

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

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

**FOR THE YEARS ENDED MARCH 31, 2015
AND 2014**

November 2, 2015

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**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Cash Flows	6
Notes to Financial Statements	7 - 16
SUPPLEMENTAL INFORMATION	
Fiscal Year Ended March 31, 2015	
Consolidating Schedules of Financial Position	17 - 20
Consolidating Schedules of Activities	21 - 22
Schedule of Functional Expenses for ACLU of Arizona	23 - 24
Schedule of Functional Expenses for ACLU Foundation of Arizona	25 - 26
Fiscal Year Ended March 31, 2014	
Consolidating Schedules of Financial Position	27 - 30
Consolidating Schedules of Activities	31 - 32
Schedule of Functional Expenses for ACLU of Arizona	33 - 34
Schedule of Functional Expenses for ACLU Foundation of Arizona	35 - 36



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
ACLU of Arizona and ACLU Foundation of Arizona

Report on Financial Statements

We have audited the accompanying consolidated financial statements of the ACLU of Arizona, (a nonprofit organization) and its affiliate, the ACLU Foundation of Arizona which comprise the consolidated statements of financial position as of March 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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 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 audits 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 the ACLU of Arizona and its affiliate, the ACLU Foundation of Arizona, as of March 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities, 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 consolidated 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.

Lumbard & Associates, PLLC

Phoenix, AZ
November 2, 2015

FINANCIAL STATEMENTS

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2015 AND 2014**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,786,820	\$ 836,207
Investments	164,901	163,803
Due from National American Civil Liberties Union, Inc.	4,343	3,546
Prepaid expenses and other assets	29,073	22,339
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,985,137	1,025,895
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, NET	20,905	35,563
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,006,042</u>	<u>\$ 1,061,458</u>
 <u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 7,188	\$ 14,121
Accrued payroll and related costs	72,743	35,507
Deferred revenue	6,620	-
Due to National American Civil Liberties Union, Inc.	41,151	231,189
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	127,702	280,817
	<hr/>	<hr/>
TOTAL LIABILITIES	127,702	280,817
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Unrestricted	1,777,669	728,134
Temporarily restricted	88,607	41,031
Permanently restricted	12,064	11,476
	<hr/>	<hr/>
TOTAL NET ASSETS	1,878,340	780,641
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,006,042</u>	<u>\$ 1,061,458</u>

Read the accompanying notes to the consolidated financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

<u>SUPPORT AND OTHER REVENUES</u>	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT				
Donations	\$ 923,048	\$ -	\$ -	\$ 923,048
Bequests	7,890	-	-	7,890
Legal services donated	3,201,799	-	-	3,201,799
Other in-kind donations	7,085	-	-	7,085
TOTAL PUBLIC SUPPORT	4,139,822	-	-	4,139,822
OTHER REVENUES				
Grant revenue	421,564	302,500	-	724,064
Shared membership revenues	155,462	-	-	155,462
Legal fees awarded	790,631	-	-	790,631
Investment income, net	7,167	-	588	7,755
TOTAL OTHER REVENUES	1,374,824	302,500	588	1,677,912
NET ASSETS RELEASED FROM RESTRICTIONS	254,924	(254,924)	-	-
TOTAL SUPPORT AND OTHER REVENUES	5,769,570	47,576	588	5,817,734
<u>EXPENSES</u>				
Program services	4,263,012	-	-	4,263,012
Management and general	298,793	-	-	298,793
Fundraising and development	158,230	-	-	158,230
TOTAL EXPENSES	4,720,035	-	-	4,720,035
CHANGE IN NET ASSETS	1,049,535	47,576	588	1,097,699
NET ASSETS, Beginning of year	728,134	41,031	11,476	780,641
NET ASSETS, End of year	\$ 1,777,669	\$ 88,607	\$ 12,064	\$ 1,878,340

Read the accompanying notes to the consolidated financial statements.

2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 524,301	\$ 37,775	\$ -	\$ 562,076
40,422	-	-	40,422
2,406,164	-	-	2,406,164
845	-	-	845
2,971,732	37,775	-	3,009,507
362,914	30,000	-	392,914
162,738	-	-	162,738
-	-	-	-
8,003	-	727	8,730
533,655	30,000	727	564,382
222,930	(222,930)	-	-
3,728,317	(155,155)	727	3,573,889
3,301,981	-	-	3,301,981
223,810	-	-	223,810
153,880	-	-	153,880
3,679,671	-	-	3,679,671
48,646	(155,155)	727	(105,782)
679,488	196,186	10,749	886,423
\$ 728,134	\$ 41,031	\$ 11,476	\$ 780,641

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2015</u>	<u>2014</u>
Change in Net Assets	\$ 1,097,699	\$ (105,782)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,658	17,950
Unrealized (gains) on investments	(6,085)	(7,314)
(Increase)/decrease in assets:		
Due from American Civil Liberties Union, Inc.	(797)	(3,546)
Grants receivable	-	150,000
Prepaid expenses	(6,734)	(3,160)
Increase/(decrease) in liabilities:		
Accounts payable	(6,933)	4,504
Accrued payroll and taxes	37,236	(855)
Deferred revenue	6,620	-
Due to National American Civil Liberties Union, Inc.	(190,038)	161,904
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>945,626</u>	<u>213,701</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	37,844	24,357
Purchase of investments	(32,857)	(132,961)
Purchase of equipment	-	(14,940)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	<u>4,987</u>	<u>(123,544)</u>
Net increase in cash and cash equivalents	950,613	90,157
Cash and cash equivalents at beginning of year	<u>836,207</u>	<u>746,050</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,786,820</u></u>	<u><u>\$ 836,207</u></u>

Read the accompanying notes to the consolidated financial statements.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 1 - 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. 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 branches who serve as the eyes and ears of the ACLU around the state. During the reported fiscal years there were two active branches in Arizona.

The ACLU Foundation of Arizona is an Arizona not-for-profit corporation which 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.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include both the ACLU of Arizona and ACLU Foundation of Arizona. The Foundation is included in the consolidation because ACLU of Arizona has both an economic interest in the Foundation and control of the Foundation through a majority voting interest in its governing board. All material inter-organization transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The Organization prepares its 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.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 2 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board (“FASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, 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). Management does not believe there is a material risk due to balances held in excess of FDIC coverage.

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.

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.

Property and Equipment

Land, buildings, equipment and furniture with a cost of \$5,000 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

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 2 – Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments and, with none being held for trading purposes, approximate the carry values of such amounts.

Accounting principles generally accepted in the United States of America define fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurements. Assets and liabilities recorded at fair value in the Consolidated Statements of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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 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 two active branches within the state that are completely volunteer-run. Branch 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 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.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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.

Under the guidance of *Accounting for Uncertainty in Income Taxes*, the Organization utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement.

At March 31, 2015, management believes there were no uncertain tax positions. The Organization is no longer subject to income tax examination for the years prior to 2010.

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 3 – Investments

Investments consisted of securities, certificates of deposit and a trust held by the American Civil Liberties Union Foundation, Inc. (National ACLUF). The following is a summary of the inputs used in valuing the Organization's assets carried at fair value at March 31, 2015 or 2014:

<u>Valuation Inputs</u>	<u>2015</u>	<u>2014</u>
Level 1 – quoted prices	\$ 3,000	\$ 8,364
Level 2 – other significant observable inputs	161,901	155,439
Level 3 – significant unobservable inputs	-	-
Total investments	<u>\$ 164,901</u>	<u>\$ 163,803</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 3 – Investments (Continued)

Investment income is summarized as follows:

	2015	2014
Interest	\$ 1,902	\$ 1,566
Unrealized gains	6,085	7,314
Realized (losses)	(232)	(150)
	<u> </u>	<u> </u>
Total investment income	<u>\$ 7,755</u>	<u>\$ 8,730</u>

Note 4 - Property and Equipment

Property and equipment owned by the Union and Foundation as of March 31, 2015 and 2014 consisted of office furniture and equipment as follows:

	2015	2014
Union	\$ 8,229	\$ 8,229
Foundation	89,743	91,856
	<u> </u>	<u> </u>
Total Property and Equipment	97,972	100,085
Less: accumulated depreciation	(77,067)	(64,522)
	<u> </u>	<u> </u>
Net Property and Equipment	<u>\$ 20,905</u>	<u>\$ 35,563</u>

Depreciation expense for the Union for the years ended March 31, 2015 and 2014 were \$256 and \$1,993 respectively. Depreciation expense for the Foundation for the years ended March 31, 2015 and 2014 were \$14,402 and \$15,957 respectively.

Note 5 – Accrued Payroll and Related Costs

The Union and the Foundation employees are permitted to carry forward personal time off (PTO) for accrued vacation. Per the Organization's personnel policy, no more than five days of vacation can be carried over past hire date anniversary. The accrued PTO, wages and related costs payable for the years ended March 31, 2015 and 2014 are as follows:

	2015	2014
Personal time off	\$ 32,066	\$ 19,870
Accrued wages	39,741	14,030
Other related costs	936	1,607
	<u> </u>	<u> </u>
Total accrued payroll & taxes	<u>\$ 72,743</u>	<u>\$ 35,507</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 6 - Restricted Net Assets

Temporarily Restricted

The Union and Foundation receive grants from the American Civil Liberties, Inc., 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, 2015 and 2014, the temporarily restricted net assets for the Union and Foundation included:

	2015	2014
US Mexico Border Litigation Project	\$ 702	\$ 37,019
Sunrise (NEO/Philanthropy)	29,405	-
CMC Religious Exception	50,000	-
SHERPA	8,500	-
Marriage Equality	-	4,012
	<hr/>	<hr/>
Total Temporarily Restricted Net Assets	<u>\$ 88,607</u>	<u>\$ 41,031</u>

Permanently Restricted

As of March 31, 2015 and 2014, 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, 2015 and 2014, the Foundation's share of that trust was \$12,064 and \$11,476 respectively.

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.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 7 - Retirement Plans (Continued)

Defined Benefit 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, 2015 and 2014 were as follows:

Defined Benefit Plan Contribution:	2015	2014
Union	\$ 12,147	\$ 2,631
Foundation	38,784	8,900
Total Defined Benefit Plan Contribution	\$ 50,931	\$ 11,531

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.

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, 2015 and 2014 were as follows:

404(c) Plan Contribution:	2015	2014
Union	\$ 526	\$ 3,236
Foundation	8,325	17,989
Total 404(c) Contribution	\$ 8,851	\$ 21,225

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 8 - 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, 2015 and 2014 were as follows:

Due (to)/from National:	<u>2015</u>	<u>2014</u>
Union:		
Base Renewal Income share	\$ 9,843	\$ 11,571
Revenue sharing	(5,000)	(8,025)
Bequests	-	-
Membership dues	<u>(500)</u>	<u>-</u>
Total due (to)/from National to/(from) Union	<u>4,343</u>	<u>3,546</u>
Foundation:		
Revenue sharing	(41,151)	(231,189)
Grants	-	-
Bequests	<u>-</u>	<u>-</u>
Total due (to)/from National to/(from) Foundation	<u>(41,151)</u>	<u>(231,189)</u>
Net due (to)/from National	<u>(\$36,808)</u>	<u>(\$227,643)</u>

For the years ended March 31, 2015 and 2014, the Union received \$155,462 and \$162,738 respectively of Shared Membership income from the National ACLU.

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, 2015 and 2014, the Foundation received \$321,564 and \$362,914 respectively from this grant.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 8 - Related Party Transactions (Continued)

For the years ended March 31, 2015 and 2014, the Foundation incurred \$99,549 and \$200,479 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, 2015 and 2014, there were outstanding related party balances for the shared expenses as follows:

Due to/from Arizona related entities:	2015	2014
Union:		
Due (to)/from Foundation	\$ (33,611)	\$ (7,823)
Foundation:		
Due (to)/from Union	33,611	7,823
Total due (to)/from Arizona related entities	\$ -	\$ -

Note 9 - Commitments and Contingent Liabilities

Commitments

The Organization has two agreements to lease office spaces under operating leases expiring June 14, 2015 and April 30, 2016. The Union's and Foundation's portions of the lease expense for the years ended March 31, 2015 and 2014 were:

Lease Expense:	2015	2014
Union	\$ 8,117	\$ 8,514
Foundation	58,332	54,258
Total lease expense	\$ 66,449	\$ 62,772

The total future minimum lease payments are as follows:

Year ending March 31,		
2016	\$	55,275
2017		5,800
		\$ 61,075

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.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

Note 9 - Commitments and Contingent Liabilities (Continued)

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 would be expected to materially affect the Organization's financial position and results of operations at March 31, 2015 or 2014.

Note 10 - Concentrations

For the fiscal years ended March 31, 2015 and 2014, the Union and the Foundation received a large portion of their revenue from the National ACLU and National ACLU Foundation including shared revenues and grants. These concentrations were as follows:

	<u>2015</u>	<u>2014</u>
Union	96%	95%
Foundation	6%	11%

Note 11 - Subsequent Events

The Organization has evaluated events through November 2, 2015 which is the date of the audit report. No significant events that would be expected to materially impact the financial statements were identified.

SUPPLEMENTAL INFORMATION

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
March 31, 2015**

	2015	
<u>ASSETS</u>	ACLU	ACLU FOUNDATION
CURRENT ASSETS		
Cash and cash equivalents	\$ 274,984	\$ 1,511,836
Investments	37,013	127,888
Due from National American Civil Liberties Union, Inc.	4,343	-
Due from related entities	-	33,611
Other accounts receivable	-	41
Prepaid expenses	943	28,089
	317,283	1,701,465
PROPERTY AND EQUIPMENT		
Furniture and equipment	8,229	89,743
	8,229	89,743
Less: Accumulated depreciation	(7,696)	(69,371)
	533	20,372
TOTAL ASSETS	\$ 317,816	\$ 1,721,837

2015

<u>MEMORANDUM TOTAL ONLY</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ 1,786,820	\$ -	\$ 1,786,820
164,901	-	164,901
4,343	-	4,343
33,611	(33,611)	-
41	-	41
29,032	-	29,032
<u>2,018,748</u>	<u>(33,611)</u>	<u>1,985,137</u>
<u>97,972</u>	<u>-</u>	<u>97,972</u>
<u>97,972</u>	<u>-</u>	<u>97,972</u>
<u>(77,067)</u>	<u>-</u>	<u>(77,067)</u>
<u>20,905</u>	<u>-</u>	<u>20,905</u>
<u>\$ 2,039,653</u>	<u>\$ (33,611)</u>	<u>\$ 2,006,042</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
March 31, 2015**

	2015	
	ACLU	ACLU FOUNDATION
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ 7,188
Accrued payroll and related costs	3,294	69,449
Deferred revenue	-	6,620
Due to related entities	33,611	-
Due to National American Civil Liberties Union, Inc.	-	41,151
TOTAL CURRENT LIABILITIES	36,905	124,408
TOTAL LIABILITIES	36,905	124,408
<u>NET ASSETS</u>		
Unrestricted	272,411	1,505,258
Temporarily restricted	8,500	80,107
Permanently restricted	-	12,064
TOTAL NET ASSETS	280,911	1,597,429
TOTAL LIABILITIES AND NET ASSETS	\$ 317,816	\$ 1,721,837

2015

<u>MEMORANDUM TOTAL ONLY</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ 7,188	\$ -	\$ 7,188
72,743	-	72,743
6,620	-	6,620
33,611	(33,611)	-
41,151	-	41,151
<u>161,313</u>	<u>(33,611)</u>	<u>127,702</u>
<u>161,313</u>	<u>(33,611)</u>	<u>127,702</u>
1,777,669	-	1,777,669
88,607	-	88,607
12,064	-	12,064
<u>1,878,340</u>	<u>-</u>	<u>1,878,340</u>
<u>\$ 2,039,653</u>	<u>\$ (33,611)</u>	<u>\$ 2,006,042</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2015**

	2015		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 5,000	\$ 918,048	\$ 923,048
Bequests	7,890	-	7,890
Legal services donated	-	3,201,799	3,201,799
Other in-kind donations	496	6,589	7,085
TOTAL PUBLIC SUPPORT	<u>13,386</u>	<u>4,126,436</u>	<u>4,139,822</u>
OTHER REVENUES			
Grant revenue	142,500	581,564	724,064
Shared membership fees	155,462	-	155,462
Legal fees awarded	-	790,631	790,631
Investment income, net	790	6,965	7,755
TOTAL OTHER REVENUES	<u>298,752</u>	<u>1,379,160</u>	<u>1,677,912</u>
TOTAL SUPPORT AND OTHER REVENUES	<u>312,138</u>	<u>5,505,596</u>	<u>5,817,734</u>
<u>EXPENSES</u>			
Program services	154,411	4,108,601	4,263,012
Management and general	67,948	230,845	298,793
Fundraising and development	15,250	142,980	158,230
TOTAL EXPENSES	<u>237,609</u>	<u>4,482,426</u>	<u>4,720,035</u>
CHANGE IN NET ASSETS	74,529	1,023,170	1,097,699
NET ASSETS, Beginning of year	<u>206,382</u>	<u>574,259</u>	<u>780,641</u>
NET ASSETS, End of year	<u>\$ 280,911</u>	<u>\$ 1,597,429</u>	<u>\$ 1,878,340</u>

2015

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 923,048
-	7,890
-	3,201,799
-	7,085
-	<u>4,139,822</u>
-	724,064
-	155,462
-	790,631
-	7,755
-	<u>1,677,912</u>
-	<u>5,817,734</u>
-	4,263,012
-	298,793
-	158,230
-	<u>4,720,035</u>
-	1,097,699
-	780,641
<u>\$ -</u>	<u>\$ 1,878,340</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2015**

	Program Costs		
	Legislative	Lobbying	Public Education
Salaries and related expenses	\$ 1,533	\$ -	\$ 10,048
Accounting and outside services	-	-	224
Occupancy	873	-	2,379
Printing, publications and postage	10	-	232
Information technology	11	-	534
Membership development	-	-	-
Office	1,165	-	19
Travel, meals and entertainment	-	44	66
Insurance	-	-	-
Depreciation	-	-	-
Board and volunteer	-	-	-
Gifts	-	-	-
Lobbying services	-	134,000	-
Total Expenses	\$ 3,592	134,044	\$ 13,502

Newsletter	Total Program Costs	Support Services		Total
		Administrative Costs	Membership Support	
\$ -	\$ 11,581	\$ 41,591	\$ 11,687	\$ 64,859
-	224	1,639	-	1,863
-	3,252	4,425	486	8,163
3,273	3,515	564	-	4,079
-	545	1,278	22	1,845
-	-	-	2,999	2,999
-	1,184	1,138	20	2,342
-	110	245	36	391
-	-	177	-	177
-	-	256	-	256
-	-	16,561	-	16,561
-	-	74	-	74
-	134,000	-	-	134,000
<u>\$ 3,273</u>	<u>\$ 154,411</u>	<u>\$ 67,948</u>	<u>\$ 15,250</u>	<u>\$ 237,609</u>

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2015**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 383,928	\$ 185,519	\$ 569,447
Accounting and outside services	5,015	37,114	42,129
Occupancy	42,548	10,189	52,737
Printing, publications and postage	4,409	7,324	11,733
Litigation	3,334,319	-	3,334,319
Information technology	12,901	5,910	18,811
Office expenses	10,426	6,913	17,339
Travel	46,705	7,764	54,469
Depreciation	-	-	-
Insurance	2,955	-	2,955
Board and volunteer	-	-	-
Gifts	100	97	197
Public education forums	1,023	3,442	4,465
Total Expenses	\$ 3,844,329	\$ 264,272	\$ 4,108,601

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 142,023	\$ 114,095	\$ 825,565
26,045	2,860	71,034
6,181	3,146	62,064
4,407	3,712	19,852
-	-	3,334,319
11,048	8,391	38,250
8,989	5,779	32,107
3,578	4,899	62,946
14,402	-	14,402
1,363	-	4,318
11,866	98	11,964
943	-	1,140
-	-	4,465
<u>\$ 230,845</u>	<u>\$ 142,980</u>	<u>\$ 4,482,426</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
March 31, 2014**

	2014	
ASSETS	ACLU	ACLU FOUNDATION
CURRENT ASSETS		
Cash and cash equivalents	\$ 172,812	\$ 663,395
Investments	36,636	127,167
Due from National American Civil Liberties Union, Inc.	3,546	-
Due from related entities	-	7,823
Other accounts receivable	-	27
Prepaid expenses	4,703	17,609
	217,697	816,021
PROPERTY AND EQUIPMENT		
Furniture and equipment	8,229	91,856
	8,229	91,856
Less: Accumulated depreciation	(7,440)	(57,082)
	789	34,774
	218,486	850,795
	\$ 218,486	\$ 850,795

2014

MEMORANDUM TOTAL ONLY	ELIMINATIONS	CONSOLIDATED TOTAL
\$ 836,207	\$ -	\$ 836,207
163,803	-	163,803
3,546	-	3,546
7,823	(7,823)	-
27	-	27
22,312	-	22,312
<u>1,033,718</u>	<u>(7,823)</u>	<u>1,025,895</u>
<u>100,085</u>	<u>-</u>	<u>100,085</u>
<u>100,085</u>	<u>-</u>	<u>100,085</u>
<u>(64,522)</u>	<u>-</u>	<u>(64,522)</u>
<u>35,563</u>	<u>-</u>	<u>35,563</u>
<u>\$ 1,069,281</u>	<u>\$ (7,823)</u>	<u>\$ 1,061,458</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)**

March 31, 2014

	2014	
<u>LIABILITIES</u>	ACLU	ACLU FOUNDATION
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ 14,121
Accrued payroll and related costs	4,281	31,226
Deferred revenue	-	-
Due to related entities	7,823	-
Due to National American Civil Liberties Union, Inc.	-	231,189
	12,104	276,536
TOTAL CURRENT LIABILITIES	12,104	276,536
TOTAL LIABILITIES	12,104	276,536
<u>NET ASSETS</u>		
Unrestricted	206,382	521,752
Temporarily restricted	-	41,031
Permanently restricted	-	11,476
	206,382	574,259
TOTAL NET ASSETS	206,382	574,259
TOTAL LIABILITIES AND NET ASSETS	\$ 218,486	\$ 850,795

2014

MEMORANDUM TOTAL ONLY	ELIMINATIONS	CONSOLIDATED TOTAL
\$ 14,121	\$ -	\$ 14,121
35,507	-	35,507
-	-	-
7,823	(7,823)	-
231,189	-	231,189
288,640	(7,823)	280,817
288,640	(7,823)	280,817
728,134	-	728,134
41,031	-	41,031
11,476	-	11,476
780,641	-	780,641
\$ 1,069,281	\$ (7,823)	\$ 1,061,458

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2014**

	2014		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 8,025	\$ 554,051	\$ 562,076
Bequests	-	40,422	40,422
Legal services donated	-	2,406,164	2,406,164
Other in-kind donations	216	629	845
TOTAL PUBLIC SUPPORT	8,241	3,001,266	3,009,507
OTHER REVENUES			
Grant revenue	-	392,914	392,914
Shared membership fees	162,738	-	162,738
Legal fees awarded	-	-	-
Investment income, net	726	8,004	8,730
TOTAL OTHER REVENUES	163,464	400,918	564,382
TOTAL SUPPORT AND OTHER REVENUES	171,705	3,402,184	3,573,889
<u>EXPENSES</u>			
Program services	115,276	3,186,705	3,301,981
Management and general	69,413	154,397	223,810
Fundraising and development	20,849	133,031	153,880
TOTAL EXPENSES	205,538	3,474,133	3,679,671
CHANGE IN NET ASSETS	(33,833)	(71,949)	(105,782)
NET ASSETS, Beginning of year	240,215	646,208	886,423
NET ASSETS, End of year	\$ 206,382	\$ 574,259	\$ 780,641

2014

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 562,076
-	40,422
-	2,406,164
-	845
-	<u>3,009,507</u>
-	392,914
-	162,738
-	-
-	8,730
-	<u>564,382</u>
-	<u>3,573,889</u>
-	3,301,981
-	223,810
-	153,880
-	<u>3,679,671</u>
-	(105,782)
-	<u>886,423</u>
<u>\$ -</u>	<u>\$ 780,641</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2014**

	Program Costs		
	Legislative	Public Education	Newsletter
Salaries and related expenses	\$ 31,052	\$ 65,551	\$ -
Accounting and outside services	44	1,270	-
Occupancy	1,476	2,308	-
Printing, publications and postage	9	458	7,825
Information technology	295	299	-
Membership development	-	-	-
Office	3,897	7	-
Travel, meals and entertainment	307	478	-
Insurance	-	-	-
Depreciation	-	-	-
Board and volunteer	-	-	-
Gifts	-	-	-
	-	-	-
Total Expenses	\$ 37,080	\$ 70,371	\$ 7,825

Total Program Costs	Support Services		Total
	Administrative Costs	Membership Support	
\$ 96,603	\$ 42,185	\$ 17,202	\$ 155,990
1,314	4,479	-	5,793
3,784	4,430	472	8,686
8,292	706	2	9,000
594	2,930	68	3,592
-	-	2,999	2,999
3,904	1,291	50	5,245
785	966	56	1,807
-	298	-	298
-	1,993	-	1,993
-	9,918	-	9,918
-	217	-	217
<u>\$ 115,276</u>	<u>\$ 69,413</u>	<u>\$ 20,849</u>	<u>\$ 205,538</u>

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2014**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 367,125	\$ 246,296	\$ 613,421
Accounting and outside services	50	13,435	13,485
Occupancy	36,900	10,836	47,736
Printing, publications and postage	657	6,283	6,940
Litigation	2,423,096	-	2,423,096
Information technology	9,355	2,456	11,811
Office expenses	8,134	1,513	9,647
Travel	14,586	9,785	24,371
Depreciation	-	-	-
Insurance	3,601	-	3,601
Professional education	137	-	137
Board and volunteer	-	29	29
Gifts	118	43	161
Public education forums	-	32,270	32,270
Total Expenses	\$ 2,863,759	\$ 322,946	\$ 3,186,705

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 85,920	\$ 101,058	\$ 800,399
15,547	-	29,032
6,140	3,063	56,939
4,009	1,958	12,907
-	-	2,423,096
14,330	8,130	34,271
6,978	6,731	23,356
2,550	11,291	38,212
15,957	-	15,957
1,470	-	5,071
478	110	725
159	165	353
859	525	1,545
-	-	32,270
<u>\$ 154,397</u>	<u>\$ 133,031</u>	<u>\$ 3,474,133</u>