



AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

CONTENTS
MARCH 31, 2010 AND 2009

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities and Change in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5 - 6
Notes to Financial Statements	7 - 12

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of American Civil Liberties Union of Massachusetts, Inc. (a Massachusetts corporation, not for profit) (the Union) 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 Union'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 of Massachusetts, Inc. 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.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
January 24, 2011

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 197,375	\$ 395,245
Certificates of deposit	165,890	161,258
Accounts receivable	570	405
Due from National	66,322	55,967
Due from Foundation	<u>369,713</u>	<u>324,655</u>
Total current assets	799,870	937,530
LEASEHOLD IMPROVEMENTS, net	<u>15,620</u>	<u>17,302</u>
Total assets	<u><u>\$ 815,490</u></u>	<u><u>\$ 954,832</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 13,889	\$ 3,040
Accrued expenses	28,686	35,715
Current portion of deferred rent	<u>3,157</u>	<u>3,157</u>
Total current liabilities	45,732	41,912
DEFERRED RENT, net of current portion	<u>91,214</u>	<u>94,372</u>
Total liabilities	<u>136,946</u>	<u>136,284</u>
NET ASSETS:		
Unrestricted -		
Operating	662,924	801,246
Leasehold improvements	<u>15,620</u>	<u>17,302</u>
Total unrestricted net assets	<u>678,544</u>	<u>818,548</u>
Total liabilities and net assets	<u><u>\$ 815,490</u></u>	<u><u>\$ 954,832</u></u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

	<u>2010</u>	<u>2009</u>
SUPPORT AND REVENUE:		
Membership income	\$ 449,742	\$ 486,808
Contributions	28,845	21,304
Donated goods and services	6,984	14,797
Conference fees	5,122	5,392
Interest	4,901	5,561
Bequests	3,750	9,863
Other	3,104	742
	<hr/>	<hr/>
Total support and revenue	502,448	544,467
	<hr/>	<hr/>
OPERATING EXPENSES:		
Program services	484,954	403,176
General and administrative	157,498	152,523
	<hr/>	<hr/>
Total operating expenses	642,452	555,699
	<hr/>	<hr/>
Change in net assets	(140,004)	(11,232)
NET ASSETS, beginning of year	818,548	829,780
	<hr/>	<hr/>
NET ASSETS, end of year	<u>\$ 678,544</u>	<u>\$ 818,548</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (140,004)	\$ (11,232)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,682	2,472
Changes in operating assets and liabilities -		
Accounts receivable	(165)	(165)
Due from National	(10,355)	(17,887)
Due from Foundation	(45,058)	(9,020)
Accounts payable	10,849	(1,064)
Accrued expenses	(7,029)	18,822
Deferred rent	<u>(3,158)</u>	<u>85</u>
Net cash used in operating activities	(193,238)	(17,989)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchase of and reinvestment of interest on certificates of deposit	<u>(4,632)</u>	<u>(150,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(197,870)	(167,989)
CASH AND CASH EQUIVALENTS, beginning of year	<u>395,245</u>	<u>563,234</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 197,375</u></u>	<u><u>\$ 395,245</u></u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

**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			TOTAL PROGRAM SERVICES	GENERAL	TOTAL	
	LEGISLA- TIVE	EDUCATION	MEMBERSHIP DEVELOPMENT		AND ADMINIS- TRATIVE		
PERSONNEL AND RELATED EXPENSES:							
Salaries	\$ 124,466	\$ 75,450	\$ 36,333	\$ 236,249	\$ 80,776	\$ 317,025	\$ 269,929
Employee benefits	29,614	12,802	10,867	53,283	24,225	77,508	90,168
Payroll taxes	11,986	7,190	3,377	22,553	6,703	29,256	20,746
Total personnel and related expenses	<u>166,066</u>	<u>95,442</u>	<u>50,577</u>	<u>312,085</u>	<u>111,704</u>	<u>423,789</u>	<u>380,843</u>
OTHER EXPENSES:							
Occupancy	21,705	15,214	8,362	45,281	11,894	57,175	56,185
Technology	6,922	23,824	2,794	33,540	3,378	36,918	12,393
Printing and publishing	149	16,144	17,772	34,065	57	34,122	23,660
Special events	174	15,624	908	16,706	232	16,938	20,837
Consultants	377	744	563	1,684	10,797	12,481	810
Postage	615	9,995	566	11,176	374	11,550	14,245
Books, subscriptions and dues	6,714	1,308	111	8,133	13	8,146	7,504
Accounting	-	-	-	-	7,764	7,764	3,150
Donated legal services	-	-	-	-	6,984	6,984	8,905
Fees and services	1,421	864	1,119	3,404	1,038	4,442	2,867
Travel	845	3,471	13	4,329	94	4,423	7,505
Equipment lease and maintenance	1,641	776	590	3,007	904	3,911	5,842
Office expenses and supplies	874	2,188	332	3,394	464	3,858	2,538
Telephone	785	2,430	124	3,339	243	3,582	3,385
Insurance	462	167	120	749	1,165	1,914	1,700
Merchandise	-	1,808	-	1,808	-	1,808	-
Depreciation	662	331	314	1,307	375	1,682	2,472
Miscellaneous	102	629	16	747	18	765	531
Meetings and conferences	-	200	-	200	-	200	327
Total other expenses	<u>43,448</u>	<u>95,717</u>	<u>33,704</u>	<u>172,869</u>	<u>45,794</u>	<u>218,663</u>	<u>174,856</u>
Total expenses	<u>\$ 209,514</u>	<u>\$ 191,159</u>	<u>\$ 84,281</u>	<u>\$ 484,954</u>	<u>\$ 157,498</u>	<u>\$ 642,452</u>	<u>\$ 555,699</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

	<u>PROGRAM SERVICES</u>			<u>GENERAL AND ADMINIS- TRATIVE</u>	<u>TOTAL</u>
	<u>LEGISLA- TIVE</u>	<u>EDUCATION</u>	<u>TOTAL PROGRAM SERVICES</u>		
PERSONNEL AND RELATED EXPENSES:					
Personnel and related -					
Salaries	\$ 129,170	\$ 52,805	\$ 181,975	\$ 87,954	\$ 269,929
Employee benefits	25,379	40,536	65,915	24,253	90,168
Payroll taxes	9,786	4,130	13,916	6,830	20,746
	<u>164,335</u>	<u>97,471</u>	<u>261,806</u>	<u>119,037</u>	<u>380,843</u>
Total personnel and related expenses					
OTHER EXPENSES:					
Occupancy	32,040	11,410	43,450	12,735	56,185
Technology	9,553	1,157	10,710	1,683	12,393
Printing and publishing	350	22,285	22,635	1,025	23,660
Special events	-	20,777	20,777	60	20,837
Consultants	-	810	810	-	810
Postage	1,430	12,280	13,710	535	14,245
Books, subscriptions and dues	3,759	3,628	7,387	117	7,504
Accounting	-	-	-	3,150	3,150
Donated legal services	-	-	-	8,905	8,905
Fees and services	1,269	452	1,721	1,146	2,867
Travel	-	7,395	7,395	110	7,505
Equipment lease and maintenance	3,736	653	4,389	1,453	5,842
Office expenses and supplies	73	2,294	2,367	171	2,538
Telephone	866	2,157	3,023	362	3,385
Insurance	436	109	545	1,155	1,700
Depreciation	266	1,598	1,864	608	2,472
Miscellaneous	-	260	260	271	531
Meetings and conferences	-	327	327	-	327
	<u>53,778</u>	<u>87,592</u>	<u>141,370</u>	<u>33,486</u>	<u>174,856</u>
Total other expenses					
Total expenses	<u>\$ 218,113</u>	<u>\$ 185,063</u>	<u>\$ 403,176</u>	<u>\$ 152,523</u>	<u>\$ 555,699</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010 AND 2009

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

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 Union is also exempt from state income taxes.

SIGNIFICANT ACCOUNTING POLICIES

The Union 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 Union. The Union has grouped its unrestricted net assets into the following categories:

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

Leasehold improvements net assets represent amounts expended and resources available for leasehold improvements.

Revenue Recognition

The Union reports contributions 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 and bequests received and satisfied in the same year are recorded as unrestricted net assets. Unrestricted contributions and bequests are recognized when received or unconditionally committed.

Membership income, special event income, conference fees, interest and other income are recognized as earned. Bequests are recorded when received.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. During 2010, the Union began to track membership development expenses separately and as such are reflected in the accompanying statement of functional expenses for the year ended March 31, 2010.

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 the purpose of the statements of cash flows, 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 five certificates of deposit (CDs) with initial maturities of five to eleven months and mature at various dates through November, 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.

Leasehold Improvements and Depreciation

Leasehold improvements are recorded at cost (see Note 2). 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 lesser of the estimated useful life of the lease or 5 years.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

The Union receives donated goods and services in support of various aspects of its programs. The value assigned to these goods and services, based on the donor's estimate of the fair value, has been reflected in the accompanying financial statements as donated goods and services as follows for the years ended March 31:

	<u>2010</u>	<u>2009</u>
Donated legal services	\$6,984	\$ 8,905
Donated printing and publishing	<u>-</u>	<u>5,892</u>
Total donated goods and services	<u>\$6,984</u>	<u>\$14,797</u>

Beneficial Interests

The Union 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 Union is dependent upon certain future events over which the Union has no control. Accordingly, the Union has not recorded these interests in the accompanying financial statements.

Fair Value

The Union follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and expand disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The Union values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. 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.

Income Taxes

During the fiscal year ended March 31, 2010, the Union adopted the *Accounting for Uncertainty in Income Taxes* standard which requires the Union 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 Union determined that there are no material unrecognized tax benefits to report.

Information returns filed for the three fiscal years ended March 31, 2009, remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Union does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 January 24, 2011, which is the date the financial statements were available to be issued.

(2) LEASEHOLD IMPROVEMENTS

Leasehold improvements consist of the following at March 31:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$23,070	\$23,070
Less - accumulated depreciation	<u>7,450</u>	<u>5,768</u>
Leasehold improvements, net	<u>\$15,620</u>	<u>\$17,302</u>

(3) RELATED PARTY TRANSACTIONS

American Civil Liberties Union Foundation of Massachusetts

The American Civil Liberties Union Foundation of Massachusetts (the Foundation) is a 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 affiliated with 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 Union shares administrative expenses with the Foundation. The amount allocated to each organization is based on use. The amount due from the Foundation as of March 31, 2010 and 2009, 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

The American Civil Liberties Union (the National Union) is a nonprofit corporation established to preserve the civil liberties and defend freedoms guaranteed in the Constitution and Bill of Rights. The Union is an affiliated chapter of the National Union. The National 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.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(3) **RELATED PARTY TRANSACTIONS** (Continued)

American Civil Liberties Union (Continued)

The Union receives funds from the National Union representing an allocation of membership contributions made directly to the National Union. The total funds allocated to the Union for members located in Massachusetts were \$449,742 and \$486,808 as of March 31, 2010 and 2009, respectively.

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

	<u>2010</u>	<u>2009</u>
Membership income due from the National Union	\$40,487	\$38,387
Final shared revenue reconciliation due from the National Union	27,500	19,460
Other expenses due to the National Union	<u>(1,665)</u>	<u>(1,880)</u>
Net amount due from the National Union	<u>\$66,322</u>	<u>\$55,967</u>

(4) **RETIREMENT PLAN**

The Union 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 Union based on the number of participating employees. Pension expense was \$36,104 and \$56,243 for the years ended March 31, 2010 and 2009, respectively. This amount is included in employee benefits in the accompanying statement 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 Union 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 Union 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 Union's contributions vest after two years of employment. Total contributions to the plan for the year ended March 31, 2010, was \$1,722 and is included in employee benefits in the accompanying statements of functional expenses.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

(Continued)

(5) **DEFERRED RENT**

During fiscal year 2005, the Union entered into a ten-year lease agreement which expires in May, 2015. The Union moved into this space during fiscal year 2005. Under this agreement, the Union received six months of free rent. The Union began paying rent of \$11,745 per month in January, 2006, with increases as defined in the agreement. The Union is responsible for certain operating costs as defined in the agreement.

In accordance with *Accounting for Leases*, the Union records rent expense for this lease on a straight-line basis over the respective term of the lease regardless of actual cash payments. Deferred rent as of March 31, 2010 and 2009, was \$94,371 and \$97,529, respectively. The Union shares the facility with the Foundation and allocates a portion of total rent expense based upon usage. The Union has recognized \$49,563 and \$51,961 of rent expense under this agreement for the years ended March 31, 2010 and 2009, respectively. These amounts are included in occupancy in the accompanying statements of functional expenses. These amounts are net of payments received by the Union, which were reimbursed by the Foundation for the years ended March 31, 2010 and 2009.

Future minimum cash payments under the lease agreement are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$153,906
2012	\$168,493
2013	\$173,355
2014	\$173,355
2015	\$173,355

(6) **CONCENTRATION OF CREDIT RISK**

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

(7) **CONTINGENCIES**

The Union, 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 Union 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.