

**Audited Consolidated Financial Statements
with Consolidating Information**

**AMERICAN CIVIL RIGHTS UNION AND
AFFILIATE**

December 31, 2010

American Civil Rights Union and Affiliate

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A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
American Civil Rights Union and Affiliate

We have audited the accompanying consolidated statement of financial position of the American Civil Rights Union and Affiliate (the Organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The prior-year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated June 30, 2010, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the American Civil Rights Union and Affiliate as of December 31, 2010, 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 10, 2011

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

American Civil Rights Union and Affiliate

Consolidated Statements of Financial Position

December 31,	2010	2009
Assets		
Cash and cash equivalents - Note B	\$ 278,514	\$ 539,859
Investments - Notes B & C	1,020,463	962,572
Accounts receivable	95,684	58,893
Property and equipment, net - Note D	2,079	3,759
Total assets	\$ 1,396,740	\$ 1,565,083
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 101,127	\$ 68,490
Accrued liability - Note G	24,000	36,000
Total liabilities	125,127	104,490
Net assets		
Unrestricted	1,265,450	1,459,528
Temporarily restricted	6,163	1,065
Total net assets	1,271,613	1,460,593
Total liabilities and net assets	\$ 1,396,740	\$ 1,565,083

See notes to the consolidated financial statements.

American Civil Rights Union and Affiliate

Consolidated Statements of Activities

<i>Year Ended December 31,</i>	2010	2009
Unrestricted activities		
Revenue and support		
Contributions	\$ 3,609,324	\$ 4,796,766
List rental income	299,334	179,980
Investment income - Note C	60,878	128,812
Other income	-	270
Net assets released from restriction	7,000	
Total revenue and support	3,976,536	5,105,828
Expenses - Note E		
Program services		
Defense of civil rights	2,398,763	3,073,935
Supporting services		
Management and general	134,457	148,838
Fund raising	1,637,394	1,702,446
Total supporting services	1,771,851	1,851,284
Total expenses	4,170,614	4,925,219
Change in unrestricted net assets	(194,078)	180,609
Temporarily restricted activities		
Revenue and support		
Contributions	12,080	1,000
Investment income - Note C	18	65
Net assets released from restriction	(7,000)	
Change in temporarily net assets	5,098	1,065
Change in net assets	(188,980)	181,674
Net assets, beginning of year	1,460,593	1,278,919
Net assets, end of year	\$ 1,271,613	\$ 1,460,593

American Civil Rights Union and Affiliate

Consolidated Statement of Functional Expenses Year Ended December 31, 2010 with Comparative Totals for 2009

	Program Services	Supporting Services			2010 Total	2009 Total
	Defense of Civil Rights	Management and General	Fund Raising	Sub- Total		
Mailing production & office operations	\$ 1,588,083	\$ 42,820	\$ 1,515,786	\$ 1,558,606	\$ 3,146,689	\$ 3,925,523
Contract services	481,924	3,016	49,132	52,148	534,072	599,341
Salary & benefits	178,595	37,945	32,911	70,856	249,451	248,175
Marketing	96,339	539	27,127	27,666	124,005	20,117
Accounting		33,553		33,553	33,553	34,888
Credit card fees	11,084	3,203	10,742	13,945	25,029	21,847
Travel & meetings	12,428	2,500	40	2,540	14,968	20,986
Donations	10,501	-	-	-	10,501	2,500
Internet	5,096	4,356		4,356	9,452	12,215
Meals & entertainment	6,108	7	-	7	6,115	3,243
Telephone & communications	4,649	137	240	377	5,026	4,526
Facilities & equipment	945	3,092		3,092	4,037	3,733
Bank charges & investment fees	1,462	905	1,416	2,321	3,783	18,289
Dues & registrations	1,549	1,710		1,710	3,259	9,836
Miscellaneous		674	-	674	674	-
	\$ 2,398,763	\$ 134,457	\$ 1,637,394	\$ 1,771,851	\$ 4,170,614	\$ 4,925,219

See notes to the consolidated financial statements.

American Civil Rights Union and Affiliate

Consolidated Statements of Cash Flows

Year Ended December 31,	2010	2009
Cash flows from operating activities		
Change in net assets	\$ (188,980)	\$ 181,674
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	1,680	1,681
Net gain on investments	(57,551)	(137,670)
Change in assets and liabilities:		
Accounts receivable	(36,791)	(58,893)
Prepaid expenses	-	18,616
Accounts payable	32,637	7,083
Accrued liability	(12,000)	(12,000)
Total adjustments	(72,025)	(181,183)
Net cash (used in) provided by operating activities	(261,005)	491
Cash flows from investing activities		
Net (purchases) sales of investments	(340)	286,154
Net cash (used in) provided by investing activities	(340)	286,154
Net (decrease) increase in cash and cash equivalents	(261,345)	286,645
Cash and cash equivalents, beginning of year	539,859	253,214
Cash and cash equivalents, end of year	\$ 278,514	\$ 539,859

See notes to the consolidated financial statements.

American Civil Rights Union and Affiliate

Notes to the Consolidated 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.

The Robert B. Carleson Eagle Fund (RCEF) is a voluntary health and welfare organization organized for the purpose of sponsoring Boy Scouts of limited financial means to attend camp and to assist Boy Scout units that have been adversely affected by politically-motivated government or philanthropic decisions. All proceeds of the Eagle Fund will be designated for the support of the Boy Scouts. The Robert B. Carleson Eagle Fund was established during 2009 in memory of Robert B. Carleson. RCEF shares common directors with ACRU and receives operating support from ACRU. As such, the financial activities of RCEF are included in the consolidated financial statements.

Principles of consolidation: The consolidated financial statements include the accounts of the ACRU and the RCEF (collectively, the Organization). Significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting: The Organization prepares its consolidated financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Income taxes: ACRU is exempt from the payment of income taxes on its exempt activities under section 501(c)(3) of the Internal Revenue Code (IRC).

RCEF is exempt from the payment of income taxes on its exempt activities under section 501(c)(3) of the Internal Revenue Code (IRC).

During the year ended December 31, 2010, management did not identify any uncertain income tax positions. At a minimum, the tax years ended 2007 through 2010 are open for examination by taxing authorities.

Use of estimates: Preparation of consolidated 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, the Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Accounts receivable: Accounts receivable represents list sales receivables. Management periodically reviews the status of all accounts receivable balances for collectability. The Organization uses the allowance method to reserve uncollectible accounts. The allowance is based upon prior year's experience and management's analysis of subsequent collections.

American Civil Rights Union and Affiliate

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets: For financial statement purposes, net assets are as follows:

Unrestricted net assets 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.

Temporarily restricted net assets consist of contributions restricted by donors for a specific purpose or time period.

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.

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, 2009, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through May 10, 2011, which is the date the financial statements were available to be issued.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions 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 the Organization.

Market value risk: The Organization also invests funds in marketable investment securities. Such investments are exposed to market and credit risks. The Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

American Civil Rights Union and Affiliate

Notes to the Consolidated Financial Statements

C. FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization has implemented the accounting standards topic regarding fair value measurements. This standard establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This standard 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.

The Organization's investments consist of marketable securities as of December 31, 2010 and 2009. Such investments are valued using level 1 inputs based on quoted market prices within active markets.

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

	2010	2009
Domestic & International equity securities	\$ 403,767	\$ 962,572
Money market funds	214,042	-
Fixed income mutual funds	118,088	-
Equity mutual funds	284,566	-
	<u>\$ 1,020,463</u>	<u>\$ 962,572</u>

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

	2010	2009
Interest and dividends	\$ 16,333	\$ 8,541
Net gain on investments	<u>57,551</u>	<u>137,670</u>
	73,884	146,211
Less: investment fees	<u>(12,988)</u>	<u>\$ (17,334)</u>
	<u>\$ 60,896</u>	<u>\$ 128,877</u>

American Civil Rights Union and Affiliate

Notes to the Consolidated Financial Statements

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 \$1,680 and \$1,681 for the years ended December 31, 2010 and 2009.

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

	2010	2009
Furniture and equipment	\$ 8,404	\$ 8,404
Accumulated depreciation	(6,325)	(4,645)
	<u>\$ 2,079</u>	<u>\$ 3,759</u>

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 *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (the Codification), ACRU has allocated the joint costs to its functional areas as follows during the years ended December 31,:

	2010	2009
Defense of civil rights	\$ 1,608,977	\$ 2,287,138
Management and general	31,034	26,941
Fund raising	1,559,386	1,637,441
	<u>\$ 3,199,397</u>	<u>\$ 3,951,520</u>

F. TRANSACTIONS WITH RELATED PARTIES

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, 2010 and 2009. During 2010, Ms. Carleson made three interest-free loans to ACRU. The total amount advanced under all three loans was \$20,000. The loans served to provide ACRU with short-term working capital. ACRU repaid each loan within ten days. There were no outstanding loan balances at December 31, 2010 or 2009.

American Civil Rights Union and Affiliate

Notes to the Consolidated Financial Statements

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 \$24,000 and \$36,000 as of December 31, 2010 and 2009, 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, 2010 and 2009 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.

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

WWW.TATETRYON.COM

Independent Auditor's Report on the Consolidating Information

To the Board of Directors
American Civil Rights Union and Affiliate

We have audited the consolidated financial statements of the American Civil Rights Union and Affiliate (collectively referred to as the Organization) as of and for the year ended December 31, 2010, and our report thereon dated May 10, 2011, which expressed an unqualified opinion on those consolidated financial statements, appears on page one. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or 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.

Washington, DC
May 10, 2011

American Civil Rights Union and Affiliate

Consolidating Statement of Financial Position

December 31, 2010

	ACRU	RCEF	Eliminations	Totals
Assets				
Cash and cash equivalents	\$ 262,880	\$ 15,634	\$ -	\$ 278,514
Investments	1,015,747	4,716	-	1,020,463
Accounts receivable	95,684	-	-	95,684
Property and equipment, net	2,079	-	-	2,079
Total assets	\$ 1,376,390	\$ 20,350	\$ -	\$ 1,396,740
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 101,127	-	-	\$ 101,127
Accrued liability	24,000	-	-	24,000
Total liabilities	125,127	-	-	125,127
Commitments and contingencies - Note H	-	-	-	-
Net assets				
Unrestricted	1,251,263	14,187	-	1,265,450
Temporarily restricted	-	6,163	-	6,163
Total net assets	1,251,263	20,350	-	1,271,613
Total liabilities and net assets	\$ 1,376,390	\$ 20,350	\$ -	\$ 1,396,740

American Civil Rights Union and Affiliate

Consolidating Statement of Activities

Year ended December 31, 2010

	ACRU	RCEF	Eliminations	Totals
Unrestricted activities				
Revenue and support				
Contributions	\$ 3,609,324	\$ -	\$ -	\$ 3,609,324
List rental income	299,334	-	-	299,334
Investment income - Note C	60,878	-	-	60,878
Net assets released from restrictions	-	7,000	-	7,000
Total revenue and support	3,969,536	7,000	-	3,976,536
Expenses - Note E				
Program services				
Defense of civil rights	2,391,763	7,000	-	2,398,763
Supporting services				
Management and general	133,766	691	-	134,457
Fund raising	1,637,394	-	-	1,637,394
Total supporting services	1,771,160	691	-	1,771,851
Total expenses	4,162,923	7,691	-	4,170,614
Change in unrestricted net assets	(193,387)	(691)	-	(194,078)
Temporarily restricted activities				
Revenue and support				
Contributions	-	12,080	-	12,080
Investment income - Note C	-	18	-	18
Net assets released from restrictions	-	(7,000)	-	(7,000)
Change in temporarily net assets	-	5,098	-	5,098
Change in net assets	(193,387)	4,407	-	(188,980)
Net assets, beginning of year	1,444,650	15,943	-	1,460,593
Net assets, end of year	\$ 1,251,263	\$ 20,350	\$ -	\$ 1,271,613