

ACLU of Arizona and ACLU Foundation of Arizona

Consolidated Financial Statements

March 31, 2024 and 2023

ACLU of Arizona and ACLU Foundation of Arizona

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Independent Auditors' Report

To the Board of Directors of
ACLU of Arizona and ACLU Foundation of Arizona

Opinion

We have audited the consolidated financial statements of ACLU of Arizona and ACLU Foundation of Arizona (the Organization), which comprise the consolidated statements of financial position as of March 31, 2024 and 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of March 31, 2024 and 2023, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Tempe, Arizona
January 9, 2025

ACLU of Arizona and ACLU Foundation of Arizona

Consolidated Statements of Financial Position

March 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,698,510	\$ 2,163,338
Promise to give	-	100,000
Due from National American Civil Liberties Union, Inc., net	289,678	261,083
Prepaid expenses and other assets	28,317	42,537
Total current assets	3,016,505	2,566,958
Other Assets		
Investments:		
Endowment	311,642	278,370
Other investments	8,120,290	7,935,140
	8,431,932	8,213,510
Operating lease right-of-use assets	552,326	70,448
Property and equipment, net	62,846	5,000
Deposits	13,181	6,744
Total other assets	9,060,285	8,295,702
Total assets	\$ 12,076,790	\$ 10,862,660
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 48,041	\$ 44,518
Accrued expenses	199,712	194,650
Operating lease liabilities, current portion	114,132	86,206
Total current liabilities	361,885	325,374
Operating Lease Liabilities, Net of Current	472,888	-
Total liabilities	834,773	325,374
Net Assets		
Without donor restrictions	9,773,816	9,361,488
With donor restrictions	1,468,201	1,175,798
Total net assets	11,242,017	10,537,286
Total liabilities and net assets	\$ 12,076,790	\$ 10,862,660

See notes to consolidated financial statements

ACLU of Arizona and ACLU Foundation of Arizona

Consolidated Statements of Activities
Years Ended March 31, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue						
Donations	\$ 1,132,702	\$ -	\$ 1,132,702	\$ 1,357,703	\$ -	\$ 1,357,703
Bequests	62,278	-	62,278	501,128	-	501,128
In-kind donations	278,731	-	278,731	977,787	-	977,787
Grant revenue	55,508	1,039,992	1,095,500	172,574	272,926	445,500
Shared membership contribution	620,753	-	620,753	850,193	-	850,193
Legal fees awarded	423,092	-	423,092	573,599	-	573,599
Investment gain (loss)	623,423	33,272	656,695	(234,911)	(14,920)	(249,831)
Net assets released from restrictions	780,861	(780,861)	-	901,867	(901,867)	-
Total support and revenue	3,977,348	292,403	4,269,751	5,099,940	(643,861)	4,456,079
Expenses						
Program services expenses	2,592,964	-	2,592,964	3,721,443	-	3,721,443
Supporting services expenses						
Management and general	545,109	-	545,109	429,819	-	429,819
Fundraising	426,947	-	426,947	404,232	-	404,232
Total expenses	3,565,020	-	3,565,020	4,555,494	-	4,555,494
Change in net assets	412,328	292,403	704,731	544,446	(643,861)	(99,415)
Net Assets, Beginning	9,361,488	1,175,798	10,537,286	8,817,042	1,819,659	10,636,701
Net Assets, Ending	\$ 9,773,816	\$ 1,468,201	\$ 11,242,017	\$ 9,361,488	\$ 1,175,798	\$ 10,537,286

See notes to consolidated financial statements

ACLU of Arizona and ACLU Foundation of Arizona

Consolidated Statement of Functional Expenses

Year Ended March 31, 2024

	Program Services					Supporting Services		Totals
	Legal	Organizing	Communications	Lobbying/ Policy	Total Program Services	Management and General	Fundraising	
Personnel Expenses								
Payroll	\$ 468,434	\$ 378,773	\$ 160,059	\$ 222,920	\$ 1,230,186	\$ 230,227	\$ 267,423	\$ 1,727,836
Payroll taxes	35,682	29,790	12,666	15,692	93,830	17,459	19,823	131,112
Employee benefits	72,770	64,665	26,813	22,091	186,339	70,996	44,879	302,214
Total personnel expenses	576,886	473,228	199,538	260,703	1,510,355	318,682	332,125	2,161,162
Operating Expenses								
Accounting	-	-	-	-	-	21,251	-	21,251
Advertising and Promotion	-	-	-	-	-	-	19,795	19,795
Advocacy infrastructure	28	27,301	975	3,727	32,031	-	-	32,031
Bank and credit card fees	-	1	-	-	1	12	1,648	1,661
Board and volunteer support	-	-	-	-	-	2,754	-	2,754
Communications	-	-	14,060	-	14,060	-	-	14,060
Conference fees	469	2,123	400	493	3,485	-	260	3,745
Database fees	-	-	-	-	-	-	2,702	2,702
Depreciation	-	-	-	-	-	3,882	-	3,882
In-kind services, legal	278,731	-	-	-	278,731	-	-	278,731
Dues and subscriptions	8,686	205	2,359	5,328	16,578	8,134	3,182	27,894
Equipment lease	1,362	324	301	-	1,987	2,472	888	5,347
Gifts	975	147	223	-	1,345	2,064	87	3,496
Honorariums	-	200	-	500	700	-	-	700
Information technology	31,441	14,124	4,363	12,259	62,187	8,440	9,879	80,506
Insurance	7,122	-	-	-	7,122	6,507	-	13,629
Legal	71,229	-	-	-	71,229	-	-	71,229
Licenses, fees and permits	-	-	-	-	-	17	-	17
Lobbying expense	-	-	-	200,000	200,000	-	-	200,000
Meals and entertainment	2,294	2,746	798	3,783	9,621	4,869	6,211	20,701
Occupancy	39,191	63,306	8,878	7,543	118,918	79,555	19,535	218,008
Postage	201	-	-	-	201	348	5,133	5,682
Printing	58	124	777	68	1,027	20	13,732	14,779
Professional services	1,223	27,200	63,219	52,149	143,791	63,657	4,179	211,627
Public education forums	1,000	4,439	2,747	54,642	62,828	-	-	62,828
Supplies and office expense	2,395	1,318	393	739	4,845	12,843	1,607	19,295
Telephone	7,625	7,045	2,848	3,812	21,330	9,210	3,997	34,537
Travel	8,844	9,501	3,162	9,085	30,592	392	1,987	32,971
Total expenses	\$ 1,039,760	\$ 633,332	\$ 305,041	\$ 614,831	\$ 2,592,964	\$ 545,109	\$ 426,947	\$ 3,565,020

See notes to consolidated financial statements

ACLU of Arizona and ACLU Foundation of Arizona

Consolidated Statement of Functional Expenses

Year Ended March 31, 2023

	Program Services					Supporting Services		
	Legal	Organizing	Communications	Lobbying/ Policy	Total Program Services	Management and General	Fundraising	Totals
Personnel Expenses								
Payroll	\$ 548,998	\$ 342,229	\$ 117,543	\$ 251,965	\$ 1,260,735	\$ 199,975	\$ 241,221	\$ 1,701,931
Payroll taxes	39,858	25,168	9,303	18,366	92,695	14,430	18,427	125,552
Employee benefits	91,618	49,354	23,965	27,540	192,477	50,904	52,793	296,174
Total personnel expenses	680,474	416,751	150,811	297,871	1,545,907	265,309	312,441	2,123,657
Operating Expenses								
Accounting	-	-	-	-	-	20,250	-	20,250
Advocacy infrastructure	-	40,446	401,764	251,407	693,617	-	-	693,617
Bank and credit card fees	-	-	-	-	-	634	4,557	5,191
Board and volunteer support	-	421	-	-	421	32,491	-	32,912
Communications	-	-	5,249	-	5,249	-	-	5,249
Conference fees	2,192	266	-	150	2,608	46	1,521	4,175
Database fees	-	-	-	-	-	-	2,545	2,545
In-kind services, legal	977,787	-	-	-	977,787	-	-	977,787
Dues and subscriptions	11,671	546	1,859	4,698	18,774	9,878	646	29,298
Equipment lease	1,430	603	359	-	2,392	1,082	1,374	4,848
Gifts	315	65	-	134	514	2,526	320	3,360
Honorariums	-	800	-	-	800	-	-	800
Information technology	45,537	15,613	5,647	18,541	85,338	8,437	9,170	102,945
Insurance	5,694	-	-	-	5,694	5,038	-	10,732
Legal	48,923	-	-	-	48,923	-	-	48,923
Licenses, fees and permits	-	-	-	26	26	63	-	89
Meals and entertainment	5,555	5,511	2,407	2,052	15,525	10,596	7,045	33,166
Occupancy	46,713	76,097	4,492	3,407	130,709	35,376	16,642	182,727
Postage	157	171	-	-	328	848	6,701	7,877
Printing	154	104	128	61	447	205	20,992	21,644
Professional services	3,742	65,036	2,081	20,578	91,437	20,087	8,516	120,040
Public education forums	2,319	28,179	-	-	30,498	-	-	30,498
Supplies and office expense	7,539	5,031	1,653	2,940	17,163	8,882	981	27,026
Telephone	9,784	7,831	2,777	3,611	24,003	7,023	5,761	36,787
Travel	7,783	9,394	1,417	4,689	23,283	1,048	5,020	29,351
Total expenses	<u>\$ 1,857,769</u>	<u>\$ 672,865</u>	<u>\$ 580,644</u>	<u>\$ 610,165</u>	<u>\$ 3,721,443</u>	<u>\$ 429,819</u>	<u>\$ 404,232</u>	<u>\$ 4,555,494</u>

See notes to consolidated financial statements

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Consolidated Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net assets	\$ 704,731	\$ (99,415)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	3,882	-
Amortization of operating leases right-of-use assets	152,906	174,792
Net realized/unrealized (gain) / loss on investments	(449,851)	356,409
(increase) decrease in:		
Promise to give	100,000	200,000
Due from/due to National ACLU	(28,595)	1,247,987
Grants receivable	-	289,000
Prepaid expenses and other assets	14,220	31
Deposits	(6,437)	-
Increase (decrease) in:		
Accounts payable	3,523	6,967
Accrued expenses	5,062	39,419
Operating lease liabilities	(133,970)	(159,034)
Net cash flows from operating activities	<u>365,471</u>	<u>2,056,156</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(61,728)	-
Purchases of investment through dividends reinvested	(216,568)	(106,578)
Purchases of investments	(355,000)	(4,059,579)
Proceeds from sale of investments	802,997	-
Proceeds from redemption of certificates of deposit	-	159,962
Net cash flows from investing activities	<u>169,701</u>	<u>(4,006,195)</u>
Net change in cash and cash equivalents	535,172	(1,950,039)
Cash and Cash Equivalents, Beginning	<u>2,163,338</u>	<u>4,113,377</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,698,510</u>	<u>\$ 2,163,338</u>

See notes to consolidated financial statements

ACLU of Arizona and ACLU Foundation of Arizona

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Activities

ACLU of Arizona (the Union) is a not-for-profit membership organization that was incorporated in Arizona in 1968. 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 ACLU Foundation of Arizona (the Foundation) is a not-for-profit corporation that was incorporated in 1971. The Foundation was organized to maintain and protect civil liberties in Arizona through public education and litigation. 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 (collectively the Organization) share equipment, office space, personnel and operating costs. The Union and the Foundation reimburse each other to support their respective share of operations.

The Organization is affiliated with the American Civil Liberties Union, Inc. and the American Civil Liberties Union Foundation, Inc. (collectively ACLU National).

Program Services

Legal: The Foundation provides legal representation - free of charge - to persons whose civil liberties are threatened or violated. The Foundation leverages the growing capacity of its in-house legal team with pro bono resources from volunteer attorneys to engage in strategic litigation and non-litigation legal advocacy in priority areas of criminal justice, immigrants' rights, education and LGBTQ equality. Attorneys in the legal program work in close coordination with the teams involved in the policy, organizing advocacy, and communications programs, the national ACLU staff and other local and national partners to advance the integrated legal and advocacy goals.

Organizing: The Foundation and Union both engage in organizing and advocacy activities. The Foundation educates and informs key audiences, including elected officials, impacted stakeholders and members of the general public, about civil liberties and civil rights that are protected by the constitution and laws of the United States and Arizona. The education work is done through public awareness campaigns using a combination of strategies, including hosting public education events, releasing data-driven reports, and distributing printed materials in both English and Spanish, to raise awareness amount targeted audiences in communities across Arizona. The Union utilizes grassroots activism to recruit, train and mobilize ACLU members and activists in the fight to protect our civil rights and liberties. The Union believes in centering the voices of directly impacted people through a new ladder of engagement model created for its Campaign for Smart Justice that recruits impacted people who are formerly incarcerated and develops them into leaders and spokespeople who push for transformative policy changes. They have created community-building spaces to engage our formerly incarcerated leaders, ACLU allies and members, including planning committee meetings, campaign meetings, resource breakfasts and welcome sessions.

Communications: The Foundation and the Union each develop and execute communication strategies that advance its multi-year campaign goals in the areas of education and criminal justice reform. They implement campaign-style communications strategies focused on neutralizing opposition, driving narratives that support ACLU values, rapidly responding to news cycles, and influencing decision makers through traditional and social media. A new focus for this program is aimed at using communications to educate voters about candidates' and officeholders' voting records, public statements, and policy stances on ACLU issues without endorsing or opposing a candidate or party.

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Lobbying/Policy: The Union lobbies Arizona legislators and members of local government bodies, including city council and school board members, to take action on public policies that impact civil liberties. They draft legislation, conduct research and policy analysis and testify for/against bills. Occasionally, they take positions and issue statements on ballot measures that impact civil liberties.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Union and the Foundation. All material intercompany balances and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash held in accounts with stock brokerage firms are reported as investments as they represent accounts used for the purchases and sales of investments and are excluded from this definition.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Fair Value of Financial Instruments

Accounting Standards establish a framework for measuring fair value which provides fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

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- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e., real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are recorded at fair value in the consolidated statements of financial position. Investment income or loss is included in the change in net assets without donor restrictions in the consolidated statements of activities, unless the income or loss is restricted by donor or law. Investment income or loss consists of interest and dividend income and realized and unrealized gains and losses, less external investment expenses.

Risks and Uncertainty

The Organization invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes, could materially affect the amount reported in the consolidated statements of financial position.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Endowment Funds

The Organization's endowment fund is held and managed by ACLU National in its Bill of Rights Trust (BORT) fund. The BORT fund was established to carry out the work of the ACLU in protecting, preserving, and expanding the civil liberties of all persons in the United States of America. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization.

Return Objectives and Risk Parameters. Investment funds held with ACLU National are managed by ACLU National and therefore are subject to ACLU National's investment policies. ACLU National has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. ACLU National's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of ACLU National over time. Endowment assets are invested in a conservative, well diversified asset mix that is intended to result in a consistent inflation-protected rate of return.

Spending Policy. ACLU National's policy is to disburse to each unit share 6% of the average of the fair market value of each unit share of the fund as of December 31 of the three, immediate preceding calendar years.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/or purpose restrictions or required to be held in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Contributions and grants revenue received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. It is the Organization's policy to classify donor restricted contributions as support without donor restrictions to the extent that donor restrictions were met in the year the contributions were received.

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In-Kind Donations

Donated services are recognized as contributions at their estimated fair value if the services (a) create or enhance the Organization's nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

The Foundation handles litigation by using the services of cooperating attorneys who donate their services to the Foundation and its clients. These services are reported in the consolidated financial statements as described above.

Additionally, unpaid volunteers contributed time to develop the programs of the Union and the Foundation. The value of this time is not reflected in the consolidated financial statements because it does not meet the requirements for recognition.

Legal Fees Awarded

The Organization may receive legal fees awarded by the court as a result of the settlement of certain types of litigation. Since awards are not determinable until resolution of the litigation, such amounts are not recorded until received.

Shared Membership Contribution

Shared membership contribution revenue is received from ACLU National based on a revenue sharing agreement and is recognized as revenue in the period to which they relate. This revenue sharing agreement specifies the circumstances under which revenue shall be shared and the methodology for determining the specific portion of revenue that will be shared.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. The consolidated financial statements of the Organization report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated based on use, square footage basis, as well as salaries and benefits, which are allocated on the basis of time and effort 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.

Income Tax Status

The Union qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code. Contributions to the Union do not qualify for a charitable contribution deduction under Section 170 of the Internal Revenue Code.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization recognizes uncertain tax positions in the consolidated financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of March 31, 2024 and 2023, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended March 31, 2024 and 2023, the Organization did not have income tax related interest and penalty expense.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Leasing Activities

The Organization recognizes the assets and liabilities that arise from leases on the statements of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. The Organization does not separate lease and nonlease components for all asset classes when determining the measurement of the right-of-use assets and lease liabilities. When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization uses a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes. In addition, the Organization does not apply the recognition requirements to any leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather short-term leases are recorded on a straight-line basis over the lease term.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 9, 2025, the date the consolidated financial statements were available to be issued.

2. Liquidity and Availability

The Organization receives significant contributions each year from donors as well as shared donations and memberships with ACLU National, which are available to meet annual cash needs for operations. The Organization also receives grant revenue with purpose and time restrictions related to the fulfillment of the objectives under the grant. Grant funds that are not expected to be expended within one year are not considered available to meet operations within one year.

ACLU of Arizona and ACLU Foundation of Arizona

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

The following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the consolidated statements of financial position date to meet general expenditures as of March 31:

	2024	2023
Cash and cash equivalents	\$ 2,698,510	\$ 2,163,338
Promise to give	-	100,000
Due from National American Civil Liberties Union, Inc., net	289,678	261,083
Other investments	8,120,290	7,935,140
Financial assets available to be used within one year	\$ 11,108,478	\$ 10,459,561

3. Concentrations of Credit Risk and Revenue Concentrations

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The Organization receives a significant portion of its revenue from ACLU National. For the years ended March 31, 2024 and 2023, 55% and 36%, respectively, of the Organization's total support and revenue was received from this affiliate.

4. Investments and Fair Value of Financial Instruments

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets (Level 1). Investments held with ACLU National are valued based on the fair value of the underlying assets held by ACLU National and the Organization's percentage interest in ACLU National's investment (Level 2). Investments held at ACF are managed by ACF but are accessible to the Organization at any time, upon board approval. The Organization is invested in pools that seek to preserve capital, reduce market volatility and enhance returns through diversifying strategies. Investments held in funds with ACF are valued based on the value of the underlying assets held by ACF and the Organization's percentage in ACF's investment pool (Level 3).

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Notes to Consolidated Financial Statements

March 31, 2024 and 2023

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2024:

	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 110,943	\$ -	\$ -	\$ 110,943
Equity securities	4,368,107	-	-	4,368,107
Mutual funds	794,337	-	-	794,337
Fixed rate cap securities	758,161	-	-	758,161
Investments held with ACLU National:				
Endowment	-	311,642	-	311,642
Other investments	-	190,099	-	190,099
Investments held at ACF	-	-	1,898,643	1,898,643
Total	<u>\$ 6,031,548</u>	<u>\$ 501,741</u>	<u>\$ 1,898,643</u>	<u>\$ 8,431,932</u>

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2023:

	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 474,443	\$ -	\$ -	\$ 474,443
Equity securities	3,699,846	-	-	3,699,846
Mutual funds	1,104,797	-	-	1,104,797
Fixed rate cap securities	778,174	-	-	778,174
Investments held with ACLU National:				
Endowment	-	278,370	-	278,370
Other investments	-	169,804	-	169,804
Investments held at ACF	-	-	1,708,076	1,708,076
Total	<u>\$ 6,057,260</u>	<u>\$ 448,174</u>	<u>\$ 1,708,076</u>	<u>\$ 8,213,510</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs during the years ended March 31:

Balance at March 31, 2022	\$ 1,083,275
Purchases	688,000
Realized and unrealized losses	(71,440)
Dividends	17,623
Fees	(9,382)
Balance at March 31, 2023	1,708,076
Purchases	-
Realized and unrealized gains	173,958
Dividends	31,220
Fees	(14,611)
Balance at March 31, 2024	<u>\$ 1,898,643</u>

ACLU of Arizona and ACLU Foundation of Arizona

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

Investment income (loss) is summarized as follows for the years ended March 31:

	2024	2023
Interest and dividends	\$ 280,379	\$ 153,900
Realized loss	(8,319)	(13,050)
Unrealized gain (loss)	458,170	(343,359)
Investment fees	(73,535)	(47,322)
Total	\$ 656,695	\$ (249,831)

5. Property and Equipment

Property and equipment consist of the following at March 31:

	2024	2023
Furniture and equipment	\$ 82,378	\$ 57,790
Accumulated depreciation	(19,532)	(52,790)
Total	\$ 62,846	\$ 5,000

Depreciation expense was \$3,882 for the year ended March 31, 2024. The Organization had no depreciation expense for the year ended March 31, 2023.

6. Endowment

The endowment consists of one fund restricted in perpetuity by the donor and is included in net assets with donor restrictions.

Endowment net asset composition at March 31, 2024 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted amount	\$ -	\$ 176,313	\$ 176,313
Accumulated investment earnings	-	135,329	135,329
Total	\$ -	\$ 311,642	\$ 311,642

Endowment net asset composition at March 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted amount	\$ -	\$ 176,313	\$ 176,313
Accumulated investment earnings	-	102,057	102,057
Total	\$ -	\$ 278,370	\$ 278,370

ACLU of Arizona and ACLU Foundation of Arizona

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

Changes in the endowment fund for the years ended March 31, 2024 and 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, March 31, 2022	\$ -	\$ 293,290	\$ 293,290
Contributions	-	-	-
Investment income	-	13,694	13,694
Realized and unrealized loss	-	(16,511)	(16,511)
Investment fees	-	(1,019)	(1,019)
Distributions	-	(11,084)	(11,084)
Endowment funds, March 31, 2023	-	278,370	278,370
Contributions	-	-	-
Investment income	-	2,725	2,725
Realized and unrealized gain	-	31,482	31,482
Investment fees	-	(935)	(935)
Distributions	-	-	-
Endowment funds, March 31, 2024	\$ -	\$ 311,642	\$ 311,642

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted as follows at March 31:

	2024	2023
Time restricted:		
Promise to give	\$ -	\$ 100,000
Executive Director search	22,500	-
Purpose restricted:		
Voting rights	560,000	-
Decriminalization legislation work	40,000	-
Criminal justice campaign	29,725	31,115
Immigrants' rights project	412,044	16,705
Director of people and culture project	-	114,061
Border conversation and advocacy	22,239	254,896
Capacity building project	-	308,901
Trans rights project	70,051	71,750
Endowment funds:		
Perpetual in nature, earnings from which are subject to endowment spending policy/appropriations	176,313	176,313
Endowment earnings subject to appropriation when a specific event occurs	135,329	102,057
Total net assets with donor restrictions	\$ 1,468,201	\$ 1,175,798

8. Retirement Plans**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. Accumulated and projected benefit obligations and other required disclosures for the plan covering all participating entities are presented in the ACLU National consolidated financial statements. There were no employer contributions by the Organization to the plan for the years ended March 31, 2024 and 2023.

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. The Organization's employer contributions to the ERISA 404(c) plan for the years ended March 31, 2024 and 2023 amounted to \$86,344 and \$83,474, respectively.

9. Leasing Activities

The Organization leases its facilities noncancelable operating lease agreements expiring at various dates through September 2028. Current monthly lease payments are approximately \$12,000, plus applicable taxes and other operating costs, and escalate through the term of the leases.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Organization's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Accounting Standards Codification (ASC) Topic 842, *Leases* (Topic 842).

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Notes to Consolidated Financial Statements

March 31, 2024 and 2023

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.
- Determined whether contracts contain embedded leases.

The Organization does not have any material leasing transactions with any related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of March 31:

	2024	2023
Operating lease right-of-use assets	<u>\$ 552,326</u>	<u>\$ 70,448</u>
Operating lease liabilities:		
Current	\$ 114,132	\$ 86,206
Long-term	<u>472,888</u>	<u>-</u>
Total operating lease liabilities	<u>\$ 587,020</u>	<u>\$ 86,206</u>

Below is a summary of expenses incurred pertaining to leases during the year ended March 31:

	2024	2023
Operating lease expense	\$ 172,768	\$ 133,198
Short-term lease expense	<u>1,051</u>	<u>-</u>
Total lease expense	<u>\$ 173,819</u>	<u>\$ 133,198</u>

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 4.13% and 1.81% as of March 31, 2024 and 2023, respectively. As of March 31, 2024 and 2023, the weighted average remaining lease term was 4.50 years and 0.55 years, respectively.

The table below summarizes the Organization's approximate future minimum lease payments for years ending after March 31, 2024:

Years ending March 31:	
2025	\$ 136,253
2026	140,338
2027	144,541
2028	148,889
2029	<u>75,553</u>
Total lease payments	645,574
Less present value discount	<u>(58,554)</u>
Total lease liabilities	587,020
Less current portion	<u>(114,132)</u>
Long-term lease liabilities	<u>\$ 472,888</u>

ACLU of Arizona and ACLU Foundation of Arizona

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

The following table includes supplemental cash flow and noncash information related to the leases for the years ended March 31:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 153,833	\$ 159,034
Operating lease right-of-use assets obtained in exchange for lease liabilities	\$ 634,784	\$ -

10. In-Kind Contributions

The Organization received the following contributions of nonfinancial assets for the years ended March 31:

Nonfinancial Asset	Revenue Recognized		Utilization in Programs / Activities	Donor Restrictions	Valuation Techniques and Inputs
	2024	2023			
Attorney fees	\$ 278,731	\$ 977,787	Program Services	None	Valuation based on current rates charged for attorney services in the greater Phoenix metropolitan area
Total	\$ 278,731	\$ 977,787			

11. Related-Party Transactions

The Organization shares both membership contribution revenue and donations with ACLU National. 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 ACLU National raises on behalf of Arizona, the Arizona affiliate must remit the difference to ACLU National and vice versa. For the years ended March 31, 2024 and 2023, the Organization received (remitted) the following amounts from/to ACLU National:

	2024	2023
Shared membership contributions	\$ 620,753	\$ 850,193
Revenue sharing	283,109	148,654
Bequests	42,278	(70,297)
Total	\$ 946,140	\$ 928,550

The Union was awarded a grant from ACLU National to support decriminalization legislation work. The Union received \$40,000 under this grant during the year ended March 31, 2024.

The Union was awarded a grant from ACLU National to support costs associated with voting rights work. The Union received \$410,000 under this grant during the year ended March 31, 2024.

ACLU of Arizona and ACLU Foundation of Arizona

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

The Union was awarded a grant from ACLU National to support costs associated with procurement of an executive search firm for a new Executive Director. The Union received \$22,500 under this grant during the year ended March 31, 2024.

The Union was awarded a grant from ACLU National to support costs of a digital ad campaign educating voters about the District Attorney's race. The Union received \$65,000 under this grant during the year ended March 31, 2023.

The Union was awarded a grant from ACLU National to support the ACLU's Campaign for Smart Justice dedicated to reducing prison and jail populations and addressing racial disparities in the criminal justice system. The Union received \$50,000 under this grant during the year ended March 31, 2023.

The Foundation was awarded a grant from ACLU National to support ACLU's Border Campaign. The Foundation received \$418,000 and \$56,000 under this grant during the years ended March 31, 2024 and 2023, respectively.

The Foundation was awarded a grant from ACLU National to support costs of a new voting rights attorney staff position. The Foundation received \$150,000 under this grant during the year ended March 31, 2024.

The Foundation was awarded a grant from ACLU National to support the cost of hiring a Director of People & Culture. The Foundation received \$165,000 under this grant during the year ended March 31, 2023.

The Foundation was awarded a grant from ACLU National to support the cost of a digital campaign for rights of transgender Arizonians. The Foundation received \$77,000 under this grant during the year ended March 31, 2023.

The Foundation was awarded a grant from ACLU National to support the cost of new Executive Director strategic planning and coaching. The Foundation received \$25,000 under this grant during the year ended March 31, 2023.

The net amount due from (to) ACLU National was as follows at March 31:

	2024	2023
Union:		
Base renewal income share	\$ 41,605	\$ 126,726
Bequest receivable	17,080	259,958
Revenue sharing	324	93,925
Cost factor adjustment liability	(99,814)	-
Total due from (to) National	(40,805)	480,609
Foundation:		
Executive Director search grant	22,500	-
ASNI Border Advocacy grant	-	56,000
Bequest receivable (payable)	25,198	(330,255)
Revenue sharing	282,785	54,729
Total due (from (to) National	330,483	(219,526)
Net due from (to) National	\$ 289,678	\$ 261,083