

**Brooklyn Bar
Association Volunteer
Lawyers Project, Inc**
Financial Statements
December 31, 2017 and 2016



Brooklyn Bar Association Volunteer Lawyers Project, Inc

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Independent Auditors' Report

To the Board of Directors
Brooklyn Bar Association Volunteer Lawyers Project, Inc

We have audited the accompanying financial statements of the Brooklyn Bar Association Volunteer Lawyers Project, Inc, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 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 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 the Brooklyn Bar Association Volunteer Lawyers Project, Inc as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mazars USA LLP

August 13, 2018

MAZARS USA LLP
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Brooklyn Bar Association Volunteer Lawyers Project, Inc

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 687,443	\$ 916,634
New York State funding receivable	165,876	65,342
Contributions receivable	11,000	68,000
Prepaid expenses	58,126	6,691
Investments, at fair value	777,610	670,951
Security deposit	31,412	31,412
Property and equipment, net	305,189	108,541
	<u>2,036,656</u>	<u>1,867,571</u>
Total assets	<u>\$ 2,036,656</u>	<u>\$ 1,867,571</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 30,871	\$ 29,090
Deferred Rent	22,297	-
	<u>53,168</u>	<u>29,090</u>
Total liabilities	<u>53,168</u>	<u>29,090</u>
Net assets		
Unrestricted	1,943,226	1,745,810
Temporarily restricted	15,158	69,232
Permanently restricted	25,104	23,439
	<u>1,983,488</u>	<u>1,838,481</u>
Total net assets	<u>1,983,488</u>	<u>1,838,481</u>
Total liabilities and net assets	<u>\$ 2,036,656</u>	<u>\$ 1,867,571</u>

The accompanying notes are an integral part of these financial statements.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

Statements of Activities

Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Public support:								
New York State funding	\$ 1,027,561	\$ -	\$ -	\$ 1,027,561	\$ 659,733	\$ -	\$ -	\$ 659,733
Contributions and grants	68,264	-	-	68,264	83,100	50,000	-	133,100
Donated services	3,878,000	-	-	3,878,000	3,003,000	-	-	3,003,000
Special events, net of direct costs of \$73,961 and \$139,834, respectively	77,200	-	-	77,200	346,248	-	-	346,248
Investment income (loss)	87,419	1,426	1,665	90,510	36,510	1,583	(432)	37,661
Other income	1,765	-	-	1,765	507	-	-	507
Net assets released from restrictions	55,500	(55,500)	-	-	5,000	(5,000)	-	-
Total revenue and support	5,195,709	(54,074)	1,665	5,143,300	4,134,098	46,583	(432)	4,180,249
Expenses								
Program	4,736,635	-	-	4,736,635	3,818,702	-	-	3,818,702
General and administrative	104,358	-	-	104,358	98,026	-	-	98,026
Fund-raising	157,300	-	-	157,300	70,634	-	-	70,634
Total expenses	4,998,293	-	-	4,998,293	3,987,362	-	-	3,987,362
Change in net assets	197,416	(54,074)	1,665	145,007	146,736	46,583	(432)	192,887
Net assets - beginning of year	1,745,810	69,232	23,439	1,838,481	1,599,074	22,649	23,871	1,645,594
Net assets - end of year	<u>\$ 1,943,226</u>	<u>\$ 15,158</u>	<u>\$ 25,104</u>	<u>\$ 1,983,488</u>	<u>\$ 1,745,810</u>	<u>\$ 69,232</u>	<u>\$ 23,439</u>	<u>\$ 1,838,481</u>

The accompanying notes are an integral part of these financial statements.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 145,007	\$ 192,887
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) on investments	(77,453)	(23,153)
Depreciation	21,351	19,083
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Contributions receivable	57,000	(42,000)
New York State funding receivable	(100,534)	279,525
Prepaid expenses	(51,435)	1,464
Accounts payable and accrued expenses	1,781	2,892
Refundable advances	-	(40,594)
Deferred rent	22,297	-
	<u>18,014</u>	<u>390,104</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of marketable securities	(508,075)	(470,884)
Proceeds from sale of marketable securities	478,869	238,266
Purchase of property and equipment	(217,999)	(25,418)
	<u>(247,205)</u>	<u>(258,036)</u>
Net cash used in investing activities		
Net (decrease) increase in cash and cash equivalents	(229,191)	132,068
Cash and cash equivalents		
Beginning	<u>916,634</u>	<u>784,566</u>
End	<u>\$ 687,443</u>	<u>\$ 916,634</u>

The accompanying notes are an integral part of these financial statements.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

Notes to Financial Statements

Years Ended December 31, 2017 and 2016

1. Organization and Nature of Activities

The Brooklyn Bar Association Volunteer Lawyers Project, Inc ("VLP"), was incorporated under the laws of the State of New York. The Internal Revenue Service has determined that VLP is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Since its founding in 1990 by the members of the Brooklyn Bar Association, and its incorporation as an independent not-for-profit organization on July 14, 1992, VLP has maintained as its objective, the practical realization of justice for the poor. VLP maintains a standing commitment to the principle that the legal system will fail unless it is accessible to all. Recognizing that the Federal Poverty Guidelines for obtaining service from other legal service providers excludes many members of the working poor, the elderly, and others, VLP endeavors to make available pro bono counsel to such underserved residents of Brooklyn, New York.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. VLP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of 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 the reported amounts of assets and liabilities, the 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.

Cash and Cash Equivalents

VLP considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

VLP maintains cash in multiple bank accounts which, at times, may exceed federally-insured limits. As of December 31, 2017, cash and cash equivalents with one financial institution exceeded Federal Deposit Insurance Corporation limits of \$250,000 per institution. As of December 31, 2017, the total uninsured cash balance was approximately \$318,000. VLP has not experienced any losses in such accounts.

VLP also has approximately \$144,000 of cash in a brokerage FDIC Insured Sweep account at December 31, 2017.

Investments

Investments are reported at their fair values in the statements of financial position, which is the prevailing market value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized gains and losses are included in the statement of activities.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

Fair Value of Financial Instruments

VLP follows the accounting standards for fair value measurement and disclosures for financial assets and liabilities which clarify the definition of fair value, prescribe methods for measuring fair value, establish a fair value hierarchy based on the inputs used to measure fair value and expand disclosure about the use of fair value measurements. The following table presents financial assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Level 1 Fair Value Measurements:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Fair Value Measurements:

Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full-term of the financial instrument.

Level 3 Fair Value Measurements:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets. Renewals and betterments that materially extend the life of the assets are capitalized.

Deferred Rent

Rent expense is being recognized on a straight-line basis over the term of the lease. The difference between rent expense recognized and rental payment, as stipulated in the lease, is reflected as deferred rent in the statements of financial position.

Revenue Recognition and Refundable Advances

VLP recognizes funding from state agencies as revenue over the term of the grant period as stipulated in the grant agreement. Amounts received from grants in excess of the allocated amount earned in the current reporting period are recorded as refundable advances on the accompanying statements of financial position.

Contributions

VLP reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restricted 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 restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying financial statements.

Contributions received from members of VLP's Board of Directors amounted to approximately \$41,000 and \$38,000 in 2017 and 2016, respectively.

New York State Funding

VLP receives funding from multiple state assistance programs that supplement its traditional funding sources. VLP recognizes the award as revenue over the term of the grant period as stipulated in the grant agreement.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

In-Kind Contributions

In-kind contributions for services or the use of equipment, materials or facilities at less than fair value are recorded at their fair value in accordance with accounting literature, if the services (a) create or enhance non financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by VLP. In-kind contributed goods and materials are recorded at their fair value.

3. Contribution Receivable

Contributions receivable include unconditional promises to give as follows:

	2017	2016
Receivable in less than one year	\$ 6,500	\$ 58,000
Receivable in one to five years	5,000	10,000
	<u>11,500</u>	<u>68,000</u>
Less bad debt allowance	<u>(500)</u>	<u>-</u>
	<u>\$ 11,000</u>	<u>\$ 68,000</u>

4. Investments

Investments consist of the following at December 31, 2017:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Preferred stocks	\$ 46,936	\$ 46,936	\$ -	\$ -
Common stocks	498,817	498,817	-	-
Corporate bonds	81,859	-	81,859	-
Mutual funds - fixed income	149,998	149,998	-	-
	<u>\$ 777,610</u>	<u>\$ 695,751</u>	<u>\$ 81,859</u>	<u>\$ -</u>

Brooklyn Bar Association Volunteer Lawyers Project, Inc

Investments consist of the following at December 31, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Preferred stocks	\$ 69,625	\$ 69,625	\$ -	\$ -
Common stocks	412,419	412,419	-	-
Corporate bonds	71,954	-	71,954	-
Mutual funds - fixed income	116,953	116,953	-	-
	<u>\$ 670,951</u>	<u>\$ 598,997</u>	<u>\$ 71,954</u>	<u>\$ -</u>

As of December 31, 2017 and 2016, no security represents more than 10% of investments. Investment income from these investments for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Interest and dividend income	\$ 13,057	\$ 14,508
Net realized gains	28,911	8,449
Net unrealized gains	48,542	14,704
Total investment income	<u>\$ 90,510</u>	<u>\$ 37,661</u>

5. Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation, as follows:

	Estimated Useful Life	2017	2016
Office equipment	5 Years	\$ 64,824	\$ 25,502
Computer equipment	5 Years	41,461	26,916
Furniture and fixtures	7-10 Years	249,981	88,514
Asset under construction (1)	-	-	22,165
		<u>356,266</u>	<u>163,097</u>
Less accumulated depreciation		<u>51,077</u>	<u>54,556</u>
		<u>\$ 305,189</u>	<u>\$ 108,541</u>

(1) Legal server placed in service during October 2017.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
The Christopher Slattery Fund	\$ 5,158	\$ 4,232
David Berg Foundation	-	50,000
44 Court Campaign (to fund the new offices)	<u>10,000</u>	<u>15,000</u>
	<u>\$ 15,158</u>	<u>\$ 69,232</u>

7. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investments in perpetuity, the investment income from which is available for the following purpose at December 31:

	<u>2017</u>	<u>2016</u>
The Christopher Slattery Fund (a)	<u>\$ 25,104</u>	<u>\$ 23,439</u>

(a) A memorial fund created in memory and honor of Christopher Slattery. Investment income earned in the fund is available for a \$500 annual grant to be awarded to a young attorney who has demonstrated outstanding commitment to provide pro bono representation of the indigent.

VLP's endowment consists of a donor-restricted endowment fund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported on the existence or absence of donor-imposed restrictions.

The Board of Directors of VLP has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, VLP classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by VLP in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

In accordance with NYPMIFA, VLP considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of VLP and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of VLP
- (7) Where appropriate and circumstances would otherwise warrant, alternative to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have had on VLP.
- (8) The investment policy of VLP.

Endowment Net Assets by Type of Fund as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 5,158</u>	<u>\$ 25,104</u>	<u>\$ 30,262</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	<u>\$ 4,232</u>	<u>\$ 23,439</u>
Investment return:		
Investment income	1,426	-
Net appreciation (realized and unrealized)	-	1,665
Total investments return	<u>1,426</u>	<u>1,665</u>
Appropriation of endowment for expenditure	<u>(500)</u>	<u>-</u>
Contributions	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 5,158</u>	<u>\$ 25,104</u>

Brooklyn Bar Association Volunteer Lawyers Project, Inc

Changes in Endowment Net Assets for the Year Ended December 31, 2016:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 2,649	\$ 23,871
Investment return:		
Investment income	1,583	-
Net depreciation (realized and unrealized)	-	(432)
Total investments return	1,583	(432)
Appropriation of endowment for expenditure (1)	-	-
Contributions	-	-
Endowment net assets, end of year	\$ 4,232	\$ 23,439

(1) In 2016 the award ceremony where the annual grant is presented date changed from the 4th quarter to the first quarter beginning quarter 1, 2017.

8. Donated Services

VLP receives donated services from unpaid volunteers, which includes lawyers, law students and others. For the years ended December 31, 2017 and 2016, the amount of volunteer hours received was 11,272 and 12,012, respectively. All of the donated services were provided directly to clients of VLP. These donated services did not include any professional services provided directly to VLP for its corporate purposes. Donated legal services were valued at \$344 per hour for 2017 (management estimate of current market rate); and \$250 per hour for 2016 (hourly rate used by New York State IOLA). Total donated services for the years ended December 31, 2017 and 2016 amounted to \$3,878,000 and \$3,003,000, respectively.

9. Lease Commitments

VLP leases its office space under a non-cancellable operating lease expiring in 2024. During October 2017, VLP leased additional space under the lease. Future minimum rental payments under this lease are as follows:

Years Ending	Amount
2018	\$ 175,846
2019	181,121
2020	186,555
2021	192,152
2022	197,916
thereafter	395,935
	<u>\$ 1,329,525</u>

Rent expense for the year ending December 31, 2017 and 2016 was \$96,107 and \$59,863, respectively.

Brooklyn Bar Association Volunteer Lawyers Project, Inc

10. Functional Expenses

Expenses incurred were for the following:

	Year Ended December 31, 2017				2016
	Program Services	General and Administrative	Fundraising	Total	Summarized Comparative Total
Payroll and payroll taxes	\$ 612,394	\$ 47,107	\$ 125,619	\$ 785,120	\$ 686,622
Employee benefits	67,862	1,449	1,242	70,553	74,603
Legal services (Note 8)	3,878,000	-	-	3,878,000	3,003,000
Rent	76,886	9,611	9,611	96,108	59,863
Program expenses	28,760	-	-	28,760	24,634
Information technology	13,472	10,777	2,695	26,944	23,047
Depreciation	18,148	2,135	1,068	21,351	19,083
Office expense	10,317	8,253	2,064	20,634	30,804
Professional fees	-	20,400	-	20,400	15,408
Development consultant	-	-	14,419	14,419	21,559
Telephone	9,322	1,097	548	10,967	10,210
Recruitment and recognition	6,565	-	-	6,565	2,269
Insurance	9,277	1,638	-	10,915	10,211
Donations	2,732	-	-	2,732	4,000
Repairs and maintenance	577	68	34	679	473
Christopher Slattery Award	500	-	-	500	-
Miscellaneous	1,823	1,823	-	3,646	1,576
Total	<u>\$ 4,736,635</u>	<u>\$ 104,358</u>	<u>\$ 157,300</u>	<u>\$ 4,998,293</u>	<u>\$ 3,987,362</u>

The functional expenses above include certain prior-year summarized comparative information in total, but not by functional expense. Accordingly, such information should be read in conjunction with the VLP's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

11. Employee Benefit Plan

VLP has maintained a 401(k) Profit Sharing Plan, a defined contribution retirement plan covering all employees. The plan covers all employees of VLP who meet the eligibility requirements of completing two consecutive months of eligibility service beginning on the employee's date of hire. Participation in the Profit Sharing Plan is not mandatory. VLP matched the participant's contribution up to 3.5% of their compensation for the Plan year, as defined in the Plan. VLP made approximately \$15,000 and \$14,000 contributions for participating employees during the years ending December 31, 2017 and December 31, 2016, respectively.

12. Subsequent Events

VLP has evaluated subsequent events through August 13, 2018, the date that the financial statements were available for issuance.

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