

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

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

**FISCAL YEARS ENDED MARCH 31, 2013
AND 2012**

August 21, 2013

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**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
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Independent Auditor's Report

Board of Directors

ACLU of Arizona and ACLU Foundation of Arizona

We have audited the accompanying consolidated financial statements of the ACLU of Arizona, a not-for-profit organization, and its affiliate, the ACLU Foundation of Arizona (the Organization) which comprise the consolidated statements of financial position as of March 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its affiliate, the ACLU Foundation of Arizona as of March 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
ACLU of Arizona and ACLU Foundation of Arizona

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules and the schedules of functional expenses on pages 17 through 36 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Sembard & Associates, PLLC

Phoenix, Arizona
August 21, 2013

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2013 AND 2012**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 746,050	\$ 1,018,165
Investments	47,885	48,125
Grants receivable	150,000	-
Pledges receivable	-	2,500
Other accounts receivable	1,848	21,189
Prepaid expenses	17,331	17,655
	<u>963,114</u>	<u>1,107,634</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	<u>95,688</u>	<u>83,083</u>
	<u>95,688</u>	<u>83,083</u>
Less: Accumulated depreciation	<u>(57,115)</u>	<u>(40,138)</u>
	<u>38,573</u>	<u>42,945</u>
	<u>\$ 1,001,687</u>	<u>\$ 1,150,579</u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2013 AND 2012**

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 9,617	\$ 5,466
Accrued payroll and related costs	36,362	33,353
Deferred revenue	-	1,275
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	69,285	131,855
Capital lease	-	2,342
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	115,264	174,291
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TOTAL LIABILITIES	115,264	174,291
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Unrestricted	679,488	863,568
Temporarily restricted	196,186	102,732
Permanently restricted	10,749	9,988
	<hr/>	<hr/>
TOTAL NET ASSETS	886,423	976,288
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TOTAL LIABILITIES AND NET ASSETS	\$ 1,001,687	\$ 1,150,579
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Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>SUPPORT AND OTHER REVENUES</u>				
PUBLIC SUPPORT				
Donations	\$ 334,441	\$ 60,375	\$ -	\$ 394,816
Bequests	43,245	-	-	43,245
Special event revenue	10,945	-	-	10,945
Legal services donated	2,088,388	-	-	2,088,388
Other in-kind donations	2,075	-	-	2,075
TOTAL PUBLIC SUPPORT	2,479,094	60,375	-	2,539,469
OTHER REVENUES				
Grant revenue	321,849	195,000	-	516,849
Shared membership revenues	168,305	-	-	168,305
Legal fees awarded	15,792	-	-	15,792
Investment income, net	1,769	-	761	2,530
TOTAL OTHER REVENUES	507,715	195,000	761	703,476
NET ASSETS RELEASED FROM RESTRICTIONS	161,921	(161,921)	-	-
TOTAL SUPPORT AND OTHER REVENUES	3,148,730	93,454	761	3,242,945
<u>EXPENSES</u>				
Program services	2,881,011	-	-	2,881,011
Management and general	302,754	-	-	302,754
Fundraising and development	149,045	-	-	149,045
TOTAL EXPENSES	3,332,810	-	-	3,332,810
CHANGE IN NET ASSETS	(184,080)	93,454	761	(89,865)
NET ASSETS, Beginning of year	863,568	102,732	9,988	976,288
NET ASSETS, End of year	\$ 679,488	\$ 196,186	\$ 10,749	\$ 886,423

Read the accompanying notes to the financial statements.

2012

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 416,974	\$ 2,500	\$ -	\$ 419,474
119,055	-	-	119,055
-	-	-	-
1,644,764	-	-	1,644,764
8,355	-	-	8,355
2,189,148	2,500	-	2,191,648
300,899	94,061	-	394,960
173,508	-	-	173,508
79,324	-	-	79,324
(1,335)	-	36	(1,299)
552,396	94,061	36	646,493
31,116	(31,116)	-	-
2,772,660	65,445	36	2,838,141
2,264,653	-	-	2,264,653
320,753	-	-	320,753
117,947	-	-	117,947
2,703,353	-	-	2,703,353
69,307	65,445	36	134,788
794,261	37,287	9,952	841,500
\$ 863,568	\$ 102,732	\$ 9,988	\$ 976,288

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2013</u>	<u>2012</u>
Change in Net Assets	\$ (89,865)	\$ 134,788
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,977	15,534
(Increase)/decrease in assets:		
Due from American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	-	124,286
Grants receivable	(150,000)	-
Pledges receivable	2,500	(1,800)
Other receivable	19,341	(17,849)
Prepaid expenses	324	7,371
Increase/(decrease) in liabilities:		
Accounts payable	4,151	(1,859)
Accrued payroll and taxes	3,009	13,526
Deferred revenue	(1,275)	1,275
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	(62,570)	131,855
NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES	<u>(257,408)</u>	<u>407,127</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds (loss) from investment activities	240	(2,112)
Purchase of equipment	(12,605)	(8,356)
NET CASH (USED BY) INVESTING ACTIVITIES	<u>(12,365)</u>	<u>(10,468)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(2,342)	(2,498)
NET CASH USED BY FINANCING ACTIVITIES	<u>(2,342)</u>	<u>(2,498)</u>
Net (decrease) increase in cash and cash equivalents	(272,115)	394,161
Cash and cash equivalents at beginning of year	<u>1,018,165</u>	<u>624,004</u>
Cash and cash equivalents at end of year	<u>\$ 746,050</u>	<u>\$ 1,018,165</u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

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 membership organization which was incorporated in Arizona 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. During the reported fiscal years there were three active chapters in Arizona.

The ACLU Foundation of Arizona is an Arizona 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 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 Standards 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, 2013 AND 2012**

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, *Not-for-Profit Entities – 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. 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. Only the Foundation had permanently restricted net assets during the fiscal years presented.

Cash and Cash Equivalents - For purpose of the statements 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 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 statements of activities.

Pledges Receivable - Pledges receivable are unconditional promises to give with collection over a designated amount of time. Pledges receivable are reported at their outstanding principal balance, discounted to present value, net of allowance for doubtful accounts, 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, 2013 AND 2012**

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 more than one year 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, *Not-for-Profit Entities – Revenue Recognition*, 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 expenses in the statements 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 three 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 revenues) and bequests. The Foundation's major sources of revenue are donated legal services, contributions, legal fee awards and grants from the National ACLU Foundation and other institutional funders.

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, 2013 AND 2012**

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 income activities subject to those taxes.

Expense Allocation – Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Union and Foundation maintain their cash with four different financial institutions.

As of March 31, 2013 and 2012 the carrying amounts of deposits were \$758,954 and \$1,018,115, respectively. The Foundation maintained cash balances in excess of the FDIC Insurance by \$11,933 and \$0 as of March 31, 2013 and 2012, respectively.

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.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

NOTE 3 – INVESTMENTS (CONTINUED)

As of March 31, 2013 and 2012, all investments for the Union and the Foundation consisted of level 2 investments in the form of certificates of deposit and a trust held by the American Civil Liberties Union Foundation, Inc. (National ACLUF). The Organization's policy is to liquidate stock donations immediately upon receipt therefore the related gains or losses on the sale of stock are recognized in the financial statements in the year of the acquisition. Net investment income for the year ended March 31, 2013 of \$2,530 was composed of interest income of \$828, with \$1,702 in net realized and unrealized investment losses. Net investment loss for the year ended March 31, 2012 of \$1,299 was composed of interest income of \$2,852, with \$4,151 in net realized and unrealized investment losses.

NOTE 4 - PLEDGES RECEIVABLE

The Union did not report any pledges receivable at March 31, 2013 or 2012. The Foundation reported pledges receivable of \$2,500 at March 31, 2012.

The management of the Organization considered the receivables to be 100 percent collectible; therefore, no allowance for doubtful accounts was reported. All pledges were collected within one year.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment owned by the Union and Foundation as of March 31, 2013 and 2012 consisted of office furniture and equipment as follows:

	2013	2012
Union	\$ 8,229	\$ 6,950
Foundation	87,459	76,133
Total	\$ 95,688	\$ 83,083

Depreciation expense for the Union for the years ended March 31, 2013 and 2012 were \$2,551 and \$2,317 respectively. Depreciation expense for the Foundation for the years ended March 31, 2013 and 2012 were \$14,426 and \$13,217 respectively.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

NOTE 6 – ACCRUED PAYROLL AND RELATED COSTS

The Union and the Foundation employees are permitted to 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, wages and related costs payable for the years ended March 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Compensated absences	\$ 14,572	\$ 20,367
Accrued wages	20,298	11,998
Other related costs	<u>1,492</u>	<u>988</u>
Total accrued payroll & taxes	<u>\$ 36,362</u>	<u>\$ 33,353</u>

NOTE 7 - CAPITAL LEASE OBLIGATIONS

During the 2008 fiscal year, the Foundation entered into a capital lease agreement for a new copier. The lease term was completed and paid in full in the fiscal year ended March 31, 2013. The obligation had an implied interest rate of 25.88% payable in monthly installments of \$289, aggregating to \$17,340 through December 2012 and was collateralized by the leased equipment.

The asset acquired under the capital lease was recorded at \$9,676, and the accumulated depreciation on the asset as of March 31, 2013 and 2012 was \$9,676 and \$8,225 respectively.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

As of March 31, 2013 and 2012, the Union did not have any temporarily restricted net assets.

The Foundation receives grants from the American Civil Liberties Union Foundation, Inc. and other organizations, 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.

As of March 31, 2013 and 2012, the temporarily restricted net assets for the Foundation included:

	<u>2013</u>	<u>2012</u>
Pledges receivable	\$ -	\$ 2,500
Strategic Affiliate Initiative grant	-	94,061
US Mexico Border Litigation Project	150,000	-
Immigration Rights Organizer	45,000	-
Staff Enhancement Development Director grant	<u>1,186</u>	<u>6,171</u>
Total Temporarily Restricted Net Assets	<u>\$ 196,186</u>	<u>\$ 102,732</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

As of March 31, 2013 and 2012, the Union did not have any permanently restricted net assets.

The Foundation shares in the Bill of Rights Trust pool with other affiliates and the National ACLU Foundation which is classified as permanently restricted. In accordance with the terms of the Trust, the Foundation is permitted to withdraw 4 percent of their balance each year. As of March 31, 2013 and 2012, the Foundation's share of that trust was \$10,749 and \$9,988 respectively.

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 state 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 defined benefit 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 plan covering all participating entities are presented in the National ACLU consolidated financial statements. Employer contributions to the plan for the years ended March 31, 2013 and 2012 were as follows:

Defined Benefit Plan Contribution:	2013	2012
Union	\$ 3,283	\$ 6,495
Foundation	10,990	16,700
Total defined benefit plan contribution	\$ 14,273	\$ 23,195

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.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

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. Employer contributions to the ERISA 404(c) plan for the Union and Foundation for the years ended March 31, 2013 and 2012 were as follows:

404(c) Plan Contribution:	2013	2012
Union	\$ 2,716	\$ 2,134
Foundation	17,606	6,130
Total 404(c) contribution	\$ 20,322	\$ 8,264

NOTE 11 - RELATED PARTY TRANSACTIONS

The Organization shares both membership and tax-deductible donations with the National ACLU and the National ACLU Foundation. The ACLU National office utilizes a complex revenue sharing formula for distributing and collecting funds from local affiliates. For any year in which the Arizona affiliates raise more in donations than the National Office raises on behalf of Arizona, the Arizona affiliate must pay the difference to National and vice versa. The net receivable or payable for the years ended March 31, 2013 and 2012 were as follows:

Due (to)/from National:	2013	2012
Union:		
Base Renewal Income share	\$ 12,360	\$ 15,969
Revenue sharing	(13,323)	(49,321)
Bequests	-	-
Membership dues	-	(20)
Total (to)/due from National to Union	(963)	(33,372)
Foundation:		
Revenue sharing	(113,322)	(98,483)
Grants	45,000	-
Bequests	-	-
Total due (to)/from National to Foundation	(68,322)	(98,483)
Total due (to)/from National	(\$69,285)	(\$131,855)

For the years ended March 31, 2013 and 2012, the Union received \$168,305 and \$173,508 respectively of Shared Membership income from the National ACLU.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

NOTE 11 - RELATED PARTY TRANSACTIONS (CONTINUED)

In 2010, the Foundation agreed to participate in the Strategic Affiliate Initiative, a one-time capacity-building grant from the National ACLU Foundation which provides funding for key staff positions. The grant is scheduled to end during the year 2017. For the years ended March 31, 2013 and 2012, the Foundation received \$321,849 and \$394,960 respectively from this grant.

For the years ended March 31, 2013 and 2012, the Foundation incurred \$245,994 and \$255,625 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. At the financial position dates of March 31, 2013 and 2012, there were outstanding related party balances for the shared expenses as follows:

Due to/from Arizona related entities:	<u>2013</u>	<u>2012</u>
Union:		
Due (to)/from Foundation	\$ 20,527	\$ (48,760)
Foundation:		
Due (to)/from Union	<u>(20,527)</u>	<u>48,760</u>
Total due (to)/from Arizona related entities	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments – The Organization has an agreement to lease office space under an operating lease expiring April 30, 2016. The Union's and Foundation's portions of the lease expense for the years ended March 31, 2013 and 2012 were:

Lease expense:	<u>2013</u>	<u>2012</u>
Union	\$ 14,196	\$ 16,518
Foundation	<u>55,742</u>	<u>49,560</u>
Total lease expense	<u>\$ 69,938</u>	<u>\$ 66,078</u>

The total future minimum lease payments are as follows:

Year ending March 31,	
2014	49,844
2015	50,931
2016	52,200
2017	<u>5,800</u>
	<u>\$158,775</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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; personal injuries; 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 Farmers Insurance Group for general liability, by National Legal Aid and Defender's Association for professional and fiduciary liability, and by the State Compensation Fund of Arizona for Workmen's Compensation.

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, 2013 or 2012.

NOTE 13 - CONCENTRATIONS

For the fiscal years ended March 31, 2013 and 2012, the Union and the Foundation received a large portion of their revenue from the National ACLU and ACLU Foundation including shared revenues and grants. These concentrations were as follows:

	<u>2013</u>	<u>2012</u>
Union	92%	77%
Foundation	10%	16%

NOTE 14 – RECLASSIFICATION

Medical, dental and retirement plan expenses of \$60,976 recorded as administrative expenses in the prior-year have been reclassified to program expenses for comparison purposes to conform with the presentation in the current-year financial statements.

NOTE 15 - SUBSEQUENT EVENTS

The Organization has evaluated events through August 21, 2013 which is the date of the audit report. As part of the Organization's new grant-funded Border Litigation Project, in June 2013 the ACLU Foundation of Arizona opened a one-person office in Tucson to increase its legal capacity along the border. The office was secured under a two-year lease per grant requirements, and is staffed by a full-time attorney who will be focused solely on investigating, documenting and litigating civil and human right cases along the border.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
March 31, 2013**

<u>ASSETS</u>	2013		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
CURRENT ASSETS			
Cash and cash equivalents	\$ 190,050	\$ 556,000	\$ 746,050
Investments	36,396	11,489	47,885
Due from related entities	20,527	-	20,527
Grants receivable	-	150,000	150,000
Pledges receivable	-	-	-
Other accounts receivable	-	1,848	1,848
Prepaid expenses	2,220	15,111	17,331
TOTAL CURRENT ASSETS	249,193	734,448	983,641
PROPERTY AND EQUIPMENT			
Furniture and equipment	8,229	87,459	95,688
TOTAL PROPERTY AND EQUIPMENT	8,229	87,459	95,688
Less: Accumulated depreciation	(5,447)	(51,668)	(57,115)
NET PROPERTY AND EQUIPMENT	2,782	35,791	38,573
TOTAL ASSETS	\$ 251,975	\$ 770,239	\$ 1,022,214

2013

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 746,050
-	47,885
(20,527)	-
-	150,000
-	-
-	1,848
-	17,331
<u>(20,527)</u>	<u>963,114</u>
-	95,688
-	95,688
-	(57,115)
-	38,573
<u>\$ (20,527)</u>	<u>\$ 1,001,687</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
March 31, 2013**

	2013		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 4,838	\$ 4,779	\$ 9,617
Accrued payroll and related costs	5,959	30,403	36,362
Deferred revenue	-	-	-
Due to related entities	-	20,527	20,527
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	963	68,322	69,285
Capital lease	-	-	-
TOTAL CURRENT LIABILITIES	<u>11,760</u>	<u>124,031</u>	<u>135,791</u>
TOTAL LIABILITIES	<u>11,760</u>	<u>124,031</u>	<u>135,791</u>
<u>NET ASSETS</u>			
Unrestricted	240,215	439,273	679,488
Temporarily restricted	-	196,186	196,186
Permanently restricted	-	10,749	10,749
TOTAL NET ASSETS	<u>240,215</u>	<u>646,208</u>	<u>886,423</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 251,975</u>	<u>\$ 770,239</u>	<u>\$ 1,022,214</u>

2013

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
-	\$ 9,617
-	36,362
-	-
(20,527)	-
-	69,285
-	-
<u>(20,527)</u>	<u>115,264</u>
<u>(20,527)</u>	<u>115,264</u>
-	679,488
-	196,186
-	10,749
-	886,423
<u>\$ (20,527)</u>	<u>\$ 1,001,687</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2013**

	2013		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 10,102	\$ 384,714	\$ 394,816
Bequests	5,000	38,245	43,245
Special event revenue	4,265	6,680	10,945
Legal services donated	-	2,088,388	2,088,388
Other in-kind donations	-	2,075	2,075
TOTAL PUBLIC SUPPORT	19,367	2,520,102	2,539,469
OTHER REVENUES			
Grant revenue	-	516,849	516,849
Shared membership fees	168,305	-	168,305
Legal fees awarded	-	15,792	15,792
Investment income, net	(271)	2,801	2,530
TOTAL OTHER REVENUES	168,034	535,442	703,476
TOTAL SUPPORT AND OTHER REVENUES	187,401	3,055,544	3,242,945
<u>EXPENSES</u>			
Program services	169,817	2,711,194	2,881,011
Management and general	82,630	220,124	302,754
Fundraising and development	24,436	124,609	149,045
TOTAL EXPENSES	276,883	3,055,927	3,332,810
CHANGE IN NET ASSETS	(89,482)	(383)	(89,865)
NET ASSETS, Beginning of year	329,697	646,591	976,288
NET ASSETS, End of year	\$ 240,215	\$ 646,208	\$ 886,423

2013

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 394,816
-	43,245
-	10,945
-	2,088,388
-	2,075
-	<u>2,539,469</u>
-	516,849
-	168,305
-	15,792
-	<u>2,530</u>
-	<u>703,476</u>
-	<u>3,242,945</u>
-	2,881,011
-	302,754
-	<u>149,045</u>
-	<u>3,332,810</u>
-	(89,865)
-	<u>976,288</u>
<u>\$ -</u>	<u>\$ 886,423</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2013**

Program Costs

	<u>Legislative</u>	<u>Public Education</u>	<u>Newsletter</u>
Salaries and related expenses	\$ 75,246	\$ 65,893	\$ -
Accounting and outside services	-	-	1,616
Occupancy	-	-	-
Printing, publications and postage	-	193	17,275
Information technology	-	-	-
Membership development	-	-	-
Office	5,151	3	-
Travel, meals and entertainment	1,677	1,241	-
Insurance	-	-	-
Depreciation	-	-	-
Interest	-	-	-
Event	-	-	-
Board and volunteer	-	7	-
Gifts	-	-	-
Public education forums	-	1,515	-
Total Expenses	<u><u>\$ 82,074</u></u>	<u><u>\$ 68,852</u></u>	<u><u>\$ 18,891</u></u>

Total Program Costs	Support Services		Total
	Administrative Costs	Membership Support	
\$ 141,139	\$ 41,925	\$ 17,406	\$ 200,470
1,616	5,427	-	7,043
-	14,825	-	14,825
17,468	937	-	18,405
-	4,547	-	4,547
-	-	5,293	5,293
5,154	1,777	-	6,931
2,918	1,549	16	4,483
-	1,061	-	1,061
-	2,551	-	2,551
-	47	-	47
-	-	1,721	1,721
7	7,809	-	7,816
-	175	-	175
1,515	-	-	1,515
<u>\$ 169,817</u>	<u>\$ 82,630</u>	<u>\$ 24,436</u>	<u>\$ 276,883</u>

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2013**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 330,419	\$ 209,823	\$ 540,242
Accounting and outside services	7,660	4,604	12,264
Occupancy	3,907	3,334	7,241
Printing, publications and postage	-	10,666	10,666
Litigation	2,107,175	-	2,107,175
Information technology	3,039	5,495	8,534
Office expenses	4,032	1,007	5,039
Travel	7,979	8,802	16,781
Event	-	-	-
Depreciation	-	-	-
Insurance	531	-	531
Professional education	1,055	-	1,055
Interest	-	-	-
Board and volunteer	-	58	58
Gifts	152	8	160
Public education forums	-	1,448	1,448
Bad debt expense (pledges)	-	-	-
Total Expenses	\$ 2,465,949	\$ 245,245	\$ 2,711,194

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 96,460	\$ 97,862	\$ 734,564
14,706	520	27,490
55,584	315	63,140
4,765	3,657	19,088
-	-	2,107,175
17,466	9,125	35,125
7,457	4,451	16,947
3,064	6,931	26,776
-	1,686	1,686
14,426	-	14,426
2,632	-	3,163
2,301	62	3,418
213	-	213
345	-	403
705	-	865
-	-	1,448
-	-	-
<u>\$ 220,124</u>	<u>\$ 124,609</u>	<u>\$ 3,055,927</u>

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
March 31, 2012

ASSETS	2012		
	ACLU	ACLU FOUNDATION (Restated)	MEMORANDUM TOTAL ONLY
CURRENT ASSETS			
Cash and cash equivalents	\$ 376,028	\$ 642,137	\$ 1,018,165
Investments	37,450	10,675	48,125
Due from related entities	-	48,760	48,760
Grants receivable	-	-	-
Pledges receivable	-	2,500	2,500
Other accounts receivable	-	21,189	21,189
Prepaid expenses	5,001	12,654	17,655
TOTAL CURRENT ASSETS	418,479	737,915	1,156,394
PROPERTY AND EQUIPMENT			
Furniture and equipment	6,950	76,133	83,083
TOTAL PROPERTY AND EQUIPMENT	6,950	76,133	83,083
Less: Accumulated depreciation	(2,896)	(37,242)	(40,138)
NET PROPERTY AND EQUIPMENT	4,054	38,891	42,945
TOTAL ASSETS	\$ 422,533	\$ 776,806	\$ 1,199,339

<u>2012</u>	
<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL (Restated)</u>
\$ -	\$ 1,018,165
-	48,125
(48,760)	-
-	-
-	2,500
-	21,189
-	17,655
<u>(48,760)</u>	<u>1,107,634</u>
<u>-</u>	<u>83,083</u>
<u>-</u>	<u>83,083</u>
<u>-</u>	<u>(40,138)</u>
<u>-</u>	<u>42,945</u>
<u>\$ (48,760)</u>	<u>\$ 1,150,579</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
March 31, 2012**

	2012		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 810	\$ 4,656	\$ 5,466
Accrued payroll and related costs	8,619	24,734	33,353
Deferred revenue	1,275	-	1,275
Due to related entities	48,760	-	48,760
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	33,372	98,483	131,855
Capital lease	-	2,342	2,342
TOTAL CURRENT LIABILITIES	92,836	130,215	223,051
TOTAL LIABILITIES	92,836	130,215	223,051
<u>NET ASSETS</u>			
Unrestricted	329,697	533,871	863,568
Temporarily restricted	-	102,732	102,732
Permanently restricted	-	9,988	9,988
TOTAL NET ASSETS	329,697	646,591	976,288
TOTAL LIABILITIES AND NET ASSETS	\$ 422,533	\$ 776,806	\$ 1,199,339

2012

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
-	\$ 5,466
-	33,353
-	1,275
(48,760)	-
-	131,855
-	2,342
<u>(48,760)</u>	<u>174,291</u>
<u>(48,760)</u>	<u>174,291</u>
-	863,568
-	102,732
-	9,988
-	976,288
<u>\$ (48,760)</u>	<u>\$ 1,150,579</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2012**

	2012		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 51,489	\$ 367,985	\$ 419,474
Bequests	2,735	116,320	119,055
Special event revenue	-	-	-
Legal services donated	-	1,644,764	1,644,764
Other in-kind donations	-	8,355	8,355
TOTAL PUBLIC SUPPORT	54,224	2,137,424	2,191,648
OTHER REVENUES			
Grant revenue	-	394,960	394,960
Shared membership fees	173,508	-	173,508
Legal fees awarded	-	79,324	79,324
Investment income, net	2,577	(3,876)	(1,299)
TOTAL OTHER REVENUES	176,085	470,408	646,493
TOTAL SUPPORT AND OTHER REVENUES	230,309	2,607,832	2,838,141
<u>EXPENSES</u>			
Program services	186,423	2,078,230	2,264,653
Management and general	91,771	228,982	320,753
Fundraising and development	18,744	99,203	117,947
TOTAL EXPENSES	296,938	2,406,415	2,703,353
CHANGE IN NET ASSETS	(66,629)	201,417	134,788
NET ASSETS, Beginning of year	396,326	445,174	841,500
NET ASSETS, End of year	\$ 329,697	\$ 646,591	\$ 976,288

2012

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 419,474
-	119,055
-	-
-	1,644,764
-	8,355
-	<u>2,191,648</u>
-	394,960
-	173,508
-	79,324
-	<u>(1,299)</u>
-	<u>646,493</u>
-	<u>2,838,141</u>
-	2,264,653
-	320,753
-	<u>117,947</u>
-	<u>2,703,353</u>
-	134,788
-	<u>841,500</u>
<u>\$ -</u>	<u>\$ 976,288</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2012**

	Program Costs		Total Program Costs
	Legislative	Public Education	
Salaries and related expenses	\$ 84,321	\$ 65,450	\$ 149,771
Accounting and outside services	-	-	-
Occupancy	-	106	106
Printing, publications and postage	1,086	22,008	23,094
Membership development	-	-	-
Office	5,119	193	5,312
Travel, meals and entertainment	2,499	2,063	4,562
Insurance	-	-	-
Depreciation	-	-	-
Interest	-	-	-
Board and volunteer	-	1,053	1,053
Public education forums	238	2,287	2,525
Total Expenses	\$ 93,263	\$ 93,160	\$ 186,423

Support Services

<u>Administrative Costs</u>	<u>Membership Support</u>	<u>Total</u>
\$ 37,783	\$ 11,960	\$ 199,514
8,507	-	8,507
22,995	-	23,101
1,035	1,102	25,231
72	5,596	5,668
3,023	-	8,335
2,910	86	7,558
658	-	658
2,317	-	2,317
262	-	262
12,209	-	13,262
-	-	2,525
\$ 91,771	\$ 18,744	\$ 296,938
\$ 91,771	\$ 18,744	\$ 296,938

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2012**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 251,430	\$ 125,298	\$ 376,728
Accounting and outside services	2,624	10,665	13,289
Occupancy	-	-	-
Printing, publications and postage	582	4,691	5,273
Litigation	1,660,662	-	1,660,662
Information technology	915	354	1,269
Office expenses	4,868	333	5,201
Travel	6,460	4,879	11,339
Depreciation	-	-	-
Insurance	-	-	-
Professional education	-	-	-
Interest	-	-	-
Equipment rental	3,585	-	3,585
Board and volunteer	-	-	-
Recruitment	-	-	-
Gifts	106	55	161
Public education forums	-	723	723
Total Expenses	<u>\$ 1,931,232</u>	<u>\$ 146,998</u>	<u>\$ 2,078,230</u>

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 84,847	\$ 72,111	\$ 533,686
33,826	4,603	51,718
49,560	-	49,560
5,824	-	11,097
-	-	1,660,662
18,180	7,088	26,537
9,437	7,093	21,731
3,331	6,595	21,265
13,217	-	13,217
3,698	-	3,698
3,008	1,713	4,721
708	-	708
1,705	-	5,290
114	-	114
1,367	-	1,367
149	-	310
11	-	734
<u>\$ 228,982</u>	<u>\$ 99,203</u>	<u>\$ 2,406,415</u>