



AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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MARCH 31, 2013 AND 2012

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CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Civil Liberties Union of Massachusetts, Inc. (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 and 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

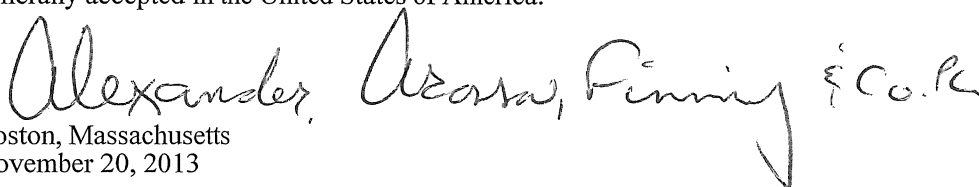
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 of Massachusetts, Inc. 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 OF MASSACHUSETTS, INC.

STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 799,053	\$ 652,641
Accounts receivable	4,000	-
Due from National	108,342	207,363
Due from Foundation	21,516	2,484
Prepaid expenses	15,327	-
	<hr/>	<hr/>
Total current assets	948,238	862,488
LEASEHOLD IMPROVEMENTS, net	<hr/> 3,268	<hr/> 3,642
	<hr/>	<hr/>
Total assets	<u>\$ 951,506</u>	<u>\$ 866,130</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 28,376	\$ 36,470
DEFERRED RENT	<hr/> 29,174	<hr/> 5,835
	<hr/>	<hr/>
Total liabilities	<hr/> 57,550	<hr/> 42,305
	<hr/>	<hr/>
NET ASSETS:		
Unrestricted:		
Operating	890,688	820,183
Leasehold improvements	<hr/> 3,268	<hr/> 3,642
	<hr/>	<hr/>
Total unrestricted net assets	<hr/> 893,956	<hr/> 823,825
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 951,506</u>	<u>\$ 866,130</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
SUPPORT AND REVENUE:		
Membership income	\$ 509,266	\$ 515,153
Contributions	70,487	59,967
Consulting fees	49,900	18,000
Donated space and services	4,733	22,395
Interest	145	361
Bequests	<u>-</u>	<u>108,249</u>
Total support and revenue	<u>634,531</u>	<u>724,125</u>
OPERATING EXPENSES:		
Program services	488,703	468,648
General and administrative	<u>75,697</u>	<u>103,351</u>
Total operating expenses	<u>564,400</u>	<u>571,999</u>
Changes in unrestricted net assets from operations	70,131	152,126
OTHER INCOME (EXPENSES):		
Write-off of deferred rent	-	77,906
Loss on disposal of leasehold improvements	<u>-</u>	<u>(12,736)</u>
Changes in unrestricted net assets	70,131	217,296
NET ASSETS, beginning of year	<u>823,825</u>	<u>606,529</u>
NET ASSETS, end of year	<u><u>\$ 893,956</u></u>	<u><u>\$ 823,825</u></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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ 70,131	\$ 217,296
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation	374	99
Write-off of deferred rent	-	(77,906)
Loss on disposal of leasehold improvements	-	12,736
Changes in operating assets and liabilities:		
Accounts receivable	(4,000)	-
Due from National	99,021	(101,665)
Due from Foundation	(19,032)	2,551
Prepaid expenses	(15,327)	14,200
Accounts payable and accrued expenses	(8,094)	3,358
Deferred rent	<u>23,339</u>	<u>(7,473)</u>
Net cash provided by operating activities	<u>146,412</u>	<u>63,196</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposit	-	167,115
Acquisition of leasehold improvements	<u>-</u>	<u>(3,741)</u>
Net cash provided by investing activities	<u>-</u>	<u>163,374</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	146,412	226,570
CASH AND CASH EQUIVALENTS, beginning of year	<u>652,641</u>	<u>426,071</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 799,053</u></u>	<u><u>\$ 652,641</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost basis of disposed leasehold improvements	<u><u>\$ -</u></u>	<u><u>\$ 23,070</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, 2013

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

	2013				2012	
	PROGRAM SERVICES				GENERAL AND ADMINIS- TRATIVE	
	LEGISLATIVE	EDUCATION	MEMBERSHIP DEVELOPMENT	TOTAL PROGRAM SERVICES	TOTAL	TOTAL
PERSONNEL AND RELATED EXPENSES:						
Salaries	\$ 165,063	\$ 67,124	\$ 55,716	\$ 287,903	\$ 37,901	\$ 316,891
Employee benefits	33,752	19,583	16,398	69,733	11,235	82,754
Payroll taxes	12,696	5,216	4,410	22,322	2,861	23,953
Total personnel and related expenses	211,511	91,923	76,524	379,958	51,997	423,598
OTHER EXPENSES:						
Occupancy	20,535	10,641	7,633	38,809	4,914	40,573
Technology	6,604	15,068	7,719	29,391	1,063	34,163
Postage	429	8,954	1,858	11,241	125	13,269
Accounting	-	-	-	-	9,252	8,133
Books, subscriptions and dues	8,360	188	34	8,582	72	4,868
Printing and publishing	527	7,328	87	7,942	49	7,791
Fees and services	1,636	754	1,211	3,601	1,165	6,263
Donated legal services	-	-	-	-	3,583	22,395
Consultants	1,897	321	110	2,328	60	33
Insurance	681	336	253	1,270	798	2,372
Telephone	846	206	242	1,294	232	1,783
Office expenses and supplies	477	268	179	924	510	1,391
Equipment lease and maintenance	521	285	186	992	404	644
Special events	182	155	95	432	749	674
Travel	10	601	93	704	378	1,413
Meetings and conferences	125	473	292	890	170	1,522
Depreciation	174	87	65	326	48	99
Miscellaneous	10	5	4	19	128	1,015
Total other expenses	43,014	45,670	20,061	108,745	23,700	148,401
Total expenses	\$ 254,525	\$ 137,593	\$ 96,585	\$ 488,703	\$ 75,697	\$ 571,999

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, 2012**

	PROGRAM SERVICES				GENERAL AND ADMINIS- TRATIVE	TOTAL
	<u>LEGISLATIVE</u>	<u>EDUCATION</u>	<u>MEMBERSHIP DEVELOPMENT</u>	<u>TOTAL PROGRAM SERVICES</u>		
PERSONNEL AND RELATED EXPENSES:						
Salaries	\$ 145,926	\$ 68,308	\$ 54,042	\$ 268,276	\$ 48,615	\$ 316,891
Employee benefits	35,195	17,268	19,784	72,247	10,507	82,754
Payroll taxes	10,970	5,280	4,098	20,348	3,605	23,953
Total personnel and related expenses	<u>192,091</u>	<u>90,856</u>	<u>77,924</u>	<u>360,871</u>	<u>62,727</u>	<u>423,598</u>
OTHER EXPENSES:						
Occupancy	20,215	8,729	7,208	36,152	4,421	40,573
Technology	7,801	15,796	8,976	32,573	1,590	34,163
Postage	272	8,087	4,781	13,140	129	13,269
Accounting	-	-	-	-	8,133	8,133
Books, subscriptions and dues	4,465	323	16	4,804	64	4,868
Printing and publishing	-	7,609	182	7,791	-	7,791
Fees and services	2,830	987	1,499	5,316	947	6,263
Donated legal services	-	-	-	-	22,395	22,395
Consultants	33	-	-	33	-	33
Insurance	140	49	46	235	2,137	2,372
Telephone	736	687	191	1,614	169	1,783
Office expenses and supplies	527	499	128	1,154	237	1,391
Equipment lease and maintenance	290	163	76	529	115	644
Special events	278	156	100	534	140	674
Travel	554	784	58	1,396	17	1,413
Meetings and conferences	27	1,471	18	1,516	6	1,522
Depreciation	-	-	-	-	99	99
Miscellaneous	-	-	990	990	25	1,015
Total other expenses	<u>38,168</u>	<u>45,340</u>	<u>24,269</u>	<u>107,777</u>	<u>40,624</u>	<u>148,401</u>
Total expenses	<u>\$ 230,259</u>	<u>\$ 136,196</u>	<u>\$ 102,193</u>	<u>\$ 468,648</u>	<u>\$ 103,351</u>	<u>\$ 571,999</u>

The accompanying notes are an integral part of these statements.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

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 of Massachusetts, Inc. (the Union) is the Massachusetts affiliate of the American Civil Liberties Union, Inc. (the National Union), a national 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 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 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 that 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 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 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 are recognized when received or unconditionally committed.

Membership income, consulting 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, 2013 AND 2012

(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.

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 and cash equivalents.

Allowance for Doubtful Accounts

An allowance for potentially uncollectible accounts 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.

Leasehold Improvements and Depreciation

Leasehold improvements are recorded at cost (see Note 2). 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 lesser of the term of the lease or ten years.

Donated Space and Services

The Union receives donated space and services in support of various aspects of its programs. The value assigned to these services, based on the donor's estimate of the fair value, has been reflected in the accompanying financial statements as donated space and services totaling \$4,733 and \$22,395 for the years ended March 31, 2013 and 2012, respectively.

Beneficial Interests

The Union 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 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.

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

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 mandate 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.

Uncertainty Income Taxes

The Union follows the *Accounting for Uncertainty in Income Taxes* standard under U.S. GAAP, 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, 2013 and 2012, the Union determined that there are no material unrecognized tax benefits to report. The Union does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months. Information returns filed for the prior three fiscal years remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts.

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.

(2) **LEASEHOLD IMPROVEMENTS**

Leasehold improvements consist of the following at March 31:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$3,741	\$3,741
Less - accumulated depreciation	<u>473</u>	<u>99</u>
Leasehold improvements, net	<u>\$3,268</u>	<u>\$3,642</u>

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

(3) **RELATED PARTY TRANSACTIONS**

American Civil Liberties Union Foundation of Massachusetts

The American Civil Liberties Union Foundation of Massachusetts (the Foundation) is a 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 affiliated with the Union through shared management.

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, 2013 and 2012, 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

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 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 \$509,266 and \$515,153 for the years ended March 31, 2013 and 2012, 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>2013</u>	<u>2012</u>
Final shared revenue reconciliation due from the National Union	\$ 70,487	\$168,216
Membership income due from the National Union	<u>37,855</u>	<u>39,147</u>
Net amount due from the National Union	<u>\$108,342</u>	<u>\$207,363</u>

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012

(Continued)

(4) **RETIREMENT PLAN**

The Union 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 Union based on the number of participating employees. Pension expense was \$45,592 and \$43,012 for the years ended March 31, 2013 and 2012, respectively, which 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 Union 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 hired after April 1, 2009. 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 years ended March 31, 2013 and 2012, were \$4,599 and \$4,160, respectively, and are included in employee benefits in the accompanying statements of functional expenses.

(5) **LEASE COMMITMENTS**

During fiscal year 2005, the Union entered into a ten-year lease agreement which originally expired in May, 2015. During fiscal year 2012, the Union renegotiated this lease through December, 2021. The Union began paying rent of \$15,127 per month in January, 2012, with increases as defined in the agreement. The Union is responsible for certain operating costs as defined in the agreement. The Union has the option to extend the terms of the lease through December, 2026.

In accordance with *Accounting for Leases* under U.S. GAAP, the Union records rent expense for this lease on a straight-line basis over the term of the lease regardless of actual cash payments. Deferred rent as of March 31, 2013 and 2012, was \$29,174 and \$5,835, respectively. As a result of the renegotiated lease, deferred rent expense totaling \$77,906 was written off during fiscal year 2012 and was reflected as write-off of deferred rent expense in the accompanying 2012 statement of activities and changes in net assets. The Union shares the facility with the Foundation and allocates a portion of total rent expense based upon usage. The Union has recognized \$40,458 and \$33,608 of rent expense under this agreement for the years ended March 31, 2013 and 2012, respectively, which 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, 2013 and 2012 (see Note 3).

AMERICAN CIVIL LIBERTIES UNION OF MASSACHUSETTS, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

(Continued)

(5) **LEASE COMMITMENTS** (Continued)

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

<u>Fiscal Year Ending</u>	<u>Amount</u>
2014	\$184,765
2015	\$194,490
2016	\$197,732
2017	\$207,456
2018	\$209,077
2019 - 2022	\$828,203

(6) **CONCENTRATION OF CREDIT RISK**

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

(7) **NOTE PAYABLE TO A BANK**

The Union has a \$100,000 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 Union.

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

(8) **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.

(9) **RECLASSIFICATION**

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