

# **ACLU of Arizona and ACLU Foundation of Arizona**

Consolidated Financial Statements

March 31, 2023

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
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## INDEPENDENT AUDITORS' REPORT

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

### **Opinion**

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

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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Consolidated Financial Statements**

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACLU of Arizona and ACLU Foundation of Arizona's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ACLU of Arizona and ACLU Foundation of Arizona's ability to continue as a going concern for a reasonable period of time.

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

### **Change in Accounting Principle**

As described in Note 1 to the consolidated financial statements, on April 1, 2022, the Organization adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update 2016-02, *Leases* (Topic 842), and its related amendments. Our opinion is not modified with respect to this matter.

*Baker Tilly US, LLP*

Tempe, Arizona  
November 29, 2023

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
March 31, 2023

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,163,338
Promise to give, current portion	100,000
Due from National American Civil Liberties Union, Inc., net	261,083
Prepaid expenses and other assets	<u>42,537</u>
TOTAL CURRENT ASSETS	<u>2,566,958</u>

OTHER ASSETS

Investments	
Endowment	278,370
Other investments	<u>7,935,140</u>
	8,213,510
Operating lease right-of-use assets	70,448
Property and equipment, net	5,000
Deposits	<u>6,744</u>
TOTAL OTHER ASSETS	<u>8,295,702</u>

TOTAL ASSETS \$ 10,862,660

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 44,518
Accrued expenses	194,650
Operating lease liabilities, current portion	<u>86,206</u>
TOTAL CURRENT LIABILITIES	<u>325,374</u>

NET ASSETS

Without donor restrictions	9,361,488
With donor restrictions	<u>1,175,798</u>
TOTAL NET ASSETS	<u>10,537,286</u>

TOTAL LIABILITIES AND NET ASSETS \$ 10,862,660

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended March 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>SUPPORT AND REVENUE</b>			
Donations	\$ 1,357,703	\$ -	\$ 1,357,703
Bequests	501,128	-	501,128
In-kind donations	977,787	-	977,787
Grant revenue	172,574	272,926	445,500
Shared membership contribution	850,193	-	850,193
Legal fees awarded	573,599	-	573,599
Investment loss	(234,911)	(14,920)	(249,831)
Net assets released from restrictions	901,867	(901,867)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>5,099,940</b>	<b>(643,861)</b>	<b>4,456,079</b>
<b>EXPENSES</b>			
Program services expenses	3,721,443	-	3,721,443
Supporting services expenses			
Management and general	429,819	-	429,819
Fundraising	404,232	-	404,232
<b>TOTAL EXPENSES</b>	<b>4,555,494</b>	<b>-</b>	<b>4,555,494</b>
<b>CHANGE IN NET ASSETS</b>	<b>544,446</b>	<b>(643,861)</b>	<b>(99,415)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>8,817,042</b>	<b>1,819,659</b>	<b>10,636,701</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 9,361,488</b>	<b>\$ 1,175,798</b>	<b>\$ 10,537,286</b>

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended March 31, 2023

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

See accompanying notes.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended March 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (99,415)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization of operating leases right-of-use assets	174,792
Net realized/unrealized (gain)/loss on investments	356,409
(Increase) decrease in:	
Promise to give	200,000
Due from/due to National ACLU	1,247,987
Grants receivable	289,000
Prepaid expenses and other assets	31
Increase (decrease) in:	
Accounts payable	6,967
Accrued expenses	39,419
Operating lease liabilities	<u>(159,034)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,056,156</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investment through dividends reinvested	(106,578)
Purchases of investments	(4,059,579)
Proceeds from redemption of certificates of deposit	<u>159,962</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(4,006,195)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,950,039)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
	<u>4,113,377</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,163,338</u>

See accompanying notes.



ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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 (collectively the “Organization”) share equipment, office space, personnel and operating costs. The Union and the Foundation reimburse each other to support their respective share of operations.

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

Program Services

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Program Services (Continued)

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

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

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

Principles of Consolidation

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Basis of Accounting

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Promises to Give

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

Fair Value of Financial Instruments

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

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

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Fair Value of Financial Instruments (Continued)

Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul>
	If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

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

Investments

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

Risks and Uncertainty

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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 property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

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

Impairment of Long-Lived Assets

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

Endowment Funds

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

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Endowment Funds (Continued)

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

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

Net Assets

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

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions or required to be held in perpetuity. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Contributions

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

In-Kind Donations and Adoption of Accounting Standard

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU was issued to increase the transparency of contributed nonfinancial (non-cash) assets for not-for-profit entities through enhancements to presentation and disclosure. The change in accounting principle was adopted on a retrospective basis as of April 1, 2022. There was no adjustment to the beginning net assets balance as a result of the adoption of this standard.

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. Since awards are not determinable until resolution of the litigation, such amounts are not recorded until received.

Shared Membership Contribution

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

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. The consolidated financial statements of the Organization report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated based on use, square footage basis, as well as salaries and benefits, which are allocated on the basis of time and effort studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

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

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

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

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



ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Use of Estimates

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

Leases and Adoption of Accounting Standard

Effective April 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the non-cancelable lease term. At the date of adoption, the Organization recorded operating lease right-of-use assets and lease liabilities of \$200,553 and \$245,240, respectively.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected:

- The package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs;
- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Organization's right-of-use assets.

ACLU OF ARIZONA AND ACLU FOUNDATION OF ARIZONA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended March 31, 2023

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

Leases and Adoption of Accounting Standard (Continued)

The new standard also provides for several accounting policy elections, as follows:

- The Organization has elected the policy not to separate lease and non-lease components for all asset classes.
- When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.
- The Organization elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 9.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 29, 2023, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

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

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NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

The following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the consolidated statement of financial position date to meet general expenditures as of March 31, 2023:

Cash and cash equivalents	\$ 2,163,338
Promise to give, current portion	100,000
Due from National	261,083
Other investments	<u>7,935,140</u>
Financial assets available to be used within one year	<u>\$ 10,459,561</u>

NOTE 3 CONCENTRATIONS OF CREDIT RISK AND REVENUE CONCENTRATIONS

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and cash equivalents.

The Organization maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

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

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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NOTE 4 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, 2023:

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

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

Balance at March 31, 2022	\$ 1,083,275
Purchases	688,000
Realized and unrealized losses	(71,440)
Dividends	17,623
Fees	(9,382)
	<u>          </u>
Balance at March 31, 2023	<u>\$ 1,708,076</u>

Investment income (loss) is summarized as follows for the year ended March 31, 2023:

Interest and dividends	\$ 153,900
Realized loss	(13,050)
Unrealized loss	(343,359)
Investment fees	(47,322)
	<u>          </u>
	<u>\$ (249,831)</u>

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NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2023:

Furniture and equipment	\$ 57,790
Accumulated depreciation	<u>(52,790)</u>
	<u>\$ 5,000</u>

The Organization had no depreciation expense for the year ended March 31, 2023.

NOTE 6 ENDOWMENT

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

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

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

Changes in the endowment fund for the year ended March 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Fund
Endowment funds, March 31, 2022	\$ -	\$ 293,290	\$ 293,290
Contributions	-	-	-
Investment income	-	13,694	13,694
Realized and unrealized loss	-	(16,511)	(16,511)
Investment fees	-	(1,019)	(1,019)
Distributions	<u>-</u>	<u>(11,084)</u>	<u>(11,084)</u>
Endowment funds, March 31, 2023	<u>\$ -</u>	<u>\$ 278,370</u>	<u>\$ 278,370</u>

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NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows at March 31, 2023:

<u>Time restricted:</u>	
Promise to give	\$ 100,000
 <u>Purpose restricted:</u>	
Criminal justice campaign	31,115
Immigrants' rights project	16,705
Director of people and culture project	114,061
Border conversation and advocacy	254,896
Capacity building project	308,901
Trans rights project	71,750
 <u>Endowment Funds:</u>	
Perpetual in nature, earnings from which are subject to endowment spending policy/appropriations	176,313
Endowment earnings subject to appropriation when a specific event occurs	<u>102,057</u>
 Total net assets with donor restrictions	 <u><u>\$ 1,175,798</u></u>

NOTE 8 RETIREMENT PLANS

Defined Benefit Plan

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

The defined benefit plan includes numerous participating affiliates. Accumulated and projected benefit obligations and other required disclosures for the plan covering all participating entities are presented in the National ACLU consolidated financial statements. There were no employer contributions to the plan for the year ended March 31, 2023.

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NOTE 8 RETIREMENT PLANS (Continued)

ERISA 404(c) Plan

This plan is available for eligible employees hired after April 1, 2009. Employees that are at least 21 years old and not enrolled in any other ACLU qualified plan are eligible to participate immediately. Plan participants may contribute up to 80% of their pay each year up to a maximum amount permitted per the current tax laws. The Organization contributes 2% of the participant's gross wages, as well as matching the first 1% employee deferral and 50% of the next 5% deferred. Participants are always 100% vested in their employee deferrals. The Plan follows a two-year vesting schedule for employer contributions and matches. Employer contributions to the ERISA 404(c) plan for the year ended March 31, 2023 amounted to \$83,474.

NOTE 9 LEASING ACTIVITIES

The Organization leases its facilities non-cancelable operating lease agreements expiring at various dates through February 2024. Current monthly lease payments are approximately \$14,000, plus applicable taxes and other operating costs, and escalate through the term of the leases.

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

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

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

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

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NOTE 9 LEASING ACTIVITIES (Continued)

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

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

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

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of March 31, 2023:

Operating lease right-of-use assets	<u>\$ 70,448</u>
Operating lease liabilities:	
Current	\$ 86,206
Long-term	<u>-</u>
Total operating lease liabilities	<u>\$ 86,206</u>

Total operating lease expense for the year ended March 31, 2023 amounted to \$133,198.

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



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NOTE 9 LEASING ACTIVITIES (Continued)

The table below summarizes the Organization's approximate future minimum lease payments for years ending after March 31, 2023:

<u>Years Ending March 31,</u> 2024	<u>\$ 86,713</u>
Total lease payments	86,713
Less: present value discount	<u>(507)</u>
Total lease liabilities	86,206
Less current portion	<u>(86,206)</u>
Long-term lease liabilities	<u>\$ -</u>

The following table includes supplemental cash flow and noncash information related to the leases for the year ended March 31, 2023:

Cash paid for amounts included in the measurement  
of lease liabilities:

Operating cash flows from operating leases	<u>\$ 159,034</u>
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The Organization entered into a new office lease agreement in June 2023. The lease commences July 1, 2023 with a term of 5 years with one option to renew for another 5 years.

NOTE 10 IN-KIND CONTRIBUTIONS

The Organization received the following contributions of non-financial assets for the year ended March 31, 2023:

<u>Non-Financial Asset</u>	<u>Revenue Recognized</u>	<u>Utilization in Programs / Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Attorney fees	<u>\$ 977,787</u>	Program Services	None	Valuation based on current rates charged for attorney services in the greater Phoenix metropolitan area.
	<u>\$ 977,787</u>			

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NOTE 11 RELATED PARTY TRANSACTIONS

The Organization shares both membership contribution revenue and donations with ACLU National. The ACLU National office utilizes a complex revenue sharing formula for distributing and collecting funds from local affiliates. For any year in which the Arizona affiliates raise more in donations than the ACLU National raises on behalf of Arizona, the Arizona affiliate must remit the difference to ACLU National and vice versa. For the year ended March 31, 2023, the Organization received (remitted) the following amounts from/to ACLU National:

Shared membership contributions	\$	850,193
Revenue sharing		148,654
Bequests		<u>(70,297)</u>
	\$	<u>928,550</u>

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

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

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

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

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

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

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NOTE 11 RELATED PARTY TRANSACTIONS (Continued)

The net amount due (to) from ACLU National was as follows at March 31, 2023:

Union:	
Base renewal income share	\$ 126,726
Bequest receivable	259,958
Revenue sharing	<u>93,925</u>
Total due (to) from National	<u>480,609</u>
Foundation:	
ASNI Border Advocacy grant	56,000
Bequest payable	(330,255)
Revenue sharing	<u>54,729</u>
Total due (to) from National	<u>(219,526)</u>
Net due (to) from National	<u><u>\$ 261,083</u></u>