

ACLU of Arizona
(A nonprofit corporation)

Financial Statements
Years ended March 31, 2009 and 2008

Table of Contents

	<u>Page</u>
Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Functional Expenses.....	4-5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7-11

Independent Auditor's Report

To the Board of Directors
ACLU of Arizona
Phoenix, Arizona

We have audited the accompanying statements of financial position of the ACLU 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 Organization'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 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 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 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 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	\$ 311,835	\$ 314,421
Certificate of deposits	134,229	32,750
Receivable from ACLU Foundation of Arizona	-	20,442
Receivable from American Civil Liberties Union, Inc.	14,650	12,155
Prepaid expenses	546	2,612
Total current assets	<u>461,260</u>	<u>382,380</u>
Other Assets		
Certificate of deposit - Ted Mote Fund	6,214	5,912
Total assets	<u>\$ 467,474</u>	<u>\$ 388,292</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ -	\$ 517
Payable to ACLU Foundation of Arizona	59,060	-
Total liabilities	<u>59,060</u>	<u>517</u>
Net Assets		
Unrestricted:		
Designated	6,214	5,912
Undesignated	397,275	366,863
Total unrestricted	<u>403,489</u>	<u>372,775</u>
Temporarily restricted	4,925	15,000
Total net assets	<u>408,414</u>	<u>387,775</u>
Total liabilities and net assets	<u>\$ 467,474</u>	<u>\$ 388,292</u>

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

ACLU 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		
Base renewable income (shared membership fees)	\$ 178,151	\$ 182,334
Fundraising and donations	1,405	1,420
Bequests	53,958	45,761
Investment income, net of expense	6,305	7,016
Total unrestricted revenues and support	<u>239,819</u>	<u>236,531</u>
Net assets released from restrictions	<u>10,075</u>	<u>-</u>
Total unrestricted revenues and support	249,894	236,531
Expenses		
Program services		
Legislative	45,300	35,402
Public education	115,519	99,183
Total program services	<u>160,819</u>	<u>134,585</u>
Supporting services		
Membership	27,532	17,569
Management and general	30,829	24,498
Total supporting services	<u>58,361</u>	<u>42,067</u>
Total expenses	<u>219,180</u>	<u>176,652</u>
Increase in unrestricted net assets	30,714	59,879
Changes in Temporarily Restricted Net Assets		
Grants	-	15,000
Grant expense	<u>(10,075)</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>(10,075)</u>	<u>15,000</u>
Increase in net assets	20,639	74,879
Net assets at beginning of year	<u>387,775</u>	<u>312,896</u>
Net assets at end of year	<u><u>\$ 408,414</u></u>	<u><u>\$ 387,775</u></u>

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, 2009

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL
	Legislative	Public Education	Total	Membership	Management and General	Total	
1. SALARIES AND RELATED	\$ 22,249	\$ 77,217	\$ 99,466	\$ 18,323	\$ 13,407	\$ 31,730	\$ 131,196
2. NEWSLETER	6,361	12,723	19,084	1,060	1,060	2,120	21,204
3. COMMUNITY OUTREACH	1,698	4,192	5,890	-	-	-	5,890
4. BOARD AND VOLUNTEER	-	491	491	491	1,473	1,964	2,455
5. TRAVEL, MEALS AND ENTERTAINMENT	839	2,913	3,752	691	494	1,185	4,937
6. LOBBYING	10,075	-	10,075	-	-	-	10,075
7. OFFICE	3,494	13,385	16,879	5,962	7,112	13,074	29,953
8. ACCOUNTING AND OUTSIDE SERVICES	112	1,959	2,071	616	7,006	7,622	9,693
9. DEPRECIATION AND INTEREST	472	1,639	2,111	389	277	666	2,777
10. EVENT	-	1,000	1,000	-	-	-	1,000
	<u>\$ 45,300</u>	<u>\$ 115,519</u>	<u>\$ 160,819</u>	<u>\$ 27,532</u>	<u>\$ 30,829</u>	<u>\$ 58,361</u>	<u>\$ 219,180</u>

The accompanying notes are integral part of these financial statements.

ACLU 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>Legislative</u>	<u>Public Education</u>	<u>Total</u>	<u>Membership</u>	<u>Management and General</u>	<u>Total</u>	
1. SALARIES AND RELATED	\$ 14,744	\$ 60,819	\$ 75,563	\$ 9,215	\$ 10,243	\$ 19,458	\$ 95,021
2. NEWSLETTER	2,057	17,480	19,537	-	1,028	1,028	20,565
3. COMMUNITY OUTREACH	7,158	4,552	11,710	-	843	843	12,553
4. BOARD AND VOLUNTEER	-	504	504	504	1,511	2,015	2,519
5. TRAVEL, MEALS AND ENTERTAINMENT	377	374	751	249	137	386	1,137
6. OFFICE	10,263	14,459	24,722	6,280	6,783	13,063	37,785
7. ACCOUNTING AND OUTSIDE SERVICES	107	106	213	70	3,699	3,769	3,982
8. DEPRECIATION AND INTEREST	696	692	1,388	461	254	715	2,103
9. EVENT	-	197	197	790	-	790	987
	<u>\$ 35,402</u>	<u>\$ 99,183</u>	<u>\$ 134,585</u>	<u>\$ 17,569</u>	<u>\$ 24,498</u>	<u>\$ 42,067</u>	<u>\$ 176,652</u>

The accompanying notes are integral part of these financial statements.

ACLU 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 members and others	\$ 231,019	\$ 239,208
Cash received on receivable from Foundation	20,442	-
Cash paid to vendors and employees	(157,809)	(189,133)
Interest received	6,305	7,016
Interest paid	(762)	-
Net cash provided by operating activities	<u>99,195</u>	<u>57,091</u>
Cash flows from investing activities:		
Acquisition of certificate of deposit	(101,781)	(849)
Net (decrease) increase in cash and cash equivalents	<u>(2,586)</u>	<u>56,242</u>
Cash and cash equivalents at beginning of year	314,421	258,179
Cash and cash equivalents at end of year	<u><u>\$ 311,835</u></u>	<u><u>\$ 314,421</u></u>
Reconciliation of increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 20,639	\$ 74,879
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
(Increase) decrease in receivable from American Civil Liberties Union, Inc.	(2,495)	2,974
Decrease (increase) in prepaid expense	2,066	(2,612)
(Decrease) increase in accounts payable	(517)	517
(Decrease) increase in due to/from the Foundation	79,502	(18,667)
Net cash provided by operating activities	<u><u>\$ 99,195</u></u>	<u><u>\$ 57,091</u></u>

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

ACLU 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 of Arizona (the Union) 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 Union operates in conjunction with the ACLU Foundation of Arizona (the Foundation).

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 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.

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 Union 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 Union had no permanently restricted net assets for the years ended March 31, 2009 and 2008.

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.

Income Taxes

The Organization 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 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 a value for their services cannot be objectively determined.

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 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.

Major Revenue Sources

The Union's major sources of revenue are base renewable income (shared membership fees) and bequests.

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 \$311,835 and \$314,421 as of March 31, 2009 and 2008, respectively, are comprised of demand deposits held by a bank. In the ordinary course of business during the year, bank balances exceeded FDIC insurance.

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 Union 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. As of March 31, 2009 and 2008, the level 2 investments consist of certificates of deposit.
- ***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 has no such investments.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Note 4 – Retirement 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. 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 Union for the years ended March 31, 2009 and March 31, 2008 were \$883 and \$1,588, respectively.

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. Employees are eligible to participate in the 401(k) plan on the first day of the calendar quarter following 30 days of service. Employees may contribute up to the maximum amount allowed by current legislation. The Union 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.

Note 5 – Commitments

ACLU of Arizona has an agreement to lease office space under an operating lease expiring September 30, 2009. The Union's share of the lease expense for the years ended March 31, 2009 and March 31, 2008 was \$13,601 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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 Union's share of the lease expense for the years ended March 31, 2009 and 2008 was \$1,144 and \$417, respectively. The total future minimum lease payments, which are allocated between the Union and Foundation, are as follows:

<u>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.

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 transferred cash to the Foundation based on an estimate of shared expenses. As of March 31, 2009, the Union had an outstanding amount payable to the Foundation 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 and 2008, the Union had a net receivable from National in the amount of \$14,650 and \$12,155, respectively for revenues shared by the National office with its affiliates.