

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

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

**FISCAL YEAR ENDED MARCH 31, 2010**

**September 27, 2010**

**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  
YEAR ENDED MARCH 31, 2010**

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Consolidated Statement of Financial Position	2 - 3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Financial Statements	6 - 14
<b>SUPPLEMENTAL INFORMATION</b>	
Consolidating Schedule of Financial Position	15 - 18
Consolidating Schedule of Activities	19 - 20
Schedule of Functional Expenses – ACLU of Arizona	21 - 22
Schedule of Functional Expenses – ACLU Foundation of Arizona	23 - 24

**SETTLEMENT AGREEMENT  
AND  
RELEASE OF ALL CLAIMS**

RECITALS

- A. This Settlement Agreement and Release of All Claims (hereinafter "Agreement") is entered into by and between Julian Mora and Julio Mora on their own behalf, (the "Plaintiffs"); and Sheriff Joseph M. Arpaio, Sheriff of Maricopa County, in his individual and official capacities; Captain Ray Jones, in his individual capacity; Lieutenant Joe Sousa, in his individual capacity; Sergeant George Acritelli, in his individual capacity; Sergeant Guadalupe Rios, in his individual capacity; Officer Guillermo Montano, in his individual capacity; John Does I through III, in their individual capacities, and Maricopa County, a body politic ("Releasees").
- B. Plaintiffs filed a Complaint in the United States District Court for the District of Arizona, *Mora v. Joseph M. Arpaio, et al.*, Cause No. CV09-01719 ( "the Complaint" or "the Claim"), and is currently pending in the United States District Court, District of Arizona. On April 25, 2011, the Court granted partial summary judgment in favor of Plaintiffs and against Maricopa County on count one of their Complaint (violation of the Fourth Amendment) with respect to the stop and arrest of Plaintiffs. All other claims of the Plaintiffs remain issues for resolution at a jury trial.
- C. Releasees deny any responsibility, obligation, or liability arising out of the traffic stop, arrest, and detention of Plaintiffs by the Maricopa County Sheriff's Office on February 11, 2009 ("the Incident"), but nonetheless desire to fully settle the Complaint to avoid the expense, inconvenience, distraction, and risk of further litigation, and intend to permanently settle and compromise any all claims that Plaintiffs have, or which may be or could have been asserted, as a result of the Incident and any other incident alleged in the Complaint against the Releasees.
- D. Plaintiffs and Releasees ("the Parties") desire to fully settle the Complaint along with any other potential liability claims arising out of the Incident as against Releasees, and Maricopa County, and its agents, departments, employees, servants, contractors, insurers, and all other persons, firms, or corporations with whom any of them have been, are now, or may hereafter be affiliated ("Released Parties").
- E. For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties enter into this Agreement.



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

Neil Broadstock, C.P.A., M.B.A.

Miranda Penrod, C.P.A., M.B.A.

Janette Wallin, C.P.A.

Carlos E. Valdivia, C.P.A.

A. Jake Litwiller

Jessica M. Castro

Stephanie M. Canez

American Institute of  
Certified Public  
Accountants

Government Finance  
Officers Association

Arizona Society of  
Certified Public  
Accountants

Association of  
Government  
Accountants

### Independent Auditor's Report

Board of Directors  
ACLU of Arizona and ACLU Foundation of Arizona

We have audited the accompanying consolidated statements of financial position of the ACLU of Arizona and ACLU Foundation of Arizona (the Organization) as of March 31, 2010, and the related statement of activities and statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statement. 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 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, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the ACLU of Arizona and the ACLU Foundation of Arizona taken as a whole. The Consolidating Schedules and the Schedules of Functional Expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*Lumbard & Associates, PLLC*

Phoenix, Arizona  
September 27, 2010

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
MARCH 31, 2010**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 397,954
Certificates of deposit	322,029
Receivable from American Civil Liberties Union Foundation, Inc.	100,542
Pledges receivable	12,387
Prepaid expenses	<u>12,609</u>

**TOTAL CURRENT ASSETS** 845,521

**PROPERTY AND EQUIPMENT**

Furniture and equipment	<u>40,235</u>
-------------------------	---------------

**TOTAL PROPERTY AND EQUIPMENT** 40,235

Less: Accumulated depreciation (26,510)

**NET PROPERTY AND EQUIPMENT** 13,725

**OTHER ASSETS**

Pledges receivable (non-current)	40,000
Less: Discount on pledge receivable (non-current)	<u>(6,879)</u>

**TOTAL OTHER ASSETS** 33,121

**TOTAL ASSETS** \$ 892,367

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)  
MARCH 31, 2010**

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	\$ 6,801
Accrued payroll and taxes	18,791
Capital lease - current portion	<u>1,934</u>

**TOTAL LIABILITIES** 27,526

**LONG-TERM LIABILITIES**

Capital lease	<u>4,840</u>
---------------	--------------

**TOTAL LONG-TERM LIABILITIES** 4,840

**NET ASSETS**

Unrestricted, undesignated	718,038
Temporarily restricted	<u>141,963</u>

**TOTAL NET ASSETS** 860,001

**TOTAL LIABILITIES AND NET ASSETS** \$ 892,367

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT</b>			
Public Support:			
Donations	\$ 172,223	\$ 53,008	\$ 225,231
Bequests	85,095	-	85,095
Special event revenue	2,600	-	2,600
Legal services donated	198,191	-	198,191
	<u>458,109</u>	<u>53,008</u>	<u>511,117</u>
Total Public Support			
Other Revenues			
Grant revenue	124,897	75,425	200,322
Shared membership fees	214,106	-	214,106
Legal fees awarded	36,868	-	36,868
Investment income, net	11,041	-	11,041
	<u>386,912</u>	<u>75,425</u>	<u>462,337</u>
Total Other Revenues			
Net assets released from restrictions	92,505	(92,505)	-
	<u>937,526</u>	<u>35,928</u>	<u>973,454</u>
<b>TOTAL SUPPORT AND OTHER REVENUES</b>			
<b>EXPENSES</b>			
Program services	609,222	-	609,222
Management and general	127,991	-	127,991
Fundraising and development	132,178	-	132,178
	<u>869,391</u>	<u>-</u>	<u>869,391</u>
<b>TOTAL EXPENSES</b>			
<b>CHANGE IN NET ASSETS</b>			
	<u>68,135</u>	<u>35,928</u>	<u>104,063</u>
<b>NET ASSETS, Beginning of year</b>			
	<u>649,903</u>	<u>106,035</u>	<u>755,938</u>
<b>NET ASSETS, End of year</b>			
	<u>\$ 718,038</u>	<u>\$ 141,963</u>	<u>\$ 860,001</u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in Net Assets	\$ 104,063
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,954
(Increase)/decrease in assets:	
Receivable from American Civil Liberties Union Foundation, Inc.	(65,203)
Pledges receivable, net of discount	(11,594)
Other receivable	1,500
Prepaid expenses	(2,981)
Increase/(decrease) in liabilities:	
Accounts payable	6,215
Accrued payroll and taxes	(18,603)
	17,351
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>17,351</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from certificate of deposits	6,381
Purchase of equipment	(3,330)
Principal payments on capital lease obligations	(1,497)
	1,554
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,554</b>
Net increase in cash and cash equivalents	18,905
Cash and cash equivalents at beginning of year	379,049
Cash and cash equivalents at end of year	\$ 397,954

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010**

**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 corporation which was incorporated 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. There are currently two active chapters in Arizona.

The ACLU Foundation of Arizona, is a 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 Native Americans and other 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 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, 2010

**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, *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 by the Union or Foundation. 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. The Union and Foundation had no permanently restricted net assets during the fiscal year.

**Cash and Cash Equivalents** - For purpose of the statement 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 of Insurance Corporation (FDIC).

**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.

**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, discounted to present value, net of allowance for doubtful accounts as of March 31, 2010, based on the Foundation's evaluation of collectability which is reviewed on a case-by-case basis. Amounts deemed to be uncollectible are charged to bad debt expense upon approval by management. Subsequent collection of these receivables is recorded by the Foundation as revenue.

ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment** - Land, buildings, equipment and furniture with a cost of \$1,000 or more and an estimated life of one year or more 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 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 expense in the statement 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 fees) and bequests. The Foundation's major sources of revenue are donated legal services, contributions, legal fee awards and event revenue.

**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, 2010

**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 or net investment income activities subject to those taxes.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

With the exception of petty cash for the Foundation of \$50, the Union and Foundation maintain all of their cash with a single financial institution. The carrying amounts of deposits for the Union and the Foundation were \$244,402 and \$152,502, respectively. The bank balances were \$245,986 and \$156,885 for the Union and the Foundation, respectively. As of March 31, 2010, bank balances for both the Union and the Foundation were within the amounts covered by the FDIC and were not at risk.

**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.

As of March 31, 2010, all investments for the Union and the Foundation consisted of level 2 investments in the form of certificates of deposit. Net investment income of \$11,041 is composed of interest income of \$12,062 offset by unrealized loss on investments of \$1,021.

**ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010**

**NOTE 4 - RECEIVABLE FROM AMERICAN CIVIL LIBERTIES UNION FOUNDATION, INC.**

Receivable due from the American Civil Liberties Union Foundation, Inc. (National ACLU) consisted of the following at March 31, 2010:

	Union	Foundation	Total
Receivable	\$14,652	\$ 85,890	\$ 100,542

The management of the Union and the Foundation considers the receivables to be 100 percent collectible; therefore, no allowance for doubtful accounts is reported.

**NOTE 5 - PLEDGES RECEIVABLE**

The Union did not report any pledges receivable at March 31, 2010. The Foundation reported the following pledges receivable at March 31, 2010:

Pledges receivable	\$ 52,387
Less: Discount to present value	(6,879)
Net Pledges Receivable	\$ 45,508

The management of the Organization considers the receivables to be 100 percent collectible; therefore, no allowance for doubtful accounts is reported. The Foundation has one 5-year pledge for \$50,000 that has been discounted to present value using an 8% discount rate. All other pledges are expected to be collected within one year.

**NOTE 6 - PROPERTY AND EQUIPMENT**

The Union does not own any property or equipment that meets the capitalization threshold.

Property and equipment owned by the Foundation as of March 31, 2010 were as follows:

Furniture and Equipment	\$ 35,847
Software	4,388
Total Cost	40,235
Less: Accumulated depreciation	(26,510)
Net Property and Equipment	\$ 13,725

Depreciation expense for the Foundation was \$3,954.

**ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010**

**NOTE 7 - COMPENSATED ABSENCES**

The Union and the Foundation carry forward compensated absences for accrued vacation. Per the Organization's personnel policy, no more than 5 days of vacation can be carried over past hire date anniversary. The accrued compensated absences payable totaled \$5,711 and is included in the accrued payroll and taxes balance of \$18,791.

**NOTE 8 - CAPITAL LEASE OBLIGATIONS**

During the 2008 fiscal year, the Foundation 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 2012 and is collateralized by the leased equipment.

The allocation of the payments between the Union and the Foundation for the fiscal year ended March 31, 2010, was \$971 and \$2,497, respectively. The total future minimum lease payments are allocated between the Union and Foundation.

As of March 31, 2010, the total remaining lease payments under the non-cancelable operating lease was as follows:

Year ending March 31,		
2011	\$	3,468
2012		3,468
2013		<u>2,601</u>
Less: Amount representing interest		<u>2,763</u>
Total	\$	<u>6,774</u>

The asset acquired under a capital lease is recorded at \$9,676, and the accumulated depreciation on the asset was \$4,354 as of March 31, 2010.

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

As of March 31, 2010, the Union did not have any temporarily restricted net assets.

The Foundation receives non-exchange grants from the American Civil Liberties Union Foundation, Inc. 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.

**ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010**

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)**

As of March 31, 2010, the temporarily restricted net assets for the Foundation included:

Pledges receivable, discounted	\$ 45,508
Private gifts - Student Rights Project	4,427
National Detention Watch grant	58,466
National Women's Jail Project grant	12,000
National School to Prison Pipeline grant	8,119
REAL ID grant	1,518
Staff Enhancement Development Director grant	<u>11,925</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 141,963</u>

**NOTE 10 - 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 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 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 and the Foundation for the year ended March 31, 2010, were \$2,429 and \$4,136, respectively.

**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. Contributions to the 401(k) plan for the Foundation for the year ended March 31, 2010, were \$482. The Union did not have any contributions.

**ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010**

**NOTE 10 - RETIREMENT PLAN (CONTINUED)**

**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.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

The Organization shares both membership and tax-deductible donations with the National ACLU. For the year ended March 31, 2010, the Foundation incurred \$153,186 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. As of March 31, 2010, the Union had advanced to the Foundation more than was expended, so had a credit balance of \$20,393. As of March 31, 2010, the Union had a net receivable from the National office in the amount of \$14,652 for revenues shared by the National office with its affiliates. As of March 31, 2010, the Foundation had a net receivable from the National office in the amount of \$85,890 for revenues shared between the National office and its affiliates.

**NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES**

**Commitments** - The Organization has an agreement to lease office space under an operating lease expiring June 30, 2010. The Union's and Foundation's share of the lease expense for the year ended March 31, 2010, was \$10,912 and \$24,074, respectively. The total future minimum lease payments of \$7,830 are payable in the year ending March 31, 2011 and are allocated between the Union and the Foundation.

**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; injuries to employees; 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 Farmer's Insurance Group for potential worker-related accidents, by National Legal Aid and Defender's Association for professional liability, and by the State Compensation Fund of Arizona for Workmen's Compensation.

**ACLU OF ARIZONA AND  
ACLU FOUNDATION OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010**

**NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)**

**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, 2010.

**NOTE 13 - CONCENTRATIONS**

For the fiscal year ended March 31, 2010, the Union and the Foundation received 86% and 32%, respectively, of its revenue from the National ACLU including shared revenues and grants.

**NOTE 14 - SUBSEQUENT EVENTS**

The Organization has evaluated events through September 27, 2010, which is the date of the audit report.

On August 1, 2010, the Organization entered into an operating lease for office space for a term of 69 months, scheduled to expire April 30, 2016. The initial monthly base rental is \$5,256 and will increase to a maximum of \$5,800 during the term of the agreement.

**This Page Left Blank Intentionally**

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
MARCH 31, 2010**

<b><u>ASSETS</u></b>	<b><u>ACLU</u></b>	<b><u>ACLU FOUNDATION</u></b>	<b><u>MEMORANDUM TOTAL ONLY</u></b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 244,402	\$ 153,552	\$ 397,954
Investments - Certificates of deposit	135,088	186,941	322,029
Receivable from American Civil Liberties Union Foundation, Inc.	14,652	85,890	100,542
Due from related entities	20,393	-	20,393
Pledges receivable	-	12,387	12,387
Prepaid expenses	2,890	9,719	12,609
<b>TOTAL CURRENT ASSETS</b>	<b>417,425</b>	<b>448,489</b>	<b>865,914</b>
<b>PROPERTY AND EQUIPMENT</b>			
Furniture and equipment	-	40,235	40,235
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>-</b>	<b>40,235</b>	<b>40,235</b>
Less: Accumulated depreciation	-	(26,510)	(26,510)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>-</b>	<b>13,725</b>	<b>13,725</b>
<b>OTHER ASSETS</b>			
Pledges receivable (non-current)	-	40,000	40,000
Less: Discount on pledge receivable (non-current)	-	(6,879)	(6,879)
<b>TOTAL OTHER ASSETS</b>	<b>-</b>	<b>33,121</b>	<b>33,121</b>
<b>TOTAL ASSETS</b>	<b>\$ 417,425</b>	<b>\$ 495,335</b>	<b>\$ 912,760</b>

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 397,954
-	322,029
-	100,542
(20,393)	-
-	12,387
-	12,609
<u>(20,393)</u>	<u>845,521</u>
<u>-</u>	<u>40,235</u>
<u>-</u>	<u>40,235</u>
<u>-</u>	<u>(26,510)</u>
<u>-</u>	<u>13,725</u>
-	40,000
-	(6,879)
<u>-</u>	<u>33,121</u>
<u>\$ (20,393)</u>	<u>\$ 892,367</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**MARCH 31, 2010**

<u><b>LIABILITIES</b></u>	<u>ACLU</u>	<u>ACLU FOUNDATION</u>	<u>MEMORANDUM TOTAL ONLY</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 3,803	\$ 2,998	\$ 6,801
Accrued payroll and taxes	-	18,791	18,791
Due to related entities	-	20,393	20,393
Capital lease - current portion	-	1,934	1,934
<b>TOTAL LIABILITIES</b>	<u>3,803</u>	<u>44,116</u>	<u>47,919</u>
<b>LONG-TERM LIABILITIES</b>			
Capital lease	-	4,840	4,840
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>-</u>	<u>4,840</u>	<u>4,840</u>
<b>TOTAL LIABILITIES</b>	<u>3,803</u>	<u>48,956</u>	<u>52,759</u>
<b>NET ASSETS</b>			
Unrestricted	413,622	304,416	718,038
Temporarily restricted	-	141,963	141,963
<b>TOTAL NET ASSETS</b>	<u>413,622</u>	<u>446,379</u>	<u>860,001</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 417,425</u>	<u>\$ 495,335</u>	<u>\$ 912,760</u>

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
-	\$ 6,801
-	18,791
(20,393)	-
-	1,934
<u>(20,393)</u>	<u>27,526</u>
-	4,840
-	4,840
<u>(20,393)</u>	<u>32,366</u>
-	718,038
-	141,963
-	860,001
<u>\$ (20,393)</u>	<u>\$ 892,367</u>



<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 225,231
-	85,095
-	2,600
-	198,191
<u>-</u>	<u>511,117</u>
-	200,322
-	214,106
-	36,868
-	11,041
<u>-</u>	<u>462,337</u>
-	973,454
<u>-</u>	<u>609,222</u>
-	127,991
-	132,178
<u>-</u>	<u>869,391</u>
-	104,063
<u>-</u>	<u>755,938</u>
<u>\$ -</u>	<u>\$ 860,001</u>

**ACLU OF ARIZONA  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2010**

	Program Costs		Total Program Costs
	Legislative	Public Education	
Salaries and related expenses	\$ 18,334	\$ 49,035	\$ 67,369
Accounting and outside services	482	280	762
Occupancy	2,883	7,347	10,230
Printing, publications and postage	19	21,305	21,324
Membership development	-	-	-
Office	408	1,111	1,519
Travel, meals and entertainment	441	1,783	2,224
Equipment rental	315	747	1,062
Insurance	499	96	595
Board and volunteer	-	401	401
Scholarships	-	850	850
Public education forums	-	95	95
<b>Total Expenses</b>	<b>\$ 23,381</b>	<b>\$ 83,050</b>	<b>\$ 106,431</b>

Support Services

<u>Administrative Costs</u>	<u>Membership Support</u>	<u>Total</u>
\$ 34,065	\$ 13,783	\$ 115,217
4,840	93	5,695
3,187	2,276	15,693
1,799	1,690	24,813
50	9,014	9,064
1,046	461	3,026
555	260	3,039
1,218	249	2,529
504	32	1,131
55	572	1,028
-	-	850
-	-	95
<u>\$ 47,319</u>	<u>\$ 28,430</u>	<u>\$ 182,180</u>

**ACLU FOUNDATION OF ARIZONA  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2010**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 166,955	\$ 79,599	\$ 246,554
Accounting and outside services	1,587	1,057	2,644
Occupancy	13,387	6,842	20,229
Printing, publications and postage	1,686	4,081	5,767
Litigation	202,371	-	202,371
Information technology	7,799	1,303	9,102
Office expenses	2,474	1,153	3,627
Travel	2,669	413	3,082
Event	-	-	-
Depreciation	1,779	909	2,688
Insurance	2,174	235	2,409
Professional education	1,494	-	1,494
Interest	887	453	1,340
Equipment rental	375	191	566
Board and volunteer	13	533	546
Recruitment	-	-	-
Gifts	-	-	-
Public education forums	-	372	372
<b>Total Expenses</b>	<b>\$ 405,650</b>	<b>\$ 97,141</b>	<b>\$ 502,791</b>

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 53,874	\$ 74,467	\$ 374,895
14,669	282	17,595
3,570	5,949	29,748
555	3,684	10,006
-	-	202,371
838	8,768	18,708
3,028	1,087	7,742
985	2,691	6,758
-	4,003	4,003
475	791	3,954
551	204	3,164
967	-	2,461
237	394	1,971
100	166	832
230	230	1,006
175	712	887
418	320	738
-	-	372
<u>\$ 80,672</u>	<u>\$ 103,748</u>	<u>\$ 687,211</u>