

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

Report on Financial Statements

Year Ended March 31, 2007

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, 2007, 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 2006 financial statements and, in our report dated July 28, 2006, 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, 2007, 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.


New York, New York
October 29, 2007

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

STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2007 AND 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 4,493,396	\$ 6,369,064
Marketable securities	2,821,724	2,713,763
Other assets	170,498	131,966
Due from American Civil Liberties Union Foundation, Inc.	5,109,986	3,941,577
Due from affiliates	<u>338,755</u>	<u>174,322</u>
Totals	<u>\$12,934,359</u>	<u>\$13,330,692</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 492,428	\$ 1,098,082
Accrued pension liability	317,488	748,927
Due to affiliates	<u>2,187,186</u>	<u>1,174,665</u>
Total liabilities	<u>2,997,102</u>	<u>3,021,674</u>
Net assets:		
Unrestricted:		
Undesignated	(2,150,882)	(745,823)
Board designated development funds	<u>9,171,602</u>	<u>8,762,200</u>
Total unrestricted	<u>7,020,720</u>	<u>8,016,377</u>
Temporarily restricted	<u>2,916,537</u>	<u>2,292,641</u>
Total net assets	<u>9,937,257</u>	<u>10,309,018</u>
Totals	<u>\$12,934,359</u>	<u>\$13,330,692</u>

See Notes to Financial Statements.

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

**STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007 WITH COMPARATIVE TOTALS FOR 2006**

	<u>2007</u>			<u>2006</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Support and revenue:				
Support:				
Member contributions:				
Current members	\$22,398,062	\$1,881,595	\$24,279,657	\$22,241,619
New members	3,711,088		3,711,088	4,504,832
Bequests	954,524		954,524	799,309
Grants and contributions	<u>989,256</u>		<u>989,256</u>	<u>635,117</u>
Total support	<u>28,052,930</u>	<u>1,881,595</u>	<u>29,934,525</u>	<u>28,180,877</u>
Revenue:				
List rentals	102,819		102,819	217,640
Pamphlet and book sales	<u>36,816</u>		<u>36,816</u>	<u>100,829</u>
Total revenue	<u>139,635</u>		<u>139,635</u>	<u>318,469</u>
Net assets released from restrictions	<u>1,257,699</u>	<u>(1,257,699)</u>		
Total support and revenue	<u>29,450,264</u>	<u>623,896</u>	<u>30,074,160</u>	<u>28,499,346</u>
Expenses:				
Program services:				
Legislative	2,665,480		2,665,480	3,047,193
Public education	10,952,020		10,952,020	10,288,205
Civil liberties policy formulation	1,371,976		1,371,976	1,383,995
Affiliate support	<u>10,862,518</u>		<u>10,862,518</u>	<u>9,675,201</u>
Total program services	<u>25,851,994</u>		<u>25,851,994</u>	<u>24,394,594</u>
Supporting services:				
Fund raising	4,878,341		4,878,341	4,109,847
Management and general	<u>449,359</u>		<u>449,359</u>	<u>471,119</u>
Total supporting services	<u>5,327,700</u>		<u>5,327,700</u>	<u>4,580,966</u>
Total expenses	<u>31,179,694</u>		<u>31,179,694</u>	<u>28,975,560</u>
Change in net assets before other changes	<u>(1,729,430)</u>	<u>623,896</u>	<u>(1,105,534)</u>	<u>(476,214)</u>
Other changes in net assets:				
Net investment income	302,334		302,334	306,297
Minimum pension liability adjustment	<u>431,439</u>		<u>431,439</u>	<u>(138,680)</u>
Total other changes in net assets	<u>733,773</u>		<u>733,773</u>	<u>167,617</u>
Change in net assets	(995,657)	623,896	(371,761)	(308,597)
Net assets, beginning of year	<u>8,016,377</u>	<u>2,292,641</u>	<u>10,309,018</u>	<u>10,617,615</u>
Net assets, end of year	<u>\$ 7,020,720</u>	<u>\$2,916,537</u>	<u>\$ 9,937,257</u>	<u>\$10,309,018</u>

See Notes to Financial Statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2007 WITH COMPARATIVE TOTALS FOR 2006**

	2007				Total	2006			Total	
	Program Services			Supporting Services						
	Legislative	Public Education	Civil Liberties Policy Formulation	Affiliate Support		Fund Raising	Management and General	Total	Total	
Salaries	\$1,138,208	\$ 1,136,183	\$ 558,247		\$ 2,832,638	\$ 344,596	\$186,082	\$ 530,678	\$3,363,316	\$ 3,574,509
Employee benefits	332,553	407,797	226,562		966,912	116,397	75,521	191,918	1,158,830	803,990
Occupancy	458,649				458,649				458,649	402,731
Books	37,774	2,175	2,316		42,265	63	772	835	43,100	44,934
Equipment rental and maintenance	16,996	12,458	14,015		43,468		4,672	4,672	48,140	41,033
Meetings/conferences	14,292	41,608	46,809		102,709		15,603	15,603	118,312	145,777
Other expenses	194,108	2,409,516	135,001		2,738,625	589,424	44,970	634,394	3,373,019	2,971,531
Postage and supplies	13,205	2,814,635	26,784		2,854,624	1,502,753	8,928	1,511,681	4,366,305	4,078,307
Professional services	316,907	794,832	192,819		1,304,558	599,622	56,337	655,959	1,960,517	1,953,849
Publishing/printing/mailing	32,497	1,859,479			1,891,976	1,001,258		1,001,258	2,893,234	2,989,509
Special affiliate subsidies				\$ 1,434,966	1,434,966				1,434,966	1,047,738
Shared portion of members contribution				9,195,196	9,195,196				9,195,196	8,627,463
Grants and awards				232,356	232,356				232,356	
Telephone	31,246	1,325,238	18,610		1,375,094	704,683	6,203	710,886	2,085,980	1,790,957
Travel	79,046	148,099	150,813		377,958	19,545	50,271	69,816	447,774	503,232
Totals	<u>\$2,665,480</u>	<u>\$10,952,020</u>	<u>\$1,371,976</u>	<u>\$10,862,518</u>	<u>\$25,851,994</u>	<u>\$4,878,341</u>	<u>\$449,359</u>	<u>\$5,327,000</u>	<u>\$31,179,694</u>	<u>\$28,975,560</u>

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating activities:		
Change in net assets	\$ (371,761)	\$ (308,597)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gain on investments	(189,705)	(215,000)
Changes in operating assets and liabilities:		
Due from affiliates	(164,433)	743,427
Due from American Civil Liberties Union Foundation, Inc.	(1,168,409)	3,540,784
Other assets	(38,532)	152,723
Accounts payable and accrued expenses	(605,654)	(301,543)
Due to affiliates	1,012,521	451,722
Accrued pension liability	(431,439)	(207,319)
Net cash provided by (used in) operating activities	<u>(1,957,412)</u>	<u>3,856,197</u>
Investing activities:		
Proceeds from sales of marketable securities	1,326,791	
Purchase of marketable securities	<u>(1,245,047)</u>	<u>(212,169)</u>
Net cash provided by (used in) investing activities	<u>81,744</u>	<u>(212,169)</u>
Net increase (decrease) in cash and cash equivalents	(1,875,668)	3,644,028
Cash and cash equivalents, beginning of year	<u>6,369,064</u>	<u>2,725,036</u>
Cash and cash equivalents, end of year	<u>\$ 4,493,396</u>	<u>\$6,369,064</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.

The Union is affiliated with fifty nonprofit, tax exempt organizations in several states in the United States, all of which are referred to by the name "American Civil Liberties Union," or some variation thereof (the "affiliates"). The affiliates share the same overall mission and purpose as the Union but their programs focus more on the local level than the Union. Although the Union plays no direct role in the governance of, and does not share office space or employees with, the affiliates, the organizations jointly fundraise and work together on certain programs. Due to the close affiliation between the Union and the affiliates and the significant reputational harm that could be caused to the Union in the event of the financial distress or liquidation of an affiliate, from time to time the Union in its sole discretion provides financial support to the affiliates and considers some of its resources set aside for that purpose.

Note 2 - Summary of significant 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, 2006, 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, 2007, the Union had cash and cash equivalent balances in excess of Federally insured limits in the amount of approximately \$4,824,000. Exposure to credit risk is reduced by placing such deposits in high credit quality financial institutions.

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

NOTES TO FINANCIAL STATEMENTS

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

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.

Net assets:

Net assets are classified into three categories: unrestricted, temporarily restricted or permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets are contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the contributions are used for their restricted purpose, at which time they are reported in the statement of activities as net assets released from restrictions. As of March 31, 2007 and 2006, the Organization has no permanently restricted net assets.

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 2006 financial statements have been reclassified to conform to the 2007 presentation.

Note 3 - Investments in marketable securities:

Investments in marketable securities consist of the following:

	<u>2007</u>	<u>2006</u>
U.S. Treasury notes	\$ 502,266	\$ 506,016
Mutual funds	<u>2,319,458</u>	<u>2,207,747</u>
Totals	<u>\$2,821,724</u>	<u>\$2,713,763</u>

Investment income consists of the following:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$112,629	\$ 91,297
Realized and unrealized gains on investments	<u>189,705</u>	<u>215,000</u>
Totals	<u>\$302,334</u>	<u>\$306,297</u>

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

NOTES TO FINANCIAL STATEMENTS

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, 2007 and 2006, amounted to \$5,302,716 and \$2,340,784, respectively.

The Union occupies offices owned by the Foundation. Expenses include rent and occupancy costs charged by the Foundation and aggregated \$459,000 and \$403,000 for the years ended March 31, 2007 and 2006, respectively.

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.

**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 sets forth the funded status and additional minimum liability of the Plan as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Accumulated benefit obligation	<u>\$4,408,550</u>	<u>\$4,480,001</u>
Benefit obligation	<u>\$5,099,615</u>	<u>\$5,119,189</u>
Fair value of plan assets	<u>4,091,062</u>	<u>3,731,075</u>
Funded status	<u>(1,008,523)</u>	<u>(1,388,114)</u>
Unrecognized net actuarial loss	<u>1,182,035</u>	<u>1,544,575</u>
Prepaid cost recognized against minimum liability adjustment	<u>\$ 173,482</u>	<u>\$ 156,461</u>
Minimum liability	<u>\$ 317,488</u>	<u>\$ 748,927</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, 2006 and 2005.

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

	<u>2006</u>	<u>2005</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	\$308,437	\$318,421
Employer contributions	343,362	326,502
Net periodic benefit cost	308,364	318,406
Curtailment loss	-	-
Plan participants' contribution	-	-

**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 (concluded):

Estimated future benefit payments attributable to estimated future employee service in each of the five years subsequent to December 31, 2006 and in the aggregate for the five years beginning in 2012 are as follows:

2007	\$ 137,317
2008	153,401
2009	166,848
2010	178,058
2011	204,608
Thereafter	1,447,645

The target allocations of pension assets are outlined below:

	Target Allocation	Percentage of Plan Assets	
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Plan assets:			
Equity securities	57%	60%	60%
Fixed income	35	31	31
Real estate investment trusts	<u>8</u>	<u>9</u>	<u>9</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

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.

On September 29, 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan. The Union will be required to adopt the recognition and disclosure provisions of SFAS 158 for the fiscal year ending March 31, 2008, and the measurement date provision for the fiscal year ending March 31, 2009. The Union does not anticipate adopting the provisions of SFAS 158 prior to those periods.

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

NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement plans (continued):

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. There is no employer match or other contributions.

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:

	<u>2007</u>	<u>2006</u>
Educational	\$11,048,077	\$10,288,205
Fund raising	4,878,341	4,109,847
Totals	\$15,926,418	\$14,398,052

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:

	<u>2007</u>	<u>2006</u>
Broadcast Fund	\$1,257,699	\$1,341,394