



GREATER BOSTON
LEGAL SERVICES

**FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

GREATER BOSTON LEGAL SERVICES, INC.

Contents
December 31, 2017 and 2016

	<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 - 19



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Greater Boston Legal Services, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, changes in net assets and cash flows 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 Greater Boston Legal Services, Inc. as of December 31, 2017 and 2016, 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.

Alexander, Brown, Penning & Co., P.C.
Westborough, Massachusetts
May 7, 2018

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Financial Position
December 31, 2017

Assets	Unrestricted			Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Operating	Board Designated	Property and Equipment				
Current Assets:							
Cash and cash equivalents	\$ 4,704,147	\$ -	\$ -	\$ 4,704,147	\$ 1,221,067	\$ -	\$ 5,925,214
Grants and contracts receivable	2,794,034	-	-	2,794,034	-	-	2,794,034
Pledges receivable	1,143,050	-	-	1,143,050	-	-	1,143,050
Prepaid expenses, deposits and other	305,507	8,182	-	313,689	-	-	313,689
Total current assets	8,946,738	8,182	-	8,954,920	1,221,067	-	10,175,987
Investments	-	2,157,574	-	2,157,574	250,000	5,916,752	8,324,326
Building Capital Reserve	-	-	1,000,000	1,000,000	-	-	1,000,000
Property and Equipment, net	-	-	3,287,533	3,287,533	-	-	3,287,533
Due (To) From	(190,734)	-	190,734	-	948,326	(948,326)	-
Total assets	<u>\$ 8,756,004</u>	<u>\$ 2,165,756</u>	<u>\$ 4,478,267</u>	<u>\$ 15,400,027</u>	<u>\$ 2,419,393</u>	<u>\$ 4,968,426</u>	<u>\$ 22,787,846</u>
Liabilities and Net Assets							
Current Liabilities:							
Accrued compensation	\$ 1,544,276	\$ -	\$ -	\$ 1,544,276	\$ -	\$ -	\$ 1,544,276
Accounts payable and other accrued expenses	235,902	-	-	235,902	-	-	235,902
Total current liabilities	1,780,178	-	-	1,780,178	-	-	1,780,178
Net Assets:							
Unrestricted:							
Operating	6,975,826	-	-	6,975,826	-	-	6,975,826
Board Designated - functioning as endowment	-	2,165,756	-	2,165,756	-	-	2,165,756
Board Designated - property and equipment	-	-	1,190,734	1,190,734	-	-	1,190,734
Property and equipment	-	-	3,287,533	3,287,533	-	-	3,287,533
Total unrestricted	6,975,826	2,165,756	4,478,267	13,619,849	-	-	13,619,849
Temporarily restricted	-	-	-	-	2,419,393	-	2,419,393
Permanently restricted	-	-	-	-	-	4,968,426	4,968,426
Total net assets	6,975,826	2,165,756	4,478,267	13,619,849	2,419,393	4,968,426	21,007,668
Total liabilities and net assets	<u>\$ 8,756,004</u>	<u>\$ 2,165,756</u>	<u>\$ 4,478,267</u>	<u>\$ 15,400,027</u>	<u>\$ 2,419,393</u>	<u>\$ 4,968,426</u>	<u>\$ 22,787,846</u>

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Financial Position
December 31, 2016

Assets	Unrestricted			Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Operating	Board Designated	Property and Equipment				
Current Assets:							
Cash and cash equivalents	\$ 8,039,205	\$ -	\$ -	\$ 8,039,205	\$ 1,283,078	\$ -	\$ 9,322,283
Grants and contracts receivable	1,137,924	-	-	1,137,924	-	-	1,137,924
Pledges receivable	1,103,145	-	-	1,103,145	5,000	-	1,108,145
Prepaid expenses, deposits and other	254,683	2,870	-	257,553	-	-	257,553
Total current assets	10,534,957	2,870	-	10,537,827	1,288,078	-	11,825,905
Investments	-	703,075	-	703,075	250,000	5,221,504	6,174,579
Building Capital Reserve	-	-	155,870	155,870	-	-	155,870
Property and Equipment, net	-	-	3,404,804	3,404,804	-	-	3,404,804
Due (To) From	(188,538)	-	188,538	-	268,078	(268,078)	-
Total assets	\$ 10,346,419	\$ 705,945	\$ 3,749,212	\$ 14,801,576	\$ 1,806,156	\$ 4,953,426	\$ 21,561,158
Liabilities and Net Assets							
Current Liabilities:							
Accrued compensation	\$ 1,511,911	\$ -	\$ -	\$ 1,511,911	\$ -	\$ -	\$ 1,511,911
Accounts payable and other accrued expenses	302,339	-	-	302,339	-	-	302,339
Total current liabilities	1,814,250	-	-	1,814,250	-	-	1,814,250
Net Assets:							
Unrestricted:							
Operating	8,532,169	-	-	8,532,169	-	-	8,532,169
Board Designated - functioning as endowment	-	705,945	-	705,945	-	-	705,945
Board Designated - property and equipment	-	-	344,408	344,408	-	-	344,408
Property and equipment	-	-	3,404,804	3,404,804	-	-	3,404,804
Total unrestricted	8,532,169	705,945	3,749,212	12,987,326	-	-	12,987,326
Temporarily restricted	-	-	-	-	1,806,156	-	1,806,156
Permanently restricted	-	-	-	-	-	4,953,426	4,953,426
Total net assets	8,532,169	705,945	3,749,212	12,987,326	1,806,156	4,953,426	19,746,908
Total liabilities and net assets	\$ 10,346,419	\$ 705,945	\$ 3,749,212	\$ 14,801,576	\$ 1,806,156	\$ 4,953,426	\$ 21,561,158

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted			Temporarily Restricted			Permanently Restricted	Total
	Operating	Board Designated	Property and Equipment	Total Unrestricted	Program and Time Restricted	Appreciation On Endowments		
Operating Revenue and Support:								
Grants and contracts	\$ 9,089,017	\$ -	\$ -	\$ 9,089,017	\$ 23,664	\$ -	\$ 23,664	\$ 9,112,681
Contributions and promises	5,355,128	-	-	5,355,128	890,012	-	890,012	6,245,140
Investment return designated for current operations	243,535	-	-	243,535	-	-	-	243,535
Attorney fees	206,484	-	-	206,484	-	-	-	206,484
Interest and other income	39,082	-	-	39,082	-	-	-	39,082
Net assets released from restrictions:								
Satisfaction of time restriction	375,409	-	-	375,409	(375,409)	-	(375,409)	-
Satisfaction of program restriction	605,278	-	-	605,278	(605,278)	-	(605,278)	-
Total operating revenue and support before donated services	15,913,933	-	-	15,913,933	(67,011)	-	(67,011)	15,846,922
Donated services	6,805,385	-	-	6,805,385	-	-	-	6,805,385
Total operating revenue and support	22,719,318	-	-	22,719,318	(67,011)	-	(67,011)	22,652,307
Operating Expenses:								
Salaries and related:								
Salaries - lawyers	5,980,777	-	-	5,980,777	-	-	-	5,980,777
Payroll taxes and fringe benefits	3,357,037	-	-	3,357,037	-	-	-	3,357,037
Salaries - other	3,321,707	-	-	3,321,707	-	-	-	3,321,707
Total salaries and related	12,659,521	-	-	12,659,521	-	-	-	12,659,521
Other:								
Office and related expenses	484,285	-	-	484,285	-	-	-	484,285
Occupancy	456,874	-	-	456,874	-	-	-	456,874
Grants awarded	417,827	-	-	417,827	-	-	-	417,827
Contract services	404,230	-	-	404,230	-	-	-	404,230
Other direct expenses	284,444	-	-	284,444	-	-	-	284,444
Depreciation	-	-	204,074	204,074	-	-	-	204,074
Client litigation expenses	113,420	-	-	113,420	-	-	-	113,420
Library maintenance	100,370	-	-	100,370	-	-	-	100,370
Travel and training	78,147	-	-	78,147	-	-	-	78,147
Total other	2,339,597	-	204,074	2,543,671	-	-	-	2,543,671
Total expenses before donated services	14,999,118	-	204,074	15,203,192	-	-	-	15,203,192
Donated services	6,805,385	-	-	6,805,385	-	-	-	6,805,385
Total operating expenses	21,804,503	-	204,074	22,008,577	-	-	-	22,008,577
Changes in net assets from operations	914,815	-	(204,074)	710,741	(67,011)	-	(67,011)	643,730
Non-Operating Revenue:								
Net gain on investments	-	595	-	595	-	769,825	769,825	770,420
Investment income, net of expenses of \$47,050	-	8,312	-	8,312	-	66,833	66,833	75,145
Grants for endowment	-	-	-	-	-	-	15,000	15,000
Investment return designated for current operations	-	(87,125)	-	(87,125)	-	(156,410)	(156,410)	(243,535)
Total non-operating revenue	-	(78,218)	-	(78,218)	-	680,248	680,248	617,030
Changes in net assets	\$ 914,815	\$ (78,218)	\$ (204,074)	\$ 632,523	\$ (67,011)	\$ 680,248	\$ 15,000	\$ 1,260,760

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted			Temporarily Restricted			Permanently Restricted	Total	
	Operating	Board Designated	Property and Equipment	Total Unrestricted	Program and Time Restricted	Appreciation On Endowment			Total Temporarily Restricted
Operating Revenue and Support:									
Grants and contracts	\$ 8,561,066	\$ -	\$ -	\$ 8,561,066	\$ 89,446	\$ -	\$ 89,446	\$ -	\$ 8,650,512
Contributions and promises	6,116,917	-	-	6,116,917	822,705	-	822,705	-	6,939,622
Investment return designated for current operations	239,745	-	-	239,745	-	-	-	-	239,745
Attorney fees	250,022	-	-	250,022	-	-	-	-	250,022
Interest and other income	89,442	-	-	89,442	-	-	-	-	89,442
Net assets released from restrictions:									
Satisfaction of time restriction	218,885	-	-	218,885	(218,885)	-	(218,885)	-	-
Satisfaction of program restriction	185,543	-	-	185,543	(185,543)	-	(185,543)	-	-
Total operating revenue and support before donated services	15,661,620	-	-	15,661,620	507,723	-	507,723	-	16,169,343
Donated services	7,263,298	-	-	7,263,298	-	-	-	-	7,263,298
Total operating revenue and support	22,924,918	-	-	22,924,918	507,723	-	507,723	-	23,432,641
Operating Expenses:									
Salaries and related:									
Salaries - lawyers	5,126,752	-	-	5,126,752	-	-	-	-	5,126,752
Payroll taxes and fringe benefits	3,164,164	-	-	3,164,164	-	-	-	-	3,164,164
Salaries - other	3,156,526	-	-	3,156,526	-	-	-	-	3,156,526
Total salaries and related	11,447,442	-	-	11,447,442	-	-	-	-	11,447,442
Other:									
Office and related expenses	448,241	-	-	448,241	-	-	-	-	448,241
Occupancy	495,965	-	-	495,965	-	-	-	-	495,965
Grants awarded	366,061	-	-	366,061	-	-	-	-	366,061
Contract services	294,486	-	-	294,486	-	-	-	-	294,486
Other direct expenses	225,032	-	-	225,032	-	-	-	-	225,032
Depreciation	-	-	172,976	172,976	-	-	-	-	172,976
Client litigation expenses	100,864	-	-	100,864	-	-	-	-	100,864
Library maintenance	126,754	-	-	126,754	-	-	-	-	126,754
Travel and training	66,149	-	-	66,149	-	-	-	-	66,149
Total other	2,123,552	-	172,976	2,296,528	-	-	-	-	2,296,528
Total expenses before donated services	13,570,994	-	172,976	13,743,970	-	-	-	-	13,743,970
Donated services	7,263,298	-	-	7,263,298	-	-	-	-	7,263,298
Total operating expenses	20,834,292	-	172,976	21,007,268	-	-	-	-	21,007,268
Changes in net assets from operations	2,090,626	-	(172,976)	1,917,650	507,723	-	507,723	-	2,425,373
Non-Operating Revenue:									
Net gain (loss) on investments	-	(1,692)	-	(1,692)	-	333,176	333,176	-	331,484
Investment income, net of expenses of \$43,015	-	10,463	-	10,463	-	46,329	46,329	-	56,792
Grants for endowment	-	-	-	-	-	-	-	5,000	5,000
Investment return designated for current operations	-	(85,054)	-	(85,054)	-	(154,691)	(154,691)	-	(239,745)
Investment return restricted for program	-	-	-	-	122,912	(122,912)	-	-	-
Capital grant	-	-	55,965	55,965	44,035	-	44,035	-	100,000
Total non-operating revenue	-	(76,283)	55,965	(20,318)	166,947	101,902	268,849	5,000	253,531
Changes in net assets	\$ 2,090,626	\$ (76,283)	\$ (117,011)	\$ 1,897,332	\$ 674,670	\$ 101,902	\$ 776,572	\$ 5,000	\$ 2,678,904

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, 2017 and 2016

	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, 2015	\$ 6,550,743	\$ 782,228	\$ 3,757,023	\$ 11,089,994	\$ 863,408	\$ 166,176	\$ 1,029,584	\$ 4,948,426	\$ 17,068,004
Changes in net assets	2,090,626	(76,283)	(117,011)	1,897,332	674,670	101,902	776,572	5,000	2,678,904
Transfers:									
Transfer for building capital reserve	(94,200)	-	94,200	-	-	-	-	-	-
Board transfer for property and equipment additions	(15,000)	-	15,000	-	-	-	-	-	-
Total transfers	(109,200)	-	109,200	-	-	-	-	-	-
Net Assets , December 31, 2016	8,532,169	705,945	3,749,212	12,987,326	1,538,078	268,078	1,806,156	4,953,426	19,746,908
Changes in net assets	914,815	(78,218)	(204,074)	632,523	(67,011)	680,248	613,237	15,000	1,260,760
Transfers:									
Transfer for building capital reserve	(905,805)	-	905,805	-	-	-	-	-	-
Board transfer for property and equipment additions	(27,324)	-	27,324	-	-	-	-	-	-
Designation of net assets	(1,538,029)	1,538,029	-	-	-	-	-	-	-
Total transfers	(2,471,158)	1,538,029	933,129	-	-	-	-	-	-
Net Assets , December 31, 2017	\$ 6,975,826	\$ 2,165,756	\$ 4,478,267	\$ 13,619,849	\$ 1,471,067	\$ 948,326	\$ 2,419,393	\$ 4,968,426	\$ 21,007,668

GREATER BOSTON LEGAL SERVICES, INC.

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Changes in net assets	\$ 1,260,760	\$ 2,678,904
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	204,074	172,976
Capital grant	-	(100,000)
Bad debt	-	5,000
Grants for endowment	(15,000)	(5,000)
Net gain on investments	(770,420)	(331,484)
Investment income, net of expenses	(75,145)	(56,792)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(1,656,110)	(499,970)
Pledges receivable	(34,905)	(250,641)
Prepaid expenses, deposits and other	(56,136)	(286)
Accrued compensation	32,365	(318,482)
Accounts payable and other accrued expenses	(66,437)	75,796
Net cash provided by (used in) operating activities	<u>(1,176,954)</u>	<u>1,370,021</u>
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(86,803)	(120,165)
Purchase of investments	(2,681,221)	(414,264)
Proceeds from sale of investments	1,301,894	3,161,774
Investment income, net of expenses	75,145	56,792
Increase in building capital reserve	(844,130)	(30,000)
Net cash provided by (used in) investing activities	<u>(2,235,115)</u>	<u>2,654,137</u>
Cash Flows From Financing Activities:		
Grants for endowment	15,000	5,000
Capital grant	-	100,000
Net cash provided by financing activities	<u>15,000</u>	<u>105,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,397,069)	4,129,158
Cash and Cash Equivalents:		
Beginning of year	<u>9,322,283</u>	<u>5,193,125</u>
End of year	<u><u>\$ 5,925,214</u></u>	<u><u>\$ 9,322,283</u></u>

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

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

GBLS 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 (IRC). GBLS is also exempt from state income taxes. Donors may deduct contributions made to GBLS within the requirements of the IRC regulations.

2. SIGNIFICANT ACCOUNTING POLICIES

GBLS prepares its financial statements in accordance with generally accepted accounting standards (U.S. GAAP) and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

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. During 2017, the Board of Directors approved and designated an additional \$1,528,029 of endowment funds.
- **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 GBLS's property and equipment, net of related debt, if any.

Temporarily restricted net assets represent amounts received or committed with donor restrictions which have not yet been expended for their designated purpose (program 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 GBLS's spending policy (see investment return allocations and spending policy note on page 12).

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

	<u>2017</u>	<u>2016</u>
Program restricted - operations	\$ 1,212,899	\$ 703,375
Appreciation on permanently restricted endowment	948,326	268,078
Time restricted	<u>258,168</u>	<u>834,703</u>
	<u>\$ 2,419,393</u>	<u>\$ 1,806,156</u>

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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>2017</u>	<u>2016</u>
Harmonix Stockholder's Endowment	\$ 2,377,631	\$ 2,367,631
Access to Justice Fund	2,074,347	2,069,347
Hennessey Fund	318,579	318,579
General Endowment	115,275	115,275
Marks Fund	<u>82,594</u>	<u>82,594</u>
	<u>\$ 4,968,426</u>	<u>\$ 4,953,426</u>

The Harmonix Stockholder's Endowment (Harmonix) was established in 2013 to support a community fellowship program. A donor contributed \$10,000 of new contributions to this endowment during 2017.

The Access to Justice Fund was established in 2001 to raise funds to support staff attorneys. A donor contributed \$5,000 of new contributions to this endowment during 2017 and 2016.

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.

Revenue Recognition

GBLS 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 \$3,058,000 and \$3,269,000 in 2017 and 2016, respectively), other organizations and individuals. These contributions and promises 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.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Massachusetts Legal Assistance Corporation (MLAC):

MLAC provides a significant portion of GBLS's grants and contracts revenue. MLAC is a nonprofit organization created by the Massachusetts Legislature to provide financial support for legal assistance programs. MLAC's distributions to GBLS and other legal assistance programs are funded by state appropriations and interest earned on Lawyer Trust Accounts. During 2017 and 2016, GBLS was awarded \$6,133,303 and \$5,492,877, respectively, from MLAC. GBLS recognizes MLAC grant revenue as granted each quarter. There were no restricted MLAC funds at December 31, 2017 and 2016. All GBLS contracts and grants with MLAC are awarded annually.

Under GBLS's grant agreements with MLAC, GBLS 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 GBLS's funding is terminated before the expected expiration date of the contract, or if GBLS ceases to receive funds from MLAC after the funding period.

Cost Reimbursable Grants and Contracts:

GBLS 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.

GBLS receives a portion of its funding from the Commonwealth of Massachusetts and the Federal government under cost reimbursement contracts. Payments to GBLS 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 GBLS as of December 31, 2017 and 2016, or on the results of its operations for the years then ended.

Other Grants and Contracts:

GBLS 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.

All other revenue is recognized when earned.

Attorney Fees

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

GREATER BOSTON LEGAL SERVICES, INC.Notes to Financial Statements
December 31, 2017 and 2016**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Expense Classifications**

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

	2017		2016	
	Amount	Ratio	Amount	Ratio
Program services	\$ 20,197,130	91.77%	\$ 19,259,751	91.68%
General and administrative	1,178,223	5.35%	1,162,349	5.53%
Fundraising	633,224	2.88%	585,168	2.79%
	<u>\$ 22,008,577</u>	<u>100.00%</u>	<u>\$ 21,007,268</u>	<u>100.00%</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 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.

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

GBLS 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:

	2017	2016
Land	\$ 418,000	\$ 418,000
Building and improvements	5,689,605	5,627,930
Computers and office equipment	1,878,423	1,853,295
Law library	<u>145,507</u>	<u>145,507</u>
	8,131,535	8,044,732
Less - accumulated depreciation	<u>4,844,002</u>	<u>4,639,928</u>
Net property and equipment	<u>\$ 3,287,533</u>	<u>\$ 3,404,804</u>

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Return Allocations and Spending Policy

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

The Board of Directors has voted to allow for the use of a portion of total investment return for operations each year. GBLS 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 accompanying statements of activities.

GBLS'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 GBLS must hold in perpetuity. Under GBLS'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.

To satisfy its long-term rate-of-return objectives, GBLS 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 GBLS'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.

GBLS 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 GBLS.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value". There were no deficiencies as of December 31, 2017 and 2016.

Investment Income

GBLS records interest and dividends on its investments when earned. GBLS recognizes realized gains and losses on investments within the period realized, and recognizes unrealized gains and losses based on fair value fluctuations during the period.

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.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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

Grants awarded is recorded at the time awarded by GBLS.

Subsequent Events

Subsequent events have been evaluated through May 7, 2018, which is the date the financial statements were available to be issued. There were no events, except as disclosed in Note 12, that met the criteria for recognition in the financial statements.

Allowance for Uncollectible Grants, Contracts and Pledges Receivable

An allowance for potentially uncollectible grants, contracts and 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. It is GBLS's policy to charge-off uncollectible accounts receivable when management determines the receivable will not be collected. There was no allowance for uncollectible grants, contracts and pledges as of December 31, 2017 or 2016.

Fair Value Measurements

GBLS follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that GBLS would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

GBLS uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of GBLS. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices 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 and which require significant judgment or estimation.

An 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.

Cash and Cash Equivalents

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. Cash and cash equivalents are considered Level 1 within the fair value hierarchy.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by GBLS and an active market with quoted prices exists, the market price of an identical security is used to report fair value. A summary of inputs used in valuing GBLS's investments as of December 31, 2017 and 2016, is included in Note 3.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Income Taxes

GBLS accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. GBLS has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2017 and 2016. GBLS's information returns are subject to examination by the Federal and state jurisdictions.

Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and support and operating expenses in the accompanying statements of activities. Peripheral or incidental transactions are reported as non-operating revenue. Non-operating revenue, consistent with industry practice, includes grants for capital and endowment and investment activity (see Note 3).

GREATER BOSTON LEGAL SERVICES, INC.Notes to Financial Statements
December 31, 2017 and 2016**3. INVESTMENTS**

GBLS 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 2).

The following table presents GBLS's investments by level within the valuation framework (see Note 2) as of December 31:

	2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 2,433,260	\$ -	\$ -	\$ 2,433,260
Fixed income:				
U.S. Government bonds	-	149,930	-	149,930
Corporate bonds	-	776,466	-	776,466
Bond funds	822,329	-	-	822,329
Equities:				
U.S. large cap	3,737,781	-	-	3,737,781
U.S. small cap	56,188	-	-	56,188
International	<u>348,372</u>	<u>-</u>	<u>-</u>	<u>348,372</u>
Total	<u>\$ 7,397,930</u>	<u>\$ 926,396</u>	<u>\$ -</u>	<u>\$ 8,324,326</u>
	2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 353,826	\$ -	\$ -	\$ 353,826
Fixed income:				
U.S. Government bonds	-	426,301	-	426,301
Corporate bonds	-	854,310	-	854,310
Bond funds	782,225	-	-	782,225
Equities:				
U.S. large cap	3,259,835	-	-	3,259,835
U.S. mid cap	68,327	-	-	68,327
U.S. small cap	60,719	-	-	60,719
International	<u>369,036</u>	<u>-</u>	<u>-</u>	<u>369,036</u>
Total	<u>\$ 4,893,968</u>	<u>\$ 1,280,611</u>	<u>\$ -</u>	<u>\$ 6,174,579</u>

Money market funds, bond funds and equities are valued based on quoted market prices in active markets (Level 1 inputs).

Level 2 investments consist of U.S. Government and corporate 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.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

3. INVESTMENTS (Continued)

Net gain on investments consists of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Net unrealized gain on investments	\$ 696,762	\$ 264,252
Net realized gain on the sale of investments	<u>73,658</u>	<u>67,232</u>
	<u>\$ 770,420</u>	<u>\$ 331,484</u>

In accordance with GBLS's investment return allocation policy, \$243,535 and \$239,745 has been designated for current operations for 2017 and 2016, respectively. During 2016, \$122,912 was designated for specific program restrictions in accordance with the Harmonix investment return allocation policy. 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.

4. CLIENT ESCROW FUNDS

GBLS 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 GBLS, they are not included in the accompanying statements of financial position. The amount held in escrow was \$188,024 and \$204,216 at December 31, 2017 and 2016, respectively.

5. 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 GBLS 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.

GREATER BOSTON LEGAL SERVICES, INC.Notes to Financial Statements
December 31, 2017 and 2016**6. ENDOWMENTS**

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

	<u>Board Designated</u>	<u>Donor Restricted</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ 782,228	\$ 166,176	\$ 4,948,426	\$ 5,896,830
Investment return:				
Investment income, net	10,463	46,329	-	56,792
Net gain (loss)	<u>(1,692)</u>	<u>333,176</u>	<u>-</u>	<u>331,484</u>
Total investment return	<u>8,771</u>	<u>379,505</u>	<u>-</u>	<u>388,276</u>
Subtotal	790,999	545,681	4,948,426	6,285,106
Grants	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	<u>(85,054)</u>	<u>(277,603)</u>	<u>-</u>	<u>(362,657)</u>
Endowment net assets, December 31, 2016	<u>705,945</u>	<u>268,078</u>	<u>4,953,426</u>	<u>5,927,449</u>
Investment return:				
Investment income, net	8,312	66,833	-	75,145
Net gain	<u>595</u>	<u>769,825</u>	<u>-</u>	<u>770,420</u>
Total investment return	<u>8,907</u>	<u>836,658</u>	<u>-</u>	<u>845,565</u>
Subtotal	714,852	1,104,736	4,953,426	6,773,014
Grants	-	-	15,000	15,000
Designation of net assets	1,538,029	-	-	1,538,029
Appropriation of endowment assets for expenditure	<u>(87,125)</u>	<u>(156,410)</u>	<u>-</u>	<u>(243,535)</u>
Endowment net assets, December 31, 2017	<u>\$ 2,165,756</u>	<u>\$ 948,326</u>	<u>\$ 4,968,426</u>	<u>\$ 8,082,508</u>

7. LINE OF CREDIT AGREEMENT

GBLS 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, 2017 and 2016. Borrowings are payable on demand, bear interest at the bank's base lending rate (4.50% and 3.75% at December 31, 2017 and 2016, respectively), and are secured by a first mortgage on GBLS's building. There was no outstanding balance under this line of credit at December 31, 2017 and 2016. This line of credit is renewable annually in June.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

8. LEASES

GBLS leases space for a community branch of its program under an annual lease, with monthly rental payments of \$5,647. GBLS is also responsible for certain operating costs. Effective December 31, 2017, GBLS renewed the lease agreement for this space under the same terms through December 31, 2018. GBLS also leases various space for programs and storage, with monthly rental payments totaling \$850. These agreements expire at various dates through 2018. The cost of the rental space for the years ended December 31, 2017 and 2016, was \$77,965 and \$77,508, respectively. These costs are included in occupancy in the accompanying statements of activities.

GBLS leases equipment under operating lease agreements, with monthly payments aggregating \$2,795. These leases expire at various dates through December 2022.

Future minimum lease payments remaining under these agreements are as follows:

	<u>Space</u>	<u>Equipment</u>
2018	\$ 71,560	\$ 33,539
2019	\$ -	\$ 33,539
2020	\$ -	\$ 33,539
2021	\$ -	\$ 3,000
2022	\$ -	\$ 1,750

9. CAPITAL RESERVE TRANSFERS

GBLS's Board of Directors voted to transfer \$859,129 and \$45,000 in 2017 and 2016, respectively, to the property and equipment net assets fund for the following year's equipment purchases and the building capital reserve. These funds are transferred and spent based on a capital budget. During 2017 and 2016, GBLS transferred \$74,000 and \$64,200, respectively, of net assets to fund current year property and equipment purchases.

10. RENTAL INCOME

GBLS leased space in its building to a nonprofit organization under a one-year lease agreement, renewable annually on December 31. The lease expired December 31, 2016, and was not renewed.

During 2016, GBLS received \$49,403 in rental payments and tenant operating costs from the above lease. These amounts are included in interest and other income in the accompanying statement of activities.

11. RETIREMENT PLAN

GBLS sponsors a defined contribution retirement plan under IRC 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. GBLS'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, 2017 and 2016, the Board of Directors approved contributions of \$291,252 and \$360,000, respectively, to the plan. These contributions are included in payroll taxes and fringe benefits in the accompanying statements of activities.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

12. COLLECTIVE BARGAINING AGREEMENTS

GBLS has signed two collective bargaining agreements which expired on December 31, 2017. GBLS has extended the agreements until June 30, 2018. Approximately 75% of GBLS's employees are covered under these agreements.

13. CONCENTRATIONS

GBLS received approximately 39% and 33% of its total operating revenue and support before donated services from MLAC (see page 10) for the years ended December 31, 2017 and 2016, respectively.

GBLS 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. GBLS 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. CONDITIONAL GRANT

GBLS was awarded a conditional grant of \$2,000,000 from a donor, of which \$500,000 was recorded during the years ended December 31, 2017 and 2016. The portion of the grant that was earned during 2017 and 2016 is included in grants and contracts in the accompanying statements of activities. The remaining balance of the grant award of \$1,000,000 at December 31, 2017, is conditional upon GBLS meeting certain conditions as required by the grant agreement and, accordingly, is not reflected in the accompanying financial statements, as these conditions were not met as of December 31, 2017. The award will be recorded as grant revenue as the conditions are met.

During the year ended December 31, 2017, GBLS was awarded a conditional grant of \$405,000 from a donor, of which \$202,500 was recorded during the year ended December 31, 2017. The portion of the grant that was recorded during 2017 is included in grants and contracts in the accompanying statement of activities. The remaining balance of the grant award is conditional upon GBLS meeting certain conditions as required by the grant agreement and, accordingly, is not reflected in the accompanying financial statements, as these conditions were not met as of December 31, 2017. The award will be recorded as grant revenue as the conditions are met.