

**American Civil Liberties Union, Inc.  
(National Organization Exclusive  
of Affiliates)**

**Report on Financial Statements**

**Year Ended March 31, 2006**

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

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**Report of Independent Public Accountants**

To the Board of Directors  
American Civil Liberties Union, Inc.

We have audited the accompanying statement of financial position of American Civil Liberties Union, Inc. (the "Union") as of March 31, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Union'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 Union's 2005 financial statements and, in our report dated July 22, 2005, 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 American Civil Liberties Union, Inc. as of March 31, 2006, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*J.H. Cohn* LLP

New York, New York  
July 28, 2006

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**STATEMENTS OF FINANCIAL POSITION  
MARCH 31, 2006 AND 2005**

| <u>ASSETS</u>   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| Cash and cash equivalents                                   | \$ 6,369,064        | \$ 2,725,036        |
| Marketable securities                                       | 2,713,763           | 2,286,594           |
| Other assets  | 131,966             | 284,689             |
| Due from American Civil Liberties<br>Union Foundation, Inc. | 3,941,577           | 7,482,361           |
| Due from affiliates   | <u>174,322</u>      | <u>917,749</u>      |
| Totals  | <u>\$13,330,692</u> | <u>\$13,696,429</u> |

**LIABILITIES AND NET ASSETS**

|                                       |                     |                     |
|---------------------------------------|---------------------|---------------------|
| Liabilities:                          |                     |                     |
| Accounts payable and accrued expenses | \$ 1,098,082        | \$ 1,399,625        |
| Accrued pension liability             | 748,927             | 956,246             |
| Due to affiliates                     | <u>1,174,665</u>    | <u>722,943</u>      |
| Total liabilities                     | <u>3,021,674</u>    | <u>3,078,814</u>    |
| Net assets:                           |                     |                     |
| Unrestricted:                         |                     |                     |
| Undesignated                          | (745,823)           | 1,826,030           |
| Board designated development funds    | <u>8,762,200</u>    | <u>7,992,644</u>    |
| Total unrestricted                    | <u>8,016,377</u>    | <u>9,818,674</u>    |
| Temporarily restricted                | <u>2,292,641</u>    | <u>798,941</u>      |
| Total net assets                      | <u>10,309,018</u>   | <u>10,617,615</u>   |
| Totals                                | <u>\$13,330,692</u> | <u>\$13,696,429</u> |

See Notes to Financial Statements.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006 WITH COMPARATIVE TOTALS FOR 2005**

|  | 2006                |                           |                     | 2005                |
|--|---------------------|---------------------------|---------------------|---------------------|
|  | Unrestricted        | Temporarily<br>Restricted | Total               | Total               |
| Support and revenue:                             |                     |                           |                     |                     |
| Support:   |                     |                           |                     |                     |
| Member contributions:                            |                     |                           |                     |                     |
| Current members                                  | \$20,029,443        | \$2,212,176               | \$22,241,619        | \$19,437,553        |
| New members                                      | 4,504,832           |                           | 4,504,832           | 5,480,657           |
| Bequests   | 799,309             |                           | 799,309             | 1,233,330           |
| Grants and contributions                         | 12,199              | 622,918                   | 635,117             | 426,666             |
| Total support                                    | <u>25,345,783</u>   | <u>2,835,094</u>          | <u>28,180,877</u>   | <u>26,578,206</u>   |
| Revenue:   |                     |                           |                     |                     |
| Interest and dividends                           | 91,297              |                           | 91,297              | 75,375              |
| List rentals                                     | 217,640             |                           | 217,640             | 93,892              |
| Pamphlet and book sales, net                     | 100,829             |                           | 100,829             | 168,557             |
| Total revenue                                    | <u>409,766</u>      |                           | <u>409,766</u>      | <u>337,824</u>      |
| Net assets released from restrictions            | 1,341,394           | (1,341,394)               |                     |                     |
| Total support and revenue                        | <u>27,096,943</u>   | <u>1,493,700</u>          | <u>28,590,643</u>   | <u>26,916,030</u>   |
| Expenses:  |                     |                           |                     |                     |
| Program services:                                |                     |                           |                     |                     |
| Legislative                                      | 3,047,193           |                           | 3,047,193           | 1,990,145           |
| Public education                                 | 10,288,205          |                           | 10,288,205          | 8,506,595           |
| Civil liberties policy formulation               | 1,383,995           |                           | 1,383,995           | 1,166,459           |
| Affiliate support                                | 9,675,201           |                           | 9,675,201           | 7,945,508           |
| Total program services                           | <u>24,394,594</u>   |                           | <u>24,394,594</u>   | <u>19,608,707</u>   |
| Supporting services:                             |                     |                           |                     |                     |
| Fund raising                                     | 4,109,847           |                           | 4,109,847           | 3,810,749           |
| Management and general                           | 471,119             |                           | 471,119             | 377,843             |
| Total supporting services                        | <u>4,580,966</u>    |                           | <u>4,580,966</u>    | <u>4,188,592</u>    |
| Total expenses                                   | <u>28,975,560</u>   |                           | <u>28,975,560</u>   | <u>23,797,299</u>   |
| Change in net assets before other changes        | <u>(1,878,617)</u>  | <u>1,493,700</u>          | <u>(384,917)</u>    | <u>3,118,731</u>    |
| Other changes in net assets:                     |                     |                           |                     |                     |
| Net realized and unrealized gains on investments | 215,000             |                           | 215,000             | 103,810             |
| Minimum pension liability adjustment             | (138,680)           |                           | (138,680)           | (149,995)           |
| Total other changes in net assets                | <u>76,320</u>       |                           | <u>76,320</u>       | <u>(46,185)</u>     |
| Change in net assets                             | <u>(1,802,297)</u>  | <u>1,493,700</u>          | <u>(308,597)</u>    | <u>3,072,546</u>    |
| Net assets, beginning of year                    | <u>9,818,674</u>    | <u>798,941</u>            | <u>10,617,615</u>   | <u>7,545,069</u>    |
| Net assets, end of year                          | <u>\$ 8,016,377</u> | <u>\$2,292,641</u>        | <u>\$10,309,018</u> | <u>\$10,617,615</u> |

See Notes to Financial Statements.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED MARCH 31, 2006 WITH COMPARATIVE TOTALS FOR 2005**

|  | Program Services   |                     |                                    |                      |                     | Supporting Services |                           |                    |                     |                     | 2005<br>Totals |
|--|--------------------|---------------------|------------------------------------|----------------------|---------------------|---------------------|---------------------------|--------------------|---------------------|---------------------|----------------|
|  | Legislative        | Public<br>Education | Liberties<br>Policy<br>Formulation | Affiliate<br>Support | Total               | Fund<br>Raising     | Management<br>and General | Total              | Total               |                     |                |
|  |                    |                     |                                    |                      |                     |                     |                           |                    |                     | 2006                |                |
| Salaries                               | \$1,653,620        | \$ 928,127          | \$ 576,812                         |                      | \$ 3,158,559        | \$ 223,679          | \$192,271                 | \$ 415,950         | \$ 3,574,509        | \$ 2,674,549        |                |
| Employee benefits                      | 353,918            | 261,395             | 116,152                            |                      | 731,465             | 17,723              | 54,802                    | 75,525             | 803,990             | 881,578             |                |
| Occupancy                              | 218,144            | 73,835              | 83,064                             |                      | 375,043             |                     | 27,688                    | 27,688             | 402,731             | 410,466             |                |
| Books                                  | 40,951             | 1,819               | 1,745                              |                      | 44,315              | 37                  | 582                       | 619                | 44,934              | 48,091              |                |
| Equipment rental and maintenance       | 15,899             | 10,379              | 10,724                             |                      | 37,002              | 456                 | 3,575                     | 4,031              | 41,033              | 20,073              |                |
| Meetings/conferences                   | 29,126             | 46,660              | 52,493                             |                      | 128,279             |                     | 17,498                    | 17,498             | 145,777             | 37,860              |                |
| Other expenses                         | 140,879            | 2,220,230           | 94,869                             |                      | 2,455,978           | 483,927             | 31,626                    | 515,553            | 2,971,531           | 2,234,432           |                |
| Postage and supplies                   | 19,131             | 2,626,913           | 23,618                             |                      | 2,669,662           | 1,401,714           | 6,931                     | 1,408,645          | 4,078,307           | 3,413,753           |                |
| Professional services                  | 457,996            | 884,662             | 201,994                            |                      | 1,544,652           | 347,226             | 81,971                    | 409,197            | 1,953,849           | 1,844,240           |                |
| Publishing/printing/mailing            | 27,960             | 1,923,817           | 2,141                              |                      | 1,953,918           | 1,034,877           | 714                       | 1,035,591          | 2,989,509           | 2,509,146           |                |
| Special affiliate subsidies            |                    |                     |                                    | \$1,047,738          | 1,047,738           |                     |                           |                    | 1,047,738           | 850,023             |                |
| Shared portion of members contribution |                    |                     |                                    | 8,627,463            | 8,627,463           |                     |                           |                    | 8,627,463           | 7,122,485           |                |
| Telephone                              | 35,137             | 1,129,388           | 21,411                             |                      | 1,185,936           | 597,884             | 7,137                     | 605,021            | 1,790,957           | 1,270,378           |                |
| Travel                                 | 54,432             | 181,180             | 198,972                            |                      | 434,584             | 2,324               | 66,324                    | 68,648             | 503,232             | 480,225             |                |
| <b>Totals</b>                          | <b>\$3,047,193</b> | <b>\$10,288,205</b> | <b>\$1,383,995</b>                 | <b>\$9,675,201</b>   | <b>\$24,394,594</b> | <b>\$4,109,847</b>  | <b>\$471,119</b>          | <b>\$4,580,966</b> | <b>\$28,975,560</b> | <b>\$23,797,299</b> |                |

See Notes to Financial Statements.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED MARCH 31, 2006 AND 2005**

|   | <u>2006</u>        | <u>2005</u>         |
|---|--------------------|---------------------|
| Operating activities:   |                    |                     |
| Change in net assets  | \$ (308,597)       | \$ 3,072,546        |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                    |                     |
| Net realized and unrealized gain on investments   | (215,000)          | (103,810)           |
| Changes in operating assets and liabilities:  |                    |                     |
| Due from affiliates   | 743,427            | (624,690)           |
| Due from American Civil Liberties Union Foundation, Inc.  | 3,540,784          | (5,163,569)         |
| Other assets  | 152,723            | (180,641)           |
| Accounts payable and accrued expenses   | (301,543)          | 1,590,580           |
| Due to affiliates   | 451,722            | (840,353)           |
| Accrued pension liability   | (207,319)          |                     |
| Net cash provided by (used in) operating activities   | <u>3,856,197</u>   | <u>(2,249,937)</u>  |
| Investing activities:   |                    |                     |
| Proceeds from sales of marketable securities  |                    | 804,273             |
| Purchase of marketable securities   | (212,169)          | (751,434)           |
| Net cash provided by (used in) investing activities   | <u>(212,169)</u>   | <u>52,839</u>       |
| Net increase (decrease) in cash and cash equivalents  | 3,644,028          | (2,197,098)         |
| Cash and cash equivalents, beginning of year  | <u>2,725,036</u>   | <u>4,922,134</u>    |
| Cash and cash equivalents, end of year  | <u>\$6,369,064</u> | <u>\$ 2,725,036</u> |

See Notes to Financial Statements.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Organization and business:**

The American Civil Liberties Union, Inc. (the "Union") was established as a nonprofit corporation to preserve and promote individual civil rights and liberties as guaranteed by the United States Constitution. The Union is exempt from Federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

**Note 2 - Summary of accounting policies:**

**Basis of presentation:**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Union's financial statements for the year ended March 31, 2005, from which the summarized information was derived.

**Use of estimates:**

The preparation of financial statements in conformity 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. Accordingly, actual results could differ from those estimates.

**Cash and cash equivalents:**

The Union considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Union maintains its cash and cash equivalents in bank deposit and other accounts, the balances of which, at times, may exceed Federally insured limits. At March 31, 2006, the Union had cash and cash equivalent balances in excess of Federally insured limits in the amount of approximately \$5,925,000. Exposure to credit risk is reduced by placing such deposits in high credit quality financial institutions.

**Investments in marketable securities:**

Investments in mutual funds with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities.

**Advertising:**

It is the Union's policy to charge program operations for advertising and marketing expenses as incurred. Advertising and marketing expenses amounted to \$1,240,013 and \$697,468 for the years ended March 31, 2006 and 2005, respectively.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**NOTES TO FINANCIAL STATEMENTS**

**Note 2 - Summary of accounting policies (concluded):**

**Recognition of revenue and expenses:**

**Contributions:**

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Functional expenditures:**

Certain expenses of the Union are allocated between program services and supporting services in the accompanying statement of functional expenses.

**Reclassifications:**

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

**Note 3 - Investments in marketable securities:**

Investments in marketable securities consist of the following:

|                     | <u>2006</u>        | <u>2005</u>        |
|---------------------|--------------------|--------------------|
| U.S. Treasury notes | \$ 506,016         | \$ 521,407         |
| Mutual funds        | <u>2,207,747</u>   | <u>1,765,187</u>   |
| Totals              | <u>\$2,713,763</u> | <u>\$2,286,594</u> |

**Note 4 - Related party transactions:**

Amounts due to and from affiliates represent receivables and payables which result from such affiliate support and revenue sharing. Amounts due to affiliates result from the portion of contributions that are allocated to the affiliates as their share of the total support of the Union based upon a formula. Amounts due from affiliates result from expenses paid by the Union on behalf of the affiliates.

The American Civil Liberties Union Foundation, Inc. (the "Foundation") is a nonprofit organization that has certain of the same members of its board of directors as the Union. Certain expenses of the Union, predominantly salaries and employee benefits, are shared between the Union and the Foundation. Expenses incurred by the Union and allocated to the Foundation, during the years ended March 31, 2006 and 2005, amounted to \$2,340,724 and \$1,201,462, respectively.

The Union occupies offices owned by the Foundation. Expenses include rent and occupancy costs charged by the Foundation and aggregating \$403,000 and \$410,000 for the years ended March 31, 2006 and 2005, respectively.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Retirement plans:**

**American Civil Liberties Union Retirement Plan:**

The American Civil Liberties Union Retirement Plan (the "Pension Plan") is a single-employer plan covering eligible employees of the Union, the Foundation and their affiliates.

The Pension Plan is a defined benefit plan covering those employees who have at least one year of service, or at least 1,000 hours worked per year and are at least twenty-one years of age. Benefits are based on service to date on a career average with periodic updates. The Union's policy is to fund pension costs by contributing at least the minimum amount required by the Employee Retirement Income Security Act of 1974 ("ERISA").

All funds of the Plan are held by Principal Financial Group Life Insurance Company ("Principal") under a flexible pension investment contract administered by Principal. When benefits commence for any participant, the full single premium required to purchase the participant's annuity may be charged against the fund or the benefit may be paid monthly from the fund directly. Effective January 1, 1991, the Plan elected to provide benefits under a benefit index option plan for most retirees rather than purchase annuity contracts.

The following table sets forth the funded status and additional minimum liability of the Plan as of December 31, 2005 and 2004:

|  | <u>2005</u>        | <u>2004</u>        |
|--|--------------------|--------------------|
| Accumulated benefit obligation                               | <u>\$4,480,001</u> | <u>\$4,759,947</u> |
| Benefit obligation   | \$5,119,189        | \$5,380,012        |
| Fair value of plan assets                                    | <u>3,731,075</u>   | <u>3,803,701</u>   |
| Funded status  | <u>(1,388,114)</u> | <u>(1,576,311)</u> |
| Unrecognized net actuarial loss                              | <u>1,544,575</u>   | <u>1,789,306</u>   |
| Prepaid cost recognized against minimum liability adjustment | <u>\$ 156,461</u>  | <u>\$ 212,995</u>  |
| Minimum liability  | <u>\$ 748,927</u>  | <u>\$ 956,246</u>  |

An additional minimum liability is required to be reflected in the financial statements since the accumulated benefit obligation exceeds the fair value of plan assets at December 31, 2005 and 2004.

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Retirement plans (continued):**

**American Civil Liberties Union Retirement Plan (continued):**

The following table provides the weighted average assumptions and certain other information:

|                                | <u>2005</u>      | <u>2004</u> |
|--------------------------------|------------------|-------------|
| Weighted average assumptions:  |                  |             |
| Discount rate                  | 5.75%            | 5.75%       |
| Expected return on plan assets | 7.75%            | 7.75%       |
| Rate of compensation increase  | 5.00%            | 5.00%       |
| Other information:             |                  |             |
| Benefit payments               | <b>\$318,421</b> | \$350,866   |
| Employer contributions         | <b>326,502</b>   | 271,727     |

Estimated future benefit payments attributable to estimated future employee service in each of the five years subsequent to December 31, 2005 and in the aggregate for the five years beginning in 2011 are as follows:

|            |            |
|------------|------------|
| 2006       | \$ 125,417 |
| 2007       | 136,427    |
| 2008       | 143,267    |
| 2009       | 161,410    |
| 2010       | 175,292    |
| Thereafter | 1,153,157  |

The target allocations of pension assets are outlined below:

|                               | Target<br>Allocation<br><u>2006</u> | Percentage of<br>Plan Assets<br>at December 31,<br><u>2005</u> <u>2004</u> |             |
|-------------------------------|-------------------------------------|--|-------------|
| Plan assets:                  |                                     |  |             |
| Equity securities             | 57%                                 | 57%  | 57%         |
| Fixed income                  | 35                                  | 35   | 35          |
| Real estate investment trusts | <u>8</u>                            | <u>8</u>   | <u>8</u>    |
| Totals                        | <u>100%</u>                         | <u>100%</u>  | <u>100%</u> |

**AMERICAN CIVIL LIBERTIES UNION, INC.  
(NATIONAL ORGANIZATION EXCLUSIVE OF AFFILIATES)**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Retirement plans (concluded):**

**American Civil Liberties Union Retirement Plan (concluded):**

The overall objective of these allocations is to provide for long-term growth while maintaining an acceptable level of risk. The expected long-term rate of return on assets is 7.75%. The assumption is based on future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class. All investments are chosen with prudence and due diligence by investment managers to ensure that results over time meet the goals and objectives of the Trustees of the Pension Plan.

**ACLU 401(k) Plan:**

Eligible Union employees may also participate in the ACLU 401(k) Plan (the "401(k) Plan"), which is a defined contribution 401(k) salary reduction plan covering substantially all employees of the Union, the Foundation and their affiliates. Under the 401(k) Plan, employees may voluntarily contribute up to 20% of their pre-tax compensation to the 401(k) Plan subject to Internal Revenue Service limits.

**Note 6 - Allocation of joint costs:**

The Union incurred joint costs for production, distribution and other activities relating to educational materials and fund raising appeals which were allocated as follows:

|              | 2006                       | 2005                       |
|--------------|----------------------------|----------------------------|
| Educational  | <b>\$10,288,205</b>        | \$ 8,506,595               |
| Fund raising | <b><u>4,109,847</u></b>    | <u>3,810,749</u>           |
| Totals       | <b><u>\$14,398,052</u></b> | <b><u>\$12,317,344</u></b> |

**Note 7 - Temporarily restricted net assets:**

Temporarily restricted net assets are restricted for certain advocacy efforts.

**Note 8 - Net assets released from restrictions:**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

|                            | 2006                      | 2005                    |
|----------------------------|---------------------------|-------------------------|
| Capital Punishment         |                           | \$ 22,000               |
| Broadcast Fund             | <b>\$1,341,394</b>        | 665,872                 |
| Bill of Rights Action Fund |                           | <u>45,768</u>           |
| Totals                     | <b><u>\$1,341,394</u></b> | <b><u>\$733,640</u></b> |