

Audited Financial Statements
AMERICAN CIVIL RIGHTS UNION
December 31, 2008

American Civil Rights Union

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T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report

To the Board of Directors
American Civil Rights Union

We have audited the accompanying statements of financial position of the American Civil Rights Union (ACRU) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of ACRU's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ACRU's 2007 financial statements and, in our report dated May 21, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Civil Rights Union as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
May 4, 2009

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American Civil Rights Union

Statements of Financial Position

December 31,	2008	2007
Assets		
Cash and cash equivalents - Note B	\$ 253,214	\$ 495,066
Investments - Notes B & C	1,111,056	1,437,086
Employee receivable	-	631
Prepaid expenses	18,616	7,245
Property and equipment, net - Note D	5,440	7,121
Total assets	\$ 1,388,326	\$ 1,947,149
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 61,407	\$ 117,328
Accrued liability - Note G	48,000	60,000
Total liabilities	109,407	177,328
Net assets		
Unrestricted - undesignated	1,263,786	1,744,694
Unrestricted - designated	15,133	25,127
Total net assets	1,278,919	1,769,821
Total liabilities and net assets	\$ 1,388,326	\$ 1,947,149

*Certain 2007 items have been reclassified for comparative purposes.
See notes to the financial statements.*

American Civil Rights Union

Statements of Activities

Year Ended December 31,	2008	2007
Unrestricted revenue and support		
Contributions - unrestricted	\$ 1,529,989	\$ 2,866,737
Royalty income	278,527	199,942
Investment (loss) income - Note C	(261,469)	25,520
Loss on asset disposition	-	(2,620)
Other income	11	3,841
Total unrestricted revenue and support	1,547,058	3,093,420
Expenses - Note E		
Program services		
Defense of civil rights	840,607	1,123,799
Supporting services		
Management and general	240,560	301,858
Fund raising	956,793	1,330,299
Total supporting services	1,197,353	1,632,157
Total expenses	2,037,960	2,755,956
Change in net assets	(490,902)	337,464
Net assets, beginning of year	1,769,821	1,432,357
Net assets, end of year	\$ 1,278,919	\$ 1,769,821

American Civil Rights Union

Statement of Functional Expenses Year Ended December 31, 2008 with Comparative Totals for 2007

	Program Services		Supporting Services			2008 Total	2007 Total
	Defense of Civil Rights	Management and General	Fund Raising	Sub- Total			
Accounting	\$ -	\$ 41,726	\$ -	\$ 41,726	\$ 41,726	\$ 30,442	
Bank charges & investment fees	1,332	926	6,536	7,462	8,794	5,919	
Contract services	482,753	28,706	128,404	157,110	639,863	597,235	
Credit card fees	-	2,350	-	2,350	2,350	1,330	
Donations	26,200	-	-	-	26,200	6,200	
Dues & registrations	8,209	4,453	10,004	14,457	22,666	22,795	
Facilities & equipment	10,925	4,535	-	4,535	15,460	28,381	
Internet	11,329	-	-	-	11,329	6,025	
Marketing	658	-	-	-	658	3,367	
Meals & entertainment	904	-	-	-	904	1,498	
Miscellaneous	120	231	2,421	2,652	2,772	658	
Mailing production & office operations	196,980	87,556	714,000	801,556	998,536	1,735,470	
Salary & benefits	87,480	70,077	95,428	165,505	252,985	301,239	
Telephone & communications	3,335	-	-	-	3,335	3,024	
Travel & meetings	10,382	-	-	-	10,382	12,373	
	\$ 840,607	\$ 240,560	\$ 956,793	\$ 1,197,353	\$ 2,037,960	\$ 2,755,956	

See notes to the financial statements.

American Civil Rights Union

Statements of Cash Flows

Year Ended December 31,	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (490,902)	\$ 337,464
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	1,681	1,900
Net loss on investments	286,918	64,197
Net loss on asset disposition	-	2,620
Change in assets and liabilities:		
Accrued interest and dividends	-	5,373
Employee receivable	631	(631)
Prepaid expenses	(11,371)	10,236
Accounts payable	(55,921)	23,996
Accrued liability	(12,000)	(12,000)
Total adjustments	209,938	95,691
Net cash (used in) provided by operating activities	(280,964)	433,155
Cash flows from investing activities		
Purchases of property and equipment	-	(5,655)
Net sales (purchases) of investments	39,112	(382,640)
Net cash provided by (used in) investing activities	39,112	(388,295)
Net (decrease) increase in cash and cash equivalents	(241,852)	44,860
Cash and cash equivalents, beginning of year	495,066	450,206
Cash and cash equivalents, end of year	\$ 253,214	\$ 495,066

See notes to the financial statements.

American Civil Rights Union

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The American Civil Rights Union (ACRU) is a voluntary health and welfare organization organized and operated to engage in activities for defending civil rights of Americans and in such other charitable, scientific, and educational activities as may qualify it as exempt from federal income tax.

ACRU's program includes *Defense of Civil Rights*. This program includes defending the civil rights of Americans through the support of litigation. In addition, this program includes providing a resource of information and educating the public through newsletters, television, internet, and radio regarding the protection of basic constitutional rights.

Income taxes: ACRU is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. ACRU has been classified as an organization other than a private foundation under Section 509(a)(1) of the Code.

Financial Accounting Standards Board (FASB) Staff Position FIN 48-3 (FSP FIN 48-3), *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, grants nonpublic organizations the option to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until the year ended December 31, 2009. As permitted by FSP FIN 48-3, ACRU has elected to delay the implementation of FIN 48 until the year ended December 31, 2009. ACRU currently records a liability for income taxes when it believes that such an accrual is warranted based on current law or guidance from the appropriate taxing authorities.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents: For financial statement purposes, ACRU considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Net assets: For financial statement purposes, net assets consist solely of unrestricted net assets. That is to say, these include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. ACRU's designated net assets consist of funds earmarked for the Robert B. Carleson Eagle Trust.

Contributions: Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional allocation of expenses: The costs of providing various program and other activities have been summarized on a functional basis in the financial statements. Accordingly, costs have been allocated among the programs and supporting services benefited.

Comparative financial information: The financial statements include certain prior-year summarized comparative information in total by natural expense but not by function and natural expense on the statement of functional expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ACRU's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Credit risk: ACRU maintains demand deposits with commercial banks and mutual fund companies. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to ACRU.

Investments: ACRU also invests funds in a professionally managed portfolio that contains various types of investment securities. Such investments are exposed to market and credit risks. Given the current turmoil in world financial markets, ACRU's financial investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these financial statements may not be reflective of the portfolio's value during subsequent periods.

C. FAIR VALUE MEASUREMENTS AND INVESTMENTS

ACRU implemented Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principals (GAAP), and expands disclosures about fair value measurements. SFAS 157 uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

ACRU's investments consist solely of "open end" mutual funds and are valued as of December 31, 2008 and 2007 using level 1 inputs based on quoted market prices within active markets.

American Civil Rights Union

Notes to the Financial Statements

C. FAIR VALUE MEASUREMENTS AND INVESTMENTS - CONTINUED

Investments are carried at fair value and consist of the following as of December 31,:

	2008	2007
Money market funds	\$ 599,154	\$ 26,163
Fixed income mutual funds	285,262	891,885
Equity mutual funds	<u>226,640</u>	<u>519,038</u>
	<u>\$ 1,111,056</u>	<u>\$ 1,437,086</u>

The following is a summary of investment (loss) income for the years ended December 31,:

	2008	2007
Interest and dividends	\$ 25,449	\$ 89,717
Net loss on investments	<u>(286,918)</u>	<u>(64,197)</u>
	<u>\$ (261,469)</u>	<u>\$ 25,520</u>

D. PROPERTY AND EQUIPMENT

ACRU capitalizes all property and equipment purchases of \$500 or above. Property and equipment are stated at cost and are depreciated over their estimated useful lives ranging between three and five years using the straight-line method. Depreciation expense was \$1,681 and \$1,900 for the years ended December 31, 2008 and 2007, respectively.

Property and equipment consist of the following at December 31,:

	2008	2007
Furniture and equipment	\$ 8,404	\$ 8,404
Accumulated depreciation	<u>(2,964)</u>	<u>(1,283)</u>
	<u>\$ 5,440</u>	<u>\$ 7,121</u>

American Civil Rights Union

Notes to the Financial Statements

E. ALLOCATION OF JOINT COSTS

ACRU incurs joint costs for informational material and activities that include fund raising appeals. Using the guidance established by the American Institute of Certified Public Accountants Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, ACRU has allocated the joint costs to its functional areas as follows during the years ended December 31,:

	2008	2007
Defense of civil rights	\$ 191,973	\$ 684,928
Management and general	78,557	127,086
Fund raising	816,732	1,197,027
	<u>\$ 1,087,262</u>	<u>\$ 2,009,041</u>

F. TRANSACTIONS WITH RELATED PARTIES

During 2007, ACRU utilized the legal services of Eric Carleson, who is the son of ACRU's previous Chairman and Founder, Robert Carleson. Total amount paid to Eric Carleson for legal services was \$6,839 for the year ended December 31, 2007. No amounts were paid to Eric Carleson during the year ended December 31, 2008.

ACRU has a legal fee agreement with Peter Ferrara, an officer of ACRU. The agreement provides for a retainer for legal services. Legal fees of \$102,000 and \$85,500 were paid to Mr. Ferrara during the years ended December 31, 2008 and 2007, respectively.

Beginning in the fall of 2006, ACRU compensated its Chairman and CEO, Susan Carleson, for services rendered on behalf of ACRU. Total compensation paid to Susan Carleson was \$150,000 per year for the years ended December 31, 2008 and 2007.

G. ACCRUED LIABILITY

On April 21, 2006, Robert Carleson, ACRU's Chairman and Founder, passed away. A deferred compensation agreement had been created on behalf of Mr. Carleson. In light of Mr. Carleson's passing, the plan was reexamined by ACRU's management and Board of Directors. As a result of the review, management and the Board concluded that the plan had not been properly constructed and formally rescinded the deferred compensation agreement.

In conjunction with rescinding the deferred compensation agreement, the Board of Directors voted to indemnify Mr. Carleson's heirs against any unfavorable tax rulings related to the deferred compensation agreement. The maximum potential amount that would be payable under this indemnity is estimated to be approximately \$550,000. Given the facts and circumstances surrounding the rescission, ACRU has determined the likelihood of any such loss is remote. However, in accordance with accounting principles generally accepted in the United States of America, ACRU accrued a liability, for the estimated fair value of the indemnity, totaling \$48,000 and \$60,000 as of December 31, 2008 and 2007, respectively. ACRU is amortizing the liability on a straight-line basis over the period under which ACRU is potentially liable under tax laws in the United States of America. Amortization of the liability for the years ended December 31, 2008 and 2007 totaled \$12,000 per year and is reported as a reduction in salary & benefits in the Statement of Functional Expenses.

H. COMMITMENTS AND CONTINGENCIES

Mailing house contract: ACRU has a contract with a third-party mailing house. The contract requires ACRU to reimburse the mailing house for all costs incurred and may require ACRU to pay interest on amounts advanced by the mailing house.