



Audited Financial Statements

December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Brooklyn Legal Services Corporation A

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Legal Services Corporation A ("BKA"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 organization'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 organization'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.

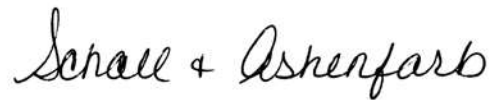
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Legal Services Corporation A as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the BKA's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb
Certified Public Accountants, LLC

August 1, 2018

BROOKLYN LEGAL SERVICES CORPORATION A
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
(With comparative totals as of December 31, 2016)

	<u>12/31/17</u>	<u>12/31/16*</u>
Assets		
Cash and cash equivalents	\$135,108	\$190,448
Government grants receivable	2,266,098	1,717,553
Fees receivable	95,045	44,677
Contributions receivable	96,824	26,000
Settlement receivable (Note 3)	572,561	0
Prepaid expenses and other assets	127,550	82,876
Client escrow account (Note 4)	61,914	266,164
Fixed assets, net (Note 5)	1,470,386	1,574,515
Security deposit	<u>11,761</u>	<u>11,761</u>
Total assets	<u><u>\$4,837,247</u></u>	<u><u>\$3,913,994</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$538,693	\$325,891
Deferred revenue	25,137	71,208
Security deposit payable	18,000	18,000
Line of credit (Note 6)	1,136,619	765,769
Mortgage payable (Note 7)	1,743,310	1,771,441
Client escrow account (Note 4)	<u>61,914</u>	<u>266,164</u>
Total liabilities	<u><u>3,523,673</u></u>	<u><u>3,218,473</u></u>
Net assets:		
Unrestricted	1,247,524	607,352
Temporarily restricted (Note 8)	<u>66,050</u>	<u>88,169</u>
Total net assets	<u><u>1,313,574</u></u>	<u><u>695,521</u></u>
Total liabilities and net assets	<u><u>\$4,837,247</u></u>	<u><u>\$3,913,994</u></u>

* Reclassified for comparative purposes

The attached notes and auditor's report are an integral part of these financial statements.

BROOKLYN LEGAL SERVICES CORPORATION A
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 12/31/17</u>	<u>Total 12/31/16</u>
Revenue and support:				
Government grants	\$5,175,007		\$5,175,007	\$4,622,199
Contributions	169,743	\$65,750	235,493	196,610
In-kind contributions	860,000		860,000	810,000
Special events (net of expenses with a direct benefit to donors) (Note 9)	83,856		83,856	107,082
Program fees	485,082		485,082	273,111
Rental income	411,300		411,300	394,267
Settlement income (Note 3)	572,561		572,561	0
Other income	9,203		9,203	5,581
Net assets released from restriction	87,869	(87,869)	0	0
Total revenue and support	<u>7,854,621</u>	<u>(22,119)</u>	<u>7,832,502</u>	<u>6,408,850</u>
Expenses:				
Program services:				
Community Economic Development	1,494,749		1,494,749	1,213,242
Low Income Taxpayer Clinic	194,861		194,861	145,597
Foreclosure Prevention Unit	567,752		567,752	604,390
Preservation of Affordable Housing	4,198,471		4,198,471	3,636,871
Total program services	<u>6,455,833</u>	<u>0</u>	<u>6,455,833</u>	<u>5,600,100</u>
Supporting services:				
Management and general	477,153		477,153	472,370
Fundraising	281,463		281,463	322,146
Total supporting services	<u>758,616</u>	<u>0</u>	<u>758,616</u>	<u>794,516</u>
Total expenses	<u>7,214,449</u>	<u>0</u>	<u>7,214,449</u>	<u>6,394,616</u>
Change in net assets	640,172	(22,119)	618,053	14,234
Net assets - beginning of year	<u>607,352</u>	<u>88,169</u>	<u>695,521</u>	<u>681,287</u>
Net assets - end of year	<u><u>\$1,247,524</u></u>	<u><u>\$66,050</u></u>	<u><u>\$1,313,574</u></u>	<u><u>\$695,521</u></u>

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BROOKLYN LEGAL SERVICES CORPORATION A
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

	Program Services					Supporting Services				
	Community Economic Development	Low Income Taxpayer Clinic	Foreclosure Prevention Unit	Preservation of Affordable Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 12/31/17	Total Expenses 12/31/16
Salaries	\$396,217	\$96,003	\$329,151	\$2,409,204	\$3,230,575	\$164,356	\$85,553	\$249,909	\$3,480,484	\$3,221,087
Payroll taxes and benefits	107,984	26,165	89,706	656,600	880,455	44,794	23,316	68,110	948,565	830,291
Total personnel expenses	504,201	122,168	418,857	3,065,804	4,111,030	209,150	108,869	318,019	4,429,049	4,051,378
Professional fees	23,311	5,020	32,770	224,261	285,362	67,098	124,274	191,372	476,734	510,589
In-kind legal services	640,000			220,000	860,000			0	860,000	810,000
Program consultants		10,971			10,971			0	10,971	49,080
Sub-grantees	200,465			10,000	210,465			0	210,465	0
Supplies and office expenses	17,613	4,268	14,632	107,098	143,611	7,306	3,803	11,109	154,720	167,872
Office equipment	4,179	1,013	3,471	25,409	34,072	1,734	902	2,636	36,708	30,304
Repairs and maintenance	1,863	451	1,548	11,327	15,189	773	402	1,175	16,364	29,607
Telephone and communications	13,072	3,167	10,860	79,487	106,586	5,423	2,823	8,246	114,832	89,482
Occupancy expenses	44,109	32,276	41,466	151,942	269,793	6,478	3,372	9,850	279,643	222,089
Travel and meetings	1,249	1,503	6,835	19,618	29,205	1,677	515	2,192	31,397	30,191
Insurance	6,157	1,492	5,115	37,439	50,203	2,554	1,330	3,884	54,087	36,942
Interest expense	14,604	3,539	12,132	88,800	119,075	6,058	3,153	9,211	128,286	129,444
Special event expense					0		25,943	25,943	25,943	17,673
Dues and subscriptions	2,210	321	2,067	18,970	23,568	5,471	286	5,757	29,325	17,456
Miscellaneous	4,141	4,414	3,399	31,449	43,403	10,626	1,996	12,622	56,025	68,898
Bad debt expense					0	145,514		145,514	145,514	0
Total expenses before depreciation	1,477,174	190,603	553,152	4,091,604	6,312,533	469,862	277,668	747,530	7,060,063	6,261,005
Depreciation	17,575	4,258	14,600	106,867	143,300	7,291	3,795	11,086	154,386	133,611
Total expenses	\$1,494,749	\$194,861	\$567,752	\$4,198,471	\$6,455,833	\$477,153	\$281,463	\$758,616	\$7,214,449	\$6,394,616

The attached notes and auditor's report are an integral part of these financial statements.

BROOKLYN LEGAL SERVICES CORPORATION A
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

	<u>12/31/17</u>	<u>12/31/16</u>
Cash flows from operating activities:		
Change in net assets	\$618,053	\$14,234
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	154,386	133,611
Interest on debt issuance costs - mortgage	4,131	20,677
Interest on debt issuance costs - line of credit	11,264	22,088
Changes in assets and liabilities:		
Government grants receivable	(548,545)	(966,039)
Fees receivable	(50,368)	(2,942)
Contributions receivable	(70,824)	6,695
Settlement receivable	(572,561)	0
Prepaid expenses and other assets	(44,674)	(34,676)
Security deposit	0	(11,761)
Accounts payable and accrued expenses	212,802	179,741
Deferred revenue	(46,071)	71,208
Total adjustments	<u>(950,460)</u>	<u>(581,398)</u>
Net cash used for operating activities	<u>(332,407)</u>	<u>(567,164)</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(50,257)</u>	<u>(309,655)</u>
Net cash used for investing activities	<u>(50,257)</u>	<u>(309,655)</u>
Cash flows from financing activities:		
Proceeds of mortgage	0	1,800,000
Repayment of mortgage	(32,262)	(1,409,554)
Debt issuance costs - mortgage	0	(20,654)
Proceeds from line of credit	470,000	817,033
Repayment of line of credit	(100,000)	(200,000)
Debt issuance costs - line of credit	<u>(10,414)</u>	<u>(27,033)</u>
Net cash provided by financing activities	<u>327,324</u>	<u>959,792</u>
(Decrease)/increase in cash and cash equivalents	(55,340)	82,973
Cash and cash equivalents - beginning of year	<u>190,448</u>	<u>107,475</u>
Cash and cash equivalents - end of year	<u><u>\$135,108</u></u>	<u><u>\$190,448</u></u>
Supplemental information:		
Taxes paid	<u>\$34,383</u>	<u>\$29,759</u>
Interest paid	<u><u>\$110,808</u></u>	<u><u>\$86,679</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

BROOKLYN LEGAL SERVICES CORPORATION A
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 1 - Organization

Brooklyn Legal Services Corporation A (“BKA”) provides high-quality civil legal assistance to low-income individuals, families, and community groups in Brooklyn and throughout NYC. We offer a combination of full legal representation, brief advice/services, and legal education. Established in 1968 as part of the federally-funded legal services program, BKA embraces the value that lawyers have in combating poverty.

We offer representation and advocacy:

- To tenants, tenant associations, and small businesses to prevent their displacement and to ensure decent living conditions;
- To assist income-eligible taxpayers with Internal Revenue Service (“IRS”) and/or NYS tax issues;
- To counter predatory lending practices and defend in foreclosure proceedings; and
- To support community and economic development efforts undertaken by nonprofit, neighborhood-based organizations.

We also provide education, counseling and outreach, not only directly to our target population, but also to other stakeholders, including community boards, community-based organizations (CBOs), advocacy groups, and the offices of elected officials.

BKA was established in 1968 and operated as a constituent corporation of Legal Services NYC (LSNYC). On February 15, 2013, BKA disassociated from LSNYC and began operating as a separate, not-for-profit corporation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

BKA reports information regarding their financial position and activities according to the following classes of net assets:

- *Unrestricted* – relates to all activity without donor-imposed restrictions.
- *Temporarily restricted* – relates to contributions of cash and other assets with donor stipulations that make clear the asset’s restriction, either due to a program nature or by the passage of time.
- *Permanently restricted* – relates to contributions of cash and other assets whereby the assets must remain intact in perpetuity due to restrictions placed by the donor. There was no permanently restricted activity or net assets at December 31, 2017 or December 31, 2016.

c. Revenue Recognition

All government grants have been recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement. The difference between cash received and revenue recognized is reflected as government grants receivable or refundable advances.

Contributions are recognized at the earlier of when cash is received or an unconditional promise is made. Those contributions received with donor stipulations as to time or purpose are recorded as temporarily or permanently restricted support, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Contributions whose restrictions are met in the same period they are received are recorded as unrestricted.

BKA receives fees in exchange for providing general counsel and other legal services to community-based organizations. Income earned under these agreements is recognized as program fee income when BKA provides these services and the fees are considered non-cancelable.

Rental and other income are recorded on the accrual basis. Cash received before rental and other income is recognized is reflected as deferred income.

d. Cash and Cash Equivalents

All liquid investments with an initial maturity of three months or less are considered cash and cash equivalents.

e. Concentration of Credit Risk

Financial instruments that potentially subject BKA to concentration of credit risk consist of cash accounts with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end and at certain times throughout the year, BKA had uninsured balances; however, they have not suffered any losses due to the failure of any of these institutions.

f. Allowance for Doubtful Accounts

At year end, all outstanding pledges and grants receivable were due within one year and have been recorded at net realizable value. Management reviews receivables to determine if any are unlikely to be collected based on a specific review of donors, grantors, and others as well as a review of activity subsequent to the statement of financial position date. Based on this review, management has determined that no allowance for uncollectable amounts is necessary.

Write-offs will be made directly to operations in the period the receivable is deemed to be uncollectable. During 2017, one receivable in the amount of \$145,514 was identified as not being collectible and was written off.

g. Fixed Assets

Property and equipment that exceed predetermined thresholds and have a useful life greater than one year are capitalized at cost or at their fair values, if donated. Furniture and equipment are depreciated using the straight-line method over each asset's estimated useful life, which is between three and five years. Building and building improvements are depreciated using the straight-line method over the estimated useful life of fifteen to twenty-five years. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

h. Debt Issuance Costs

In accordance with an Accounting Standards Update (ASU) No. 2015-03, *Interest-Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are netted with the principal amount of the outstanding debt.

i. In-Kind Services

Donated services that either create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided in-kind, are recognized at fair value. BKA received in-kind legal services of \$860,000 and \$810,000 during 2017 and 2016, respectively, which has been reflected on the statements of activities and functional expenses.

Organizational governance and some fundraising duties are performed voluntarily by the board of directors. Those services have not been recorded because they do not meet the criteria for recognition as outlined above.

j. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of BKA.

l. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BKA's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

m. Income Tax Status

BKA has been notified by the Internal Revenue Service that it is exempt from Federal taxes under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined under Section 509(a) of the Code.

n. Accounting for Uncertainty of Income Taxes

BAK does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending December 31, 2014 and later are subject to examination by applicable taxing authorities.

o. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through August 1, 2018, the date the financial statements were available to be issued. Any events that have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements have been made.

p. New Accounting Pronouncement

On August 18, 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the December 31, 2018 fiscal year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the December 31, 2019 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2020 fiscal year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

BAK has begun to evaluate the impact these standards will have on future statements.

Note 3 - Settlement Receivable

In December 2017, a settlement was reached on a legal case in which BAK served as attorneys for the plaintiffs, along with several other law firms. As part of the settlement BAK, as one of the plaintiff's attorneys was awarded monetary compensation for its time spent working on the case. A receivable has been reflected as of December 31, 2017 for the amount paid to BAK subsequent to yearend.

Note 4 - Client Escrow Account

As part of the legal services provided by BKA to clients, BKA maintains an escrow bank account on behalf of its clients.

Note 5 - Fixed Assets

Fixed assets consist of the following:

	<u>12/31/17</u>	<u>12/31/16</u>
Land	\$642,000	\$642,000
Building and building improvements	1,663,667	1,621,560
Leasehold improvements	126,854	121,254
Furniture and equipment	<u>478,645</u>	<u>476,095</u>
	2,911,166	2,860,909
Less: accumulated depreciation	<u>(1,440,780)</u>	<u>(1,286,394)</u>
Total fixed assets, net	<u>\$1,470,386</u>	<u>\$1,574,515</u>

Note 6 - Line of Credit

Line of credit borrowings consists of a bank loan due 8/1/18 that had interest payable of 4% during the year ended December 31, 2016 and 4.75% during the year ended December 31, 2017. Outstanding balances were as follows:

	<u>12/31/17</u>	<u>12/31/16</u>
Principal	\$1,147,033	\$777,033
Debt issuance costs, net	<u>(10,414)</u>	<u>(11,264)</u>
Net	<u>\$1,136,619</u>	<u>\$765,769</u>

Note 7 - Mortgage Payable

On February 27, 2013, BKA obtained a 5-year mortgage that was refinanced on July 28, 2016. The principal amount was \$1,800,000 and pays interest at 3.927%. Monthly payments of principal and interest are made based on a 30-year amortization schedule, with a balloon payment due at maturity, which is August 1, 2026. On December 31, 2017, the balance was \$1,743,310 (net of debt issuance costs of \$14,802).

The mortgage is secured by the assets of BKA. Future principal payments under the mortgage are as follows:

Year ending:	December 31, 2018	\$33,579
	December 31, 2019	34,941
	December 31, 2020	36,168
	December 31, 2021	37,824
	December 31, 2022	39,358
	Thereafter	<u>1,576,242</u>
Total		<u>\$1,758,112</u>

Note 8 - Temporarily Restricted Net Assets

Activity in the temporarily restricted net asset class was as follows:

<u>December 31, 2017</u>				
	<u>Balance</u> <u>1/1/17</u>	<u>Contributions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>12/31/17</u>
Program restrictions:				
CED	\$78,169	\$59,750	(\$77,869)	\$60,050
Individual Housing	0	6,000	0	6,000
Group Housing	<u>10,000</u>	<u>0</u>	<u>(10,000)</u>	<u>0</u>
Total	<u>\$88,169</u>	<u>\$65,750</u>	<u>(\$87,869)</u>	<u>\$66,050</u>
<u>December 31, 2016</u>				
	<u>Balance</u> <u>1/1/16</u>	<u>Contributions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>12/31/16</u>
Program restrictions:				
CED	\$65,229	\$88,500	(\$75,560)	\$78,169
Group Housing	<u>57,071</u>	<u>0</u>	<u>(47,071)</u>	<u>10,000</u>
Total	<u>\$122,300</u>	<u>\$88,500</u>	<u>(\$122,631)</u>	<u>\$88,169</u>

Note 9 - Special Events

The special events can be summarized as follows:

	<u>12/31/17</u>	<u>12/31/16</u>
Gross revenue	\$177,153	\$209,923
Less: expenses with a direct benefit to donors	<u>(93,297)</u>	<u>(102,841)</u>
	83,856	107,082
Less: other event expenses	<u>(25,943)</u>	<u>(17,673)</u>
Net revenue from event	<u>\$57,913</u>	<u>\$89,409</u>

Note 10 - Commitments and Contingencies**a. Program Audits**

Government grants are subject to audit by the grantor and other oversight agencies. Management is of the opinion that any potential disallowances that may result from an audit will not be material and has not set aside a reserve for this. Any future disallowances will be recorded when they become known and the amount is probable that it will be paid.

b. Commitments

BKA has a non-cancelable lease agreement for additional space in Brooklyn, New York which expires on June 30, 2023. Future minimum payments under the lease is as follows:

Year ending:	December 31, 2018	\$143,247
	December 31, 2019	147,537
	December 31, 2020	151,965
	December 31, 2021	156,530
	December 31, 2022	161,233
	Thereafter	<u>81,813</u>
Total		<u>\$842,325</u>

Note 11 - Retirement Plan

BKA offers employees the option of participating in a 401(k) retirement plan whereby the employees can contribute pre-tax dollars up to statutory limits. All employees who are 21 years of age are eligible to participate. In 2017, BKA began to make full matching contributions of up to 3% of employee compensation for those employees that have made pre-tax contribution of the same amount. For those that contribute more than 3% (the plan allows a maximum of 5%), BKA matches the additional employee pre-tax contribution at half of the additional amount above 3 %. Total retirement contributions made by BKA during 2017 amounted to \$68,000.