



**American Civil Liberties Union of Massachusetts, Inc.
Financial Statements
For the Years Ended
March 31, 2017 and 2016**

American Civil Liberties Union of Massachusetts, Inc.

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Independent Auditor's Report

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Independent Auditor's Report

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

I have audited the accompanying financial statements of American Civil Liberties Union of Massachusetts, Inc. (a nonprofit "Union"), which comprise the statements of financial position as of March 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Civil Liberties Union of Massachusetts, Inc. as of March 31, 2017 and 2016 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.

A handwritten signature in black ink that reads "Melissa Gilroy". The signature is written in a cursive, flowing style.

Melissa Gilroy, Certified Public Accountant
Westwood, Massachusetts
September 26, 2017

American Civil Liberties Union of Massachusetts, Inc.

Statements of Financial Position

As of March 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 217,926	\$ 123,604
Investments	1,633,876	813,777
Due from ACLU National	679,209	42,947
Prepaid expenses and other current assets	11,745	18,429
Total current assets	<u>2,542,756</u>	<u>998,757</u>
Leasehold improvements		
Leasehold improvements, net	<u>1,771</u>	<u>2,145</u>
Total Assets	<u>\$ 2,544,527</u>	<u>\$ 1,000,902</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 27,714	\$ 25,042
Deferred revenue	100,000	-
Due to ACLU Foundation	44,017	163,676
Total current liabilities	<u>171,731</u>	<u>188,718</u>
Long-term Liabilities		
Deferred rent	<u>64,182</u>	<u>66,775</u>
Total Liabilities	<u>235,913</u>	<u>255,493</u>
Net Assets		
Unrestricted	2,267,940	695,409
Temporarily restricted	40,674	50,000
Permanently restricted	-	-
Total net assets	<u>2,308,614</u>	<u>745,409</u>
Total Liabilities and Net Assets	<u>\$ 2,544,527</u>	<u>\$ 1,000,902</u>

American Civil Liberties Union of Massachusetts, Inc.

Statements of Activities and Changes in Net Assets

For the years ended March 31, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanent Restricted	2017	2016
Operating					
Revenue and Support					
Membership fees	\$ 1,269,745	-	-	1,269,745	\$ 448,400
Contributions and bequests	592,869	-	-	592,869	33,347
Other income	-	-	-	-	3,360
Donated services	6,185	-	-	6,185	1,544
Dividends and interest	20,328	-	-	20,328	15,559
Net assets released from restriction	9,326	(9,326)	-	-	-
Total revenue and support	<u>1,898,453</u>	<u>(9,326)</u>	<u>-</u>	1,889,127	<u>502,210</u>
Expenses					
Program services	341,026	-	-	341,026	514,935
Management, general and administrative	74,667	-	-	74,667	90,308
Total expenses	<u>415,693</u>	<u>-</u>	<u>-</u>	415,693	<u>605,243</u>
Changes in net assets from operations	1,482,760	(9,326)	-	1,473,434	(103,033)
Non-operating					
Net realized and unrealized gains / (losses)	89,771	-	-	89,771	(43,322)
Total	<u>89,771</u>	<u>-</u>	<u>-</u>	89,771	<u>(43,322)</u>
Changes in Net Assets	1,572,531	(9,326)	-	1,563,205	(146,355)
Net Assets at Beginning of Year	<u>695,409</u>	<u>50,000</u>	<u>-</u>	745,409	<u>891,764</u>
Net Assets at End of Year	<u>\$ 2,267,940</u>	<u>40,674</u>	<u>-</u>	2,308,614	<u>\$ 745,409</u>

American Civil Liberties Union of Massachusetts, Inc.

Statement of Functional Expenses

For the year ended March 31, 2017

	<u>Program</u>	<u>Support</u>	
	Program	Management and General	2017 Total
Salaries	\$ 140,587	\$ 40,626	\$ 181,213
Employee benefits	41,641	8,808	50,449
Payroll taxes	9,793	3,039	12,832
Subtotal	<u>192,021</u>	<u>52,473</u>	<u>244,494</u>
Professional fees	105,780	10,700	116,480
Occupancy	14,725	4,238	18,963
Technology	5,048	930	5,978
Printing and publishing	11,783	931	12,714
Travel	658	1,669	2,327
Books, subscriptions	2,929	153	3,082
Due and fees	1,660	312	1,972
Miscellaneous	2,231	2,179	4,410
Telephone	812	345	1,157
Office expenses and supplies	700	220	920
Insurance	1,097	236	1,333
Equipment lease and maintenance	325	99	424
Postage	976	89	1,065
Depreciation	<u>281</u>	<u>93</u>	<u>374</u>
Total Functional Expenses	<u><u>\$ 341,026</u></u>	<u><u>\$ 74,667</u></u>	<u><u>\$ 415,693</u></u>

American Civil Liberties Union of Massachusetts, Inc.

Statement of Functional Expenses

For the year ended March 31, 2016

	<u>Program</u>	<u>Support</u>	
	Program	Management and General	2016 Total
Salaries	\$ 218,124	\$ 46,154	\$ 264,278
Employee benefits	62,076	9,577	71,653
Payroll taxes	15,603	3,021	18,624
Subtotal	<u>295,803</u>	<u>58,752</u>	<u>354,555</u>
Professional fees	122,472	10,603	133,075
Occupancy	26,548	3,837	30,385
Technology	19,037	1,049	20,086
Marketing	15,340	219	15,559
Printing and publishing	12,084	648	12,732
Travel	2,872	9,222	12,094
Books, subscriptions	9,033	218	9,251
Due and fees	4,442	3,008	7,450
Miscellaneous	1,046	1,394	2,440
Telephone	2,069	291	2,360
Office expenses and supplies	1,112	527	1,639
Insurance	1,348	210	1,558
Equipment lease and maintenance	888	142	1,030
Postage	599	55	654
Depreciation	242	133	375
Total Functional Expenses	<u>\$ 514,935</u>	<u>\$ 90,308</u>	<u>\$ 605,243</u>

The accompanying notes are an integral part to these financial statements.

American Civil Liberties Union of Massachusetts, Inc.

Statements of Cash Flows

For the years ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in Net Assets	\$ 1,563,205	\$ (146,355)
Adjustments to reconcile change in net assets to cash provided by operations		
Depreciation	374	375
Net realized and unrealized (gain) / loss on investments	(89,771)	43,322
Dividends	(20,147)	(15,555)
Increase (decrease) in cash resulting from a change in:		
Due from ACLU National	(636,262)	(10,553)
Due to ACLU Foundation	(119,659)	(76,927)
Due to ACLU National	-	(2,500)
Prepaid expenses and other current assets	6,684	(18,429)
Accounts payable and accrued expenses	2,672	(9,413)
Deferred revenue	100,000	-
Deferred rent	(2,593)	7,131
Net Cash Provided by (Used in) Operating Activities	<u>804,503</u>	<u>(228,904)</u>
Cash Flows from Investing Activities		
Purchase of investments	(958,395)	(210,000)
Proceeds from the sale of investments	248,214	235,000
Net Cash Provided by (Used in) Investing Activities	<u>(710,181)</u>	<u>25,000</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>94,322</u>	<u>(203,904)</u>
Cash and Cash Equivalents - Beginning	<u>123,604</u>	<u>327,508</u>
Cash and Cash Equivalents - Ending	<u>\$ 217,926</u>	<u>\$ 123,604</u>

American Civil Liberties Union of Massachusetts, Inc.

Notes to Financial Statements

1. Nature of the Business

American Civil Liberties Union of Massachusetts, Inc. (the “Union”) is a non-profit Union whose mission is to defend freedoms guaranteed in the Constitution and Bill of Rights and to educate the population about civil liberties through its legislative and education programs. The Union’s main source of revenue is derived from membership dues paid by members throughout Massachusetts. The Union is affiliated with the American Civil Liberties Union, Inc. (“the National Union”), the American Civil Liberties Foundation, Inc. (the “National Foundation”) and the American Civil Liberties Union Foundation of Massachusetts (“The Foundation”).

The Union is exempt from Federal income taxes under section 501(c) (4) of the Internal Revenue Code. The Union is also exempt from state income taxes under the general laws of Massachusetts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis with net assets, revenues, expenses, gains, and losses classified in three categories based on the existence or absence of externally imposed restrictions. Operating revenues consist of those monies received and contributions attributable to the Union’s ongoing efforts. The net assets of the Union are classified and defined as follows:

Unrestricted

Net assets that are not subject to donor-imposed stipulations are considered unrestricted.

Temporarily Restricted

Temporarily restricted net assets are those whose use by the Union has been limited by donors to a specific time period or purpose. Temporarily restricted contributions whose restrictions are met within the same reporting period are reported as unrestricted.

Permanently Restricted

Permanently restricted net assets are those subject to a donor-imposed restriction which requires the corpus to be invested in perpetuity to produce returns for general or specific purposes. Generally, donors of these assets permit the Union to use part or all of the income earned on related investments for general or specific purposes.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

American Civil Liberties Union of Massachusetts, Inc.
Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Union considers all highly liquid investments with an original maturity of three months or less, when acquired, to be cash equivalents.

Accounts Receivable

The Union carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Union evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. As of March 31, 2017 and 2016, management has determined that any allowance would be immaterial.

The Union does not have a policy to accrue interest on accounts receivable. The Union has no policies requiring collateral or other security to secure the accounts receivable.

Property and Leasehold Improvements

Property and leasehold improvements are stated at cost at the time of acquisition or fair market value at the time of donation. Donated assets are considered unrestricted support unless the donor has restricted the donated asset for a specific purpose. Expenditures for maintenance and repairs are charged to expenses as incurred; major renewals, additions and betterments are capitalized. When assets are sold or retired, the related costs and accumulated depreciation are removed from the respective accounts and any resulting gain or loss is credited or charged to operations. Depreciation is recorded on a straight-line basis over the asset's estimated useful lives.

Functional Allocation of Expenses

The Union allocates its expenses on a functional basis amongst its various programs and other activities. All of the Union's allocated expenditures have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. "Management, general and administrative expenses" include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Union and include those costs related to the internal management and accounting for program services.

2. Summary of Significant Accounting Policies (continued)

Contributions

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenues in the year received in accordance with the donor requirements. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and are reported on the statement of activities as net assets released from restriction. Contributions receivable are recorded at the present value of expected future cash flows, net of an allowance for estimated unfulfilled promises to give. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of noncash assets are recorded at fair market value upon the date of receipt. The related expenses are also recorded in accordance with the form of benefits received. Bequests are recorded when received.

Beneficial Interests

The Union is a beneficiary under the terms of various wills and trusts agreements, the total realizable amounts of which are not determinable at present. The Union's share of such interests is recorded when the proceeds are measurable. Accordingly, the Union has not recorded the value of these interests in the accompanying financial statements.

Donated Services

Donated services are recorded at the estimated fair value of services provided to the Union. Contributed services are recognized for services that require specialized skills and are provided by persons possessing those skills in the period in which they are received in accordance with GAAP. Donated services amounted to \$6,185 and \$1,544 and consisted primarily of donated legal services for the years ended March 31, 2017 and 2016, respectively.

Advertising Costs

Advertising costs are charged to operations as incurred. For the years ended March 31, 2017 and 2016, there were no advertising costs.

Revenue Recognition

Membership revenue, consulting fees and other income is recognized as earned. Revenue received in advance of service delivery is considered deferred revenue.

Income Taxes

The Union follows the provisions in GAAP, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure requirements for uncertain tax positions. The Union has determined that there are no material unrecognized tax effects as of March 31, 2017 and 2016.

American Civil Liberties Union of Massachusetts, Inc.
Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Investments

The Union values its investments at fair value in the statement of financial position. The statement of activities includes net investment income including, unrealized gains or losses, interest and dividend income. Realized gains and losses are calculated on the basis of specific identification of the securities sold. Purchases and sales of securities are recognized on a trade-date basis.

Fair Value Measurements

In accordance with GAAP, assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Pursuant to this guidance, level inputs are defined as follows:

Level 1: Inputs that reflect unadjusted quoted market prices in active markets for identical assets or liabilities that the Union has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly, including inputs in markets that are considered active.

Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimates.

3. Leasehold Improvements

Leasehold improvements as of March 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Leasehold Improvements	\$3,741	\$3,741
Less: accumulated depreciation	<u>(1,970)</u>	<u>(1,596)</u>
	<u>\$1,771</u>	<u>\$2,145</u>

Depreciation expense for the years ended March 31, 2017 and 2016 was \$374 and \$375, respectively.

American Civil Liberties Union of Massachusetts, Inc.
Notes to the Financial Statements

4. Fair Value Measurements

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in GAAP. The three valuation techniques are as follows: a) market approach – prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; b) cost approach – amounts that would be required to replace the service capacity of an asset (i.e., replacement cost); and c) income approach – techniques to convert future amounts to a single present amount based on market expectations (including present value techniques). The Union used the market technique to value their assets requiring fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value measurements. Further, the Union believes its valuation techniques are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value as of the reporting date.

Money Market funds and Mutual funds – Valued at the net asset value (NAV) of shares held by the Union at March 31, 2017 and 2016.

The following fair value hierarchy table presents information about the Union's assets measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at March 31, 2017 and 2016. There were no other recurring or non-recurring assets or liabilities requiring disclosure in accordance with GAAP.

Type	As of March 31, 2017			
	Level I	Level II	Level III	Total
Money Market Fund	\$ 205,010	\$ -	\$ -	\$ 205,010
<i>Mutual Funds:</i>				
Real Estate Fund	93,957	-	-	93,957
International Fund	357,821	-	-	357,821
Emerging Market Fund	85,991	-	-	85,991
Extended Market Fund	254,442	-	-	254,442
Growth Fund	248,179	-	-	248,179
Pacific Fund	120,493	-	-	120,493
Value Index Fund	267,983	-	-	267,983
	<u>\$ 1,633,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,633,876</u>

American Civil Liberties Union of Massachusetts, Inc.
Notes to the Financial Statements

4. Fair Value Measurements (continued)

Type	As of March 31, 2016			
	Level I	Level II	Level III	Total
Money Market Fund	\$ 108,634	\$ -	\$ -	\$ 108,634
<i>Mutual Funds:</i>				
Real Estate Fund	46,697	-	-	46,697
International Fund	171,817	-	-	171,817
Emerging Market Fund	46,425	-	-	46,425
Extended Market Fund	43,603	-	-	43,603
Growth Fund	176,427	-	-	176,427
Pacific Fund	86,197	-	-	86,197
Value Index Fund	133,977	-	-	133,977
	<u>\$ 813,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 813,777</u>

5. Related Party Transactions

The Foundation

The Union is affiliated with the Foundation through shared management and administrative costs. As of March 31, 2017 and 2016, the Union has a payable due to the Foundation amounting to \$44,017 and \$163,676, respectively. The Foundation charged the Union \$194,046 and \$282,901, respectively, for salaries, benefits and related payroll taxes for the years ended March 31, 2017 and 2016.

The National Union

The Union is a chapter of the National Union. The Union receives funds from the National Union for allocated membership contributions made directly to the National Union. The total funds allocated to the Union for members located in Massachusetts was \$1,269,745 and \$448,400 for the years ended March 31, 2017 and 2016, respectively.

In addition, in accordance with the affiliation agreement, the Union receives certain contributions and bequests as defined in that agreement. Below is a summary of amounts due the Union from the National Union as of March 31:

	<u>2017</u>	<u>2016</u>
Shared revenue from the National Union	454,635	\$ 3,800
Membership income from the National Union	224,574	39,147
	<u>\$ 679,209</u>	<u>\$ 42,947</u>

Related Party Donations

During fiscal 2017 and 2016, related parties donated approximately \$85,000 and \$25,000, respectively to the Union of which is subject to revenue sharing allocations in accordance with the affiliate agreement with the National Union.

American Civil Liberties Union of Massachusetts, Inc.

Notes to the Financial Statements

6. Retirement Plans

Pension Plan

The Union participates in a non-contributory defined benefit plan, the American Civil Liberties Union Retirement Plan, through the National Union. The plan covers all employees hired before April 1, 2009 who satisfied minimum age and service requirements. Benefits are paid to eligible employees at retirement based on years of service and average career compensation.

The total pension expense is allocated to the Union based on the number of participating employees. Pension expense amounted to \$20,908 and \$19,889 for the years ended March 31, 2017 and 2016, respectively and is included with employee benefits on the accompanying statement of functional expenses.

As of April 1, 2009, the National Union instituted a “soft freeze” on the plan. Employees hired on or after April 1, 2009 are enrolled in the National Union’s 401k plan.

The National Union’s defined benefit plan is currently underfunded according to actuarial projections. A portion of the National Union’s unfunded liability is for the employees of the Union. Accumulated plan benefits information provided by consulting actuaries has not been distinguished from the benefits of this affiliated organization that is participating in the pension plan and accordingly, such information is not presented herein. As of March 31, 2017 and 2016, the financial statements of the pension plan reflected the fair value of plan assets of \$98,668,960 and \$87,854,658 available for benefit obligations of \$135,453,128 and \$142,103,875 in accumulated plan benefits, respectively. As the liability directly related to the Union is not known, no liability has been recorded.

401k Plan

The Union participates in the National Union’s 401k plan which covers substantially all of its employees who meet certain eligibility requirements. Under the plan employees may voluntarily contribute pre-tax compensation subject to IRS regulations related to dollar limits. The Union will match 100% of the first 1% of employee contributions plus 50% of the next 5% of employee contributions. Additionally, the Foundation makes an automatic employer contribution of 2% each pay period. The Foundation’s employer contributions vest after two years of employment. Total contributions for the years ended March 31, 2017 and 2016 were \$3,108 and \$6,861, respectively, and are included in employee benefits in the accompanying statement of functional expenses.

7. Lease Commitments

The Union has a non-cancelable lease for facility space which expires in December 2021 with an option to extend the term through December 2026. The lease payments are \$15,127 per month with required escalation increases as defined in the agreement. The Union is also responsible for operating costs as defined in the lease agreement.

As required by GAAP, the Union records rent expense on a straight-line basis, accordingly, the Union has recorded deferred rent amounting to \$64,182 and \$66,775 as of March 31, 2017 and 2016, respectively. The Union shares space with the Foundation and as such has allocated its proportional share of the rent expense. Total rent expense amounted to \$16,986 and \$25,953 for the years ended March 31, 2017 and 2016, respectively, which is net of amounts received from the Foundation.

American Civil Liberties Union of Massachusetts, Inc.
Notes to the Financial Statements

7. Lease Commitments (continued)

Future minimum cash payments under the lease are as follows:

<u>Fiscal year</u>	<u>Amount</u>
2018	\$ 209,077
2019	\$ 213,939
2020	\$ 217,180
2021	\$ 226,905
2022	\$ 170,179

8. Line of Credit

The Union has a \$100,000 line of credit that bears interest at the prime rate as published in the Wall Street Journal, 4.00% at March 31, 2017 and 3.75% as of March 31, 2016, with a minimum rate of 4.5%. As of March 31, 2017 and 2016, there was no line of credit balance outstanding. The line is secured by certain assets of the Union. The Union is subject to certain covenants and was in compliance with those covenants as of March 31, 2017 and 2016.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consists of a bequest that was donated in fiscal 2015 in the amount of \$50,000 for the purpose of supporting the separation of church and state of which \$9,326 was expended during the year ended March 31, 2017 leaving a temporarily restricted net asset balance of \$40,674.

10. Concentration of Credit Risk

The Union maintains its cash balances in a Massachusetts bank. At various times during the year, the Union's cash balances exceeded the FDIC insured limits. The Union monitors its exposure to credit risk and has determined that it has no significant exposure to credit risk.

11. Contingencies

The Union is involved in legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Union or the results of its activities.

12. Subsequent Events

The Union has evaluated subsequent events through September 26, 2017, which is the date financial statements were available to be issued and determined that no events met the criteria for recognition or disclosure in the financial statements.