Commitments

The related ACLU of Arizona has 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, 2008 was \$16,996. The total future minimum lease payments, which are allocated between the Union and Foundation, are as follows:

<u>Year Ending March 31</u>	<u>Amount</u>
2009	\$ 35,722
2010	<u>2,989</u>
Total	<u>\$ 38,711</u>

### Note 5 – Capital Lease Obligation

During the 2008 fiscal year, the American Civil Liberties Union Foundation of Arizona entered into a capital lease agreement for a new copier. The obligation has an implied interest rate of 25.88% payable in monthly installments of \$289 aggregating \$17,340 through December 2013 and is collateralized by the leased equipment.

The Foundation's share of the lease expense for the year ended March 31, 2008 was \$1,071. The total future minimum lease payments, which are allocated between the Union and Foundation, are as follows:

<u>Year Ending March 31</u>	<u>Amount</u>
2009	\$ 3,468
2010	3,468
2011	3,468
2012	3,468
2013	<u>2,601</u>
	\$ 16,473
Less amount representing interest	<u>7,043</u>
Total	<u>\$ 9,430</u>

The asset acquired under a capital lease is recorded at \$9,676 and the accumulated depreciation on the asset is \$484 as of March 31, 2008.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

---

### **Note 6 – Related Party Transactions**

For the year ended March 31, 2008, the Foundation incurred \$145,103 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, 2008, the Foundation had an outstanding amount payable to the Union of \$20,442. As of March 31, 2008, the Foundation had a receivable from the National office of \$98,144 for an expense reimbursement, revenues shared by the National office with its affiliates, and a grant receivable.