



**AMERICAN CIVIL LIBERTIES UNION FOUNDATION
OF MASSACHUSETTS**

**FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

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MARCH 31, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Civil Liberties Union Foundation of Massachusetts (a Massachusetts trust, not-for-profit), which comprise the statements of financial position as of March 31, 2013 and 2012, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

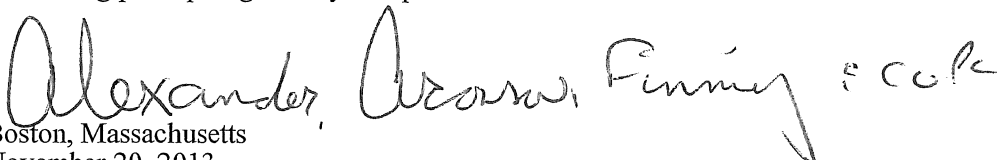
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Boston, Massachusetts
November 20, 2013

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

**STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2013 AND 2012**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 453,069	\$ 327,433
Accounts receivable	10,225	-
Pledges receivable	241,310	81,000
Due from National	-	137,690
Prepaid expenses and other	18,213	33,669
	<hr/>	<hr/>
Total current assets	722,817	579,792
OTHER ASSETS:		
Pledges receivable, net of current portion	1,304,340	-
Investments	5,628,432	4,049,727
Security deposit	11,745	11,745
Beneficial interest in trust	959,183	892,252
Bill of Rights Trust	1,395,519	1,344,517
Property and equipment, net	72,992	71,356
	<hr/>	<hr/>
Total assets	<u>\$ 10,095,028</u>	<u>\$ 6,949,389</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 32,520	\$ 47,658
Accrued expenses	131,469	112,177
Deferred revenue	148,700	33,010
Due to National	1,131,205	-
Due to Union	21,516	2,484
	<hr/>	<hr/>
Total current liabilities	1,465,410	195,329
NET ASSETS:		
Unrestricted:		
Operating	3,000,622	3,106,120
Bill of Rights Trust	1,395,519	1,344,517
Board designated	935,815	1,339,815
Property and equipment	72,992	71,356
	<hr/>	<hr/>
Total unrestricted	5,404,948	5,861,808
Temporarily restricted	2,265,487	-
Permanently restricted	959,183	892,252
	<hr/>	<hr/>
Total net assets	8,629,618	6,754,060
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 10,095,028</u>	<u>\$ 6,949,389</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Contributions	\$ 1,015,981	\$ 1,068,854
Special events	391,410	308,030
Grants	135,750	61,500
Investment income	135,096	127,576
Bequests	53,077	416,979
Legal awards	43,806	78,754
Donated goods, space and services	22,964	46,560
Other	8,173	7,023
	<hr/>	<hr/>
Total support and revenue	1,806,257	2,115,276
	<hr/>	<hr/>
OPERATING EXPENSES:		
Program services	1,680,567	1,290,336
General and administrative	284,592	309,771
Fundraising	507,797	564,108
	<hr/>	<hr/>
Total operating expenses	2,472,956	2,164,215
	<hr/>	<hr/>
Changes in unrestricted net assets from operations	(666,699)	(48,939)
	<hr/>	<hr/>
OTHER REVENUES (EXPENSES):		
Unrealized gains (losses) on investments	135,140	(21,093)
Realized gains on investments	74,699	14,552
Loss on disposal of property and equipment	-	(29,717)
	<hr/>	<hr/>
Total other revenues (expenses)	209,839	(36,258)
	<hr/>	<hr/>
Changes in unrestricted net assets	(456,860)	(85,197)
	<hr/>	<hr/>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,265,487	-
	<hr/>	<hr/>
PERMANENTLY RESTRICTED NET ASSETS:		
Change in carrying value of beneficial interest in trust	66,931	23,487
	<hr/>	<hr/>
Changes in net assets	\$ 1,875,558	\$ (61,710)
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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, 2013 AND 2012**

	2013				2012		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
NET ASSETS , beginning of year	\$ 5,861,808	\$ -	\$ 892,252	\$ 6,754,060	\$ 5,947,005	\$ 868,765	\$ 6,815,770
Changes in net assets	<u>(456,860)</u>	<u>2,265,487</u>	<u>66,931</u>	<u>1,875,558</u>	<u>(85,197)</u>	<u>23,487</u>	<u>(61,710)</u>
NET ASSETS , end of year	<u><u>\$ 5,404,948</u></u>	<u><u>\$ 2,265,487</u></u>	<u><u>\$ 959,183</u></u>	<u><u>\$ 8,629,618</u></u>	<u><u>\$ 5,861,808</u></u>	<u><u>\$ 892,252</u></u>	<u><u>\$ 6,754,060</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,875,558	\$ (61,710)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	21,334	16,388
Loss on disposal of property and equipment	-	29,717
Unrealized (gains) losses on investments	(135,140)	21,093
Realized gains on investments	(74,699)	(14,552)
Change in carrying value of beneficial interest in trust	(66,931)	(23,487)
Changes in operating assets and liabilities:		
Accounts receivable	(10,225)	200
Pledges receivable	(1,464,650)	135,965
Due from National	137,690	600,769
Prepaid expenses and other	15,456	(3,113)
Accounts payable	(15,138)	(4,467)
Accrued expenses	19,292	3,192
Deferred revenue	115,690	(22,140)
Due to National	1,131,205	-
Due to Union	19,032	(2,551)
	<u>1,568,474</u>	<u>675,304</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,839,984	1,729,217
Purchase of investments	(4,259,852)	(2,488,329)
Purchase of property and equipment	(22,970)	(44,690)
Redemption of certificates of deposit	-	104,254
	<u>(1,442,838)</u>	<u>(699,548)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	125,636	(24,244)
CASH AND CASH EQUIVALENTS, beginning of year	<u>327,433</u>	<u>351,677</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 453,069</u></u>	<u><u>\$ 327,433</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost basis of property and equipment disposed of	<u><u>\$ 4,425</u></u>	<u><u>\$ 86,300</u></u>
Acquisition of property and equipment included in accounts payable	<u><u>\$ -</u></u>	<u><u>\$ 9,487</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, 2013**

(With Summarized Comparative Totals for the Year Ended March 31, 2012)

	2013						2012
	PROGRAM SERVICES			GENERAL AND ADMINIS- TRATIVE			
	LITIGATION	EDUCATION	TOTAL PROGRAM SERVICES	FUND- RAISING	TOTAL	TOTAL	TOTAL
PERSONNEL AND RELATED EXPENSES:							
Salaries	\$ 429,010	\$ 467,441	\$ 896,451	\$ 151,604	\$ 215,299	\$ 1,263,354	\$ 1,049,690
Employee benefits	106,156	101,607	207,763	38,023	54,617	300,403	253,048
Payroll taxes	33,227	39,262	72,489	11,576	20,090	104,155	84,946
Total personnel and related expenses	<u>568,393</u>	<u>608,310</u>	<u>1,176,703</u>	<u>201,203</u>	<u>290,006</u>	<u>1,667,912</u>	<u>1,387,684</u>
OTHER EXPENSES:							
Occupancy	69,323	73,432	142,755	18,114	26,487	187,356	160,607
Consultants and contractors	148,736	7,313	156,049	5,783	15,477	177,309	152,092
Special events	1,771	27,403	29,174	5,029	105,366	139,569	130,997
Printing and publishing	3,664	16,189	19,853	1,323	32,784	53,960	39,384
Fees and services	11,671	13,574	25,245	4,760	11,046	41,051	38,088
Technology	11,101	14,713	25,814	4,138	11,017	40,969	39,953
Travel	5,593	15,237	20,830	5,724	4,646	31,200	38,661
Books, subscriptions and dues	21,645	779	22,424	1,377	164	23,965	28,912
Depreciation	9,340	6,999	16,339	2,298	2,697	21,334	16,388
Donated legal services	-	-	-	14,330	-	14,330	35,300
Insurance	9,630	2,296	11,926	1,219	882	14,027	13,490
Postage	8,116	1,635	9,751	707	2,322	12,780	14,964
Accounting	-	-	-	11,912	-	11,912	12,589
Telephone	4,843	2,735	7,578	2,335	929	10,842	11,590
Office and supplies	2,899	2,069	4,968	2,290	1,790	9,048	10,378
Meetings and conferences	1,644	3,416	5,060	644	963	6,667	6,820
Equipment lease and maintenance	1,658	1,521	3,179	1,406	722	5,307	1,866
Litigation	2,919	-	2,919	-	-	2,919	13,165
Miscellaneous	-	-	-	-	499	499	2,787
Recruiting	-	-	-	-	-	-	8,500
Total other expenses	<u>314,553</u>	<u>189,311</u>	<u>503,864</u>	<u>83,389</u>	<u>217,791</u>	<u>805,044</u>	<u>776,531</u>
Total operating expenses	<u>\$ 882,946</u>	<u>\$ 797,621</u>	<u>\$ 1,680,567</u>	<u>\$ 284,592</u>	<u>\$ 507,797</u>	<u>\$ 2,472,956</u>	<u>\$ 2,164,215</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**

	<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	\$ 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
Printing and publishing	1,163	13,734	14,897	49	24,438	39,384
Fees and services	11,250	10,227	21,477	5,266	11,345	38,088
Technology	9,917	9,814	19,731	6,403	13,819	39,953
Travel	7,190	14,809	21,999	8,300	8,362	38,661
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
Donated legal services	-	-	-	35,300	-	35,300
Insurance	8,158	2,870	11,028	2,288	174	13,490
Postage	1,221	7,458	8,679	802	5,483	14,964
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
Meetings and conferences	1,358	2,436	3,794	1,605	1,421	6,820
Equipment lease and maintenance	598	465	1,063	456	347	1,866
Litigation	13,165	-	13,165	-	-	13,165
Miscellaneous	-	2,787	2,787	-	-	2,787
Recruiting	8,500	-	8,500	-	-	8,500
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>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012

(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 trust established 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 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 12).

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.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts received or committed with donor restrictions which have not yet been expended for their designated purposes or specific times.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets are restricted for purpose at March 31, 2013.

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).

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 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 and cash equivalents, excluding those held as part of the investment portfolio.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 and 2012.

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, Space and Services

The Foundation receives donated goods, space and services in support of various aspects of its programs. The value assigned to the donated goods, space and services are based on the donors' estimates of the fair value of space and services provided. The value of the goods, space and services is as follows for the years ended March 31:

	<u>2013</u>	<u>2012</u>
Donated legal services	\$14,330	\$35,300
Donated space	8,634	-
Donated goods	-	11,260
	<u>\$22,964</u>	<u>\$46,560</u>

Advertising Costs

The Foundation expenses advertising costs as they are incurred. Total advertising expense for the years ended March 31, 2013 and 2012, was \$4,077 and \$2,053, respectively. This expense is included in printing and publishing in the accompanying statements of functional expenses.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 records these interests in the financial statements when the amounts are received or become known and are irrevocable.

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

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 and Bill of Rights Trust (see Page 12). 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.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

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 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 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 November 20, 2013, 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.

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, 2013 and 2012, 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 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, 2013 AND 2012

(Continued)

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31:

	<u>2013</u>	<u>2012</u>
Computer equipment	\$ 56,329	\$ 46,299
Leasehold improvements	14,964	14,964
Office equipment	38,273	32,244
Furniture and fixtures	<u>34,920</u>	<u>32,434</u>
	144,486	125,941
Less - accumulated depreciation	<u>71,494</u>	<u>54,585</u>
	<u>\$ 72,992</u>	<u>\$ 71,356</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, 2013 and 2012, the Foundation recognized unrestricted contributions of \$28,131 and \$24,527, respectively, from the Trust, which are included in contributions in the accompanying statements of activities. The Foundation has recorded \$959,183 and \$892,252 on its statements of financial position at March 31, 2013 and 2012, 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 this Level 3 investment for fiscal years 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$892,252	\$868,765
Change in carrying value	<u>66,931</u>	<u>23,487</u>
Balance, end of year	<u>\$959,183</u>	<u>\$892,252</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(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>2013</u>	<u>2012</u>
Investments:		
Daily Money Market	\$ 322,653	\$ 410,453
Equities:		
Global emerging market mutual funds	77,216	66,133
Global real estate mutual funds	235,044	162,568
International mutual funds	320,906	262,074
Technology	122,089	131,994
Domestic markets	<u>670,632</u>	<u>510,718</u>
Sub-total equities	<u>1,425,887</u>	<u>1,133,487</u>
Fixed income:		
Government - short-term	1,625,055	349,883
Intermediate duration portfolio	<u>1,406,358</u>	<u>1,466,911</u>
Sub-total fixed income	<u>3,031,413</u>	<u>1,816,794</u>
Globally Diversified Mutual Fund (mix of equities and fixed income):		
Dynamic asset allocation overlay portfolio	<u>845,942</u>	<u>686,805</u>
Alternative:		
Investment in CRB Media, LLC	<u>279</u>	<u>254</u>
Accrued interest on investments	<u>2,258</u>	<u>1,934</u>
Total investments	5,628,432	4,049,727
Bill of Rights Trust:		
National Endowment	<u>1,395,519</u>	<u>1,344,517</u>
Total investments and Bill of Rights Trust	<u>\$7,023,951</u>	<u>\$5,394,244</u>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(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>2013</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments:				
Daily Money Market	\$ 322,653	\$ -	\$ -	\$ 322,653
Equities:				
Global emerging market mutual funds	77,216	-	-	77,216
Global real estate mutual funds	235,044	-	-	235,044
International mutual funds	320,906	-	-	320,906
Technology	122,089	-	-	122,089
Domestic markets	670,632	-	-	670,632
Fixed income:				
Government - short-term	1,625,055	-	-	1,625,055
Intermediate duration portfolio	-	1,406,358	-	1,406,358
Globally Diversified Mutual Fund (mix of equities and fixed income):				
Dynamic asset allocation overlay portfolio	-	845,942	-	845,942
Alternatives:				
Bill of Rights Trust	-	-	1,395,519	1,395,519
Investment in CRB Media, LLC	-	-	279	279
Accrued interest on investments	<u>2,258</u>	<u>-</u>	<u>-</u>	<u>2,258</u>
Total investments and Bill of Rights Trust	<u>\$3,375,853</u>	<u>\$2,252,300</u>	<u>\$1,395,798</u>	<u>\$7,023,951</u>
<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:				
Government - short-term	349,883	-	-	349,883
Intermediate duration portfolio	-	1,466,911	-	1,466,911
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>

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(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 15) for the years ended March 31:

March 31, 2011	\$1,390,675
Distributions	(52,730)
Interest income	33,594
Fees	(1,959)
Net realized gains	14,401
Net unrealized losses	<u>(39,210)</u>
March 31, 2012	1,344,771
Distributions	(52,836)
Interest income	39,419
Fees	(2,788)
Net realized gains	74,626
Net unrealized losses	<u>(7,394)</u>
March 31, 2013	<u>\$1,395,798</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 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 affiliated with the Union through shared management.

The Foundation shares administrative expenses with the Union. The amount allocated to each organization is based on use. At March 31, 2013 and 2012, the amount due to the Union was \$21,516 and \$2,484, respectively. Total allocated salary for which the Foundation charged the Union was \$407,038 and \$273,602 for the years ended March 31, 2013 and 2012, respectively.

American Civil Liberties Union Foundation

American Civil Liberties Union Foundation (the National Foundation) is a nonprofit trust 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.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

(5) **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 transactions between the National Foundation and the Foundation as of March 31:

	<u>2013</u>	<u>2012</u>
Final bequest reconciliation due from the National Foundation	\$ -	\$165,753
Final shared revenue reconciliation due to the National Foundation	<u>(1,131,205)</u>	<u>(28,063)</u>
Net amount due from (to) National Foundation	<u>\$(1,131,205)</u>	<u>\$137,690</u>

(6) **RETIREMENT PLANS**

The Foundation participates in a non-contributory, defined-benefit retirement plan through the National Union. The plan covers all employees satisfying minimum age and service requirements and hired before April 1, 2009. 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 \$101,773 and \$95,172 for the years ended March 31, 2013 and 2012, 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, 2013 and 2012, the financial statements of the pension plan reflected \$75,633,248 and \$63,912,841 in net assets available for benefits and \$122,443,776 and \$106,179,354 in accumulated plan benefits, respectively.

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 and were hired after April 1, 2009. 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, 2013 and 2012, were \$26,389 and \$16,166, respectively, and are included in employee benefits in the accompanying statements of functional expenses.

AMERICAN CIVIL LIBERTIES UNION FOUNDATION OF MASSACHUSETTS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

(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 7,511,684 and 7,391,344 are outstanding as of March 31, 2013 and 2012, 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 \$607,758 and \$660,594 as of March 31, 2013 and 2012, 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, 2013 and 2012, the National Foundation determined the annual distribution to the Foundation to be \$52,836 and \$52,730, 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, 2013 AND 2012

(Continued)

(7) BILL OF RIGHTS TRUST (Continued)

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, 2011	\$1,390,675
Net investment gains	8,785
Distributions	(52,730)
Expenses and fees	<u>(1,959)</u>
Bill of Rights Trust net assets, March 31, 2012	1,344,517
Net investment gains	106,626
Distributions	(52,836)
Expenses and fees	<u>(2,788)</u>
Bill of Rights Trust net assets, March 31, 2013	<u>\$1,395,519</u>

(8) CONCENTRATION

Cash

Foundation maintains its cash balances in two Massachusetts banks. The balances are insured by the Federal Deposit Insurance Corporation up to a certain threshold. At various times during the year, the cash balances at one bank exceeded the insured amount. The Foundation monitors the financial condition of the bank on a regular basis to keep this concentration of credit risk to a minimum.

Contributions and Pledges Receivables

At March 31, 2013 and 2012, revenues and pledges receivables included the following concentrations:

<u>Donor</u>	<u>2013</u>		<u>2012</u>	
	<u>Percentage of Pledges Receivable</u>	<u>Percentage of Revenue</u>	<u>Percentage of Pledges Receivable</u>	<u>Percentage of Revenue</u>
A	66%	24%	-	%
B	30%	28%	-	%
C	-	%	12%	-
D	-	%	62%	-

(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, 2013 AND 2012
(Continued)**

(10) NOTE PAYABLE TO A BANK

The Foundation maintains a \$500,000 line of credit agreement with a bank. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's lending rate (3.25% at March 31, 2013 and 2012), subject to a floor of 4.5%. As of March 31, 2013 and 2012, there was no outstanding balance under this agreement. This line is secured by certain assets of the Foundation.

The Foundation is subject to certain covenants as specified in the agreement. The Foundation was in compliance with these covenants as of March 31, 2013 and 2012.

(11) LEASE COMMITMENT

During fiscal year 2013, the Foundation entered into an agreement to lease equipment, which expires in December, 2016. Monthly lease payments under this lease are approximately \$162. During fiscal year 2013, expenses under this agreement were \$648. Future minimum lease payments under the agreement are as follows:

Fiscal Year

2014	\$1,944
2015	\$1,944
2016	\$1,944
2017	\$1,458

(12) PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises by individuals to give. Pledges have not been discounted to net realizable value as of March 31, 2013, as the discount amount is not material to the financial statements.

Pledges receivable are expected to be collected as follows as of March 31:

<u>Fiscal Year</u>	<u>2013</u>	<u>2012</u>
2013	\$ -	\$81,000
2014	241,310	-
2015	326,085	-
2016	326,085	-
2017	326,085	-
2018	326,085	-
	<u>1,545,650</u>	<u>81,000</u>
Less - current portion	<u>241,310</u>	<u>81,000</u>
Pledges receivable, net of current portion	<u>\$1,304,340</u>	<u>\$ -</u>

(13) RECLASSIFICATION

Certain amounts in the fiscal year 2012 financial statements have been reclassified to conform with the fiscal year 2013 presentation.