

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

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

**FISCAL YEARS ENDED MARCH 31, 2012
AND 2011**

August 21, 2012

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

Board of Directors
ACLU of Arizona and ACLU Foundation of Arizona

We have audited the accompanying consolidated statements of financial position of the ACLU of Arizona, a not-for-profit organization, and its affiliate, the ACLU Foundation of Arizona (the Organization) as of March 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACLU of Arizona and its affiliate, the ACLU Foundation of Arizona as of March 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the ACLU of Arizona and its affiliate, the ACLU Foundation of Arizona as a whole. The Consolidating Schedules and the Schedules of Functional Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the 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, Arizona
August 21, 2012

FINANCIAL STATEMENTS

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2012 AND 2011**

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,018,165	\$ 624,004
Investments	48,125	46,013
Due from American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	-	124,286
Pledges receivable	2,500	700
Other accounts receivable	21,189	3,340
Prepaid expenses	17,655	25,026
TOTAL CURRENT ASSETS	<u>1,107,634</u>	<u>823,369</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	<u>83,083</u>	<u>75,785</u>
TOTAL PROPERTY AND EQUIPMENT	<u>83,083</u>	<u>75,785</u>
Less: Accumulated depreciation	<u>(40,138)</u>	<u>(25,662)</u>
NET PROPERTY AND EQUIPMENT	<u>42,945</u>	<u>50,123</u>
TOTAL ASSETS	<u><u>\$ 1,150,579</u></u>	<u><u>\$ 873,492</u></u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2012 AND 2011**

<u>LIABILITIES</u>	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts payable	\$ 5,466	\$ 7,325
Accrued payroll and related costs	33,353	19,827
Deferred revenue	1,275	-
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	131,855	-
Capital lease	2,342	2,498
TOTAL CURRENT LIABILITIES	174,291	29,650
LONG-TERM LIABILITIES		
Capital lease	-	2,342
TOTAL LONG-TERM LIABILITIES	-	2,342
TOTAL LIABILITIES	174,291	31,992
<u>NET ASSETS</u>		
Unrestricted	863,568	794,261
Temporarily restricted	102,732	37,287
Permanently restricted	9,988	9,952
TOTAL NET ASSETS	976,288	841,500
TOTAL LIABILITIES AND NET ASSETS	\$ 1,150,579	\$ 873,492

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>SUPPORT AND OTHER REVENUES</u>				
PUBLIC SUPPORT				
Donations	\$ 416,974	\$ 2,500	\$ -	\$ 419,474
Bequests	119,055	-	-	119,055
Special event revenue	-	-	-	-
Legal services donated	1,644,764	-	-	1,644,764
Other in-kind donations	8,355	-	-	8,355
TOTAL PUBLIC SUPPORT	2,189,148	2,500	-	2,191,648
OTHER REVENUES				
Grant revenue	300,899	94,061	-	394,960
Shared membership revenues	173,508	-	-	173,508
Legal fees awarded	79,324	-	-	79,324
Investment income, net	(1,335)	-	36	(1,299)
TOTAL OTHER REVENUES	552,396	94,061	36	646,493
NET ASSETS RELEASED FROM RESTRICTIONS	31,116	(31,116)	-	-
TOTAL SUPPORT AND OTHER REVENUES	2,772,660	65,445	36	2,838,141
<u>EXPENSES</u>				
Program services	2,214,236	-	-	2,214,236
Management and general	381,728	-	-	381,728
Fundraising and development	107,389	-	-	107,389
TOTAL EXPENSES	2,703,353	-	-	2,703,353
CHANGE IN NET ASSETS	69,307	65,445	36	134,788
NET ASSETS, Beginning of year	794,261	37,287	9,952	841,500
NET ASSETS, End of year	\$ 863,568	\$ 102,732	\$ 9,988	\$ 976,288

Read the accompanying notes to the financial statements.

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 394,420	\$ 700	\$ -	\$ 395,120
21,315	-	-	21,315
391	-	-	391
1,159,939	-	-	1,159,939
2,820	-	-	2,820
<u>1,578,885</u>	<u>700</u>	<u>-</u>	<u>1,579,585</u>
370,108	25,000	-	395,108
156,209	-	-	156,209
20,562	-	-	20,562
3,614	-	1,101	4,715
<u>550,493</u>	<u>25,000</u>	<u>1,101</u>	<u>576,594</u>
130,376	(130,376)	-	-
<u>2,259,754</u>	<u>(104,676)</u>	<u>1,101</u>	<u>2,156,179</u>
1,728,630	-	-	1,728,630
329,769	-	-	329,769
125,740	-	-	125,740
<u>2,184,139</u>	<u>-</u>	<u>-</u>	<u>2,184,139</u>
75,615	(104,676)	1,101	(27,960)
<u>718,646</u>	<u>141,963</u>	<u>8,851</u>	<u>869,460</u>
<u>\$ 794,261</u>	<u>\$ 37,287</u>	<u>\$ 9,952</u>	<u>\$ 841,500</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2012</u>	<u>2011</u>
Change in Net Assets	\$ 134,788	\$ (27,960)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,534	9,161
(Increase)/decrease in assets:		
Due from American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	124,286	(23,744)
Pledges receivable	(1,800)	44,808
Other receivable	(17,849)	(3,340)
Prepaid expenses	7,371	(10,927)
Increase/(decrease) in liabilities:		
Accounts payable	(1,859)	524
Accrued payroll and taxes	13,526	1,036
Deferred revenue	1,275	-
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	131,855	-
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>407,127</u>	<u>(10,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds (loss) from investment activities	(2,112)	285,475
Purchase of equipment	(8,356)	(47,049)
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	<u>(10,468)</u>	<u>238,426</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(2,498)	(1,934)
NET CASH USED BY FINANCING ACTIVITIES	<u>(2,498)</u>	<u>(1,934)</u>
Net increase in cash and cash equivalents	394,161	226,050
Cash and cash equivalents at beginning of year	624,004	397,954
Cash and cash equivalents at end of year	<u>\$ 1,018,165</u>	<u>\$ 624,004</u>

Read the accompanying notes to the financial statements.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The ACLU of Arizona (the "Organization") is comprised of two separate corporate entities, the ACLU of Arizona, (the "Union") and the ACLU Foundation of Arizona, (the "Foundation")

The ACLU of Arizona is a not-for-profit membership organization which was incorporated in Arizona in 1968 as a 501(c)(4) organization. The Union's purpose is to maintain and protect civil liberties in Arizona through legislative advocacy and public education. The Union lobbies at the local and state levels, working to influence public policies that threaten individual rights. The Union also is responsible for engaging and informing members on how to safeguard personal freedoms and build political power.

The Board of Directors of the Union authorizes the creation of volunteer-run chapters who serve as the eyes and ears of the ACLU around the state. During the reported fiscal years there were three active chapters in Arizona.

The ACLU Foundation of Arizona is an Arizona not-for-profit corporation organized to maintain and protect civil liberties in Arizona through public education and litigation. The Foundation was incorporated in 1971 as a 501(c)(3) organization. The Foundation defends constitutional guarantees outlined in the Bill of Rights, and works to extend rights to segments of the population that have traditionally been denied their rights, including people of color; lesbians, gay men, bisexual and transgendered people; women; mental-health patients; prisoners; people with disabilities; and the poor.

The Union and the Foundation share equipment, office space, personnel and operating costs. The Union and the Foundation reimburse each other to support their respective share of operations.

The Financial Accounting Standards Board (FASB) sets U.S. generally accepted accounting principles (GAAP) to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification (FASB ASC).

A summary of the Union's and Foundation's more significant accounting policies follows.

Basis of Consolidation

ACLU of Arizona and ACLU Foundation of Arizona have adopted the provisions of FASB ASC 958-810, *Not-for-Profit Entities – Consolidation*, which requires consolidated financial statements for certain related entities. Accordingly, the financial statements include the consolidated transactions and balances of the Union and Foundation and have been prepared in accordance with the accrual basis of accounting. Significant transactions and balances between the Union and the Foundation have been eliminated.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accompanying general purpose financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other assets and liabilities. Revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The accompanying financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Union or Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes. Only the Foundation had permanently restricted net assets during the fiscal years presented here.

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 in interest-bearing accounts are insured up to a maximum limit of \$250,000 by the Federal Deposit Insurance Corporation (FDIC), and cash held in non-interest-bearing accounts in financial institutions currently have unlimited coverage by the FDIC.

Investments - Investments are recorded at fair market value as determined by quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change of net assets in the accompanying statements of activities.

Pledges Receivable - Pledges receivable are unconditional promises to give with collection over a designated amount of time. Pledges receivable are reported at their outstanding principal balance, discounted to present value, net of allowance for doubtful accounts as of March 31, 2012 and 2011, based on the Foundation's evaluation of collectability which is reviewed on a case-by-case basis. Amounts deemed to be uncollectible are charged to bad debt expense upon approval by management. Subsequent collection of these receivables is recorded by the Foundation as revenue.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - Land, buildings, equipment and furniture with a cost of \$1,000 or more and an estimated life of more than one year are capitalized. Property and equipment are stated at cost or, if acquired through donation, at fair value on the date of acquisition. Expenditures for routine repairs and maintenance are charged to operations as incurred. Expenditures which substantially extend the useful life of an asset are capitalized. Depreciation is calculated on the straight-line method over the following useful lives:

Furniture	7 years
Equipment	5 years
Software	3 years

Donated Services - Donated services are recognized as contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, at their estimated fair value if the services (a) create or enhance the Organization's non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. The contributed services are reflected as unrestricted revenues with an equal and offsetting amount in unrestricted expenses in the statements of activities resulting in no net impact on the changes in net assets during the year.

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

Additionally, a substantial number of unpaid volunteers have contributed significant amounts of time to develop the programs of the Union and the Foundation. For example, there are three active chapters within the state that are completely volunteer-run. Chapter members organize public education events to advocate on a wide range of public policies that impact civil liberties issues. The value of this time is not reflected in the financial statements because it does not meet the requirements of FASB ASC 958-605 for recognition.

Major Revenue Sources - The Union's major sources of revenue are base renewable income (shared membership revenues) and bequests. The Foundation's major sources of revenue are donated legal services, contributions, legal fee awards and grants from the National ACLU Foundation.

Concentration of Credit Risk - The Organization places its cash with established financial institutions. At times, cash may be in excess of FDIC insurance limits.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of certain contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status - The Union and the Foundation are exempt from Federal and Arizona income taxes. The Union is exempt under Section 501(c)(4) of the Internal Revenue Code, as amended, and the Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code, as amended. Neither the Union nor the Foundation accrued any income or excise tax because they did not have any unrelated business or net investment income activities subject to those taxes.

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

NOTE 2 - CASH AND CASH EQUIVALENTS

The Union and Foundation maintain their cash with four different financial institutions with the exception of petty cash for the Foundation of \$50.

As of March 31, 2012 and 2011 the carrying amounts of deposits were \$1,018,115 and \$623,954, respectively. As of March 31, 2012 and 2011, bank balances for both the Union and the Foundation were within the amounts covered by the FDIC.

NOTE 3 - INVESTMENTS

Fair Value Measurement – FASB ASC 820-10, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820-10, are used to measure fair value. The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

- *Level 1 investments* – Valuation based on unadjusted quoted prices within active markets for identical assets accessible by the Organization (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade). The Union and the Foundation have no such investments.
- *Level 2 investments* – Valuation based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset.
- *Level 3 investments* – Valuation based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances. The Union and the Foundation have no such investments.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 3 – INVESTMENTS (CONTINUED)

As of March 31, 2012 and 2011, all investments for the Union and the Foundation consisted of level 2 investments in the form of certificates of deposit and a trust held by the American Civil Liberties Union Foundation, Inc. (National ACLUF). The Organization's policy is to liquidate stock donations immediately upon receipt therefore the related gains or losses on the sale of stock are recognized in the financial statements in the year of the acquisition. Net investment loss for the year ended March 31, 2012 of \$1,299 was composed of interest income of \$2,852, with \$4,151 in net realized and unrealized investment losses. Net investment income for the year ended March 31, 2011 of \$4,715 was composed of interest income of \$4,165, with \$550 in net realized and unrealized investment gains.

NOTE 4 - PLEDGES RECEIVABLE

The Union did not report any pledges receivable at March 31, 2012 or 2011. The Foundation reported the following pledges receivable at March 31, 2012 and 2011:

Foundation:	<u>2012</u>	<u>2011</u>
Pledges receivable	\$ 2,500	\$ 700
Less: Discount to present Value	<u>-</u>	<u>-</u>
Net pledges receivable	<u>\$ 2,500</u>	<u>\$ 700</u>

The management of the Organization considers the receivables to be 100 percent collectible; therefore, no allowance for doubtful accounts is reported. All pledges are expected to be collected within one year.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment owned by the Union and Foundation as of March 31, 2012 and 2011 consisted of office furniture and equipment as follows:

	<u>2012</u>	<u>2011</u>
Union	\$ 6,950	\$ 6,950
Foundation	<u>76,133</u>	<u>68,835</u>
Total	<u>\$ 83,083</u>	<u>\$ 75,785</u>

Depreciation expense for the Union for the years ended March 31, 2012 and 2011 were \$2,317 and \$579 respectively. Depreciation expense for the Foundation for the years ended March 31, 2012 and 2011 were \$13,217 and \$8,582 respectively.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 6 – ACCRUED PAYROLL AND RELATED COSTS

The Union and the Foundation carry forward compensated absences for accrued vacation. Per the Organization’s personnel policy, no more than 5 days of vacation can be carried over past hire date anniversary. The accrued compensated absences, wages and related costs payable for the years ended March 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Compensated absences	\$ 20,367	\$ 11,140
Accrued wages	11,998	6,832
Other related costs	<u>989</u>	<u>1,855</u>
Total accrued payroll & taxes	<u>\$ 33,354</u>	<u>\$ 19,827</u>

NOTE 7 - CAPITAL LEASE OBLIGATIONS

During the 2008 fiscal year, the Foundation entered into a capital lease agreement for a new copier. The obligation has an implied interest rate of 25.88% payable in monthly installments of \$289, aggregating to \$17,340 through December 2012 and is collateralized by the leased equipment.

As of March 31, 2012, the total remaining lease payments under the capital lease for the year ending March 31, 2013 were \$2,342. The asset acquired under a capital lease is recorded at \$9,676, and the accumulated depreciation on the asset as of March 31, 2012 and 2011 was \$8,225 and \$6,289 respectively.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

As of March 31, 2012 and 2011, the Union did not have any temporarily restricted net assets.

The Foundation receives grants from the American Civil Liberties Union Foundation, Inc. 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, 2012 and 2011, the temporarily restricted net assets for the Foundation included:

	<u>2012</u>	<u>2011</u>
Pledges receivable	\$ 2,500	\$ 700
Strategic Affiliate Initiative grant	94,061	-
National Detention Watch grant	-	21,727
National School to Prison Pipeline grant	-	4,338
Staff Enhancement Development Director grant	<u>6,171</u>	<u>10,522</u>
Total Temporarily Restricted Net Assets	<u>\$ 102,732</u>	<u>\$ 37,287</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

As of March 31, 2012 and 2011, 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, 2012 and 2011, the Foundation's share of that trust was \$9,988 and \$9,952 respectively.

NOTE 10 - RETIREMENT PLAN

Defined Benefit Plan -The American Civil Liberties Union Retirement Plan is a defined benefit multi-employer plan which covers eligible employees of the national organization of the American Civil Liberties Union, Inc., and the American Civil Liberties Union Foundation, Inc., and state affiliates, which includes the Union and the Foundation. Effective April 1, 2009, this plan was frozen for new participants. All funds of the plan are held by Principal Mutual Life Insurance Company under a benefit index payment plan.

The defined benefit plan includes numerous participating affiliates. It is not practicable for the actuary to compute accumulated and projected benefit obligations for individual affiliates. Accumulated and projected benefit obligations and other required disclosures for the plan covering all participating entities are presented in the National ACLU consolidated financial statements. Contributions to the plan for the years ended March 31, 2012 and 2011 were as follows:

Defined Benefit Plan Contribution:	2012	2011
Union	\$ 6,495	\$ 459
Foundation	16,700	3,073
Total defined benefit plan contribution	\$ 23,195	\$ 3,532

401(k) Plan - On July 1, 2000, the American Civil Liberties Union, Inc. and the American Civil Liberties Union Foundation, Inc., and affiliates, established a 401(k) pension plan for the benefit of regular employees. This plan is available for eligible employees hired before April 1, 2009. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate in the 401(k) plan on the first day of the calendar quarter following thirty days of service. Employees may contribute up to the maximum allowed by current legislation.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 10 - RETIREMENT PLAN (CONTINUED)

ERISA 404(c) Plan – This plan is available for eligible employees hired after April 1, 2009. Employees that are at least 21 years old and not enrolled in any other ACLU qualified plan are eligible to participate immediately. Plan participants may contribute up to 80% of their pay each year up to a maximum amount permitted per the current tax laws. The Organization contributes 2% of the participant's gross wages, as well as matching the first 1% employee deferral and 50% of the next 5% deferred. Participants are always 100% vested in their employee deferrals. The Plan follows a two year vesting schedule for employer contributions and matches. Contributions to the ERISA 404(c) plan for the Union and Foundation for the years ended March 31, 2012 and 2011 were as follows:

404(c) Plan Contribution:	2012	2011
Union	\$ 2,134	\$ 1,254
Foundation	6,130	3,326
Total 404(c) contribution	\$ 8,264	\$ 4,580

NOTE 11 - RELATED PARTY TRANSACTIONS

The Organization shares both membership and tax-deductible donations with the National ACLU and the National ACLU Foundation. The ACLU National office utilizes a complex revenue sharing formula for distributing and collecting funds from local affiliates. For any year in which the Arizona affiliates raise more in donations than the National Office raises on behalf of Arizona, the Arizona affiliate must pay the difference to National and vice versa. The net receivable or payable for the years ended March 31, 2012 and 2011 were as follows:

Due (to)/from National:	2012	2011
Union:		
Base Renewal Income share	\$ 15,969	\$ 12,399
Revenue sharing	(49,321)	-
Bequests	-	1,093
Membership dues	(20)	(1,145)
Total (to)/due from National to Union	(33,372)	12,347
Foundation:		
Revenue sharing	(98,483)	86,939
Grants	-	25,000
Bequests	-	-
Total due (to)/from National to Foundation	(98,483)	111,939
Total due (to)/from National	(\$131,855)	\$ 124,286

For the years ended March 31, 2012 and 2011, the Union received \$173,508 and \$156,209 respectively of Shared Membership income from the National ACLU.

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 11 - RELATED PARTY TRANSACTIONS (CONTINUED)

In 2010, the Foundation agreed to participate in the Strategic Affiliate Initiative, a one-time capacity-building grant from the National ACLU Foundation which provides funding for key staff positions. The grant is scheduled to end during the year 2017. For the years ended March 31, 2012 and 2011, the Foundation received \$394,960 and \$370,108 respectively from this grant.

For the years ended March 31, 2012 and 2011, the Foundation incurred \$255,625 and \$169,833 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, 2012 and 2011, there were outstanding related party balances for the shared expenses as follows:

Due to/from Arizona related entities:	<u>2012</u>	<u>2011</u>
Union:		
Due (to)/from Foundation	\$ (48,760)	\$ (7,310)
Foundation:		
Due (to)/from Union	<u>48,760</u>	<u>7,310</u>
Total due (to)/from Arizona related entities	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments – The Organization has an agreement to lease office space under an operating lease expiring April 30, 2016. The Union's and Foundation's portions of the lease expense for the years ended March 31, 2012 and 2011 were:

Lease expense:	<u>2012</u>	<u>2011</u>
Union	\$ 16,518	\$ 7,502
Foundation	<u>49,560</u>	<u>47,425</u>
Total lease expense	<u>\$ 66,078</u>	<u>\$ 54,927</u>

The total future minimum lease payments are as follows:

Year ending March 31,	
2013	64,525
2014	49,844
2015	50,931
2016	52,200
2017	<u>5,800</u>
	<u>\$223,300</u>

**ACLU OF ARIZONA AND
ACLU FOUNDATION OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011**

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Risk Management - The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. The Organization carries commercial insurance for all such risks of loss. There were no claims during the audit periods. The insurance coverage is reviewed annually for adequate loss protection. The Organization is insured by Farmers Insurance Group for general liability, by National Legal Aid and Defender's Association for professional and fiduciary liability, and by the State Compensation Fund of Arizona for Workmen's Compensation.

Litigation - The Union and Foundation are contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the Organization's management, their insurance coverage is deemed adequate to cover claims relating to normal operations, and decisions that might adversely impact the Organization would not have a material effect on the financial statements. Accordingly, no provision for possible losses is reflected in the financial statements. The Union and Foundation were not involved, as of the close of field work, in any pending or threatened litigation that could materially affect the Organization's financial position and results of operations at March 31, 2012 or 2011.

NOTE 13 - CONCENTRATIONS

For the fiscal years ended March 31, 2012 and 2011, the Union and the Foundation received a large portion of their revenue from the National ACLU and ACLU Foundation including shared revenues and grants. These concentrations were as follows:

	<u>2012</u>	<u>2011</u>
Union	77%	87%
Foundation	16%	24%

NOTE 14 - RESTATEMENT

A deposit of \$1,490 reported in property and equipment in the prior-year financial statements has been reclassified for comparative purposes to conform with the presentation as prepaid expense in the current-year financial statements.

NOTE 15 - SUBSEQUENT EVENTS

The Organization has evaluated events through August 21, 2012 which is the date of the audit report, and there are no subsequent events requiring disclosure.

SUPPLEMENTARY INFORMATION

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

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

2012

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

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

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

2012

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

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

	2012		
	ACLU	ACLU FOUNDATION	MEMORANDUM TOTAL ONLY
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 51,489	\$ 367,985	\$ 419,474
Bequests	2,735	116,320	119,055
Special event revenue	-	-	-
Legal services donated	-	1,644,764	1,644,764
Other in-kind donations	-	8,355	8,355
TOTAL PUBLIC SUPPORT	54,224	2,137,424	2,191,648
OTHER REVENUES			
Grant revenue	-	394,960	394,960
Shared membership fees	173,508	-	173,508
Legal fees awarded	-	79,324	79,324
Investment income, net	2,577	(3,876)	(1,299)
TOTAL OTHER REVENUES	176,085	470,408	646,493
TOTAL SUPPORT AND OTHER REVENUES	230,309	2,607,832	2,838,141
<u>EXPENSES</u>			
Program services	169,967	2,044,269	2,214,236
Management and general	109,829	271,899	381,728
Fundraising and development	17,142	90,247	107,389
TOTAL EXPENSES	296,938	2,406,415	2,703,353
CHANGE IN NET ASSETS	(66,629)	201,417	134,788
NET ASSETS, Beginning of year	396,326	445,174	841,500
NET ASSETS, End of year	\$ 329,697	\$ 646,591	\$ 976,288

2012

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 419,474
-	119,055
-	-
-	1,644,764
-	8,355
-	<u>2,191,648</u>
-	394,960
-	173,508
-	79,324
-	<u>(1,299)</u>
-	<u>646,493</u>
-	<u>2,838,141</u>
-	2,214,236
-	381,728
-	<u>107,389</u>
-	<u>2,703,353</u>
-	134,788
-	<u>841,500</u>
<u>\$ -</u>	<u>\$ 976,288</u>

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

	Program Costs		Total Program Costs
	Legislative	Public Education	
Salaries and related expenses	\$ 76,557	\$ 56,758	\$ 133,315
Accounting and outside services	-	-	-
Occupancy	-	106	106
Printing, publications and postage	1,086	22,008	23,094
Membership development	-	-	-
Office	5,119	193	5,312
Travel, meals and entertainment	2,499	2,063	4,562
Insurance	-	-	-
Depreciation	-	-	-
Interest	-	-	-
Board and volunteer	-	1,053	1,053
Public education forums	238	2,287	2,525
Total Expenses	\$ 85,499	\$ 84,468	\$ 169,967

Support Services

<u>Administrative Costs</u>	<u>Membership Support</u>	<u>Total</u>
\$ 55,841	\$ 10,358	\$ 199,514
8,507	-	8,507
22,995	-	23,101
1,035	1,102	25,231
72	5,596	5,668
3,023	-	8,335
2,910	86	7,558
658	-	658
2,317	-	2,317
262	-	262
12,209	-	13,262
-	-	2,525
<u>\$ 109,829</u>	<u>\$ 17,142</u>	<u>\$ 296,938</u>

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

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 234,107	\$ 108,660	\$ 342,767
Accounting and outside services	2,624	10,665	13,289
Occupancy	-	-	-
Printing, publications and postage	582	4,691	5,273
Litigation	1,660,662	-	1,660,662
Information technology	915	354	1,269
Office expenses	4,868	333	5,201
Travel	6,460	4,879	11,339
Depreciation	-	-	-
Insurance	-	-	-
Professional education	-	-	-
Interest	-	-	-
Equipment rental	3,585	-	3,585
Board and volunteer	-	-	-
Recruitment	-	-	-
Gifts	106	55	161
Public education forums	-	723	723
Total Expenses	\$ 1,913,909	\$ 130,360	\$ 2,044,269

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 127,764	\$ 63,155	\$ 533,686
33,826	4,603	51,718
49,560	-	49,560
5,824	-	11,097
-	-	1,660,662
18,180	7,088	26,537
9,437	7,093	21,731
3,331	6,595	21,265
13,217	-	13,217
3,698	-	3,698
3,008	1,713	4,721
708	-	708
1,705	-	5,290
114	-	114
1,367	-	1,367
149	-	310
11	-	734
<u>\$ 271,899</u>	<u>\$ 90,247</u>	<u>\$ 2,406,415</u>

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
March 31, 2011

ASSETS	ACLU	2011 ACLU FOUNDATION (Restated)	MEMORANDUM TOTAL ONLY
CURRENT ASSETS			
Cash and cash equivalents	\$ 351,191	\$ 272,813	\$ 624,004
Investments	35,376	10,637	46,013
Due from American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	12,347	111,939	124,286
Due from related entities	-	7,310	7,310
Pledges receivable	-	700	700
Other accounts receivable	-	3,340	3,340
Prepaid expenses	3,179	21,847	25,026
TOTAL CURRENT ASSETS	402,093	428,586	830,679
PROPERTY AND EQUIPMENT			
Furniture and equipment	6,950	68,835	75,785
TOTAL PROPERTY AND EQUIPMENT	6,950	68,835	75,785
Less: Accumulated depreciation	(579)	(25,083)	(25,662)
NET PROPERTY AND EQUIPMENT	6,371	43,752	50,123
TOTAL ASSETS	\$ 408,464	\$ 472,338	\$ 880,802

<u>2011</u>	
<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL (Restated)</u>
\$ -	\$ 624,004
-	46,013
-	124,286
(7,310)	-
-	700
-	3,340
-	25,026
<u>(7,310)</u>	<u>823,369</u>
<u>-</u>	<u>75,785</u>
<u>-</u>	<u>75,785</u>
<u>-</u>	<u>(25,662)</u>
<u>-</u>	<u>50,123</u>
<u>\$ (7,310)</u>	<u>\$ 873,492</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
March 31, 2011**

	2011		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 880	\$ 6,445	\$ 7,325
Accrued payroll and related costs	3,948	15,879	19,827
Deferred revenue	-	-	-
Due to related entities	7,310	-	7,310
Due to American Civil Liberties Union, Inc. and ACLU Foundation, Inc.	-	-	-
Capital lease - current portion	-	2,498	2,498
TOTAL CURRENT LIABILITIES	12,138	24,822	36,960
LONG-TERM LIABILITIES			
Capital lease	-	2,342	2,342
TOTAL LONG-TERM LIABILITIES	-	2,342	2,342
TOTAL LIABILITIES	12,138	27,164	39,302
<u>NET ASSETS</u>			
Unrestricted	396,326	397,935	794,261
Temporarily restricted	-	37,287	37,287
Permanently restricted	-	9,952	9,952
TOTAL NET ASSETS	396,326	445,174	841,500
TOTAL LIABILITIES AND NET ASSETS	\$ 408,464	\$ 472,338	\$ 880,802

2011

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
-	\$ 7,325
-	19,827
-	-
(7,310)	-
-	-
-	2,498
<u>(7,310)</u>	<u>29,650</u>
-	2,342
-	2,342
<u>(7,310)</u>	<u>31,992</u>
-	794,261
-	37,287
-	9,952
-	841,500
<u>\$ (7,310)</u>	<u>\$ 873,492</u>

**ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA
CONSOLIDATING SCHEDULES OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2011**

	2011		MEMORANDUM TOTAL ONLY
	ACLU	ACLU FOUNDATION	
<u>SUPPORT AND OTHER REVENUES</u>			
PUBLIC SUPPORT			
Donations	\$ 200	\$ 394,920	\$ 395,120
Bequests	21,315	-	21,315
Special event revenue	-	391	391
Legal services donated	-	1,159,939	1,159,939
Other in-kind donations	-	2,820	2,820
TOTAL PUBLIC SUPPORT	21,515	1,558,070	1,579,585
OTHER REVENUES			
Grant revenue	-	395,108	395,108
Shared membership fees	156,209	-	156,209
Legal fees awarded	-	20,562	20,562
Investment income, net	2,309	2,406	4,715
TOTAL OTHER REVENUES	158,518	418,076	576,594
TOTAL SUPPORT AND OTHER REVENUES	180,033	1,976,146	2,156,179
<u>EXPENSES</u>			
Program services	115,089	1,613,541	1,728,630
Management and general	60,537	269,232	329,769
Fundraising and development	21,703	104,037	125,740
TOTAL EXPENSES	197,329	1,986,810	2,184,139
CHANGE IN NET ASSETS	(17,296)	(10,664)	(27,960)
NET ASSETS, Beginning of year	413,622	455,838	869,460
NET ASSETS, End of year	\$ 396,326	\$ 445,174	\$ 841,500

2011

<u>ELIMINATIONS</u>	<u>CONSOLIDATED TOTAL</u>
\$ -	\$ 395,120
-	21,315
-	391
-	1,159,939
-	2,820
-	<u>1,579,585</u>
-	395,108
-	156,209
-	20,562
-	4,715
-	<u>576,594</u>
-	<u>2,156,179</u>
-	1,728,630
-	329,769
-	125,740
-	<u>2,184,139</u>
-	(27,960)
-	<u>869,460</u>
<u>\$ -</u>	<u>\$ 841,500</u>

**ACLU OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2011**

	Program Costs		Total Program Costs
	Legislative	Public Education	
Salaries and related expenses	\$ 46,168	\$ 42,856	\$ 89,024
Accounting and outside services	625	3,933	4,558
Occupancy	-	-	-
Printing, publications and postage	60	15,416	15,476
Membership development	-	-	-
Office	3,629	41	3,670
Travel, meals and entertainment	1,481	757	2,238
Insurance	-	-	-
Depreciation	-	-	-
Interest	-	-	-
Board and volunteer	-	-	-
Public education forums	35	88	123
Total Expenses	\$ 51,998	\$ 63,091	\$ 115,089

Support Services

<u>Administrative Costs</u>	<u>Membership Support</u>	<u>Total</u>
\$ 36,087	\$ 14,466	\$ 139,577
3,481	-	8,039
13,538	-	13,538
606	915	16,997
-	6,273	6,273
2,106	-	5,776
2,189	49	4,476
693	-	693
579	-	579
199	-	199
1,059	-	1,059
-	-	123
<u>\$ 60,537</u>	<u>\$ 21,703</u>	<u>\$ 197,329</u>

**ACLU FOUNDATION OF ARIZONA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2011**

	Program Costs		Total Program Costs
	Legal	Public Education	
Salaries and related expenses	\$ 246,498	\$ 124,182	\$ 370,680
Accounting and outside services	7,151	7,918	15,069
Occupancy	-	-	-
Printing, publications and postage	4,227	11,679	15,906
Litigation	1,182,955	-	1,182,955
Information technology	1,595	203	1,798
Office expenses	1,125	307	1,432
Travel	12,115	5,308	17,423
Event	-	-	-
Depreciation	-	-	-
Insurance	-	-	-
Professional education	2,327	4	2,331
Interest	-	-	-
Board and volunteer	26	-	26
Gifts	-	-	-
Public education forums	-	5,921	5,921
Bad debt expense (pledges)	-	-	-
Total Expenses	\$ 1,458,019	\$ 155,522	\$ 1,613,541

Support Services

<u>Administrative Costs</u>	<u>Fund Development</u>	<u>Total</u>
\$ 86,404	\$ 50,762	\$ 507,846
19,531	28,525	63,125
60,528	-	60,528
3,425	3,070	22,401
-	-	1,182,955
20,573	6,578	28,949
12,567	2,544	16,543
3,313	7,720	28,456
-	4,787	4,787
8,582	-	8,582
3,693	-	3,693
1,471	-	3,802
1,347	-	1,347
2,962	-	2,988
195	51	246
-	-	5,921
44,641	-	44,641
<u>\$ 269,232</u>	<u>\$ 104,037</u>	<u>\$ 1,986,810</u>