



Audited Financial Statements

June 30, 2019



IRA L. SCHALL, CPA
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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 June 30, 2019 and the related statements of activities, functional expenses, and cash flows for the six month period 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 June 30, 2019, and the changes in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Schall & Ashenfarb".

Schall & Ashenfarb
Certified Public Accountants, LLC

December 3, 2019

BROOKLYN LEGAL SERVICES CORPORATION A
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019

Assets

Cash and cash equivalents	\$1,099,453
Government grants receivable	2,959,419
Fees receivable	50,364
Other receivable (Note 8)	200,000
Prepaid expenses and other assets	91,445
Client escrow account (Note 3)	112,933
Fixed assets, net (Note 4)	1,305,848
Security deposit	<u>84,113</u>
 Total assets	 <u><u>\$5,903,575</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	\$986,258
Deferred revenue	34,264
Government grant advance	41,046
Security deposit payable	18,000
Line of credit (Note 5)	576,915
Mortgage payable (Note 6)	2,283,497
Client escrow account (Note 3)	<u>112,933</u>
Total liabilities	<u>4,052,913</u>
Net assets:	
Without donor restrictions	1,769,612
With donor restrictions (Note 7)	<u>81,050</u>
Total net assets	<u><u>1,850,662</u></u>
 Total liabilities and net assets	 <u><u>\$5,903,575</u></u>

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 SIX MONTH PERIOD ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support:			
Government grants	\$3,775,353		\$3,775,353
Contributions	55,218	\$6,000	61,218
In-kind contributions (Note 2j)	90,000		90,000
Program fees	224,853		224,853
Rental income	203,500		203,500
Other income	26,038		26,038
Net assets released from restriction	55,000	(55,000)	0
Total revenue and support	<u>4,429,962</u>	<u>(49,000)</u>	<u>4,380,962</u>
Expenses:			
Program services:			
Community Economic Development	1,006,200		1,006,200
Low Income Taxpayer Clinic	124,257		124,257
Foreclosure Prevention Unit	165,022		165,022
Preservation of Affordable Housing	2,439,522		2,439,522
Total program services	<u>3,735,001</u>	<u>0</u>	<u>3,735,001</u>
Supporting services:			
Management and general	639,803		639,803
Fundraising	134,428		134,428
Total supporting services	<u>774,231</u>	<u>0</u>	<u>774,231</u>
Total expenses	<u>4,509,232</u>	<u>0</u>	<u>4,509,232</u>
Change in net assets before non-operating activity	<u>(79,270)</u>	<u>(49,000)</u>	<u>(128,270)</u>
Non-operating activity:			
Gain on lease buy-out (Note 8)	400,000		400,000
Transfer of net assets (Note 11)	<u> </u>	<u>(25,000)</u>	<u>(25,000)</u>
Total non-operating activity	<u>400,000</u>	<u>(25,000)</u>	<u>375,000</u>
Change in net assets	320,730	(74,000)	246,730
Net assets - beginning of period	<u>1,448,882</u>	<u>155,050</u>	<u>1,603,932</u>
Net assets - end of period	<u><u>\$1,769,612</u></u>	<u><u>\$81,050</u></u>	<u><u>\$1,850,662</u></u>

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

BROOKLYN LEGAL SERVICES CORPORATION A
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2019

	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
Salaries	\$279,830	\$76,856	\$98,081	\$1,432,336	\$1,887,103	\$183,698	\$87,819	\$271,517	\$2,158,620
Payroll taxes and benefits	81,921	22,500	28,713	419,319	552,453	53,778	25,709	79,487	631,940
Total personnel expenses	361,751	99,356	126,794	1,851,655	2,439,556	237,476	113,528	351,004	2,790,560
Professional fees	12,283	2,653	5,064	115,220	135,220	294,190	3,032	297,222	432,442
In-kind legal services (Note 2j)	90,000				90,000			0	90,000
Program consultants		6,916	7,370		14,286			0	14,286
Sub-grantees	410,922			155,519	566,441			0	566,441
Supplies and office expenses	10,032	2,755	3,517	51,350	67,654	6,586	3,148	9,734	77,388
Office equipment	2,521	692	883	12,902	16,998	2,075	791	2,866	19,864
Repairs and maintenance	1,852	509	649	9,477	12,487	1,215	581	1,796	14,283
Telephone and communications	9,970	2,738	3,495	51,035	67,238	6,545	3,129	9,674	76,912
Occupancy expenses	82,214	2,167	2,766	40,390	127,537	5,254	2,476	7,730	135,267
Travel and meetings			1,967	7,791	9,758	1,189	52	1,241	10,999
Insurance	4,141	1,137	1,451	21,194	27,923	2,718	1,299	4,017	31,940
Interest expense	8,226	2,259	2,883	42,106	55,474	25,897	2,582	28,479	83,953
Dues and subscriptions	1,144		4,052	16,226	21,422	1,914	313	2,227	23,649
Miscellaneous		14	225	7,616	7,855	47,428		47,428	55,283
Depreciation	11,144	3,061	3,906	57,041	75,152	7,316	3,497	10,813	85,965
Total expenses	\$1,006,200	\$124,257	\$165,022	\$2,439,522	\$3,735,001	\$639,803	\$134,428	\$774,231	\$4,509,232

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 SIX MONTH PERIOD ENDED JUNE 30, 2019

Cash flows from operating activities:	
Change in net assets	\$246,730
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	85,965
Amortization of debt issuance costs - mortgage	10,672
Amortization of debt issuance costs - line of credit	1,943
Changes in assets and liabilities:	
Government grants receivable	181,897
Fees receivable	(35,017)
Other receivable	(200,000)
Prepaid expenses and other assets	(48,288)
Security deposit	(72,352)
Accounts payable and accrued expenses	16,457
Deferred revenue	(24,523)
Government grant advance	(26,737)
Total adjustments	<u>(109,983)</u>
Net cash provided by operating activities	<u>136,747</u>
Cash flows from investing activities:	
Purchase of fixed assets	<u>(9,000)</u>
Net cash used for investing activities	<u>(9,000)</u>
Cash flows from financing activities:	
Proceeds from mortgage	2,300,000
Repayment of mortgage	(1,741,036)
Proceeds from line of credit	629,336
Repayment of line of credit	(627,034)
Debt issuance costs - line of credit	(54,363)
Net cash provided by financing activities	<u>506,903</u>
Increase in cash and cash equivalents	634,650
Cash and cash equivalents - beginning of period	<u>464,803</u>
Cash and cash equivalents - end of period	<u><u>\$1,099,453</u></u>
Supplemental information:	
Taxes paid	<u>\$25,841</u>
Interest paid	<u>\$71,338</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
JUNE 30, 2019

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.

BKA changed its year-end to June 30, 2019. The attached financial statements represent activity for the six-month period ended June 30, 2019.

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 recording revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

BKA’s net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Net Assets Without Donor Restrictions* - represents all activity without donor-imposed restrictions. Included in the net assets without donor restrictions is a board designated reserve of \$400,000 which had been appropriated in prior years. Those funds can only be accessed by specific board approval.

- *Net Assets With Donor Restrictions* - represents contributions and the net residual of assets with donor-imposed restrictions that are expected to be satisfied by performing certain activities or through the passage of time.

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 at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

BAK 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 BAK 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. Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to BAK's ongoing services. Non-operating activities are limited to ancillary activities which, during the six-month period ended June 30, 2019, consisted of proceeds from a lease buy-out and a payment made for a program that spun off to a separate not-for-profit organization.

e. Cash and Cash Equivalents

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

f. Concentration of Credit Risk

Financial instruments that potentially subject BAK 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 period, BAK had uninsured balances; however, they have not suffered any losses due to the failure of any of these institutions.

g. 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.

h. 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.

i. 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.

j. 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 \$90,000 during the six month period ended June 30, 2019, 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.

k. 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.

l. 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.

The following expenses were allocated using time and effort as the basis:

- Salaries

The following expenses were allocated using salary allocation as the basis:

- Payroll taxes and benefits
- Professional fees – IT Consultant and Human Resources consultant
- Supplies and office expenses
- Office equipment
- Repairs and maintenance
- Telephone and communications
- Occupancy expenses
- Insurance
- Interest expense
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

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

BKA does not believe its financial statements include any material, uncertain tax positions. As described in Note 1, BKA changed its year-end to June 30, 2019 and will file a tax return for the six-month period then ended.

BKA had previously filed tax returns on a December year-end. Tax filings for the periods ended December 31, 2015 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 December 3, 2019, 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 Pronouncements

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU which becomes effective for the June 30, 2020 year, provides guidance on whether a receipt from a third-party resource provider should be accounted for as a contribution (nonreciprocal transaction) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transaction.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the June 30, 2020 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. This ASU does not apply to contributions.

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2021 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.

Management is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - 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 4 - Fixed Assets

Fixed assets at June 30, 2019 consist of the following:

Land	\$642,000
Building and building improvements	1,704,523
Leasehold improvements	126,854
Furniture and equipment	<u>530,947</u>
	3,004,324
Less: accumulated depreciation	<u>(1,698,476)</u>
Total fixed assets, net	<u>\$1,305,848</u>

Note 5 - Line of Credit

On April 26, 2019, BKA moved the line of credit to a new bank. The line of credit is up to \$1,250,000 and carries an annual interest rate of 4.5% for the first year. After that, the line of credit is up for renewal on an annual basis at the Prime Rate publicly announced by the bank.

The outstanding balance at June 30, 2019 was as follows:

Principal	\$629,336
Debt issuance costs, net	<u>(52,421)</u>
Net	<u>\$576,915</u>

Note 6 - Mortgage Payable

On April 26, 2019, BKA obtained a mortgage of \$2,300,000. Proceeds from this mortgage were used to pay off the remaining balance of the previous mortgage and provide BKA with an additional \$500,000 for building repairs.

Monthly payments of principal and interest at 4.99% are made based on a 20-year amortization schedule, with a balloon payment due at maturity, which is August 1, 2026. On June 30, 2019, the outstanding balance was \$2,283,497.

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

Year ending:	June 30, 2020	\$70,742
	June 30, 2021	74,354
	June 30, 2022	78,150
	June 30, 2023	82,140
	June 30, 2024	86,334
	Thereafter	<u>1,891,777</u>
Total		<u>\$2,283,497</u>

Note 7 - Net Assets With Donor Restrictions

The following summarizes the nature of net assets with donor restrictions at June 30, 2019:

Net assets restricted for future programs:

CED Program	\$70,050
Foreclosure Program	6,000
Preserving Affordable Housing Program	<u>5,000</u>
Total net assets with donor restrictions	<u>\$81,050</u>

The following summarizes net assets released from restrictions during the six-month period ended June 30, 2019:

CED Program	\$20,000
Foreclosure Program	10,000
Preserving Affordable Housing Program	<u>25,000</u>
Total net assets with donor restrictions	<u>\$55,000</u>

Note 8 - 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 occupies space in Brooklyn, New York, under a lease that was originally set to expire on June 30, 2023. During the six-month period ended June 30, 2019, BKA agreed to a buy-out of \$400,000 to terminate this lease early.

During the six-month period ended June 30, 2019, BKA received \$200,000 of the buy-out, which is reported on the statement of activities as a non-operating activity. The receivable balance of \$200,000 is expected when BKA moves out of the space by December 31, 2019.

BKA entered into a new lease for space in Brooklyn, New York, which is currently under construction. It is estimated that the construction will be completed on January 1, 2020 at which date the lease period will commence. The expiration date will be December 31, 2029.

Future minimum payments under these leases are as follows:

Year ending:	June 30, 2020	\$144,704
	June 30, 2021	292,302
	June 30, 2022	298,148
	June 30, 2023	304,111
	June 30, 2024	310,193
	Thereafter	<u>1,819,478</u>
Total		<u>\$3,168,936</u>

Note 9 - 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. BKA makes full matching contributions of up to 3% of employee compensation for those employees who have made pre-tax contribution of the same amount. For those who 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 amounted to \$58,000 during the six-month period ended June 30, 2019.

Note 10 - Liquidity and Availability of Financial Resources

BKA maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management plan, BKA operates its programs within a board approved budget and relies on grants, contributions, and earned income to fund its operations and program activities.

BKA has a revolving line of credit of \$1,250,000 which it could draw upon to help manage unanticipated liquidity needs. At June 30, 2019, BKA had an outstanding balance of \$629,336 and the remaining \$620,664 was available to draw upon as needed. Board designated funds are available for operating expenses as needed and are considered available for general expenditures.

The following reflects the BKA's financial assets at June 30, 2019 that are available to meet cash needs for general expenditures within one year:

Financial assets at June 30, 2019:

Cash and cash equivalents	\$1,099,453	
Grants, fees, and other receivables due within one year	<u>3,209,783</u>	
Total financial assets		\$4,309,236
Less amounts not available for general expenditures:		
Board designated reserve	(400,000)	
Donor contributions restricted to specific purposes	<u>(81,050)</u>	
Total unavailable for general expenditures		<u>(481,050)</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$3,828,186</u>

Note 11 - Transfer of Net Assets

BKA's Group Housing program ("Group Housing") was a component of its Preservation of Affordable Housing program. During the six-month period ended June 30, 2019, Group Housing spun off as a newly formed, separate and unrelated nonprofit organization. A contribution of \$25,000 that was restricted for Group Housing was transferred to the newly formed nonprofit organization. This transfer was approved in writing by the donor.