



GREATER BOSTON
LEGAL SERVICES

**FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

GREATER BOSTON LEGAL SERVICES, INC.

**CONTENTS
DECEMBER 31, 2011 AND 2010**

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2 - 3
Statements of Activities	4 - 5
Statements of Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 20



CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Greater Boston Legal Services, Inc.:

We have audited the accompanying statements of financial position of Greater Boston Legal Services, Inc. (a Massachusetts corporation, not for profit) as of December 31, 2011 and 2010, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Agency'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 Greater Boston Legal Services, Inc. as of December 31, 2011 and 2010, 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.

A handwritten signature in cursive script that reads "Alexander Aronson Finning & Co. P.C." The signature is written in dark ink and is positioned above the typed name and date.

Wellesley, Massachusetts
April 4, 2012

GREATER BOSTON LEGAL SERVICES, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

<u>ASSETS</u>	<u>UNRESTRICTED</u>						<u>TOTAL</u>
	<u>OPERATING</u>	<u>BOARD DESIGNATED</u>	<u>PROPERTY AND EQUIPMENT</u>	<u>TOTAL UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	
CURRENT ASSETS:							
Cash and cash equivalents	\$ 3,629,883	\$ -	\$ -	\$ 3,629,883	\$ 418,168	\$ -	\$ 4,048,051
Investments	1,762,568	-	-	1,762,568	-	-	1,762,568
Grants and contracts receivable	383,041	-	-	383,041	-	-	383,041
Pledges receivable	883,772	-	-	883,772	439,605	-	1,323,377
Prepaid expenses, deposits and other	221,828	2,066	-	223,894	-	2,303	226,197
Total current assets	<u>6,881,092</u>	<u>2,066</u>	<u>-</u>	<u>6,883,158</u>	<u>857,773</u>	<u>2,303</u>	<u>7,743,234</u>
INVESTMENTS	-	2,341,630	-	2,341,630	-	2,497,380	4,839,010
CONTRIBUTIONS AND PROMISES RECEIVABLE, net of current portion, discount and allowance	-	-	-	-	518,236	-	518,236
BUILDING CAPITAL RESERVE	-	-	44,738	44,738	-	-	44,738
PROPERTY AND EQUIPMENT, net	-	-	3,936,560	3,936,560	-	-	3,936,560
DUE (TO) FROM	<u>(354,017)</u>	<u>(66,112)</u>	<u>354,017</u>	<u>(66,112)</u>	<u>-</u>	<u>66,112</u>	<u>-</u>
Total assets	<u>\$ 6,527,075</u>	<u>\$ 2,277,584</u>	<u>\$ 4,335,315</u>	<u>\$ 13,139,974</u>	<u>\$ 1,376,009</u>	<u>\$ 2,565,795</u>	<u>\$ 17,081,778</u>
<u>LIABILITIES AND NET ASSETS</u>							
CURRENT LIABILITIES:							
Accounts payable and other accrued expenses	\$ 901,640	\$ -	\$ -	\$ 901,640	\$ -	\$ -	\$ 901,640
Accrued vacation	737,758	-	-	737,758	-	-	737,758
Total liabilities	<u>1,639,398</u>	<u>-</u>	<u>-</u>	<u>1,639,398</u>	<u>-</u>	<u>-</u>	<u>1,639,398</u>
NET ASSETS:							
Unrestricted:							
Operating	4,887,677	-	-	4,887,677	-	-	4,887,677
Board Designated - functioning as endowment	-	2,343,696	-	2,343,696	-	-	2,343,696
Board Designated - property and equipment	-	-	398,755	398,755	-	-	398,755
Property and equipment	-	-	3,936,560	3,936,560	-	-	3,936,560
Depreciation on permanently restricted endowment	-	(66,112)	-	(66,112)	-	-	(66,112)
Total unrestricted	<u>4,887,677</u>	<u>2,277,584</u>	<u>4,335,315</u>	<u>11,500,576</u>	<u>-</u>	<u>-</u>	<u>11,500,576</u>
Temporarily restricted	-	-	-	-	1,376,009	-	1,376,009
Permanently restricted	-	-	-	-	-	2,565,795	2,565,795
Total net assets	<u>4,887,677</u>	<u>2,277,584</u>	<u>4,335,315</u>	<u>11,500,576</u>	<u>1,376,009</u>	<u>2,565,795</u>	<u>15,442,380</u>
Total liabilities and net assets	<u>\$ 6,527,075</u>	<u>\$ 2,277,584</u>	<u>\$ 4,335,315</u>	<u>\$ 13,139,974</u>	<u>\$ 1,376,009</u>	<u>\$ 2,565,795</u>	<u>\$ 17,081,778</u>

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

<u>ASSETS</u>	<u>UNRESTRICTED</u>						<u>TOTAL</u>
	<u>OPERATING</u>	<u>BOARD DESIGNATED</u>	<u>PROPERTY AND EQUIPMENT</u>	<u>TOTAL UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	
CURRENT ASSETS:							
Cash and cash equivalents	\$ 1,776,182	\$ -	\$ -	\$ 1,776,182	\$ 371,053	\$ -	\$ 2,147,235
Certificates of deposit	1,752,245	-	-	1,752,245	-	-	1,752,245
Grants and contracts receivable	440,335	-	-	440,335	-	-	440,335
Pledges receivable	1,667,560	-	-	1,667,560	25,000	-	1,692,560
Prepaid expenses, deposits and other	231,229	3,998	-	235,227	-	2,353	237,580
Total current assets	<u>5,867,551</u>	<u>3,998</u>	<u>-</u>	<u>5,871,549</u>	<u>396,053</u>	<u>2,353</u>	<u>6,269,955</u>
INVESTMENTS	-	2,352,932	-	2,352,932	-	2,675,953	5,028,885
BUILDING CAPITAL RESERVE	-	-	25,050	25,050	-	-	25,050
PROPERTY AND EQUIPMENT, net	-	-	4,091,013	4,091,013	-	-	4,091,013
DUE (TO) FROM	<u>(89,017)</u>	<u>-</u>	<u>89,017</u>	<u>-</u>	<u>127,511</u>	<u>(127,511)</u>	<u>-</u>
Total assets	<u>\$ 5,778,534</u>	<u>\$ 2,356,930</u>	<u>\$ 4,205,080</u>	<u>\$ 12,340,544</u>	<u>\$ 523,564</u>	<u>\$ 2,550,795</u>	<u>\$ 15,414,903</u>
<u>LIABILITIES AND NET ASSETS</u>							
CURRENT LIABILITIES:							
Accounts payable and other accrued expenses	\$ 590,011	\$ -	\$ -	\$ 590,011	\$ -	\$ -	\$ 590,011
Accrued vacation	772,806	-	-	772,806	-	-	772,806
Total liabilities	<u>1,362,817</u>	<u>-</u>	<u>-</u>	<u>1,362,817</u>	<u>-</u>	<u>-</u>	<u>1,362,817</u>
NET ASSETS:							
Unrestricted:							
Operating	4,415,717	-	-	4,415,717	-	-	4,415,717
Board Designated - functioning as endowment	-	2,356,930	-	2,356,930	-	-	2,356,930
Board Designated - property and equipment	-	-	114,067	114,067	-	-	114,067
Property and equipment	-	-	4,091,013	4,091,013	-	-	4,091,013
Total unrestricted	<u>4,415,717</u>	<u>2,356,930</u>	<u>4,205,080</u>	<u>10,977,727</u>	<u>-</u>	<u>-</u>	<u>10,977,727</u>
Temporarily restricted	-	-	-	-	523,564	-	523,564
Permanently restricted	-	-	-	-	-	2,550,795	2,550,795
Total net assets	<u>4,415,717</u>	<u>2,356,930</u>	<u>4,205,080</u>	<u>10,977,727</u>	<u>523,564</u>	<u>2,550,795</u>	<u>14,052,086</u>
Total liabilities and net assets	<u>\$ 5,778,534</u>	<u>\$ 2,356,930</u>	<u>\$ 4,205,080</u>	<u>\$ 12,340,544</u>	<u>\$ 523,564</u>	<u>\$ 2,550,795</u>	<u>\$ 15,414,903</u>

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	UNRESTRICTED			TEMPORARILY RESTRICTED					
	OPERATING	BOARD DESIGNATED	PROPERTY AND EQUIPMENT	TOTAL UNRESTRICTED	PROGRAM AND TIME RESTRICTED	APPRECIATION ON ENDOWMENT	TOTAL TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE AND SUPPORT:									
Contributions and promises	\$ 6,124,173	\$ -	\$ -	\$ 6,124,173	\$ 1,343,792	\$ -	\$ 1,343,792	\$ -	\$ 7,467,965
Grants and contracts	6,198,184	-	-	6,198,184	32,782	-	32,782	-	6,230,966
Attorney fees	423,170	-	-	423,170	-	-	-	-	423,170
Investment return designated for current operations	232,515	-	-	232,515	-	-	-	-	232,515
Other income	99,665	-	-	99,665	-	-	-	-	99,665
Interest	12,001	-	-	12,001	-	-	-	-	12,001
Net assets released from restrictions:									
Satisfaction of time restriction	148,833	-	-	148,833	(148,833)	-	(148,833)	-	-
Satisfaction of program restriction	247,785	-	-	247,785	(247,785)	-	(247,785)	-	-
Total operating revenue and support before donated services	13,486,326	-	-	13,486,326	979,956	-	979,956	-	14,466,282
Donated services	6,828,844	-	-	6,828,844	-	-	-	-	6,828,844
Total operating revenue and support	20,315,170	-	-	20,315,170	979,956	-	979,956	-	21,295,126
OPERATING EXPENSES:									
Salaries and related:									
Salaries - lawyers	4,482,703	-	-	4,482,703	-	-	-	-	4,482,703
Salaries - other	3,355,428	-	-	3,355,428	-	-	-	-	3,355,428
Payroll taxes and fringe benefits	2,909,196	-	-	2,909,196	-	-	-	-	2,909,196
Total salaries and related	10,747,327	-	-	10,747,327	-	-	-	-	10,747,327
Other:									
Occupancy	454,485	-	-	454,485	-	-	-	-	454,485
Contract services	362,299	-	-	362,299	-	-	-	-	362,299
Office and related expenses	308,534	-	-	308,534	-	-	-	-	308,534
Grants awarded	279,489	-	-	279,489	-	-	-	-	279,489
Other direct expenses	219,069	-	-	219,069	-	-	-	-	219,069
Depreciation	-	-	164,765	164,765	-	-	-	-	164,765
Library maintenance	163,619	-	-	163,619	-	-	-	-	163,619
Client litigation expenses	112,367	-	-	112,367	-	-	-	-	112,367
Travel and training	72,177	-	-	72,177	-	-	-	-	72,177
Total other	1,972,039	-	164,765	2,136,804	-	-	-	-	2,136,804
Total expenses before donated services	12,719,366	-	164,765	12,884,131	-	-	-	-	12,884,131
Donated services	6,828,844	-	-	6,828,844	-	-	-	-	6,828,844
Total operating expenses	19,548,210	-	164,765	19,712,975	-	-	-	-	19,712,975
Changes in net assets from operations	766,960	-	(164,765)	602,195	979,956	-	979,956	-	1,582,151
NON-OPERATING REVENUE:									
Investment income, net of expenses of \$44,000	-	11,240	-	11,240	-	57,419	57,419	-	68,659
Grant for endowment	-	-	-	-	-	-	-	15,000	15,000
Net gain (loss) on investments	-	85,545	-	85,545	-	(128,546)	(128,546)	-	(43,001)
Investment return designated for current operations	-	(110,019)	-	(110,019)	-	(122,496)	(122,496)	-	(232,515)
Total non-operating revenue	-	(13,234)	-	(13,234)	-	(193,623)	(193,623)	15,000	(191,857)
Changes in net assets	\$ 766,960	\$ (13,234)	\$ (164,765)	\$ 588,961	\$ 979,956	\$ (193,623)	\$ 786,333	\$ 15,000	\$ 1,390,294

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	UNRESTRICTED			TEMPORARILY RESTRICTED					TOTAL
	OPERATING	BOARD DESIGNATED	PROPERTY AND EQUIPMENT	TOTAL UNRESTRICTED	PROGRAM AND TIME RESTRICTED	APPRECIATION ON ENDOWMENT	TOTAL TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	
OPERATING REVENUE AND SUPPORT:									
Contributions and promises	\$ 5,122,943	\$ -	\$ -	\$ 5,122,943	\$ 322,270	\$ -	\$ 322,270	\$ -	\$ 5,445,213
Grants and contracts	6,346,451	-	-	6,346,451	49,347	-	49,347	-	6,395,798
Attorney fees	612,316	-	-	612,316	-	-	-	-	612,316
Investment return designated for current operations	234,376	-	-	234,376	-	-	-	-	234,376
Other income	99,841	-	-	99,841	-	-	-	-	99,841
Interest	19,082	-	-	19,082	-	-	-	-	19,082
Net assets released from restrictions:									
Satisfaction of time restriction	348,469	-	-	348,469	(348,469)	-	(348,469)	-	-
Satisfaction of program restriction	560,404	-	-	560,404	(560,404)	-	(560,404)	-	-
Total operating revenue and support before donated services	13,343,882	-	-	13,343,882	(537,256)	-	(537,256)	-	12,806,626
Donated services	6,850,194	-	-	6,850,194	-	-	-	-	6,850,194
Total operating revenue and support	20,194,076	-	-	20,194,076	(537,256)	-	(537,256)	-	19,656,820
OPERATING EXPENSES:									
Salaries and related:									
Salaries - lawyers	5,321,352	-	-	5,321,352	-	-	-	-	5,321,352
Salaries - other	3,400,702	-	-	3,400,702	-	-	-	-	3,400,702
Payroll taxes and fringe benefits	2,805,069	-	-	2,805,069	-	-	-	-	2,805,069
Total salaries and related	11,527,123	-	-	11,527,123	-	-	-	-	11,527,123
Other:									
Occupancy	436,006	-	-	436,006	-	-	-	-	436,006
Contract services	382,097	-	-	382,097	-	-	-	-	382,097
Office and related expenses	362,042	-	-	362,042	-	-	-	-	362,042
Grants awarded	280,104	-	-	280,104	-	-	-	-	280,104
Other direct expenses	194,329	-	-	194,329	-	-	-	-	194,329
Depreciation	-	-	169,961	169,961	-	-	-	-	169,961
Library maintenance	140,598	-	-	140,598	-	-	-	-	140,598
Client litigation expenses	138,743	-	-	138,743	-	-	-	-	138,743
Travel and training	71,369	-	-	71,369	-	-	-	-	71,369
Total other	2,005,288	-	169,961	2,175,249	-	-	-	-	2,175,249
Total expenses before donated services	13,532,411	-	169,961	13,702,372	-	-	-	-	13,702,372
Donated services	6,850,194	-	-	6,850,194	-	-	-	-	6,850,194
Total operating expenses	20,382,605	-	169,961	20,552,566	-	-	-	-	20,552,566
Changes in net assets from operations	(188,529)	-	(169,961)	(358,490)	(537,256)	-	(537,256)	-	(895,746)
NON-OPERATING REVENUE:									
Investment income, net of expenses of \$43,000	-	39,972	-	39,972	-	41,536	41,536	-	81,508
Grant for endowment	-	-	-	-	-	-	-	15,000	15,000
Net gain on investments	-	273,006	-	273,006	-	301,445	301,445	-	574,451
Investment return designated for current operations	-	(110,180)	-	(110,180)	-	(124,196)	(124,196)	-	(234,376)
Total non-operating revenue	-	202,798	-	202,798	-	218,785	218,785	15,000	436,583
Changes in net assets	\$ (188,529)	\$ 202,798	\$ (169,961)	\$ (155,692)	\$ (537,256)	\$ 218,785	\$ (318,471)	\$ 15,000	\$ (459,163)

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	UNRESTRICTED			TEMPORARILY RESTRICTED			PERMANENTLY RESTRICTED	TOTAL	
	OPERATING	BOARD DESIGNATED	PROPERTY AND EQUIPMENT	TOTAL UNRESTRICTED	PROGRAM AND TIME RESTRICTED	APPRECIATION ON ENDOWMENT			TOTAL TEMPORARILY RESTRICTED
NET ASSETS, December 31, 2009	\$ 4,669,246	\$ 2,062,858	\$ 4,310,041	\$ 11,042,145	\$ 933,309	\$ -	\$ 933,309	\$ 2,535,795	\$ 14,511,249
Changes in net assets	(188,529)	202,798	(169,961)	(155,692)	(537,256)	218,785	(318,471)	15,000	(459,163)
Transfers:									
Board transfer for appreciation in permanently restricted endowment	-	91,274	-	91,274	-	(91,274)	(91,274)	-	-
Transfer for building capital reserve	(65,000)	-	65,000	-	-	-	-	-	-
Total transfers	(65,000)	91,274	65,000	91,274	-	(91,274)	(91,274)	-	-
NET ASSETS, December 31, 2010	4,415,717	2,356,930	4,205,080	10,977,727	396,053	127,511	523,564	2,550,795	14,052,086
Changes in net assets	766,960	(13,234)	(164,765)	588,961	979,956	(193,623)	786,333	15,000	1,390,294
Transfers:									
Board transfer for deficit in permanently restricted endowment	-	(66,112)	-	(66,112)	-	66,112	66,112	-	-
Board transfer for equipment reserves	(265,000)	-	265,000	-	-	-	-	-	-
Transfer for building capital reserve	(30,000)	-	30,000	-	-	-	-	-	-
Total transfers	(295,000)	(66,112)	295,000	(66,112)	-	66,112	66,112	-	-
NET ASSETS, December 31, 2011	\$ 4,887,677	\$ 2,277,584	\$ 4,335,315	\$ 11,500,576	\$ 1,376,009	\$ -	\$ 1,376,009	\$ 2,565,795	\$ 15,442,380

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets from operations	\$ 1,582,151	\$ (895,746)
Adjustments to reconcile changes in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation	164,765	169,961
Investment return designated for current operations	(232,515)	(234,376)
Changes in operating assets and liabilities:		
Grants and contracts receivable	57,294	(37,600)
Pledges, contributions and promises receivable	(149,053)	(739,093)
Prepaid expenses, deposits and other	11,383	(34,744)
Accounts payable and other accrued expenses	311,629	(230,369)
Accrued vacation	(35,048)	4,555
	1,710,606	(1,997,412)
Net cash provided by (used in) operating activities	1,710,606	(1,997,412)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(10,312)	(66,403)
Maturities of certificates of deposit	1,752,245	2,067,136
Purchase of certificates of deposit	-	(1,752,245)
Purchase of investments	(6,259,497)	(2,417,652)
Proceeds from sale of investments	4,643,803	2,548,229
Investment income, net of expenses	68,659	81,508
Net (increase) decrease in building capital reserve	(19,688)	516
	175,210	461,089
Net cash provided by investing activities	175,210	461,089
CASH FLOWS FROM FINANCING ACTIVITIES:		
Grants for endowment	15,000	15,000
	15,000	15,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,900,816	(1,521,323)
CASH AND CASH EQUIVALENTS, beginning of year	2,147,235	3,668,558
CASH AND CASH EQUIVALENTS, end of year	\$ 4,048,051	\$ 2,147,235

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Greater Boston Legal Services, Inc. (the Agency) provides free legal assistance in non-criminal matters to persons financially unable to afford legal assistance in the metropolitan Boston area of Massachusetts.

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

SIGNIFICANT ACCOUNTING POLICIES

The Agency 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 include the following:

- **Operating** represents amounts which bear no external restrictions and are available for operations.
- **Board Designated – Functioning as Endowment** represents amounts which have been designated by the Board of Directors for investment for future support of program operations. These net assets may not be expended for operations without the Board of Directors approval.
- **Board Designated – Property and Equipment** represents amounts designated by the Board of Directors' for future capital expenditures. These net assets may not be expended for operations without the Board of Directors' approval.
- **Property and Equipment** represents resources available and the net book value of the Agency's property and equipment, net of related debt, if any.
- **Depreciation on Permanently Restricted Endowment** represents the cumulative depreciation of those funds invested as permanently restricted endowment (see permanently restricted net assets). Losses on investments of a donor restricted endowment reduce temporarily restricted net assets to the extent of net accumulated appreciation on these funds. Any remaining loss reduces unrestricted net assets. Future gains, if any, that restore the assets of the endowment fund to the original level will increase unrestricted net assets. As of December 31, 2011, there was \$66,112 of accumulated depreciation on permanently restricted endowment funds.

GREATER BOSTON LEGAL SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted net assets represent amounts received or committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted) or amounts for unrestricted use in future periods (time restricted). Temporarily restricted net assets also include appreciation, if any, on permanently restricted net assets (endowment) in accordance with Massachusetts state law and the Agency's spending policy (see investment return allocations note on pages 12 and 13).

Temporarily restricted net assets consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Time restricted	\$1,158,970	\$156,283
Program restricted - operations	217,039	239,770
Appreciation on permanently restricted endowment	-	127,511
	<u>\$1,376,009</u>	<u>\$523,564</u>

Permanently Restricted net assets represent amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income and appreciation can be spent.

Permanently restricted net assets consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Access to Justice Fund	\$2,049,347	\$2,034,347
Hennessey Fund	318,579	318,579
General Endowment	115,275	115,275
Marks Fund	82,594	82,594
	<u>\$2,565,795</u>	<u>\$2,550,795</u>

The Access to Justice Fund was established in 2001 to raise funds to support staff attorneys. During 2011 and 2010, donors contributed \$15,000 of new contributions towards the campaign.

The Hennessey Fund was established in 1990 to raise funds to endow an attorney position.

The Marks Fund was established in 2006 as a separately named fund, with the same purpose as the Access to Justice Fund.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Agency reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Unrestricted support is recognized when received or unconditionally committed by the donor. Restricted support received and expended during the year is recorded as unrestricted revenue and support.

Contributions and promises include contributions and donations from Boston area law firms and corporate legal departments (approximately \$4,498,000 and \$2,830,000 in 2011 and 2010, respectively), other organizations and individuals. These are recognized as support when received or unconditionally pledged. Contributions and promises to give are recorded as temporarily restricted if there is a donor-imposed program or time restriction.

Massachusetts Legal Assistance Corporation (MLAC):

MLAC provides a significant portion of the Agency's grant and contract revenue. MLAC is a nonprofit organization created by the Massachusetts Legislature to provide financial support for legal assistance programs. MLAC's distributions to the Agency and other legal assistance programs are funded by state appropriations and interest earned on Lawyer Trust Accounts. During 2011 and 2010, the Agency was awarded \$3,567,327 and \$3,573,232, respectively, from MLAC. The Agency recognizes MLAC grant revenue as granted each quarter. At December 31, 2010 there was \$8,015 of MLAC funding included in temporarily restricted net assets. There were no restricted MLAC funds at December 31, 2011. All Agency contracts and grants with MLAC are awarded annually.

Under the Agency's grant agreements with MLAC, the Agency agrees to follow MLAC's restrictions with respect to the use or disposition of net assets, records, equipment, supplies or property purchased with MLAC funds. This will be applicable if the Agency's funding is terminated before the expected expiration date of the contract, or if the Agency ceases to receive funds from MLAC after the funding period.

Cost Reimbursable Grants and Contracts:

The Agency recognizes support from such sources when eligible costs are incurred. A receivable is recognized to the extent that contract support earned exceeds cash advances; conversely, contract cash advances exceeding eligible costs incurred are recorded as refundable advances.

Other Grants and Contracts:

The Agency recognizes income from other grant and contract sources as support ratably over the award period. Net assets remaining unused at the end of a period are carried as temporarily restricted net assets and released from restrictions to the unrestricted operating net assets as restrictions are satisfied.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Agency receives a portion of its funding from the Commonwealth of Massachusetts and the Federal government under cost reimbursement contracts. Payments to the Agency are subject to audit by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of December 31, 2011 and 2010, or on the results of its operations for the years then ended.

All other revenue is recognized when earned.

Attorney Fees

Attorney fees are amounts that the Agency receives for representing clients in various litigations. These amounts are paid by the defendant and are approved by the courts. The Agency does not charge its clients legal fees except in certain Social Security disability cases where permitted by the Social Security Administration and the Massachusetts Legal Assistance Corporation. Accordingly, attorney fees are recognized when received.

Expense Classifications

Operating expenses consist of the following components for the years ended December 31:

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Program services	\$18,141,329	92%	\$18,974,132	92%
General and administrative	954,161	5%	1,005,202	5%
Fundraising	<u>617,485</u>	<u>3%</u>	<u>573,232</u>	<u>3%</u>
	<u>\$19,712,975</u>	<u>100%</u>	<u>\$20,552,566</u>	<u>100%</u>

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

Property and Equipment and Depreciation

Operating assets used for property and equipment acquisitions and for long-term debt payments are accounted for as transfers from operating net assets to the property and equipment net assets. Proceeds from the sale of property and equipment, if unrestricted, are transferred to operating net assets, or, if restricted, to the net assets that provided the cash to purchase the property and equipment.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation (Continued)

Expenditures for property and equipment in excess of \$7,500, and leases representing the purchase of equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Building and improvements	15 - 40 years
Computers and office equipment	3 - 10 years

The Agency depreciated the original cost of the law library of \$145,507 over five years. All additions to the law library are expensed when acquired.

Net property and equipment consist of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 418,000	\$ 418,000
Building and improvements	5,524,862	5,514,550
Computers and office equipment	1,874,835	1,874,835
Law library	<u>145,507</u>	<u>145,507</u>
	7,963,204	7,952,892
Less - accumulated depreciation	<u>4,026,644</u>	<u>3,861,879</u>
Net property and equipment	<u>\$3,936,560</u>	<u>\$4,091,013</u>

Investment Return Allocations and Spending Policy

Massachusetts follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Subject to the intent of a donor, the Agency 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. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Agency.

The Board of Directors has voted to allow for the use of a portion of total investment return for operations each year. The Agency will annually distribute from its investment portfolios (Board designated and permanently restricted) an amount not to exceed 5% of the average values for each portfolio over the prior three years determined at least quarterly. Transfers to the operating net assets, in accordance with this policy, are reflected in the statements of activities.

The Agency's investment policy combined with the spending rate attempts to provide a predictable stream of returns combined with asset protection. Endowment assets include those assets restricted by donors that the Agency must hold in perpetuity. Under the Agency's investment policy and spending rate, both approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations and Spending Policy (Continued)

To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Finance Committee, advised by a third party investment advisor, is responsible for selecting the investment managers of the Agency's portfolio. The Finance Committee's strategy is to include an array of different strategy and investment managers for the portfolio to minimize risk while providing investment returns exceeding industry benchmarks.

The Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value". Deficiencies of this nature are reported as a deficit in unrestricted net assets and totaled \$66,112 as of December 31, 2011. These deficiencies resulted from unfavorable market fluctuations.

Building Capital Reserve

The Board of Directors established a policy to annually fund a building reserve account. These funds are to be used for building improvements and replacements.

Cash and Cash Equivalents and Certificates of Deposit

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking and money market accounts, excluding amounts in the investment portfolio or restricted for long-term purposes. Certificates of deposits as of December 31, 2010, have original maturities of 150 to 210 days and, accordingly, are recorded separately.

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 disclosure 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.

Grants Awarded

Grant expense is recorded at the time awarded by the Agency.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through April 4, 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.

Allowance for Uncollectible Pledges

An allowance for potentially uncollectible pledges receivable is provided based upon management's judgment of expected defaults. The determination includes factors such as prior collection history, type of contribution and nature of fundraising activity.

Fair Value

The Agency follows the accounting standards pertaining to *Fair Value Measurements* for measuring fair value under U.S. GAAP. The Agency values its investments under a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value framework under these accounting standards 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 – Pricing inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require management judgment or estimation.

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 in Income Taxes

The Agency has adopted the *Accounting for Uncertainty in Income Taxes* standard which requires the Agency to report any uncertain tax positions, related interest and penalties, and to adjust its financial statements for the impact thereof. As of December 31, 2011, the Agency determined that it had no tax positions that did not meet the "more likely than not" threshold of being sustained by the applicable tax authority. The Agency files tax and information returns in the United States Federal and Massachusetts state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Continued)

(2) INVESTMENTS

The Agency maintains separate investment portfolios for permanently restricted (endowment) net assets, Board designated net assets functioning as endowment as well as operational resources. Investment income and appreciation earned on the permanently restricted net assets are recorded as temporarily restricted net assets (see Note 1).

Investments are presented in the financial statements in the aggregate at fair market value. Investments by asset class at December 31, 2011 and 2010, are as follows:

	<u>Market Value</u>	
	<u>2011</u>	<u>2010</u>
Unrestricted operational resources	\$1,762,568	\$ -
Board designated net assets	2,341,630	2,352,932
Permanently and temporarily restricted net assets:		
Access to Justice	1,926,716	2,063,928
Hennessey	419,039	449,410
Other	<u>151,625</u>	<u>162,615</u>
 Total investments	 <u>\$6,601,578</u>	 <u>\$5,028,885</u>

Investments, summarized using the inputs under the *Fair Value Measurement and Disclosures* standards, consist of the following as of December 31:

	<u>2011</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money market funds	\$ 689,997	\$ -	\$ -	\$ 689,997
Fixed income - U.S. Government corporate and bond funds	1,923,927	645,876	-	2,569,803
Municipal bonds	-	1,762,568	-	1,762,568
Equities:				
U.S. large cap	933,389	-	-	933,389
U.S. mid cap	153,469	-	-	153,469
U.S. small cap	104,759	-	-	104,759
International developed	155,550	-	-	155,550
Emerging markets	119,312	-	-	119,312
Commodities	58,268	-	-	58,268
Real estate investment trust	<u>54,463</u>	<u>-</u>	<u>-</u>	<u>54,463</u>
 Total	 <u>\$4,193,134</u>	 <u>\$2,408,444</u>	 <u>\$ -</u>	 <u>\$6,601,578</u>

GREATER BOSTON LEGAL SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

(2) **INVESTMENTS** (Continued)

	2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 104,506	\$ -	\$ -	\$ 104,506
Fixed income - U.S. Government corporate and bond funds	539,659	166,851	-	706,510
Equities:				
U.S. large cap	2,213,575	-	-	2,213,575
U.S. mid cap	428,598	-	-	428,598
U.S. small cap	331,421	-	-	331,421
International developed	482,833	-	-	482,833
Emerging markets	361,883	-	-	361,883
Commodities	236,927	-	-	236,927
Real estate investment trust	<u>162,632</u>	<u>-</u>	<u>-</u>	<u>162,632</u>
Total	<u>\$4,862,034</u>	<u>\$ 166,851</u>	<u>\$ -</u>	<u>\$5,028,885</u>

Level 2 investments consist of U.S. Government and corporate bonds and municipal bonds. The value for these bonds are determined using other observable inputs such as prevailing interest rates, the market demand for such bonds, and the dates of maturity and purchase of the bonds.

Net gain (loss) on investments consists of the following:

	<u>2011</u>	<u>2010</u>
Net realized gain on the sale of investments	\$ 616,840	\$ 132
Net unrealized gain (loss) on investments	<u>(659,841)</u>	<u>574,319</u>
	<u>\$ (43,001)</u>	<u>\$574,451</u>

In accordance with the Agency's investment return allocation policy, \$232,515 and \$234,376 has been designated for current operations for 2011 and 2010, respectively. Investments are not insured and are subject to ongoing market fluctuations. Investments are presented as either current or long-term in the accompanying statements of financial position based on management's intent or donor restrictions.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

(3) **PLEDGES RECEIVABLE**

Pledges receivable are due as follows as of December 31, 2011:

Amounts due in:	
Less than one year	\$1,323,377
One to five years	<u>616,086</u>
	1,939,463
Less - discount	27,700
Less - allowance for uncollectible pledges	<u>70,150</u>
	1,841,613
Less - current portion	<u>1,323,377</u>
Long-term pledges receivable, net	<u>\$ 518,236</u>

Pledges receivable have been discounted to present value using a discount rate of 4%.

Pledges receivable as of December 31, 2010 were collected during 2011, accordingly these pledges have not been discounted and there was no reserve for uncollectible pledges as of December 31, 2010.

(4) **DONATED SERVICES**

Donated services represent time spent by various attorneys, students, and others in the Boston area in connection with legal assistance programs. Significant services are provided by Boston area universities and law firms. These services have been valued by the Agency using \$15 per hour for non-attorney time and \$150 per hour for attorney time. Donated services are recognized as both support and expense and, as a result, do not affect net assets.

(5) **LINE OF CREDIT AGREEMENT**

The Agency has a line of credit with a bank. Advances are available according to a formula defined in the agreement up to \$2,500,000 at December 31, 2011 and 2010. Borrowings are payable on demand, bear interest at the bank's base lending rate (3.25% at December 31, 2011 and 2010), and are secured by a first mortgage on the Agency's building. There was no outstanding balance under this line of credit at December 31, 2011 and 2010. This line of credit is renewable annually in June.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010
 (Continued)

(6) ENDOWMENTS

Changes in endowment net assets for the years ended December 31:

<u>2011</u>	<u>Board Designated</u>	<u>Donor Restricted</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, December 31, 2010	<u>\$2,356,930</u>	<u>\$ 127,511</u>	<u>\$2,550,795</u>	<u>\$5,035,236</u>
Investment return:				
Investment income, net	11,240	57,419	-	68,659
Net gain (loss)	<u>85,545</u>	<u>(128,546)</u>	<u>-</u>	<u>(43,001)</u>
Total investment return	<u>96,785</u>	<u>(71,127)</u>	<u>-</u>	<u>25,658</u>
Subtotal	2,453,715	56,384	2,550,795	5,060,894
Grant	-	-	15,000	15,000
Appropriation of endowment assets for expenditure	(110,019)	(122,496)	-	(232,515)
Board transfer for deficit in permanently restricted endowment	<u>(66,112)</u>	<u>66,112</u>	<u>-</u>	<u>-</u>
Endowment net assets, December 31, 2011	<u>\$2,277,584</u>	<u>\$ -</u>	<u>\$2,565,795</u>	<u>\$4,843,379</u>

GREATER BOSTON LEGAL SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

(6) ENDOWMENTS (Continued)

<u>2010</u>	<u>Board Designated</u>	<u>Donor Restricted</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, December 31, 2009	<u>\$2,062,858</u>	<u>\$ -</u>	<u>\$2,535,795</u>	<u>\$4,598,653</u>
Investment return:				
Investment income, net	39,972	41,536	-	81,508
Net gain	<u>273,006</u>	<u>301,445</u>	<u>-</u>	<u>574,451</u>
Total investment return	<u>312,978</u>	<u>342,981</u>	<u>-</u>	<u>655,959</u>
Subtotal	2,375,836	342,981	2,535,795	5,254,612
Grant	-	-	15,000	15,000
Appropriation of endowment assets for expenditure	(110,180)	(124,196)	-	(234,376)
Board transfer for appreciation in permanently restricted endowment	<u>91,274</u>	<u>(91,274)</u>	<u>-</u>	<u>-</u>
Endowment net assets, December 31, 2010	<u>\$2,356,930</u>	<u>\$ 127,511</u>	<u>\$2,550,795</u>	<u>\$5,035,236</u>

(7) LEASES

The Agency leases space for a community branch of its program as a tenant-at-will with monthly rental payments of \$4,022. The Agency is also responsible for certain operating costs.

The cost of space rental for the years ended December 31, 2011 and 2010, was \$64,202 and \$60,173, respectively. These costs are included in occupancy in the accompanying financial statements.

The Agency leases equipment under operating lease agreements with monthly payments aggregating \$3,113. These leases expire at various dates through January, 2016. Future minimum lease payments under these agreements are as follows:

2012	\$37,354
2013	\$37,354
2014	\$36,052
2015	\$33,447
2016	\$ 2,787

(8) CAPITAL RESERVE TRANSFERS

The Agency voted to transfer \$295,000 and \$65,000 in 2011 and 2010, respectively, to the property and equipment net assets fund for the following year's equipment purchases. These funds are transferred and spent based on a capital budget.

GREATER BOSTON LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

(9) **CLIENT ESCROW FUNDS**

The Agency maintains and administers client funds relative to cases which are currently in litigation. The amounts are paid out as directed by the clients. Because the funds do not belong to the Agency, they are not included in the accompanying statements of financial position. The amount held in escrow was \$156,812 and \$108,610 at December 31, 2011 and 2010, respectively.

(10) **RENTAL INCOME**

The Agency leases space in its building to a nonprofit organization under a one-year lease agreement, renewable every December 31st. During 2011 and 2010, this lease was renewed under the same terms. Future minimum rental income to be received in 2012 is \$39,203.

During 2011 and 2010, the Agency received \$54,245 and \$54,567, respectively, in rental payments and tenant operating costs from the above lease. These amounts are included in other income in the accompanying statements of activities.

(11) **RETIREMENT PLAN**

The Agency sponsors a defined contribution retirement plan under Internal Revenue Code Section 403(b). All employees who have completed two years of service and have reached the age of 18 are eligible to participate in the plan. The Agency's Board of Directors, at its discretion, may annually elect to contribute to the plan. The plan allows for participant contributions. Employer contributions vest immediately and are allocated to participant's accounts, as defined in the plan.

During the years ended December 31, 2011 and 2010, the Board of Directors approved contributions of \$347,427 and \$346,566, respectively, to the plan. These contributions are included in payroll taxes and fringe benefits in the accompanying statements of activities.

(12) **COLLECTIVE BARGAINING AGREEMENTS**

The Agency has signed two collective bargaining agreements which expire on September 30, 2012. Approximately 75% of the Agency's employees are covered under these Agreements.

(13) **CONCENTRATIONS**

The Agency received approximately 25% and 28% of its total operating revenue before donated services from MLAC (see page 10) for the years ended December 31, 2011 and 2010, respectively.

The Agency maintains its cash balances in Massachusetts banks. The Federal Deposit Insurance Corporation insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Agency monitors on a regular basis the financial condition of the financial institutions, along with their balances, to keep this potential risk to a minimum.

(14) **RELATED PARTY TRANSACTION**

A member of the Board of Directors of the Agency is an officer of a bank with which the Agency has cash accounts.

(15) **RECLASSIFICATION**

Certain amounts in the December 31, 2010 financial statements have been reclassified to conform with the December 31, 2011 presentation.