



**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF MASSACHUSETTS**

**FINANCIAL STATEMENTS
MARCH 31, 2010 AND 2009
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

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MARCH 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

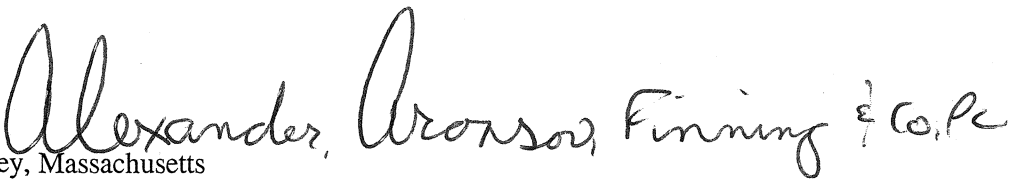
To the Board of Trustees of
American Civil Liberties Union Foundation of Massachusetts:

We have audited the accompanying statements of financial position of American Civil Liberties Union Foundation of Massachusetts (a Massachusetts corporation, not for profit) (the Foundation) as of March 31, 2010 and 2009, and the related statements of activities and change in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Foundation of Massachusetts as of March 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, the March 31, 2009 accrued pension and accrued expenses were restated to properly reflect these balances as of March 31, 2009. This restatement resulted in an addition to net assets of \$15,566.


Wellesley, Massachusetts
November 15, 2010

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2010 AND 2009**

<u>ASSETS</u>	<u>2010</u>	<u>2009</u> (Restated)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,700,831	\$ 495,875
Certificates of deposit	103,343	150,000
Accounts and pledges receivable	32,124	59,333
Distributions receivable	41,209	-
Due from National	451,862	8,735
Prepaid expenses	31,103	28,639
	<hr/>	<hr/>
Total current assets	2,360,472	742,582
SECURITY DEPOSIT	11,745	11,745
INVESTMENTS	763,174	589,633
BILL OF RIGHTS TRUST	1,295,728	989,010
PROPERTY AND EQUIPMENT, net	75,342	81,852
	<hr/>	<hr/>
Total assets	<u>\$ 4,506,461</u>	<u>\$ 2,414,822</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 27,245	\$ 1,862
Accrued expenses	95,447	105,667
Deferred revenue	46,550	-
Due to Union	369,713	324,655
	<hr/>	<hr/>
Total current liabilities	538,955	432,184
NET ASSETS:		
Unrestricted -		
Operating	2,596,436	911,776
Bill of Rights Trust	1,295,728	989,010
Property and equipment	75,342	81,852
	<hr/>	<hr/>
Total unrestricted net assets	3,967,506	1,982,638
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 4,506,461</u>	<u>\$ 2,414,822</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u> (Restated)
SUPPORT AND REVENUE:		
Bequests	\$ 1,663,279	\$ 96,127
Contributions	1,046,068	1,029,733
Grants	107,353	625,956
Special events	127,755	151,300
Investment income	53,126	66,457
Other	15,418	30,845
Donated legal services	6,984	13,358
Legal awards	<u>-</u>	<u>56,484</u>
Total support and revenue	<u>3,019,983</u>	<u>2,070,260</u>
OPERATING EXPENSES:		
Program services	856,282	830,841
General and administrative	264,997	261,352
Fundraising	<u>400,713</u>	<u>620,283</u>
Total operating expenses	<u>1,521,992</u>	<u>1,712,476</u>
Change in unrestricted net assets from operations	1,497,991	357,784
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	518,203	(535,675)
REALIZED LOSSES ON INVESTMENTS	<u>(31,326)</u>	<u>(36,098)</u>
Change in unrestricted net assets	1,984,868	(213,989)
NET ASSETS, beginning of year, as restated	<u>1,982,638</u>	<u>2,196,627</u>
NET ASSETS, end of year	<u><u>\$ 3,967,506</u></u>	<u><u>\$ 1,982,638</u></u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	\$ 1,984,868	\$ (213,989)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	17,997	21,991
Unrealized losses (gains) on investments	(518,203)	535,675
Realized losses on investments	31,326	36,098
Changes in operating assets and liabilities -		
Accounts and pledges receivable	27,209	24,400
Distributions receivable	(41,209)	-
Due from National	(443,127)	(125,300)
Prepaid expenses	(2,464)	(15,522)
Accounts payable	25,383	(1,850)
Accrued expenses	(10,220)	12,519
Deferred revenue	46,550	-
Due to Union	45,058	(34,673)
	<hr/>	<hr/>
Net cash provided by operating activities	1,163,168	239,349
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	59,140	120,632
Purchase of investments	(52,522)	(212,874)
Purchase of property and equipment	(11,487)	(12,867)
Net redemption (purchase) of certificates of deposit	46,657	(150,000)
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	41,788	(255,109)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,204,956	(15,760)
CASH AND CASH EQUIVALENTS, beginning of year	495,875	511,635
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,700,831</u></u>	<u><u>\$ 495,875</u></u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2010**

(with summarized comparative totals for the year ended March 31, 2009)

	2010					2009
	PROGRAM SERVICES			GENERAL AND ADMINIS- TRATIVE		
	LITIGATION	EDUCATION	TOTAL PROGRAM SERVICES	FUND- RAISING	TOTAL	TOTAL
PERSONNEL AND RELATED EXPENSES:						
Salaries	\$ 324,621	\$ 153,709	\$ 478,330	\$ 147,458	\$ 151,402	\$ 862,964
Employee benefits	60,394	36,874	97,268	36,225	38,798	170,877
Payroll taxes	26,467	12,433	38,900	12,072	18,353	76,678
Total personnel and related expenses	<u>411,482</u>	<u>203,016</u>	<u>614,498</u>	<u>195,755</u>	<u>208,553</u>	<u>1,110,519</u>
OTHER EXPENSES:						
Occupancy	56,450	10,373	66,823	20,664	40,823	115,406
Special events	1,392	5,731	7,123	3,858	79,731	93,021
Consultants and contractors	56,526	3,547	60,073	14,526	4,040	130,315
Technology	13,962	6,900	20,862	4,276	12,050	34,116
Printing and publishing	753	14,866	15,619	426	17,394	76,153
Books, subscriptions and dues	24,082	4,396	28,478	2,100	998	22,916
Postage	1,913	5,129	7,042	665	12,714	30,827
Depreciation	6,328	2,876	9,204	2,970	5,823	21,991
Fees and services	2,675	741	3,416	2,002	7,131	10,873
Travel	2,079	1,594	3,673	3,407	4,058	20,536
Insurance	8,098	56	8,154	1,103	224	9,653
Office and supplies	3,147	701	3,848	1,474	2,682	10,186
Telephone	2,754	506	3,260	2,568	1,445	6,270
Donated legal services	-	-	-	6,984	-	13,358
Equipment lease and maintenance	2,854	757	3,611	638	2,457	1,465
Miscellaneous	210	8	218	1,331	590	3,551
Meetings and conferences	-	380	380	250	-	1,320
Total other expenses	<u>183,223</u>	<u>58,561</u>	<u>241,784</u>	<u>69,242</u>	<u>192,160</u>	<u>601,957</u>
Total expenses	<u>\$ 594,705</u>	<u>\$ 261,577</u>	<u>\$ 856,282</u>	<u>\$ 264,997</u>	<u>\$ 400,713</u>	<u>\$ 1,712,476</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2009**

	<u>PROGRAM SERVICES</u>			<u>GENERAL AND ADMINIS- TRATIVE</u>	<u>FUND- RAISING</u>	<u>TOTAL</u>
	<u>LITIGATION</u>	<u>EDUCATION</u>	<u>TOTAL PROGRAM SERVICES</u>			
PERSONNEL AND RELATED EXPENSES:						
Salaries	\$ 375,277	\$ 100,453	\$ 475,730	\$ 127,578	\$ 259,656	\$ 862,964
Employee benefits	56,535	21,266	77,801	41,079	51,997	170,877
Payroll taxes	27,707	7,640	35,347	12,419	28,912	76,678
Total personnel and related expenses	<u>459,519</u>	<u>129,359</u>	<u>588,878</u>	<u>181,076</u>	<u>340,565</u>	<u>1,110,519</u>
OTHER EXPENSES:						
Occupancy	50,786	11,105	61,891	25,831	27,684	115,406
Special events	864	5,064	5,928	3,484	83,609	93,021
Consultants and contractors	45,026	950	45,976	7,921	76,418	130,315
Technology	8,508	17,094	25,602	3,548	4,966	34,116
Printing and publishing	9,498	25,059	34,557	885	40,711	76,153
Books, subscriptions and dues	18,183	846	19,029	2,031	1,856	22,916
Postage	2,855	4,070	6,925	1,103	22,799	30,827
Depreciation	8,649	3,815	12,464	3,920	5,607	21,991
Fees and services	1,537	530	2,067	1,543	7,263	10,873
Travel	4,005	2,623	6,628	10,599	3,309	20,536
Insurance	8,256	84	8,340	1,116	197	9,653
Office and supplies	4,585	1,124	5,709	1,970	2,507	10,186
Telephone	3,592	624	4,216	1,390	664	6,270
Donated legal services	-	-	-	13,358	-	13,358
Equipment lease and maintenance	554	408	962	102	401	1,465
Miscellaneous	1,044	450	1,494	590	1,467	3,551
Meetings and conferences	-	175	175	885	260	1,320
Total other expenses	<u>167,942</u>	<u>74,021</u>	<u>241,963</u>	<u>80,276</u>	<u>279,718</u>	<u>601,957</u>
Total expenses	<u>\$ 627,461</u>	<u>\$ 203,380</u>	<u>\$ 830,841</u>	<u>\$ 261,352</u>	<u>\$ 620,283</u>	<u>\$ 1,712,476</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2010 AND 2009

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

The Foundation is the Massachusetts affiliate of the American Civil Liberties Union Foundation (the National Foundation), a national nonprofit corporation established in 1920 to defend the freedoms guaranteed in the Constitution and Bill of Rights and educate the population about civil liberties through their litigation and education programs. The Foundation is also affiliated with the American Civil Liberties Union of Massachusetts, Inc. (the Union) through shared management.

The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the Internal Revenue Code requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Foundation prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Foundation. The Foundation has grouped its unrestricted net assets into the following categories:

Operating net assets represent amounts which are available for operations and bear no external restrictions

Bill of Rights Trust net assets represent amounts which have been designated by the Board of Trustees as funds functioning as an endowment (see page 10).

Property and equipment net assets represent amounts expended and resources available for property and equipment.

Revenue Recognition

The Foundation reports contributions, grants and bequests as temporarily restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor's 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 and changes in net assets as net assets released from restrictions. Donor restricted contributions, grants and bequests received and satisfied in the same year are recorded as unrestricted net assets. Unrestricted contributions, grants and bequests are recognized when received or unconditionally committed.

Special event revenue is recorded when pledged or when event occurs.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue consists of funds received in advance of being earned.

Expense Allocation

Expenses related directly to a program are distributed to that program while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and Cash Equivalents

For financial statement purposes, management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Certificates of Deposit

Certificates of deposit consist of two certificates of deposit (CDs) with initial maturities of five to eleven months and mature at various dates through August, 2010.

Allowance for Doubtful Accounts

An allowance for potentially uncollectible accounts and pledges receivable is provided based upon management's assessment of potential defaults. This assessment includes such factors as collection history and type of receivable. No allowance was deemed necessary as of March 31, 2010 and 2009.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated equipment is recorded at fair market value at the time of donation. Renewals and betterments are capitalized while repairs and maintenance are charged to expense as they are incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Computer equipment	5 years
Leasehold improvements	Term of lease
Office equipment	5 – 7 years
Furniture and fixtures	7 years

Donated Legal Services

The Foundation receives donated services in support of various aspects of its programs. The value assigned to these services as of March 31, 2010 and 2009, based on the donor's estimate of the fair value of services provided, was \$6,984 and \$13,358, respectively, and is reflected as donated legal services in the accompanying financial statements.

Advertising Costs

The Foundation expenses advertising costs as they are incurred.

Beneficial Interests

The Foundation is a beneficiary under the terms of various trust agreements and wills. The exact value of such interest and the time at which rights to these interests become vested in the Foundation is dependent upon certain future events over which the Foundation has no control. Accordingly, the Foundation has not recorded these interests in the accompanying financial statements.

Fair Value

The Foundation follows the Fair Value Measurements and Disclosure Standards under U.S. GAAP. These standards define fair value, describe a framework for measuring fair value, and specify required disclosures. Fair value, where applicable, is determined using a hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value (Continued)

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments (see Note 3) consist of the Foundation's holdings of marketable securities and an alternative investment held for purposes of financial returns. The alternative investment consists of an interest in CRB Media, LLC in which the Foundation is a member. Distributions reduce the Foundation's cost basis. Valuation of this alternative investment is estimated by the Foundation's management using data obtained from CRB Media, LLC. Therefore, the value presented herein for this investment is not necessarily indicative of the amount that the Foundation could realize in a current transaction. The estimated value may differ significantly from the value that would have been used had a ready market existed and that difference could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on those estimates of fair value could be material.

Investment income includes interest, dividends and mutual fund distributions of investments which are recorded when earned or declared. Realized gains and losses on investment transactions are recorded based on the average cost method. Unrealized gains or losses are recorded based upon changes in the fair market value of investments held.

Bill of Rights Trust

The Bill of Rights Trust (see Notes 3 and 6) represents the Foundation's unit holdings in the National Endowment (the National Endowment) held by the National Foundation, which is a separate organization holding a common investment pool in which the Foundation and other affiliated Foundations may participate. The National Endowment's underlying investments are primarily cash, fixed income securities and international securities which are publicly traded.

Investment income includes interest and distributions of investments which are recorded when earned or declared. Realized gains and losses on investment transactions are recorded based on the average cost method.

Subsequent Events

The preparation of financial statements in accordance with U.S. GAAP requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying financial statements. Subsequent events are transactions or events that occur after the statement of financial position date but before the financial statements are issued or available to be issued. The accompanying financial statements include the evaluation of subsequent events that have occurred through November 15, 2010 which is the date the financial statements were available to be issued.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainty in Income Taxes

During the fiscal year ended March 31, 2010, the Foundation adopted the *Accounting for Uncertainty in Income Taxes* standard which requires the Foundation to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of March 31, 2010, the Foundation determined that there are no material unrecognized tax benefits to report.

Information returns filed for the three fiscal years ended June 30, 2009 remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Foundation does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

(2) **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at March 31:

	<u>2010</u>	<u>2009</u>
Computer equipment	\$101,457	\$ 93,750
Leasehold improvements	53,830	53,830
Office equipment	30,305	26,525
Furniture and fixtures	<u>29,518</u>	<u>29,518</u>
	215,110	203,623
Less – accumulated depreciation	<u>139,768</u>	<u>121,771</u>
	<u>\$ 75,342</u>	<u>\$ 81,852</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(3) INVESTMENTS AND BILL OF RIGHTS TRUST

Investments and the Bill of Rights Trust are presented in the accompanying financial statements at fair value (see Note 1) and are comprised of the following as of March 31:

<u>2010</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investments:			
Stocks and bonds -			
Bonds	\$ 231,413	\$ 299,920	\$ 68,507
Stocks	<u>519,879</u>	<u>456,242</u>	<u>(63,637)</u>
Sub-total stocks and bonds	<u>751,292</u>	<u>756,162</u>	<u>4,870</u>
Alternative -			
Investment in CRB Media, LLC	<u>33,574</u>	<u>7,012</u>	<u>(26,562)</u>
Total investments	<u>784,866</u>	<u>763,174</u>	<u>(21,692)</u>
Bill of Rights Trust:			
National Endowment	759,552	1,275,673	516,121
Article V Fund (see Note 6)	<u>11,796</u>	<u>20,055</u>	<u>8,259</u>
Sub-total Bill of Rights Trust	<u>771,348</u>	<u>1,295,728</u>	<u>524,380</u>
Total investments and Bill of Rights Trust	<u>\$1,556,214</u>	<u>\$2,058,902</u>	<u>\$502,688</u>
<u>2009</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investments:			
Stocks and bonds -			
Bonds	\$ 224,123	\$ 234,496	\$ 10,373
Stocks	<u>512,591</u>	<u>334,961</u>	<u>(177,630)</u>
Sub-total stocks and bonds	<u>736,714</u>	<u>569,457</u>	<u>(167,257)</u>
Alternative -			
Investment in CRB Media, LLC	<u>33,574</u>	<u>20,176</u>	<u>(13,398)</u>
Total investments	<u>770,288</u>	<u>589,633</u>	<u>(180,655)</u>
Bill of Rights Trust:			
National Endowment	811,261	973,702	162,441
Article V Fund (see Note 6)	<u>12,609</u>	<u>15,308</u>	<u>2,699</u>
Sub-total Bill of Rights Trust	<u>823,870</u>	<u>989,010</u>	<u>165,140</u>
Total investments and Bill of Rights Trust	<u>\$1,594,158</u>	<u>\$1,578,643</u>	<u>\$ (15,515)</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010 AND 2009
(Continued)**

(3) INVESTMENTS AND BILL OF RIGHTS TRUST (Continued)

The following table presents the fair value measurements of the Foundation's investments by level within the valuation framework as of March 31:

<u>2010</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Bonds	\$299,920	\$ -	\$ -	\$ 299,920
Stocks	456,242	-	-	456,242
Bill of Rights Trust	-	20,055	1,275,673	1,295,728
Investment in CRB Media, LLC	-	-	7,012	7,012
Total investments	<u>\$756,162</u>	<u>\$20,055</u>	<u>\$1,282,685</u>	<u>\$2,058,902</u>
<u>2009</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Bonds	\$234,496	\$ -	\$ -	\$ 234,496
Stocks	334,961	-	-	334,961
Bill of Rights Trust	-	15,308	973,702	989,010
Investment in CRB Media, LLC	-	-	20,176	20,176
Total investments	<u>\$569,457</u>	<u>\$15,308</u>	<u>\$993,878</u>	<u>\$1,578,643</u>

The following table presents a reconciliation of activity for the investments classified within Level 3 for the years ended March 31:

March 31, 2008	\$1,312,129
Distributions	(7,500)
Contributions	31,568
Net unrealized losses	<u>(342,319)</u>
March 31, 2009	993,878
Distributions	(51,709)
Net unrealized gains	<u>340,516</u>
March 31, 2010	<u>\$1,282,685</u>

Unrealized gains (losses) on investments are as follows as of March 31:

<u>2010</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
March 31, 2010	\$1,556,214	\$2,058,902	\$502,688
March 31, 2009	\$1,594,158	\$1,578,643	<u>(15,515)</u>
Unrealized gains on investments			<u>\$518,203</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(3) INVESTMENTS AND BILL OF RIGHTS TRUST (Continued)

<u>2009</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
March 31, 2009	\$1,594,158	\$1,578,643	\$ (15,515)
March 31, 2008	\$1,538,014	\$2,058,174	<u>520,160</u>
Unrealized losses on investments			<u><u>\$(535,675)</u></u>

(4) RELATED PARTY TRANSACTIONS

American Civil Liberties Union of Massachusetts, Inc.

American Civil Liberties Union of Massachusetts, Inc. (the Union) is the Massachusetts affiliate of the American Civil Liberties Union, Inc. (the National Union), a national nonprofit corporation established in 1920 to defend the freedoms guaranteed in the Constitution and Bill of Rights and educate the population about civil liberties through its litigation and education programs. The Union's major source of revenue comes from membership dues paid by members throughout Massachusetts.

The Union is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(4) of the Internal Revenue Code.

The Foundation shares administrative expenses with the Union. The amount allocated to each organization is based on use. At March 31, 2010 and 2009, the amount due to the Union was \$369,713 and \$324,655, respectively. Total allocated salary, rent and utility expenses for which the Union charged the Foundation was \$61,974 and \$191,585 for the years ended March 31, 2010 and 2009, respectively.

American Civil Liberties Union Foundation

The National Foundation is a nonprofit corporation established to preserve the civil liberties and defend freedoms guaranteed in the Constitution and Bill of Rights. The Foundation is an affiliated chapter of the National Foundation. The National Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010 AND 2009
(Continued)

(4) **RELATED PARTY TRANSACTIONS** (Continued)

American Civil Liberties Union Foundation (Continued)

The Foundation and the National Foundation must share certain contributions and bequests as defined in the affiliation agreement. Below is a summary of the amounts owed by the National Foundation to the Foundation as of March 31:

	<u>2010</u>	<u>2009</u>
Final bequest reconciliation due from the National Foundation	\$452,377	\$ 81,127
Final shared revenue reconciliation due to the National Foundation	-	(70,470)
Bill of Rights Trust expenses due to the National Foundation	-	(1,577)
Other expenses due to the National Foundation	<u>(515)</u>	<u>(345)</u>
Net amount due from National Foundation	<u>\$451,862</u>	<u>\$ 8,735</u>

(5) **RETIREMENT PLANS**

The Foundation participates in a single-employer, non-contributory, defined benefit retirement plan through the National Union. The plan covers all employees satisfying minimum age and service requirements. Benefits are paid to eligible employees at retirement based on years of services and compensation.

The total pension expense is allocated to the Foundation based on the number of participating employees. Pension expense was \$67,797 and \$52,117 for the years ended March 31, 2010 and 2009, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

Accumulated plan benefits information, as provided by consulting actuaries, has not been distinguished from the benefits of the other organizations participating in the pension plan and, accordingly, such information is not presented herein. At March 31, 2010 and 2009, the financial statements of the pension plan reflected \$47,699,569 and \$31,259,050 in net assets available for benefits and \$62,707,183 and \$50,722,341 in accumulated plan benefits, respectively.

The Foundation also participates in a qualified salary reduction, 401(k) plan through the National Union as of April 1, 2009. The salary reduction plan covers substantially all of its employees who have met the eligibility requirements. The Foundation will match 100% of the first 1% an employee contributes to the plan plus 50% of the next 5% an employee contributes. There is also an automatic 2% employer contribution made each pay period. The Foundation's contributions vest after two years of employment. Total contributions to the plan for the year ended March 31, 2010 was \$3,966 and is included in employee benefits in the accompanying statements of functional expenses.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(6) **BILL OF RIGHTS TRUST**

During 1997, the National Foundation established the Bill of Rights Trust (the Trust). The purpose of the Trust is to build an enduring endowment to carry out the work of the National Foundation and affiliate foundations in protecting, preserving and expanding the civil liberties of all persons in the United States. The Trust has 100,000,000 authorized units (of which 5,625,026 and 5,610,104 are outstanding as of March 31, 2010 and 2009, respectively) which are issued to or among the National Foundation and affiliate foundations based upon their respective interest in the Trust. Unit shares have a unit value based upon the fair value of the net assets of the Trust divided by the total number of unit shares outstanding. The Trust provides for annual distributions based upon a percentage of the fair value of each unit share. The Foundation owns 102,891 unit shares in the Trust with a cost basis of \$771,348 and \$823,870 as of March 31, 2010 and 2009, respectively (see Note 3). The investment goals of the Trust are to invest assets in a prudent manner that will balance a reasonable distribution to the National Foundation and affiliated foundations and a long-term growth in the value of the assets of the Trust.

These funds are unrestricted. The funds, however, are subject to certain withdrawal limitations as disclosed in the Trust agreement. Under the National Foundation's spending policy, the Foundation receives 4 percent of the three-year average of the fair value of the investments at the beginning of each of the preceding three fiscal years. Distributions are typically in the form of cash or additional unit shares of the fund having a fair market value at the date of distribution as defined in the Trust agreement. As of March 31, 2010 the National Foundation determined the annual distribution to the Foundation to be \$52,522. The total distribution outstanding, net of fees related to managing the Foundation's share in the Trust, as of March 31, 2010 is \$46,464 which is included in due from National in the accompanying statements of financial position. During 2009, the Foundation received additional units of the Trust in lieu of a cash distribution.

The Foundation follows guidance related to treatment of *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (the Act). This provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations. Under the Act, subject to the intent a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Under this policy, in no event shall such distribution reduce the value of the permanently restricted endowment below the historical dollar value. Endowment income is restricted for program purposes.

The Foundation has designated its investment in the Bill of Rights Trust as funds functioning as an endowment. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported on the existence or absence of donor-imposed restrictions.

During 2009, the Foundation formed the Article V fund (see Note 3). The purpose of this fund is to support the operations of the Foundation. The Foundation has immediate access and has the ability to withdrawal from this fund upon their discretion. During 2010, the Foundation received a distribution of \$813 from this fund. There were no distributions during 2009.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010 AND 2009
(Continued)

(6) **BILL OF RIGHTS TRUST** (Continued)

The Foundation's Board designated assets had the following activity for the year ended March 31:

	<u>Board Designated</u>
Bill of Rights Trust net assets, March 31, 2008	\$1,272,479
Investment losses	(327,646)
Contributions and transfers	50,000
Expenses and fees	<u>(5,823)</u>
Bill of Rights Trust net assets, March 31, 2009	989,010
Investment gains	361,063
Distributions	(52,522)
Expenses and fees	<u>(1,823)</u>
Bill of Rights Trust net assets, March 31, 2010	<u>\$1,295,728</u>

(7) **CONCENTRATIONS**

The Foundation maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses in the accounts. The Foundation's management believes the Foundation is not exposed to any significant credit risk related to these accounts.

(8) **CONTINGENCIES**

The Foundation, from time-to-time, represents clients who are the defendants in lawsuits. It is management's experience and the opinion of legal counsel that the Foundation will not be subjected to any potential liability as a result of the representation of these clients. Accordingly, no amounts have been reflected in the accompanying financial statements for any potential liability resulting from representing clients in these lawsuits.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(9) **PRIOR PERIOD ADJUSTMENTS**

The Foundation discovered during 2010 that certain liability accounts at March 31, 2009 were overstated, thus causing the net assets to be understated by \$15,566 at March 31, 2009.

Net assets as of March 31, 2009, have been restated as follows:

Net assets, March 31, 2009, as previously stated	\$1,967,072
To remove additional pension accrual improperly recorded as of March 31, 2009	6,467
To remove accrued expenses improperly recorded as of March 31, 2009	<u>9,099</u>
Net assets, March 31, 2009, as restated	<u>\$1,982,638</u>

(10) **RECLASSIFICATION**

Certain amounts in the 2009 financial statements have been reclassified to conform with the 2010 presentation.