



**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF MASSACHUSETTS**

**FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

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MARCH 31, 2012 AND 2011

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Where Every Client Is A Valued Client

INDEPENDENT AUDITOR'S REPORT

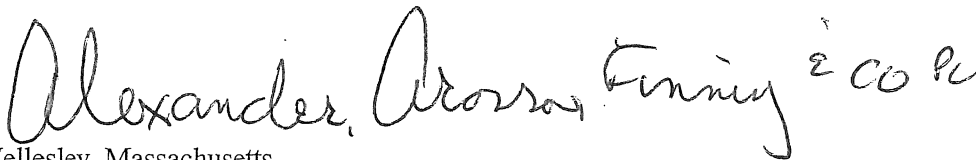
To the Board of Trustees of
American Civil Liberties Union Foundation of Massachusetts:

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, 2012 and 2011, and the related statements of activities, changes 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, 2012 and 2011, 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 11 to the financial statements, the March 31, 2011 net assets were restated to include the Foundation's beneficial interest in perpetual trust as of March 31, 2011. This restatement resulted in an addition to net assets of \$868,765.



Wellesley, Massachusetts
September 24, 2012

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2012 AND 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u> (Restated)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 327,433	\$ 351,677
Certificates of deposit	-	104,254
Accounts and pledges receivable	81,000	217,165
Due from National	137,690	738,459
Prepaid expenses and other assets	33,669	30,556
	<hr/>	<hr/>
Total current assets	579,792	1,442,111
OTHER ASSETS:		
Security deposit	11,745	11,745
Investments	4,049,727	3,254,085
Beneficial interest in trust	892,252	868,765
Bill of Rights Trust	1,344,517	1,387,588
Property and equipment, net	71,356	63,284
	<hr/>	<hr/>
Total assets	<u>\$ 6,949,389</u>	<u>\$ 7,027,578</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 47,093	\$ 42,073
Accrued expenses	112,742	109,550
Deferred revenue	33,010	55,150
Due to Union	2,484	5,035
	<hr/>	<hr/>
Total current liabilities	195,329	211,808
NET ASSETS:		
Unrestricted:		
Operating	3,106,120	3,194,744
Bill of Rights Trust	1,344,517	1,387,588
Board designated	1,339,815	1,301,389
Property and equipment	71,356	63,284
	<hr/>	<hr/>
Total unrestricted net assets	5,861,808	5,947,005
Permanently restricted	892,252	868,765
	<hr/>	<hr/>
Total net assets	6,754,060	6,815,770
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 6,949,389</u>	<u>\$ 7,027,578</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u> (Restated)
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Contributions	\$ 1,068,854	\$ 1,189,858
Bequests	416,979	1,906,991
Special events	308,030	344,196
Investment income	127,576	20,566
Legal awards	78,754	47,526
Grants	61,500	48,000
Donated goods and services	46,560	8,197
Other	<u>7,023</u>	<u>5,794</u>
Total support and revenue	<u>2,115,276</u>	<u>3,571,128</u>
OPERATING EXPENSES:		
Program services	1,290,336	985,922
General and administrative	309,771	309,266
Fundraising	<u>564,108</u>	<u>528,500</u>
Total operating expenses	<u>2,164,215</u>	<u>1,823,688</u>
Changes in unrestricted net assets from operations	(48,939)	1,747,440
OTHER REVENUES (EXPENSES):		
Loss on disposal of property and equipment	(29,717)	-
Unrealized gains (losses) on investments	(21,093)	178,735
Realized gains on investments	<u>14,552</u>	<u>53,324</u>
Changes in unrestricted net assets	(85,197)	1,979,499
PERMANENTLY RESTRICTED NET ASSETS:		
Change in carrying value of beneficial interest in trust	<u>23,487</u>	<u>202,327</u>
Changes in net assets	<u><u>\$ (61,710)</u></u>	<u><u>\$ 2,181,826</u></u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

	2012			2011 (Restated)		
	PERMANENTLY			PERMANENTLY		
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
NET ASSETS , beginning of year	\$ 5,947,005	\$ 868,765	\$ 6,815,770	\$ 3,967,506	\$ 666,438	\$ 4,633,944
Changes in net assets	<u>(85,197)</u>	<u>23,487</u>	<u>(61,710)</u>	<u>1,979,499</u>	<u>202,327</u>	<u>2,181,826</u>
NET ASSETS , end of year	<u><u>\$ 5,861,808</u></u>	<u><u>\$ 892,252</u></u>	<u><u>\$ 6,754,060</u></u>	<u><u>\$ 5,947,005</u></u>	<u><u>\$ 868,765</u></u>	<u><u>\$ 6,815,770</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (61,710)	\$ 2,181,826
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	16,388	22,274
Loss on disposal of property and equipment	29,717	-
Unrealized (gains) losses on investments	21,093	(178,735)
Realized gains on investments	(14,552)	(53,324)
Change in carrying value of beneficial interest in trust	(23,487)	(202,327)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	136,165	(185,145)
Distributions receivable	-	46,464
Due from National	600,769	(286,597)
Prepaid expenses and other assets	(3,113)	547
Accounts payable	(4,467)	9,573
Accrued expenses	3,192	14,103
Deferred revenue	(22,140)	8,600
Due to Union	(2,551)	(364,678)
Net cash provided by operating activities	<u>675,304</u>	<u>1,012,581</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,729,217	948,470
Purchase of investments	(2,488,329)	(3,299,182)
Purchase of property and equipment	(44,690)	(10,216)
Redemption (reinvestment of interest) of certificates of deposit	<u>104,254</u>	<u>(911)</u>
Net cash used in investing activities	<u>(699,548)</u>	<u>(2,361,839)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(24,244)</u>	<u>(1,349,258)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>351,677</u>	<u>1,700,935</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 327,433</u></u>	<u><u>\$ 351,677</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost basis of property and equipment disposed of	<u>\$ 86,300</u>	<u>\$ 67,262</u>
Acquisition of property and equipment included in accounts payable	<u>\$ 9,487</u>	<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, 2012**
(With Summarized Comparative Totals for the Year Ended March 31, 2011)

	2012					2011
	PROGRAM SERVICES			GENERAL AND ADMINIS- TRATIVE		
	LITIGATION	EDUCATION	TOTAL PROGRAM SERVICES	FUND- RAISING	TOTAL	TOTAL
PERSONNEL AND RELATED EXPENSES:						
Salaries	\$ 305,536	\$ 332,555	\$ 638,091	\$ 154,100	\$ 257,499	\$ 1,049,690
Employee benefits	59,290	88,570	147,860	34,232	70,956	253,048
Payroll taxes	24,699	27,726	52,425	12,181	20,340	84,946
Total personnel and related expenses	<u>389,525</u>	<u>448,851</u>	<u>838,376</u>	<u>200,513</u>	<u>348,795</u>	<u>1,387,684</u>
OTHER EXPENSES:						
Occupancy	58,523	58,491	117,014	16,973	26,620	160,607
Consultants and contractors	122,714	4,423	127,137	4,457	20,498	152,092
Special events	2,030	25,869	27,899	6,474	96,624	130,997
Technology	9,917	9,814	19,731	6,403	13,819	39,953
Printing and publishing	1,163	13,734	14,897	49	24,438	39,384
Travel	7,190	14,809	21,999	8,300	8,362	38,661
Fees and services	11,250	10,227	21,477	5,266	11,345	38,088
Donated legal services	-	-	-	35,300	-	35,300
Books, subscriptions and dues	26,734	629	27,363	1,355	194	28,912
Depreciation	8,133	3,498	11,631	1,660	3,097	16,388
Postage	1,221	7,458	8,679	802	5,483	14,964
Insurance	8,158	2,870	11,028	2,288	174	13,490
Litigation	13,165	-	13,165	-	-	13,165
Accounting	-	-	-	12,589	-	12,589
Telephone	4,077	2,381	6,458	4,019	1,113	11,590
Office and supplies	2,844	4,494	7,338	1,262	1,778	10,378
Recruiting	8,500	-	8,500	-	-	8,500
Meetings and conferences	1,358	2,436	3,794	1,605	1,421	6,820
Miscellaneous	-	2,787	2,787	-	-	2,787
Equipment lease and maintenance	598	465	1,063	456	347	1,866
Awards and grants	-	-	-	-	-	-
Total other expenses	<u>287,575</u>	<u>164,385</u>	<u>451,960</u>	<u>109,258</u>	<u>215,313</u>	<u>776,531</u>
Total operating expenses	<u>\$ 677,100</u>	<u>\$ 613,236</u>	<u>\$ 1,290,336</u>	<u>\$ 309,771</u>	<u>\$ 564,108</u>	<u>\$ 2,164,215</u>
						<u>\$ 1,823,688</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, 2011**

	<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	\$ 324,783	\$ 205,408	\$ 530,191	\$ 183,938	\$ 209,844	\$ 923,973
Employee benefits	45,933	52,777	98,710	35,802	57,173	191,685
Payroll taxes	26,653	17,666	44,319	14,319	16,874	75,512
Total personnel and related expenses	<u>397,369</u>	<u>275,851</u>	<u>673,220</u>	<u>234,059</u>	<u>283,891</u>	<u>1,191,170</u>
OTHER EXPENSES:						
Occupancy	46,315	29,550	75,865	21,584	27,087	124,536
Consultants and contractors	68,120	17,485	85,605	-	6,246	91,851
Special events	3,151	16,680	19,831	3,656	111,168	134,655
Technology	8,570	7,696	16,266	4,564	13,194	34,024
Printing and publishing	2,377	8,100	10,477	1,459	50,802	62,738
Travel	6,417	11,155	17,572	3,921	7,514	29,007
Fees and services	3,016	1,963	4,979	2,421	7,059	14,459
Donated legal services	-	-	-	8,197	-	8,197
Books, subscriptions and dues	23,268	813	24,081	3,203	476	27,760
Depreciation	7,021	8,713	15,734	2,520	4,020	22,274
Postage	1,434	4,738	6,172	585	9,620	16,377
Insurance	7,819	251	8,070	1,461	252	9,783
Litigation	2,090	-	2,090	-	-	2,090
Accounting	-	-	-	14,431	-	14,431
Telephone	3,362	944	4,306	3,652	1,221	9,179
Office and supplies	3,730	3,533	7,263	2,376	3,231	12,870
Meetings and conferences	975	1,511	2,486	325	1,355	4,166
Miscellaneous	-	1,618	1,618	14	580	2,212
Equipment lease and maintenance	1,310	977	2,287	838	784	3,909
Awards and grants	-	8,000	8,000	-	-	8,000
Total other expenses	<u>188,975</u>	<u>123,727</u>	<u>312,702</u>	<u>75,207</u>	<u>244,609</u>	<u>632,518</u>
Total operating expenses	<u>\$ 586,344</u>	<u>\$ 399,578</u>	<u>\$ 985,922</u>	<u>\$ 309,266</u>	<u>\$ 528,500</u>	<u>\$ 1,823,688</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012 AND 2011

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

American Civil Liberties Union Foundation of Massachusetts (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 its 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 that are available for operations and bear no external restrictions

Bill of Rights Trust net assets represent amounts that have been designated by the Board of Trustees as funds functioning as an endowment (see page 11).

Board Designated net assets represent amounts that have been designated by the Board of Trustees to implement key elements of the five-year strategic plan.

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

Permanently Restricted Net Assets

Permanently restricted net assets represent an amount received from a donor with the stipulation that the principal will be held in perpetuity and only the investment income can be spent (see Note 3).

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Foundation reports contributions, grants and bequests as permanently or temporarily restricted support if they are received or unconditionally committed 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 statements of activities 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 and grants are recognized when received or unconditionally committed. Bequests are recorded when received.

Special event revenue is recorded when pledged or when the event occurs. Legal awards and all other income are recorded when earned.

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.

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 and cash equivalents.

Certificates of Deposit

Certificates of deposit at March 31, 2011, consisted of two certificates of deposit (CDs) with initial maturities of four to six months maturing at various dates through September, 2011.

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, 2012 and 2011.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Purchased property and equipment (see Note 2) 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 expensed 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 Goods and Services

The Foundation receives donated goods and services in support of various aspects of its programs. The value assigned to these services for the years ended March 31, 2012 and 2011, was \$46,560 and \$8,197, respectively, based on the donor's estimate of the fair value of services provided, and is reflected as donated goods and services in the accompanying statements of activities and is included in donated legal services and special events in the accompanying statements of functional expenses.

Advertising Costs

The Foundation expenses advertising costs as they are incurred. Total advertising expense for the years ended March 31, 2012 and 2011, was \$2,053 and \$1,686, respectively.

Beneficial Interests

The Foundation is a beneficiary under the terms of various trust agreements and wills. The exact value of such interests and the time at which rights to these interests become vested to the Foundation is dependent upon certain future events over which the Foundation has no control. Accordingly, the Foundation has recorded these interests in the accompanying financial statements when the amounts are received or become known.

The Foundation is also the beneficiary of an irrevocable trust (see Note 3).

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fair Value Measurements

The Foundation follows the criteria of *Fair Value Measurements* 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.

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 4) 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.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

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 and 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 4 and 7) 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

Subsequent events have been evaluated through September 24, 2012, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Grants Awarded

The Foundation expenses grant awards when they are unconditionally voted by the Board of Trustees. Grant awards are in the form of direct cash payments. During fiscal year 2011, the Foundation provided \$8,000 in grant awards. There were no grant awards made in fiscal year 2012.

Uncertainty in Income Taxes

The Foundation follows the *Accounting for Uncertainty in Income Taxes* standard under U.S. GAAP, 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, 2012 and 2011, the Foundation determined that there are no material unrecognized tax benefits to report. The Foundation does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months. Information returns filed for the last three fiscal years ended March, 31, 2011, remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

(Continued)

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31:

	<u>2012</u>	<u>2011</u>
Computer equipment	\$ 46,299	\$ 44,411
Leasehold improvements	14,964	53,830
Office equipment	32,244	30,305
Furniture and fixtures	<u>32,434</u>	<u>29,518</u>
	125,941	158,064
Less - accumulated depreciation	<u>54,585</u>	<u>94,780</u>
	<u>\$ 71,356</u>	<u>\$ 63,284</u>

(3) BENEFICIAL INTEREST IN TRUST

The Foundation has been named beneficiary of a perpetual trust (the Trust) held by third-party trustees on behalf of the Foundation. The principal is restricted in perpetuity, however, the trustees of the Trust may terminate the Trust at their discretion and transfer the investment balance to the Foundation. The interest and dividend income generated by the Trust's investments is distributed each quarter to the Foundation and is reported by the Foundation as unrestricted contributions. For the years ended March 31, 2012 and 2011, the Foundation recognized unrestricted contributions of \$24,527 and \$16,460, respectively, from the Trust, which are included in contributions in the accompanying statements of activities. The Foundation has recorded \$892,252 and \$868,765 on its statements of financial position at March 31, 2012 and 2011, respectively, representing the fair market value of its beneficial interest in the Trust as permanently restricted net assets. Gains and losses on investments are recognized as permanently restricted gains or losses. The Trust is valued using Level 3 inputs because of the Foundation's inability to access the assets of the Trust (see page 11).

A reconciliation of the Level 3 activity for fiscal years 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$868,765	\$666,438
Change in value	<u>23,487</u>	<u>202,327</u>
Balance, end of year	<u>\$892,252</u>	<u>\$868,765</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)**

(4) 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>2012</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investments:			
Daily Money Market	\$ 410,453	\$ 410,453	\$ -
Equities:			
Global emerging market mutual funds	505,564	458,353	(47,211)
Technology	114,831	131,994	17,163
Domestic markets	<u>477,907</u>	<u>543,140</u>	<u>65,233</u>
Sub-total equities	<u>1,098,302</u>	<u>1,133,487</u>	<u>35,185</u>
Fixed income:			
Intermediate duration portfolio	1,473,669	1,466,911	(6,758)
Government - short-term	<u>350,158</u>	<u>349,883</u>	<u>(275)</u>
Sub-total fixed income	<u>1,823,827</u>	<u>1,816,794</u>	<u>(7,033)</u>
Globally Diversified Mutual Fund (mix of equities and fixed income):			
Dynamic asset allocation overlay portfolio	<u>711,755</u>	<u>686,805</u>	<u>(24,950)</u>
Alternative:			
Investment in CRB Media, LLC	<u>27,049</u>	<u>254</u>	<u>(26,795)</u>
Accrued interest on investments	<u>1,934</u>	<u>1,934</u>	<u>-</u>
Total investments	<u>4,073,320</u>	<u>4,049,727</u>	<u>(23,593)</u>
Bill of Rights Trust:			
National Endowment	<u>660,594</u>	<u>1,344,517</u>	<u>683,923</u>
Total investments and Bill of Rights Trust	<u>\$4,733,914</u>	<u>\$5,394,244</u>	<u>\$660,330</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)**

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

<u>2011</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investments:			
Daily Money Market	\$ 662,500	\$ 662,500	\$ -
Equities:			
Global emerging market mutual funds	347,369	351,913	4,544
Domestic markets	<u>435,493</u>	<u>457,726</u>	<u>22,233</u>
Sub-total equities	<u>782,862</u>	<u>809,639</u>	<u>26,777</u>
Fixed income:			
Government - long-term	541,900	542,955	1,055
Government - short-term	<u>651,201</u>	<u>651,369</u>	<u>168</u>
Sub-total fixed income	<u>1,193,101</u>	<u>1,194,324</u>	<u>1,223</u>
Globally Diversified Mutual Fund (mix of equities and fixed income):			
Dynamic asset allocation overlay portfolio	<u>580,632</u>	<u>583,753</u>	<u>3,121</u>
Alternative:			
Investment in CRB Media, LLC	<u>29,949</u>	<u>3,087</u>	<u>(26,862)</u>
Accrued interest on investments	<u>782</u>	<u>782</u>	<u>-</u>
Total investments	<u>3,249,826</u>	<u>3,254,085</u>	<u>4,259</u>
Bill of Rights Trust:			
National Endowment	<u>710,424</u>	<u>1,387,588</u>	<u>677,164</u>
Total investments and Bill of Rights Trust	<u>\$3,960,250</u>	<u>\$4,641,673</u>	<u>\$681,423</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)**

(4) 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>2012</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments:				
Daily Money Market	\$ 410,453	\$ -	\$ -	\$ 410,453
Equities:				
Global emerging market mutual funds	458,353	-	-	458,353
Technology	131,994	-	-	131,994
Domestic markets	543,140	-	-	543,140
Fixed income:				
Intermediate duration portfolio	-	1,466,911	-	1,466,911
Government - short-term	349,883	-	-	349,883
Globally Diversified Mutual Fund (mix of equities and fixed income):				
Dynamic asset allocation overlay Portfolio	-	686,805	-	686,805
Alternatives:				
Bill of Rights Trust	-	-	1,344,517	1,344,517
Investment in CRB Media, LLC	-	-	254	254
Accrued interest on investments	<u>1,934</u>	<u>-</u>	<u>-</u>	<u>1,934</u>
Total investments and Bill of Rights Trust	<u>\$1,895,757</u>	<u>\$2,153,716</u>	<u>\$1,344,771</u>	<u>\$5,394,244</u>
<u>2011</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments:				
Daily Money Market	\$ 662,500	\$ -	\$ -	\$ 662,500
Equities:				
Global emerging market mutual funds	351,913	-	-	351,913
Domestic markets	457,726	-	-	457,726
Fixed income:				
Government - long-term	-	542,955	-	542,955
Government - short-term	651,369	-	-	651,369
Globally Diversified Mutual Fund (mix of equities and fixed income):				
Dynamic asset allocation overlay Portfolio	-	583,753	-	583,753
Alternatives:				
Bill of Rights Trust	-	-	1,387,588	1,387,588
Investment in CRB Media, LLC	-	-	3,087	3,087
Accrued interest on investments	<u>782</u>	<u>-</u>	<u>-</u>	<u>782</u>
Total investments and Bill of Rights Trust	<u>\$2,124,290</u>	<u>\$1,126,708</u>	<u>\$1,390,675</u>	<u>\$4,641,673</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)**

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

The following table presents a reconciliation of activity for the investments classified within Level 3 (see page 11) for the years ended March 31:

March 31, 2010	\$1,282,685
Distributions	(52,753)
Net unrealized gains	<u>160,743</u>
March 31, 2011	1,390,675
Distributions	(52,730)
Net unrealized gains	<u>6,826</u>
March 31, 2012	<u>\$1,344,771</u>

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

<u>2012</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
March 31, 2012	\$4,733,914	\$5,394,244	\$660,330
March 31, 2011	\$3,960,250	\$4,641,673	<u>681,423</u>
Unrealized losses on investments			<u>\$ (21,093)</u>
<u>2011</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
March 31, 2011	\$3,960,250	\$4,641,673	\$681,423
March 31, 2010	\$1,556,214	\$2,058,902	<u>502,688</u>
Unrealized gains on investments			<u>\$178,735</u>

(5) 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 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.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012 AND 2011 (Continued)

(5) RELATED PARTY TRANSACTIONS (Continued)

American Civil Liberties Union of Massachusetts, Inc. (Continued)

The Foundation shares administrative expenses with the Union. The amount allocated to each organization is based on use. At March 31, 2012 and 2011, the amount due to the Union was \$2,484 and \$5,035, respectively. Total allocated salary, rent and utility expenses for which the Union charged the Foundation was \$273,602 and \$132,447 for the years ended March 31, 2012 and 2011, respectively.

American Civil Liberties Union Foundation

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.

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>2012</u>	<u>2011</u>
Final bequest reconciliation due from the National Foundation	\$165,753	\$738,459
Final shared revenue reconciliation due to the National Foundation	<u>(28,063)</u>	<u>-</u>
Net amount due from National Foundation	<u>\$137,690</u>	<u>\$738,459</u>

(6) 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 \$95,172 and \$51,179 for the years ended March 31, 2012 and 2011, 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, 2012 and 2011, the financial statements of the pension plan reflected \$63,912,841 and \$55,223,200 in net assets available for benefits and \$91,701,322 and \$73,193,302 in accumulated plan benefits, respectively.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)

(6) **RETIREMENT PLANS** (Continued)

The Foundation also participates in a qualified salary reduction 401(k) plan through the National Union. 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 years ended March 31, 2012 and 2011, were \$16,166 and \$9,667, respectively, and are included in employee benefits in the accompanying statements of functional expenses.

(7) **BILL OF RIGHTS TRUST**

The National Foundation established the Bill of Rights Trust (the Trust) in 1997. The purpose of the Trust is to build an enduring endowment to carry out the work of the National Foundation and affiliated 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 7,391,344 and 5,382,647 are outstanding as of March 31, 2012 and 2011, respectively) which are issued to or among the National Foundation and affiliated 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 101,298 unit shares in the Trust with a cost basis of \$660,594 and \$710,424 as of March 31, 2012 and 2011, respectively (see Note 4). 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% 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, 2012 and 2011, the National Foundation determined the annual distribution to the Foundation to be \$49,830 and \$60,924, respectively.

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). The Act 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. Endowment income is restricted for program purposes.

The Foundation has designated its investment in the 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.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(Continued)

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

During fiscal year 2009, the Foundation formed the Article V Fund. 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 fiscal year 2011, the Foundation liquidated this investment account and received a distribution of \$11,796, which is included in the annual distribution on page 17.

The Foundation's Bill of Rights Trust net assets had the following activity for the years ended March 31:

Bill of Rights Trust net assets, March 31, 2010	\$1,295,728
Net investment gains	154,946
Distributions	(60,924)
Expenses and fees	<u>(2,162)</u>
Bill of Rights Trust net assets, March 31, 2011	1,387,588
Net investment gains	8,718
Distributions	(49,830)
Expenses and fees	<u>(1,959)</u>
Bill of Rights Trust net assets, March 31, 2012	<u>\$1,344,517</u>

(8) **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.

At March 31, 2012, approximately 75% of accounts and pledges receivable were due from two donors.

(9) **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, 2012 AND 2011
(Continued)

(10) NOTE PAYABLE TO A BANK

During February, 2012, the Foundation entered into a \$500,000 line of credit agreement. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's lending rate (3.25% at March 31, 2012), subject to a floor of 4.5%. As of March 31, 2012, there was no outstanding balance under this agreement.

(11) PRIOR PERIOD ADJUSTMENTS

The Foundation was named a beneficiary of a perpetual trust (see Note 3) in July, 1996; however, this activity was not previously recorded in the Foundation's financial statements. The following prior period adjustments have been recorded to reflect the Foundation's interest in the perpetual trust as of March 31, 2011.

Net assets as of March 31, 2011, have been restated as follows:

Net assets, March 31, 2011, as previously stated	\$5,947,005
To record the Foundation's beneficial interest in the perpetual trust as of April 1, 2010	666,438
To record the fiscal year 2011 change in the carrying value of the Foundation's interest in the perpetual trust	<u>202,327</u>
Net assets, March 31, 2011, as restated	<u>\$6,815,770</u>

(12) RECLASSIFICATION

Certain amounts in the fiscal year 2011 financial statements have been reclassified to conform with the fiscal year 2012 presentation.