

ACLU Foundation of Arizona
(A nonprofit corporation)

Financial Statements

Years ended March 31, 2009 and 2008

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Independent Auditor's Report

To the Board of Directors
ACLU Foundation of Arizona
Phoenix, Arizona

We have audited the accompanying statements of financial position of ACLU Foundation of Arizona (a nonprofit organization) as of March 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Walker & Armstrong, LLP

Phoenix, Arizona
September 22, 2009

ACLU Foundation of Arizona
(A nonprofit corporation)
STATEMENTS OF FINANCIAL POSITION
March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 67,214	\$ 176,756
Certificate of deposits	187,967	179,132
Receivables:		
Pledges receivable	33,914	25,700
Due from American Civil Liberties Union Foundation, Inc.	20,689	98,144
Due from ACLU of Arizona	59,060	-
Other receivables	1,500	65
Prepaid expenses	9,082	12,995
Total current assets	<u>379,426</u>	<u>492,792</u>
Equipment, at cost	36,905	30,698
Less accumulated depreciation	(22,556)	(16,452)
	<u>14,349</u>	<u>14,246</u>
Total assets	<u>\$ 393,775</u>	<u>\$ 507,038</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 586	\$ 20,670
Accrued expenses	37,394	27,864
Due to ACLU of Arizona	-	20,442
Current portion of long-term obligations	1,497	1,159
Total current liabilities	<u>39,477</u>	<u>70,135</u>
Long-Term Obligations		
Capital lease payable	6,774	8,271
Total liabilities	<u>46,251</u>	<u>78,406</u>
Net Assets		
Unrestricted	246,414	318,275
Temporarily restricted	101,110	110,357
Total net assets	<u>347,524</u>	<u>428,632</u>
Total liabilities and net assets	<u>\$ 393,775</u>	<u>\$ 507,038</u>

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

ACLU Foundation of Arizona
(A nonprofit corporation)
STATEMENTS OF ACTIVITIES
Years Ended March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Changes in Unrestricted Net Assets:		
Revenues and support		
Contributions	\$ 189,148	\$ 193,743
Bequests	6,039	-
Event revenue	34,557	41,918
Investment income, net of expense	6,993	6,741
Legal fees awarded	47,404	-
Donated legal services	849,216	364,174
Total unrestricted revenues and support	<u>1,133,357</u>	<u>606,576</u>
Net assets released from restrictions	111,009	43,981
Total unrestricted revenues and support	<u>1,244,366</u>	<u>650,557</u>
Expenses		
Program services		
Legal	1,035,955	495,505
Public education	127,769	113,936
Total program services	<u>1,163,724</u>	<u>609,441</u>
Supporting services		
Development	94,424	95,933
Management and general	49,865	43,479
Total supporting services	<u>144,289</u>	<u>139,412</u>
Total expenses	<u>1,308,013</u>	<u>748,853</u>
Decrease in unrestricted net assets	(63,647)	(98,296)
Changes in Temporarily Restricted Net Assets		
Contributions	10,000	57,985
Grants	83,548	119,905
Net assets released from restrictions	(111,009)	(43,981)
Increase (decrease) in temporarily restricted net assets	<u>(17,461)</u>	<u>133,909</u>
Increase (decrease) in net assets	(81,108)	35,613
Net assets at beginning of year	428,632	393,019
Net assets at end of year	<u>\$ 347,524</u>	<u>\$ 428,632</u>

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, 2009

	<u>PROGRAM SERVICES</u>			<u>SUPPORT SERVICES</u>			<u>TOTAL</u>
	<u>Legal</u>	<u>Public Education</u>	<u>Total</u>	<u>Development</u>	<u>Management and General</u>	<u>Total</u>	
1. SALARIES AND RELATED	\$ 105,562	\$ 84,446	\$ 190,008	\$ 46,064	\$ 30,068	\$ 76,132	\$ 266,140
2. LITIGATION	901,560	-	901,560	-	-	-	901,560
3. TRAVEL, MEALS AND ENTERTAINMENT	1,973	1,347	3,320	6,144	1,235	7,379	10,699
4. COMMUNITY OUTREACH	-	8,593	8,593	-	-	-	8,593
5. OFFICE	19,820	25,554	45,374	11,626	9,794	21,420	66,794
6. BOARD AND VOLUNTEER EXPENSE	-	279	279	-	652	652	931
7. EVENT EXPENSE	-	-	-	27,598	-	27,598	27,598
8. ACCOUNTING AND OUTSIDE SERVICES	4,785	5,746	10,531	2,034	7,496	9,530	20,061
9. DEPRECIATION AND INTEREST	2,255	1,804	4,059	958	620	1,578	5,637
	<u>\$ 1,035,955</u>	<u>\$ 127,769</u>	<u>\$ 1,163,724</u>	<u>\$ 94,424</u>	<u>\$ 49,865</u>	<u>\$ 144,289</u>	<u>\$ 1,308,013</u>

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, 2008

	<u>PROGRAM SERVICES</u>			<u>SUPPORT SERVICES</u>			<u>TOTAL</u>
	<u>Legal</u>	<u>Public Education</u>	<u>Total</u>	<u>Development</u>	<u>Management and General</u>	<u>Total</u>	
1. SALARIES AND RELATED	\$ 79,486	\$ 78,586	\$ 158,072	\$ 52,409	\$ 28,836	\$ 81,245	\$ 239,317
2. LITIGATION	389,498	-	389,498	-	-	-	389,498
3. TRAVEL, MEALS AND ENTERTAINMENT	10,187	1,217	11,404	3,366	442	3,808	15,212
4. COMMUNITY OUTREACH	-	6,788	6,788	-	-	-	6,788
5. OFFICE	14,060	19,240	33,300	15,298	7,692	22,990	56,290
6. BOARD AND VOLUNTEER EXPENSES	56	56	112	56	112	168	280
7. EVENT	-	5,832	5,832	23,326	-	23,326	29,158
8. ACCOUNTING AND OUTSIDE SERVICES	274	273	547	182	5,690	5,872	6,419
9. DEPRECIATION AND INTEREST	1,944	1,944	3,888	1,296	707	2,003	5,891
	<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)
STATEMENTS OF CASH FLOWS
Years Ended March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from supporters	\$ 381,457	\$ 387,865
Cash paid to vendors, employees, and pension plan	(480,242)	(325,112)
Interest received and investment net income	6,993	6,741
Interest paid	(1,548)	-
Total cash flows (used for) provided by operating activities	(93,340)	69,494
Cash flows from investing activities:		
Acquisition of certificates of deposit	(187,836)	(4,132)
Proceeds from maturity of certificates of deposit	179,000	-
Purchase of equipment	(6,207)	-
Principal payments on capital lease obligations	(1,159)	(246)
Total cash flows used for investing activities	(16,202)	(4,378)
Net (decrease) increase in cash and cash equivalents	(109,542)	65,116
Cash and cash equivalents at beginning of year	176,756	111,640
Cash and cash equivalents at end of year	<u>\$ 67,214</u>	<u>\$ 176,756</u>
Reconciliation of (decrease) increase in net assets to net cash (used for) provided by operating activities		
(Decrease) Increase in net assets	\$ (81,108)	\$ 35,613
Adjustments to reconcile (decrease) increase in net assets to net cash (used for) provided by operating activities:		
Loss on disposal of equipment	-	2,237
Depreciation	4,090	4,274
Allocation of depreciation to Union	2,015	2,083
Increase in pledges receivable	(9,714)	(6,191)
Decrease (increase) in receivables from American Civil Liberties Union Foundation	77,455	(21,513)
Decrease in prepaid expenses and deposits	3,913	5,298
Decrease (increase) in other assets	65	(65)
(Decrease) increase in accounts payable	(20,084)	16,437
Increase in accrued liabilities	9,530	12,654
(Decrease) increase in due to/from the Union	(79,502)	18,667
Net cash (used for) provided by operating activities	<u>\$ (93,340)</u>	<u>\$ 69,494</u>

Supplemental Information:

During the year ended March 31, 2008, the Foundation incurred a capital lease obligation of \$9,676 for a new copier.

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

ACLU Foundation of Arizona
(A nonprofit corporation)
NOTES TO FINANCIAL STATEMENTS
Years ended March 31, 2009 and 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 Foundation operates in conjunction with the ACLU of Arizona (the Union). 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. Donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Foundation had no permanently restricted net assets for the years ended March 31, 2009 and 2008.

Temporarily restricted net assets consist of \$33,914 and \$25,700 in unconditional promises to give that have not yet been received and \$67,196 and \$84,657 in temporarily restricted donations that have not yet been expended as of March 31, 2009 and 2008, respectively.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

Reclassifications

Certain reclassifications of functional expenses were made from the previous year's presentation. These reclassifications had no effect on beginning net assets or changes in net assets.

Equipment

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

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 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, 2009 and 2008 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.

Major Revenue Sources

The Foundation's major sources of revenue are donated legal services, contributions, legal fee awards and event 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 balances were comprised of cash on hand of \$200 each year and demand deposits held at a bank of \$77,742 and \$176,556 as of March 31, 2009 and 2008, respectively. In the ordinary course of business during the year, bank balances exceeded FDIC insurance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Note 3 – Certificates of Deposit

Fair Value Measurement

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as codified by the Financial Accounting Standards Board, 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 Statement No. 157, 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 Plan (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade). The Foundation has 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 Foundation has no such investments.

As of March 31, 2009 and 2008, the level 2 investments consist of a certificate of deposit.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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. Effective April 1, 2009 this retirement plan is 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 Foundation for the years ended March 31, 2009 and 2008, were \$1,837 and \$4,083, 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. 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 for employees hired prior to April 1, 2009. Plan participants entering after March 31, 2009 will receive employer contributions and employers matches.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Note 5 – Commitments

The related ACLU of Arizona has an agreement to lease office space under an operating lease expiring September 30, 2009. The Foundation's share of the lease expense for the year ended March 31, 2009 and 2008, was \$22,191 and \$16,996, respectively. The total future minimum lease payments of \$17,969 are payable in the year ending March 31, 2010 and are allocated between the Union and Foundation.

Note 6 – 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, 2009 and 2008 was \$2,324 and \$1,071, respectively. 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>
2010	\$ 3,468
2011	3,468
2012	3,468
2013	<u>2,601</u>
	\$ 13,005
Less amount representing interest	<u>4,734</u>
Total	<u>\$ 8,271</u>

The asset acquired under a capital lease is recorded at \$9,676 and the accumulated depreciation on the asset is \$2,419 and \$ 484 as of March 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Note 7 – Related Party Transactions

The American Civil Liberties Union of Arizona is comprised of two separate corporate entities, the ACLU Foundation of Arizona (the “Foundation”) and the ACLU of Arizona (the “Union”). Although both the Foundation and Union are part of the same overall organization, it is necessary that the ACLU of Arizona have two separate organizations in order for the ACLU of Arizona to do the broad range of work to protect civil liberties: The ALCU of Arizona is an affiliate of the National ACLU. The ACLU of Arizona affiliate shares both membership and tax-deductible donations with our National ACLU. For the year ended March 31, 2009 and 2008, the Foundation incurred \$174,188 and \$145,103, respectively, of net expenses on behalf of the Union to pay for operating costs. During the year the Union transfers cash to the Foundation based on the estimate of shared expenses. As of March 31, 2009, the Foundation had an outstanding amount receivable from the Union of \$59,060. As of March 31, 2008, the Foundation had an outstanding amount payable to the Union of \$20,442. As of March 31, 2009 the Foundation had a receivable from the National office of \$20,689 for shared revenues. As of March 31, 2008 the Foundation had a receivable from the National office of \$98,144, for shared revenues and grants awarded.

Note 8 – Subsequent Event – Strategic Affiliate Initiative

During fiscal year 2009-2010, the ACLU Foundation of Arizona was notified by ACLU National that it was chosen to participate in the Strategic Affiliate Initiative (SAI), a nationwide effort to provide resources to affiliates facing the greatest threats to civil liberties. As part of SAI, the ACLU Foundation of Arizona will receive grants totaling \$1.9 million over the next 5 years. ACLU National has agreed to provide funds starting in the third quarter of the fiscal year 2009-2010 to underwrite salaries, benefits and overhead expenses for additional staff members, as well as to cover one-time administrative and capacity-building expenses.