



GREATER BOSTON
LEGAL SERVICES

**FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

GREATER BOSTON LEGAL SERVICES, INC.

Contents
December 31, 2018 and 2017

	<u>Pages</u>
Independent Auditor’s Report	1 - 1A
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
Statements of Functional Expenses	8
Notes to Financial Statements	9 - 20

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, 2018 and 2017, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Boston Legal Services, Inc. as of December 31, 2018 and 2017, 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.

Emphasis of a Matter

As disclosed in Note 2 to the financial statements, in 2018, Greater Boston Legal Services, Inc. adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

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

Westborough, Massachusetts
May 8, 2019

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Financial Position
December 31, 2018

Assets	Without Donor Restrictions			Total Without Donor Restrictions	With Donor Restrictions	Total
	Operating	Board Designated	Property and Equipment			
Current Assets:						
Cash and cash equivalents	\$ 7,070,189	\$ -	\$ 65,000	\$ 7,135,189	\$ 1,983,931	\$ 9,119,120
Cash - client escrow	194,041	-	-	194,041	-	194,041
Grants and contracts receivable	1,554,309	-	-	1,554,309	-	1,554,309
Pledges receivable	870,567	-	-	870,567	-	870,567
Prepaid expenses, deposits and other	298,602	14,108	-	312,710	-	312,710
Total current assets	9,987,708	14,108	65,000	10,066,816	1,983,931	12,050,747
Investments	-	2,047,153	1,678,801	3,725,954	5,953,642	9,679,596
Property and Equipment, net	-	-	3,175,457	3,175,457	-	3,175,457
Due (To) From	(205,734)	-	205,734	-	-	-
Total assets	\$ 9,781,974	\$ 2,061,261	\$ 5,124,992	\$ 16,968,227	\$ 7,937,573	\$ 24,905,800
Liabilities and Net Assets						
Current Liabilities:						
Accrued compensation	\$ 1,540,821	\$ -	\$ -	\$ 1,540,821	\$ -	\$ 1,540,821
Accounts payable and other accrued expenses	241,135	-	-	241,135	-	241,135
Total current liabilities	1,781,956	-	-	1,781,956	-	1,781,956
Client escrow payable	194,041	-	-	194,041	-	194,041
Total liabilities	1,975,997	-	-	1,975,997	-	1,975,997
Net Assets:						
Without Donor Restrictions						
Operating	7,805,977	-	-	7,805,977	-	7,805,977
Board Designated - functioning as endowment	-	2,061,261	-	2,061,261	-	2,061,261
Board Designated - property and equipment	-	-	1,949,535	1,949,535	-	1,949,535
Property and equipment	-	-	3,175,457	3,175,457	-	3,175,457
Total without donor restrictions	7,805,977	2,061,261	5,124,992	14,992,230	-	14,992,230
With Donor Restrictions	-	-	-	-	7,937,573	7,937,573
Total net assets	7,805,977	2,061,261	5,124,992	14,992,230	7,937,573	22,929,803
Total liabilities and net assets	\$ 9,781,974	\$ 2,061,261	\$ 5,124,992	\$ 16,968,227	\$ 7,937,573	\$ 24,905,800

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Financial Position
December 31, 2017

Assets	Without Donor Restrictions				With Donor Restrictions	Total
	Operating	Board Designated	Property and Equipment	Total Without Donor Restrictions		
Current Assets:						
Cash and cash equivalents	\$ 4,704,147	\$ -	\$ -	\$ 4,704,147	\$ 1,221,067	\$ 5,925,214
Cash - client escrow	188,024	-	-	188,024	-	188,024
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	9,134,762	8,182	-	9,142,944	1,221,067	10,364,011
Investments	-	2,157,574	-	2,157,574	6,166,752	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	-	-	-
Total assets	\$ 8,944,028	\$ 2,165,756	\$ 4,478,267	\$ 15,588,051	\$ 7,387,819	\$ 22,975,870
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
Client escrow payable	188,024	-	-	188,024	-	188,024
Total liabilities	1,968,202	-	-	1,968,202	-	1,968,202
Net Assets:						
Without Donor Restrictions						
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 without donor restrictions	6,975,826	2,165,756	4,478,267	13,619,849	-	13,619,849
With Donor Restrictions	-	-	-	-	7,387,819	7,387,819
Total net assets	6,975,826	2,165,756	4,478,267	13,619,849	7,387,819	21,007,668
Total liabilities and net assets	\$ 8,944,028	\$ 2,165,756	\$ 4,478,267	\$ 15,588,051	\$ 7,387,819	\$ 22,975,870

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions				With Donor Restrictions				Total
	Operating	Board Designated	Property and Equipment	Total Without Donor Restrictions	Program and Time Restricted	Appreciation On Donor Restricted Endowments Held in Perpetuity	Donor Restricted Endowments Held in Perpetuity	Total With Donor Restrictions	
Operating Revenue and Support:									
Grants and contracts	\$ 9,756,280	\$ -	\$ -	\$ 9,756,280	\$ 28,335	\$ -	\$ -	\$ 28,335	\$ 9,784,615
Contributions and promises	5,356,116	-	-	5,356,116	992,582	-	-	992,582	6,348,698
Attorney fees	237,442	-	-	237,442	-	-	-	-	237,442
Interest and other income	65,531	-	-	65,531	-	-	-	-	65,531
Net assets released from donor restrictions:									
Satisfaction of time restriction	291,095	-	-	291,095	(291,095)	-	-	(291,095)	-
Satisfaction of program restriction	612,050	-	-	612,050	(612,050)	-	-	(612,050)	-
Total operating revenue and support before donated services	16,318,514	-	-	16,318,514	117,772	-	-	117,772	16,436,286
Donated services	5,403,941	-	-	5,403,941	-	-	-	-	5,403,941
Total operating revenue and support	21,722,455	-	-	21,722,455	117,772	-	-	117,772	21,840,227
Operating Expenses:									
Program	18,050,177	-	189,531	18,239,708	-	-	-	-	18,239,708
General and administrative	1,340,913	-	15,576	1,356,489	-	-	-	-	1,356,489
Fundraising	635,062	-	9,421	644,483	-	-	-	-	644,483
Total operating expenses	20,026,152	-	214,528	20,240,680	-	-	-	-	20,240,680
Changes in net assets from operations	1,696,303	-	(214,528)	1,481,775	117,772	-	-	117,772	1,599,547
Non-Operating Revenue:									
Net loss on investments	-	(124,721)	(6,087)	(130,808)	-	(275,121)	-	(275,121)	(405,929)
Investment income, net of expenses of \$49,932	-	20,226	1,188	21,414	-	47,011	-	47,011	68,425
Grants for endowment	-	-	-	-	-	-	660,092	660,092	660,092
Total non-operating revenue	-	(104,495)	(4,899)	(109,394)	-	(228,110)	660,092	431,982	322,588
Changes in net assets	\$ 1,696,303	\$ (104,495)	\$ (219,427)	\$ 1,372,381	\$ 117,772	\$ (228,110)	\$ 660,092	\$ 549,754	\$ 1,922,135

GREATER BOSTON LEGAL SERVICES, INC.

Statement of Activities
For the Year Ended December 31, 2017

	Without Donor Restrictions			With Donor Restrictions				Total	
	Operating	Board Designated	Property and Equipment	Total Without Donor Restrictions	Program and Time Restricted	Appreciation On Donor Restricted Endowments Held in Perpetuity	Donor Restricted Endowments Held in Perpetuity		Total With Donor Restrictions
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 donor 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:									
Program	19,993,057	-	204,074	20,197,131	-	-	-	-	20,197,131
General and administrative	1,178,223	-	-	1,178,223	-	-	-	-	1,178,223
Fundraising	633,223	-	-	633,223	-	-	-	-	633,223
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	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	15,000	695,248	617,030
Changes in net assets	\$ 914,815	\$ (78,218)	\$ (204,074)	\$ 632,523	\$ (67,011)	\$ 680,248	\$ 15,000	\$ 628,237	\$ 1,260,760

GREATER BOSTON LEGAL SERVICES, INC.

Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	Without Donor Restrictions			With Donor Restrictions				Total	
	Operating	Board Designated	Property and Equipment	Total Without Donor Restrictions	Program and Time Restricted	Appreciation On Donor Restricted Endowments Held in Perpetuity	Donor Restricted Endowments Held in Perpetuity		Total With Donor Restrictions
Net Assets, December 31, 2016	<u>\$ 8,532,169</u>	<u>\$ 705,945</u>	<u>\$ 3,749,212</u>	<u>\$ 12,987,326</u>	<u>\$ 1,538,078</u>	<u>\$ 268,078</u>	<u>\$ 4,953,426</u>	<u>\$ 6,759,582</u>	<u>\$ 19,746,908</u>
Changes in net assets	<u>914,815</u>	<u>(78,218)</u>	<u>(204,074)</u>	<u>632,523</u>	<u>(67,011)</u>	<u>680,248</u>	<u>15,000</u>	<u>628,237</u>	<u>1,260,760</u>
Transfers:									
Transfer for building capital reserve	<u>(905,805)</u>	<u>-</u>	<u>905,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Board transfer for property and equipment additions	<u>(27,324)</u>	<u>-</u>	<u>27,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Designation of net assets	<u>(1,538,029)</u>	<u>1,538,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers	<u>(2,471,158)</u>	<u>1,538,029</u>	<u>933,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, December 31, 2017	<u>6,975,826</u>	<u>2,165,756</u>	<u>4,478,267</u>	<u>13,619,849</u>	<u>1,471,067</u>	<u>948,326</u>	<u>4,968,426</u>	<u>7,387,819</u>	<u>21,007,668</u>
Changes in net assets	<u>1,696,303</u>	<u>(104,495)</u>	<u>(219,427)</u>	<u>1,372,381</u>	<u>117,772</u>	<u>(228,110)</u>	<u>660,092</u>	<u>549,754</u>	<u>1,922,135</u>
Transfers:									
Transfer for building capital reserve	<u>(851,152)</u>	<u>-</u>	<u>851,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Board transfer for property and equipment additions	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers	<u>(866,152)</u>	<u>-</u>	<u>866,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, December 31, 2018	<u>\$ 7,805,977</u>	<u>\$ 2,061,261</u>	<u>\$ 5,124,992</u>	<u>\$ 14,992,230</u>	<u>\$ 1,588,839</u>	<u>\$ 720,216</u>	<u>\$ 5,628,518</u>	<u>\$ 7,937,573</u>	<u>\$ 22,929,803</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Changes in net assets	\$ 1,922,135	\$ 1,260,760
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	214,528	204,074
Grants for endowment	(660,092)	(15,000)
Net loss (gain) on investments	405,929	(770,420)
Investment income, net of expenses	(68,425)	(75,145)
Changes in operating assets and liabilities:		
Grants and contracts receivable	1,239,725	(1,656,110)
Pledges receivable	272,483	(34,905)
Prepaid expenses, deposits and other	979	(56,136)
Accrued compensation	(3,455)	32,365
Accounts payable and other accrued expenses	5,233	(66,437)
Net cash provided by (used in) operating activities	<u>3,329,040</u>	<u>(1,176,954)</u>
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(102,452)	(86,803)
Purchase of investments	(4,305,224)	(2,681,221)
Proceeds from sale of investments	2,544,025	1,301,894
Investment income, net of expenses	68,425	75,145
Change in building capital reserve	1,000,000	(844,130)
Net cash used in investing activities	<u>(795,226)</u>	<u>(2,235,115)</u>
Cash Flows From Financing Activities:		
Grants for endowment	660,092	15,000
Net Increase (Decrease) in Cash and Cash Equivalents	3,193,906	(3,397,069)
Cash and Cash Equivalents:		
Beginning of year	<u>5,925,214</u>	<u>9,322,283</u>
End of year	<u>\$ 9,119,120</u>	<u>\$ 5,925,214</u>

GREATER BOSTON LEGAL SERVICES, INC.

Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries and related:								
Salaries - lawyers	\$ 5,390,550	\$ 293,948	\$ 16,287	\$ 5,700,785	\$ 5,632,173	\$ 331,926	\$ 16,678	\$ 5,980,777
Payroll taxes and fringe benefits	3,165,347	300,709	136,803	3,602,859	2,960,109	262,366	134,562	3,357,037
Salaries - other	2,252,082	516,585	352,455	3,121,122	2,600,425	375,259	346,023	3,321,707
Total salaries and related	<u>10,807,979</u>	<u>1,111,242</u>	<u>505,545</u>	<u>12,424,766</u>	<u>11,192,707</u>	<u>969,551</u>	<u>497,263</u>	<u>12,659,521</u>
Other:								
Office and related expenses	441,604	37,628	38,997	518,229	423,029	28,078	33,178	484,285
Occupancy	423,493	28,300	17,115	468,908	419,349	22,655	14,870	456,874
Contract services	243,431	127,820	22,333	393,584	256,847	123,192	24,191	404,230
Other direct expenses	216,013	17,304	46,299	279,616	219,843	5,554	59,047	284,444
Grants awarded	264,403	-	-	264,403	417,827	-	-	417,827
Depreciation	189,531	15,576	9,421	214,528	204,074	-	-	204,074
Library maintenance	108,123	-	102	108,225	99,984	-	386	100,370
Client litigation expenses	97,583	-	-	97,583	113,420	-	-	113,420
Travel and training	43,607	18,619	4,671	66,897	44,666	29,193	4,288	78,147
Total other	<u>2,027,788</u>	<u>245,247</u>	<u>138,938</u>	<u>2,411,973</u>	<u>2,199,039</u>	<u>208,672</u>	<u>135,960</u>	<u>2,543,671</u>
Total operating expenses before donated services	12,835,767	1,356,489	644,483	14,836,739	13,391,746	1,178,223	633,223	15,203,192
Donated Services	<u>5,403,941</u>	<u>-</u>	<u>-</u>	<u>5,403,941</u>	<u>6,805,385</u>	<u>-</u>	<u>-</u>	<u>6,805,385</u>
Total operating expenses	<u>\$ 18,239,708</u>	<u>\$ 1,356,489</u>	<u>\$ 644,483</u>	<u>\$ 20,240,680</u>	<u>\$ 20,197,131</u>	<u>\$ 1,178,223</u>	<u>\$ 633,223</u>	<u>\$ 22,008,577</u>

The accompanying notes are an integral part of these statements.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

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).

Accounting Standard Adoption

In 2018, GBLS adopted FASB's Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. GBLS has adjusted the presentation of these statements accordingly. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit disclosures about liquidity and availability of resources for the 2017 financial statements. The adoption of this ASU resulted in the following changes to GBLS's net asset classes for the year ended December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Unrestricted	\$ 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, as previously stated	<u>\$ 13,619,849</u>	<u>\$ 7,387,819</u>	<u>\$ 21,007,668</u>

Net Assets

Net Assets Without Donor Restrictions 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 \$1,538,029 of endowment funds.
- **Board Designated - Property and Equipment** represents amounts designated by the Board of Directors for future capital expenditures (see Note 9). These net assets may not be expended for operations without the Board of Directors' approval.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net Assets Without Donor Restrictions (Continued)

- **Property and Equipment** represents resources available and the net book value of GBL's property and equipment, net of related debt, if any.

Net Assets With Donor Restrictions represent amounts received or committed with donor restrictions which have not yet been expended for their designated purpose (program restricted) or amounts for use in future periods (time restricted). Net assets with donor restrictions also include appreciation, if any, on donor restricted endowments held in perpetuity in accordance with Massachusetts state law and GBL's spending policy (see investment return allocations and spending policy note on page 13).

Donor restricted endowments held in perpetuity 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.

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Donor Restricted Endowments Held in Perpetuity:		
Access to Justice Fund	\$ 2,724,439	\$ 2,074,347
Harmonix Stockholder's Endowment	2,387,631	2,377,631
Hennessey Fund	318,579	318,579
General Endowment	115,275	115,275
Marks Fund	82,594	82,594
Program restricted - operations	1,228,578	1,212,899
Appreciation on donor restricted endowments held in perpetuity	720,216	948,326
Time restricted	<u>360,261</u>	<u>258,168</u>
	<u>\$ 7,937,573</u>	<u>\$ 7,387,819</u>

The Access to Justice Fund was established in 2001 to raise funds to support staff attorneys. Donors contributed \$650,092 and \$5,000 of new contributions to this endowment during 2018 and 2017, respectively.

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 2018 and 2017.

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, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

GBLS reports gifts of cash and other assets as support with donor restrictions 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, net assets with donor restrictions are transferred to net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions. Support without donor restrictions is recognized when received or unconditionally committed by the donor. Support with donor restrictions received and expended during the year is recorded as revenue and support without donor restrictions.

Contributions and promises include contributions and donations from Boston area law firms and corporate legal departments (approximately \$3,265,000 and \$3,058,000 in 2018 and 2017, 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 support with donor restrictions if there is a donor-imposed program or time restriction.

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 Federal and state appropriations and interest earned on Lawyer Trust Accounts. During 2018 and 2017, GBLS was awarded \$7,211,844 and \$6,133,303, respectively, from MLAC. GBLS recognizes MLAC grant revenue as granted each quarter. There were no restricted MLAC funds at December 31, 2018 and 2017. 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, 2018 and 2017, 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 net assets with donor restrictions and released from restrictions to the operating net assets without donor restrictions as restrictions are satisfied.

All other revenue is recognized when earned.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Expense Allocation

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.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, payroll taxes, occupancy, and depreciation, which are allocated based on an estimate of time and level of effort spent on GBLS's program and supporting functions.

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 net assets without donor restrictions – operating to net assets without donor restrictions – property and equipment. Proceeds from the sale of property and equipment, if without donor restrictions, 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:

	<u>2018</u>	<u>2017</u>
Land	\$ 418,000	\$ 418,000
Building and improvements	5,792,057	5,689,605
Computers and office equipment	1,878,423	1,878,423
Law library	<u>145,507</u>	<u>145,507</u>
	8,233,987	8,131,535
Less - accumulated depreciation	<u>5,058,530</u>	<u>4,844,002</u>
Net property and equipment	<u>\$ 3,175,457</u>	<u>\$ 3,287,533</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. If needed GBLS may distribute from its investment portfolios (Board designated and donor restricted endowments) 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. The Board of Directors elected not to distribute from the investment portfolio for the year ended December 31, 2018. During 2017, GBLS appropriated \$243,535 from the investment portfolio.

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 net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowments, (b) the original value of subsequent gifts to the donor restricted endowments, and (c) accumulations to the donor restricted endowments 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 funds that are not classified in net assets with donor restrictions and is regarded as "net appreciation" is classified as net assets with donor restrictions 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, 2018 and 2017.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. At December 31, 2017, the building capital reserve was held in a cash account. During 2018, this account was transferred to the investment portfolio and is included in investments in the accompanying 2018 statement of financial position and totaled \$1,678,801.

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 are recorded at the time awarded by GBLS.

Subsequent Events

Subsequent events have been evaluated through May 8, 2019, which is the date the financial statements were available to be issued. There were no events, except as disclosed in Note 11, that met the criteria for recognition in the financial statements.

Allowance for Uncollectible Grants and Contracts Receivable

An allowance for potentially uncollectible grants and contracts 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, 2018 or 2017.

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, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017. 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 endowment and investment activity (see Note 3).

GREATER BOSTON LEGAL SERVICES, INC.Notes to Financial Statements
December 31, 2018 and 2017**3. INVESTMENTS**

GBLS maintains separate investment portfolios for net assets with donor restrictions, Board designated net assets - functioning as endowment, Board designated net assets - property and equipment, as well as operational resources. Investment income and appreciation earned on the donor restricted endowments are recorded as net assets without donor restrictions (see Note 2).

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

	2018			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 377,945	\$ -	\$ -	\$ 377,945
Fixed income:				
U.S. Government bonds	-	2,488,434	-	2,488,434
Corporate bonds	-	708,673	-	708,673
Government agency	-	99,849	-	99,849
Taxable Municipal	-	716,999	-	716,999
Equities:				
U.S. large cap	4,845,014	-	-	4,845,014
U.S. small cap	49,818	-	-	49,818
International	392,864	-	-	392,864
Total	<u>\$ 5,665,641</u>	<u>\$ 4,013,955</u>	<u>\$ -</u>	<u>\$ 9,679,596</u>
	2017			Total
	Level 1	Level 2	Level 3	
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	348,372	-	-	348,372
Total	<u>\$ 7,397,930</u>	<u>\$ 926,396</u>	<u>\$ -</u>	<u>\$ 8,324,326</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 government, municipal 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, 2018 and 2017

3. INVESTMENTS (Continued)

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

	<u>2018</u>	<u>2017</u>
Net unrealized gain (loss) on investments	\$ (409,006)	\$ 696,762
Net realized gain on the sale of investments	<u>3,077</u>	<u>73,658</u>
	<u>\$ (405,929)</u>	<u>\$ 770,420</u>

In accordance with GBLS's investment return allocation policy, \$243,535 was designated for current operations for 2017. Investments are not insured and are subject to ongoing market fluctuations. Investments are presented as 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. The amount held in escrow was \$191,041 and \$188,024 at December 31, 2018 and 2017, respectively and are shown as cash – client escrow and client escrow payable on the accompanying statements of financial position.

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, 2018 and 2017**6. ENDOWMENTS**

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total With Donor Restrictions</u>	<u>Total</u>
		<u>Appreciation on Donor Restricted Endowments Held in Perpetuity</u>	<u>Donor Restricted Endowments Held in Perpetuity</u>		
Endowment net assets, December 31, 2016	\$ 705,945	\$ 268,078	\$ 4,953,426	\$ 5,221,504	\$ 5,927,449
Investment return:					
Investment income, net	8,312	66,833	-	66,833	75,145
Net gain	<u>595</u>	<u>769,825</u>	<u>-</u>	<u>769,825</u>	<u>770,420</u>
Total investment return	<u>8,907</u>	<u>836,658</u>	<u>-</u>	<u>836,658</u>	<u>845,565</u>
Subtotal	714,852	1,104,736	4,953,426	6,058,162	6,773,014
Grants	-	-	15,000	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>(156,410)</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>5,916,752</u>	<u>8,082,508</u>
Investment return:					
Investment income, net	20,226	47,011	-	47,011	67,237
Net loss	<u>(124,721)</u>	<u>(275,121)</u>	<u>-</u>	<u>(275,121)</u>	<u>(399,842)</u>
Total investment return	<u>(104,495)</u>	<u>(228,110)</u>	<u>-</u>	<u>(216,483)</u>	<u>(332,605)</u>
Subtotal	2,061,261	720,216	4,968,426	5,688,642	7,749,903
Grants	-	-	660,092	660,092	660,092
Endowment net assets, December 31, 2018	<u>\$ 2,061,261</u>	<u>\$ 720,216</u>	<u>\$ 5,628,518</u>	<u>\$ 6,348,734</u>	<u>\$ 8,409,995</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, 2018 and 2017. Borrowings are payable on demand, bear interest at the bank's base lending rate (5.50% and 4.50% at December 31, 2018 and 2017, 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, 2018 and 2017. This line of credit is renewable annually in June.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

8. LEASES

GBLS leases space for a community branch of its program under an annual lease, with monthly rental payments of \$5,733. GBLS is also responsible for certain operating costs. Effective December 31, 2018, GBLS renewed the lease agreement for this space under the same terms through January 1, 2020.

GBLS also leases various space for programs and storage, with monthly rental payments totaling \$1,310. These agreements expire at various dates through 2020. The cost of the rental space for the years ended December 31, 2018 and 2017, was \$79,153 and \$77,965, respectively. These costs are included in occupancy in the accompanying statements of functional expenses.

GBLS leases equipment under operating lease agreements, with monthly payments aggregating \$3,268. 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>
2019	\$ 73,796	\$ 33,864
2020	\$ -	\$ 33,539
2021	\$ -	\$ 3,000
2022	\$ -	\$ 3,000

9. CAPITAL RESERVE TRANSFERS

GBLS's Board of Directors voted to transfer \$763,700 and \$859,129 in 2018 and 2017, 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 2018 and 2017, GBLS transferred \$102,452 and \$74,000, respectively, of net assets to fund current year property and equipment purchases.

10. 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, 2018 and 2017, the Board of Directors approved contributions of \$296,498 and \$291,252 respectively, to the plan. These contributions are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses.

11. COLLECTIVE BARGAINING AGREEMENTS

GBLS has signed two collective bargaining agreements which expired on December 31, 2017. GBLS had previously extended the agreements until June 30, 2018; however, there is currently no extension agreement in place. Subsequent to December 31, 2018, GBLS continues to negotiate these agreements. Approximately 75% of GBLS's employees are covered under these agreements.

GREATER BOSTON LEGAL SERVICES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

12. CONCENTRATIONS

GBLS received approximately 33% and 39% of its total operating revenue and support before donated services from MLAC (see Note 2) for the years ended December 31, 2018 and 2017, 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.

13. CONDITIONAL GRANT

GBLS was awarded two conditional grants totaling \$2,420,000 from donors, of which \$710,000 and \$500,000 was recorded during the years ended December 31, 2018 and 2017, respectively. The portion of the grants that was earned during 2018 and 2017 is included in grants and contracts in the accompanying statements of activities. The remaining balance of the grant awards of \$710,000 at December 31, 2018, is conditional upon GBLS meeting certain conditions as required by the grant agreements and, accordingly, is not reflected in the accompanying financial statements, as these conditions were not met as of December 31, 2018. The awards will be recorded as grant revenue as the conditions are met.

14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

GBLS' financial assets available within one year from the statement of financial position date at December 31, 2018 for general operating expenses are as follows:

Cash and cash equivalents	\$ 7,070,189
Grants contract, and other receivables	1,554,309
Pledges receivable	<u>870,567</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,495,065</u>

GBLS' endowment funds consist of donor-restricted endowments held in perpetuity. Income from donor-restricted endowments held in perpetuity is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 2, the endowment has a spending rate of up to 5%. As part of GBLS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, GBLS has committed a line of credit in the amount of \$2.5 million (see Note 7), which it could draw upon.

15. RECLASSIFICATIONS

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation in relation to the adoption of ASU 2016-14 (see Note 2).