Financial Reports

ACLU
Arizona

and

ACLU Foundation of Arizona

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2018 and 2017

Henry+Horne

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of ACLU of Arizona and ACLU Foundation of Arizona (Arizona nonprofit corporations), which comprise the consolidated statements of financial position as of March 31, 2018 and 2017, 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.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 ACLU Foundation of Arizona as of March 31, 2018 and 2017, and the changes in its net position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Henry + Horne, LLP

Tempe, Arizona
September 10, 2018

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,052,828	$ 2,835,252
Promise to give	-	50,000
Due from National American Civil Liberties Union, Inc., net	-	4,484
Prepaid expenses and other assets	63,127	29,178
TOTAL CURRENT ASSETS	4,115,955	2,918,914
INVESTMENTS		
Endowment	211,951	178,940
Other investments	1,206,112	654,803
TOTAL INVESTMENTS	1,418,063	833,743
PROPERTY AND EQUIPMENT, NET	-	2,683
TOTAL ASSETS	$ 5,534,018	$ 3,755,340
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 27,922	$ 12,519
Accrued expenses	98,776	64,145
Due to National American Civil Liberties Union, Inc., net	284,118	-
Deferred revenue	-	18,173
TOTAL CURRENT LIABILITIES	410,816	94,837
NET ASSETS		
Unrestricted	4,300,741	2,967,708
Temporarily restricted	646,148	533,197
Permanently restricted	176,313	159,598
TOTAL NET ASSETS	5,123,202	3,660,503
TOTAL LIABILITIES AND NET ASSETS	$ 5,534,018	$ 3,755,340

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended March 31, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Donations	$ 967,376	$ -	$ 16,715	$ 984,091	$ 1,073,362	$ -	$ 148,222	$ 1,221,584
Bequests	229,267	-	-	229,267	174,939	-	-	174,939
In-kind donations	969,052	-	-	969,052	1,678,867	-	-	1,678,867
Grant revenue	197,134	595,817	-	792,951	219,220	658,949	-	878,169
Shared membership contribution	684,878	-	-	684,878	343,589	-	-	343,589
Legal fees awarded	612,621	-	-	612,621	497,919	-	-	497,919
Investment income, net	64,324	16,296		80,620	61,089	19,342	-	80,431
Net assets released from restrictions	499,162	(499,162)	-	-	232,353	(232,353)	-	-
TOTAL SUPPORT AND REVENUE	4,223,814	112,951	16,715	4,353,480	4,281,338	445,938	148,222	4,875,498
EXPENSES								
Program services expenses	2,486,227	-	-	2,486,227	2,762,220	-	-	2,762,220
Supporting services expenses								
Management and general	194,847	-	-	194,847	222,778	-	-	222,778
Fundraising	209,707	-	-	209,707	154,716	-	-	154,716
TOTAL EXPENSES	2,890,781	-	-	2,890,781	3,139,714	-	-	3,139,714
CHANGE IN NET ASSETS	1,333,033	112,951	16,715	1,462,699	1,141,624	445,938	148,222	1,735,784
NET ASSETS, BEGINNING OF YEAR	2,967,708	533,197	159,598	3,660,503	1,826,084	87,259	11,376	1,924,719
NET ASSETS, END OF YEAR	$ 4,300,741	$ 646,148	$ 176,313	$ 5,123,202	$ 2,967,708	$ 533,197	$ 159,598	$ 3,660,503

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2018

	Program Services	Management and General	Fundraising	Total
Personnel expenses:				
Payroll	$ 835,297	$ 75,303	$ 136,679	$ 1,047,279
Payroll taxes	64,555	5,913	10,520	80,988
Employee benefits	127,640	31,409	12,375	171,424
TOTAL PERSONNEL EXPENSES	1,027,492	112,625	159,574	1,299,691
Operating expenses:				
Accounting	-	16,500	-	16,500
Bank and credit card fees	-	480	8,054	8,534
Board and volunteer support	99	13,682	-	13,781
Communications	32,890	-	-	32,890
Conference fees	465	-	-	465
Database fees	-	-	7,663	7,663
Depreciation	-	2,683	-	2,683
Donated legal services	968,602	-	-	968,602
Dues and subscriptions	14,910	4,012	929	19,851
Equipment lease	4,331	1,026	241	5,598
Gifts	1,184	2,320	360	3,864
Information technology	14,468	3,164	1,337	18,969
Insurance	5,490	1,821	-	7,311
Legal	25,520	-	-	25,520
Licenses, fees, and permits	-	43	-	43
Lobbying expense	23,025	-	-	23,025
Meals and entertainment	8,615	3,300	6,677	18,592
Occupancy	70,496	7,257	8,441	86,194
Postage	3,472	2,025	672	6,169
Printing	6,040	-	4,567	10,607
Professional services	98,949	7,767	-	106,716
Project coordinator	77,000	-	-	77,000
Public education forums	12,783	-	-	12,783
Supplies and office expense	44,591	6,385	2,029	53,005
Telephone	12,526	8,595	258	21,379
Travel	33,279	1,162	8,905	43,346
TOTAL EXPENSES	$ 2,486,227	$ 194,847	$ 209,707	$ 2,890,781

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2017

	Program Services	Management and General	Fundraising	Total
Personnel expenses:				
Payroll	$ 658,030	$ 67,730	$ 98,347	$ 824,107
Payroll taxes	52,614	5,527	7,841	65,982
Employee benefits	90,711	60,725	10,015	161,451
TOTAL PERSONNEL EXPENSES	801,355	133,982	116,203	1,051,540
Operating expenses:				
Accounting	-	15,330	-	15,330
Advertising	1,529	-	-	1,529
Bank and credit card fees	6	613	9,080	9,699
Board and volunteer support	-	14,925	-	14,925
Conference fees	3,035	93	791	3,919
Database fees	-	2,919	6,812	9,731
Depreciation	-	6,523	-	6,523
Donated legal services	1,674,247	4,620	-	1,678,867
Dues and subscriptions	13,003	2,762	1,201	16,966
Equipment lease	3,135	1,461	201	4,797
Gifts	626	2,250	16	2,892
Information technology	18,061	2,508	1,218	21,787
Insurance	5,245	1,705	-	6,950
Legal	28,019	-	-	28,019
Licenses, fees, and permits	-	26	-	26
Lobbying expense	34,500	-	-	34,500
Meals and entertainment	3,448	1,561	2,174	7,183
Occupancy	65,120	7,210	7,877	80,207
Postage	3,099	3,765	753	7,617
Printing	7,160	825	1,262	9,247
Professional services	27,340	5,704	-	33,044
Project coordinator	38,500	-	-	38,500
Public education forums	3,131	-	-	3,131
Supplies and office expense	13,049	5,203	1,656	19,908
Telephone	5,896	8,312	208	14,416
Travel	12,716	481	5,264	18,461
TOTAL EXPENSES	$ 2,762,220	$ 222,778	$ 154,716	$ 3,139,714

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,462,699	$ 1,735,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,683	6,523
Net realized/unrealized gain on investments	(48,701)	(56,850)
(Increase) decrease in:		
Promises to give	50,000	(50,000)
Due from/due to National ACLU	288,602	(132,819)
Prepaid expenses and other assets	(33,949)	(11,113)
Increase (decrease) in:		
Accounts payable	15,403	9,086
Accrued expenses	34,631	7,655
Deferred revenue	(18,173)	18,173
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,753,195	1,526,439
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(548,167)	(186,673)
Proceeds from sales of investments	12,548	11,425
NET CASH USED BY INVESTING ACTIVITIES	(535,619)	(175,248)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,217,576	1,351,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,835,252	1,484,061
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,052,828	$ 2,835,252

See accompanying notes.

NOTE 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 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").

Principles of Consolidation

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

Basis of Presentation

The Organization prepares its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America, which are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues and gains are recognized in the period in which they are earned and expenses and losses are recognized in the period in which the liability is incurred. The Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts are included as investments instead of cash.

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

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 market value in the consolidated statements of financial position. Investment income or loss (including realized and unrealized gains and losses) is included in the change in unrestricted net assets in the consolidated statements of activities, unless the income or loss is restricted by donor or law.

Investments held at Arizona Community Foundation (ACF) have been valued, as a practical expedient, at the fair value of the Organization's share of ACF's investment pool as of the measurement date, which is known as net asset value. Changes in the value of the investments held at ACF are included in investment income on the consolidated statements of activities.

Risks and Uncertainty

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 buildings 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

Long-lived assets are reviewed 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 follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds when a donor's intent is not expressed. MCFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the funds continue in perpetuity.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (Continued)

The Organization classifies in permanently restricted funds (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 remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization's Board.

In accordance with MCFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Organization’s other resources, and (7) the Organization’s investment policies.

Return Objectives and Risk Parameters. The Organization 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. The Organization's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of the Organization 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. The Organization’s policy is to disburse from the endowment fund at the discretion of the Board of Directors.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair value in the period received. Contributions, grants and bequests are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contribution is recognized.

Donated Services

Donated services are recognized as contributions 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 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. Because awards are not determinable until resolution of the litigation, such amounts are not recorded until it is 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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. The 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, 2018 and 2017, 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, 2018 and 2017, the Organization did not have income tax related interest and penalty expense.

Use of Estimates

The preparation of 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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 10, 2018, the date the consolidated financial statements were available to be issued.

NOTE 2 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 and promises to give.

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.

At March 31, 2017, total promise to give was due from one donor. Concentration of credit risk with respect to this promise to give was limited due to the collection history with this donor.

The Organization receives a significant portion of its revenue from ACLU National. During the years ended March 31, 2018 and 2017, 30% and 19% of the Organization's total support and revenue was received from this affiliate, respectively.

NOTE 3 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 for endowment are investments held with ACLU National and 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. The fair values of these investments have been estimated using the net asset value per share as provided by ACF. There are no unfunded commitments or redemption provisions associated with these investments.

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2018:

	Level 1	Level 2	Level 3	Total
Cash and short term investments	$ 12,321	$ -	$ -	$ 12,321
Equity securities	509,137	-	-	509,137
Fixed income	9,900	-	-	9,900
Fixed rate cap securities	15,501	-	-	15,501
Investments held with ACLU National:				
Endowment	-	211,951	-	211,951
Other investments	-	129,288	-	129,288
	546,859	341,239	-	888,098
Investments valued at net asset value:				
Investments held at ACF				529,965
Total investments				$ 1,418,063

The following is a summary of financial instruments measured at fair value on a recurring basis at March 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash and short term investments	$ 15,157	$ -	$ -	$ 15,157
Equity securities	483,560	-	-	483,560
Fixed income	19,617	-	-	19,617
Fixed rate cap securities	17,337	-	-	17,337
Investments held with ACLU National:				
Endowment	-	178,940	-	178,940
Other investments	-	119,132	-	119,132
	$ 535,671	$ 298,072	$ -	$ 833,743

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	2018	2017
Interest and dividends	$ 43,184	$ 30,380
Realized loss	(243)	(1,375)
Unrealized gain	48,944	58,225
Investment fees	(11,265)	(6,799)
	$ 80,620	$ 80,431

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2018:

	2018	2017
Furniture and equipment	$ 90,453	$ 90,453
Accumulated depreciation	(90,453)	(87,770)
	$ -	$ 2,683

Depreciation expense was $2,683 and $6,523 for the years ended March 31, 2018 and 2017, respectively.

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at March 31, 2018:

	2018	2017
Time restricted:		
Investment income on perpetual endowment funds subject to a time restriction under MCFA	$ 35,638	$ 19,342
Purpose restricted:		
LGBTQ Storytelling project	-	12,628
Education equity project (Demand 2 Learn)	-	91,178
Capacity building project (SAI 2.0)	95,817	344,549
Criminal justice campaign	514,693	65,500
Total temporarily restricted net assets	$ 646,148	$ 533,197

NOTE 6 ENDOWMENTS

Endowments consist of one fund restricted in perpetuity by the donor. Endowment net assets composition is as follows for the year ended March 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 35,638	$ 176,313	$ 211,951

Endowment net assets composition is as follows for the year ended March 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 19,342	$ 159,598	$ 178,940

NOTE 6 ENDOWMENTS (Continued)

Changes in the endowment fund for the years ended March 31, 2018 and 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at March 31, 2016	$ -	$ -	$ 11,376	$ 11,376
Contributions	-	-	148,222	148,222
Investment income	-	3,455	-	3,455
Realized and unrealized gains	-	16,264	-	16,264
Investment fees	-	(377)	-	(377)
Amounts appropriated for expenditur	-	-	-	-
Balance at March 31, 2017	-	19,342	159,598	178,940
Contributions	-	-	16,715	16,715
Investment income	-	5,790	-	5,790
Realized and unrealized gains	-	10,833	-	10,833
Investment fees	-	(327)	-	(327)
Amounts appropriated for expenditur	-	-	-	-
Balance at March 31, 2018	$ -	$ 35,638	$ 176,313	$ 211,951

NOTE 7 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 National ACLU consolidated financial statements. The annual required employer contributions to the plan for the years ended March 31, 2018 and 2017 amounted to $13,241 and $20,528, respectively.

NOTE 7 RETIREMENT PLANS (Continued)

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) 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.

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 years ended March 31, 2018 and 2017 amounted to $39,489 and $25,974, respectively.

NOTE 8 OPERATING LEASES

The Organization leases office spaces under two operating lease agreements. One lease agreement expired in April 2016 but was extended for an additional 65 months and expires September 30, 2021. The other lease expired December 31, 2017 but was extended for an additional 15 months and expires March 31, 2019. Lease expense for the years ended March 31, 2018 and 2017 amounted to approximately $86,000 and $80,000, respectively.

Approximate future operating lease payments as of March 31, 2018 are as follows:

Year Ending March 31:	
2019	$ 148,000
2020	144,000
2021	147,000
2022	74,000
	$ 513,000

NOTE 9 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 pay the difference to ACLU National and vice versa. The net payable and receivable as of March 31, 2018 and 2017 is as follows:

	2018	2017
Union:		
Base renewal income share	$ 74,639	$ 57,634
Revenue sharing	(294,150)	(6,139)
Total due (to) from National	(219,511)	51,495
Foundation:		
Revenue sharing	(64,607)	(47,011)
Total due (to) from National	(64,607)	(47,011)
Net due (to) from National	$ (284,118)	$ 4,484

For the years ended March 31, 2018 and 2017, the Union received $684,878 and $343,589 of shared membership contribution revenue from ACLU National, respectively. In 2010, the Foundation agreed to participate in the Strategic Affiliate Initiative 1.0 (SAI 1.0), a one-time capacity building grant from ACLU Foundation that provides funding for key staff positions. The grant ended in 2018.

The Union was awarded a grant 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 $500,000 and $100,000 under this grant during the years ended March 31, 2018 and 2017, respectively.

The Union was chosen to participate in the new Strategic Affiliate Initiative 2.0 (SAI 2.0), a capacity building grant to enhance the affiliate's ability to lead multi-year, layered campaigns to achieve policy reform on issues such as criminal justice reform and education equity. The Union received $112,878 and $200,000 under this grant during the years ended March 31, 2018 and 2017, respectively.

NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2016-14, Not-For-Profit Entities: Presentation of Financial Statements of Not-For-Profit Entities. This Standard is effective for years beginning after December 15, 2017. The Standard requires several changes to how not-for-profit entities report certain financial statement information including net asset classification, cash flows, underwater endowment funds, investment expenses, and other areas. In addition, the new guidance requires disclosures on the entity's liquidity policy and quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the Statement of Financial Position date. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2016-02, Leases. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.