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RSM US LLP

Independent Auditor's Report

Board of Directors
The Legal Aid Society

Report on the Financial Statements

We have audited the accompanying financial statements of the Legal Aid Society, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements (collectively, 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 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 Legal Aid Society as of June 30, 2016, and the results of its operations 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 Legal Aid Society's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

New York, New York
November 21, 2016

The Legal Aid Society

Statement of Financial Position
June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	**$ 24,840,156**	$ 30,801,467
Receivables from grants and governmental contracts	**35,388,324**	28,814,309
Investments, at fair value	**8,388,692**	3,516,970
Deferred charges and other assets	**5,210,326**	946,311
Property and equipment, at cost, net	**4,257,299**	4,328,812
Total assets	**$ 78,084,797**	$ 68,407,869
Liabilities and Net Asset Deficiency		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,601,362**	$ 2,169,954
Accrued payroll and other employee expenses	**29,314,984**	28,596,235
Program advances	**4,323**	688,833
Accrued postretirement health and benefits cost	**47,853,880**	33,633,487
Pension liability	**29,691,179**	25,083,102
Deferred lease incentives and lease obligations	**17,074,401**	17,721,811
Total liabilities	**125,540,129**	107,893,422
Commitments and contingencies		
Net assets:		
Unrestricted	**(53,161,802)**	(44,349,150)
Temporarily restricted	**3,640,447**	2,797,574
Permanently restricted	**2,066,023**	2,066,023
Total net asset deficiency	**(47,455,332)**	(39,485,553)
Total liabilities and net asset deficiency	**$ 78,084,797**	$ 68,407,869

See notes to financial statements.

The Legal Aid Society

Statement of Activities
Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**	Summarized Comparative Total
Support and revenue:					
Program support and revenue:					
Criminal Defense Practice	$ 158,880,114	$ 1,194,638	$ -	**$ 160,074,752**	$ 153,103,977
Juvenile Rights Practice	42,285,679	745,395	-	**43,031,074**	42,322,535
Civil Practice	37,657,928	3,335,342	-	**40,993,270**	31,082,218
Contributions (net of direct expenses related to the benefit)	13,596,646	15,490	-	**13,612,136**	14,280,229
Return (loss) on investments, net	19,619	(128,095)	-	**(108,476)**	97,292
Court awards	85,335	-	-	**85,335**	140,277
Other income	30,366	-	-	**30,366**	1,143
Net assets released from restrictions - satisfaction of program and time restrictions	4,319,897	(4,319,897)	-	**-**	-
Total support and revenue before in-kind contributions	256,875,584	842,873	-	**257,718,457**	241,027,671
Operating expenses:					
Program services:					
Criminal Defense Practice	147,546,554	-	-	**147,546,554**	142,042,734
Juvenile Rights Practice	41,098,932	-	-	**41,098,932**	40,947,554
Civil Practice	43,367,843	-	-	**43,367,843**	38,486,555
Total program services before in-kind contributions	232,013,329	-	-	**232,013,329**	221,476,843
Supporting services:		-	-		
Administrative expenses	13,763,393	-	-	**13,763,393**	13,647,055
Fundraising expenses	884,321	-	-	**884,321**	800,789
Total supporting services	14,647,714	-	-	**14,647,714**	14,447,844
Total operating expenses before in-kind contributions	246,661,043	-	-	**246,661,043**	235,924,687
Results of operations	10,214,541	842,873	-	**11,057,414**	5,102,984
In-kind contributions:					
Revenue from legal services	86,659,097	-	-	**86,659,097**	80,299,098
Program expenses from legal services	(86,659,097)	-	-	**(86,659,097)**	(80,299,098)
Total in-kind contributions	-	-	-	**-**	-
Change in net assets before pension liability adjustment	10,214,541	842,873	-	**11,057,414**	5,102,984
Pension and other postretirement-related changes:					
Other than net periodic costs	(19,027,193)	-	-	**(19,027,193)**	(5,176,965)
Change in net assets	(8,812,652)	842,873	-	**(7,969,779)**	(73,981)
Net assets (deficiency)					
Beginning	(44,349,150)	2,797,574	2,066,023	**(39,485,553)**	(39,411,572)
Ending	$ (53,161,802)	$ 3,640,447	$ 2,066,023	**$ (47,455,332)**	$ (39,485,553)

See notes to financial statements.

The Legal Aid Society

Statement of Functional Expenses
Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	2016									2015
	Program Services					Supporting Services				
	Criminal Defense Practice	Juvenile Rights Practice	Civil Practice	Pro Bono Services	Total Program Services	Administrative	Fund-Raising	Total Supporting Services	**Total**	Summarized Comparative Total
Employee expenses:										
Professional staff salaries	$ 72,181,547	$ 20,110,589	$ 17,921,332	$ -	$ 110,213,468	$ 3,579,409	$ 252,788	$ 3,832,197	**$ 114,045,665**	$ 110,765,462
Support staff salaries	17,581,016	4,997,045	6,236,331	-	28,814,392	3,286,850	128,044	3,414,894	**32,229,286**	30,645,766
Fringe benefits and other employee costs	40,778,549	11,829,608	12,395,221	-	65,003,378	2,502,296	164,900	2,667,196	**67,670,574**	63,069,025
Total employee expenses	130,541,112	36,937,242	36,552,884	-	204,031,238	9,368,555	545,732	9,914,287	**213,945,525**	204,480,253
Other expenses:										
Occupancy costs	11,149,895	2,562,240	3,921,648	-	17,633,783	1,476,761	100,012	1,576,773	**19,210,556**	17,433,414
Communications	522,184	151,904	199,159	-	873,247	175,605	4,179	179,784	**1,053,031**	1,243,037
Office operating	758,488	293,813	228,233	-	1,280,534	366,252	2,176	368,428	**1,648,962**	1,441,575
Purchases and leases of furniture and equipment	715,675	195,458	413,868	-	1,325,001	556,507	49,223	605,730	**1,930,731**	2,873,718
Law books and reference materials	539,754	169,016	216,332	-	925,102	18,929	4,860	23,789	**948,891**	977,027
Trial minutes	315,148	192,705	7,452	-	515,305	-	-	-	**515,305**	503,499
Cost of investigations and expert witnesses	903,909	14,719	221,754	-	1,140,382	134,345	-	134,345	**1,274,727**	910,530
Professional services	192,454	107,439	451,670	-	751,563	365,049	56	365,105	**1,116,668**	708,319
Transportation	686,276	67,952	135,253	-	889,481	15,722	338	16,060	**905,541**	837,775
Insurance	441,653	129,710	135,162	-	706,525	34,854	2,329	37,183	**743,708**	752,786
Depreciation and amortization	331,880	135,409	413,496	-	880,785	93,719	-	93,719	**974,504**	1,359,206
Other	448,126	141,325	470,932	-	1,060,383	1,157,095	175,416	1,332,511	**2,392,894**	2,403,548
Total other expenses	17,005,442	4,161,690	6,814,959	-	27,982,091	4,394,838	338,589	4,733,427	**32,715,518**	31,444,434
Total expenses before contributed legal services and direct expenses related to the benefit	147,546,554	41,098,932	43,367,843	-	232,013,329	13,763,393	884,321	14,647,714	**246,661,043**	235,924,687
Contributed legal services	-	-	-	86,659,097	86,659,097	-	-	-	**86,659,097**	83,645,391
Other gift-in-kind contributions	-	-	-	-	-	-	-	-	**-**	-
Direct expenses related to the benefit	-	-	-	-	-	-	326,059	326,059	**326,059**	403,831
	-	-	-	86,659,097	86,659,097	-	326,059	326,059	**86,985,156**	84,049,222
Total 2016 expenses	$ 147,546,554	$ 41,098,932	$ 43,367,843	$ 86,659,097	$ 318,672,426	$ 13,763,393	$ 1,210,380	$ 14,973,773	**$ 333,646,199**	
Total 2015 expenses	$ 142,042,734	$ 40,947,554	$ 38,486,555	$ 83,645,391	$ 305,122,234	$ 13,647,055	$ 1,204,620	$ 14,851,675		**319,973,909**

See notes to financial statements.

The Legal Aid Society

Statement of Cash Flows
Year Ended June 30, 2016
(with summarized financial information for the year ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (7,969,779)**	$ (73,981)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of deferred lease incentives	**(712,967)**	(712,968)
Amortization of deferred lease obligations	**65,557**	174,084
Depreciation and amortization	**974,504**	1,359,206
Realized and unrealized loss (gain) on investments	**176,391**	(15,768)
Pension and other postretirement-related changes:		
Other than net periodic costs	**19,027,193**	5,176,965
Changes in operating assets and liabilities:		
Increase in receivables from grants and governmental contracts	**(6,574,015)**	(4,808,970)
Increase in deferred charges and other assets	**(4,264,015)**	(186,258)
Decrease in accounts payable and accrued expenses	**(568,592)**	(46,539)
Increase in accrued payroll and other employee expenses	**718,749**	1,528,673
Decrease in program advances	**(684,510)**	(6,069,512)
Increase in accrued postretirement health and benefits cost	**2,693,645**	2,044,757
Decrease (increase) in pension liability	**(2,892,368)**	306,530
Net cash used in operating activities	**(10,207)**	(1,323,781)
Cash flows from investing activities:		
Proceeds from sale of investments	**1,376,266**	551,512
Purchase of investments	**(6,424,379)**	(609,267)
Purchases of property and equipment	**(902,991)**	(1,202,659)
Net cash used in investing activities	**(5,951,104)**	(1,260,414)
Net decrease in cash and cash equivalents	**(5,961,311)**	(2,584,195)
Cash and cash equivalents:		
Beginning	**30,801,467**	33,385,662
Ending	**$ 24,840,156**	$ 30,801,467

See notes to financial statements.

Note 1. Organization

The Legal Aid Society (the Society) is a not-for-profit corporation founded in 1876 that provides legal services to the indigent of New York City through a number of operating practices. The Criminal Defense practice, which provides the majority of trial level public defender services in New York City, as well as the Criminal Appeals and Parole Revocation defense programs, are financed through contracts with the City and the State of New York. The Juvenile Rights practice is financed principally through a contract with the Office of Court Administration of the State of New York. The Civil practice relies on contracts with agencies of the City and the State of New York and the federal government, as well as on financial support from the public, including foundations, law firms, corporations and individuals.

Although the Society is not a governmental institution, it receives significant program revenue and other support through government contracts that are entered into on a periodic basis and are cancelable at any time. As a general rule, those contracts provide revenue to cover cash expenses of funded programs.

In its fiscal year ended June 30, 2016 (FY16), the Society recognized an unrestricted operating surplus of $10.2 million and a negative cash flow of $5.9 million.

The Society's statement of financial position at June 30, 2016, shows cash and cash equivalents of $24.8 million, and working capital (excess of current assets over current liabilities) of $34.3 million. It also shows a net asset deficiency (excess of total liabilities over total assets) of $47.4 million, an increase of $7.9 million from June 30, 2015. The net asset deficiency results from the actuarial determinations of (i) the future obligations of the Society to pay postretirement health and benefit costs that incorporate projected short-term trends in healthcare cost increases that are expected to level off in the future and (ii) the future benefit obligations under the Society's "frozen" defined benefit pension plan which, like many such plans around the country, is underfunded due to market conditions and the current low interest rate environment.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements of the Society have been prepared on the accrual basis of accounting. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

Financial statement presentation: The classification of a not-for-profit organization's net assets and its support and revenue is based on the existence or absence of donor-imposed restrictions. The amounts for each of three classes of net assets - unrestricted, temporarily restricted and permanently restricted - are required to be shown in a statement of financial position and the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The net assets of the Society and changes therein are classified and reported as follows:

Unrestricted: Net assets resulting from contributions and other inflows of assets whose use by the Society is not subject to donor restrictions. Unrestricted amounts may be designated by the board of directors to cover any purposes determined by the Society.

Temporarily restricted: Net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Society pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets.

Note 2. Summary of Significant Accounting Policies (Continued)

Permanently restricted: Net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Society.

Use of estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reported period. Actual results could differ from those estimates.

Cash and cash equivalents: For purposes of the statement of cash flows, the Society considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, except for such investments purchased by the Society's investment managers as part of their long-term investment strategies.

Collectibility of receivables: All receivables are due for collections within one year.

Investments: Investments in equity and debt securities are stated at their fair values. Investment return is allocated among unrestricted and temporarily restricted net assets, based on donor restrictions or the absence thereof. Interest, dividends, and net appreciation (depreciation) in fair value of investments are included in investment return in the statement of activities.

Fair value: The Society follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements,* which provides a framework for measuring fair value under generally accepted accounting principles and applies to all financial instruments that are being measured and reported on a fair value basis. Accordingly, the Society classifies all its investments as Level 1, Level 2 or Level 3, depending on whether they can be valued by reference to published market prices.

Property and equipment: Purchases of property and equipment in excess of $10,000 per unit are capitalized. Depreciation of property and equipment is computed using the straight-line method and charged to expense over the estimated useful lives of the assets, ranging primarily from three to ten years. Property and equipment acquired with certain government contract funds are recognized as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property.

Leasehold improvements are amortized over the estimated useful life of the asset or the term of the lease, whichever is shorter.

Program advances: Program advances represent advances from third parties for services not yet performed as well as funds received from government agencies in which the funds have been allocated with the agency’s agreement to cover future expenditures.

Court awards: Funds are awarded by the courts to the Society in certain non-Legal Aid cases in which there are remaining class action settlement funds. The amount of such awards in any given year cannot be estimated in advance because these awards are dependent on whether there are such residual settlement funds in particular cases and whether the Society is designated as a recipient. Therefore, such revenue is recognized upon receipt.

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue and support: Contracts awarded by governmental agencies are recognized as revenue in the unrestricted net asset class as the related services are performed.

The Society records as revenue the following types of contributions when they are received unconditionally, at fair value: cash, promises to give, certain contributed services and gifts of long-lived assets and other assets. Conditional contributions, including cost reimbursement grants, are recognized as support when the conditions on which they depend have been substantially met.

- Contributions and promises to give are recorded as revenue when either cash is received or when donors make an enforceable promise to give. Contributions and promises to give are classified either as unrestricted, temporarily restricted or permanently restricted support, based on the donor's intent.

- Contributed services provided by attorneys on a pro bono basis are recorded as revenue and expenses at fair value, based on the attorneys' average billing rates.

A number of individuals have made a contribution of their time to serve on the Society's board of directors. The value of their contributed time is not reflected in the financial statements.

Tax-exempt status: The Society is qualified as a Section 501(c)(3) tax-exempt organization under Section 501(a) of the Internal Revenue Code (the IRC) and, accordingly, is not subject to federal income taxes. As a not-for-profit organization, the Society is also exempt from New York State and New York City sales and income taxes. The Society has been classified as a publicly supported charitable organization under Section 509(a)(1) of the IRC and qualifies for the maximum charitable contribution deduction for donors.

Management evaluated the Society’s income tax positions and concluded that the Society had taken no uncertain income tax positions that require adjustments or disclosures to the financial statements. Generally, the Society is not subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013, which is the standard statute of limitations look-back period.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

Concentration of credit risk: Financial instruments which potentially subject the Society to a concentration of credit risk consist primarily of cash and cash equivalents. At various times, the Society has cash deposits at financial institutions that exceed the Federal Deposit Insurance Corporation insurance limits. The Society has not experienced any losses on these accounts.

Prior-year summarized comparative information: The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class or functional expense classification. 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 the Society's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: The Society evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was November 21, 2016 for these financial statements.

Recently issued accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Society has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Society is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August, 2016, the FASB issued ASU 2016-14 —*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. Management has not evaluated the impact of this ASU on the financial statements.

In August 2016, the FASB issued ASU 2016-15 - *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force).* The amendments in this ASU provide guidance reducing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under. The ASU will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Earlier adoption is permitted Management has not evaluated the impact of this ASU on the financial statements.

Note 3. Investments

The fair value of the Society's endowment and other investments consists of the following:

	2016	2015
Cash equivalents	$ 5,087,429	$ 182,709
Mutual funds	2,923,065	3,334,261
U.S. fixed income	378,198	-
	$ 8,388,692	$ 3,516,970

The return (loss) on endowment and other investments shown in the accompanying statement of activities consists of the following:

	2016	2015
Interest and dividends	$ 87,849	$ 102,034
Realized gain	46,614	86,706
Unrealized loss	(223,114)	(70,938)
Investment fees	(19,825)	(20,510)
	$ (108,476)	$ 97,292

The Society's investments at June 30, 2016 and 2015 were held at one financial institution.

Note 4. Fair Value

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; Level 3 also includes observable inputs for nonbinding single-dealer quotes not corroborated by observable market data.

Note 4. Fair value (Continued)

Investments and commercial paper stated at fair value at June 30 are as follows:

	2016	2015
Cash equivalents	$ 5,087,429	$ 182,709
Mutual funds		
U.S. large-cap equities	944,946	1,033,954
U.S. mid-cap/small-cap equities	189,875	223,369
International equities	919,160	1,093,534
Core fixed income securities	869,084	983,404
U.S. fixed income	378,198	-
Subtotal - investments	8,388,692	3,516,970
Commercial paper[(a)]	11,100,000	17,400,000
	$ 19,488,692	$ 20,916,970

(a) Commercial paper is classified as cash equivalent on the statement of Financial Position.

The Society classifies all its investments as Level 1, except for U.S. fixed income which is classified as Level 2 in the fair value hierarchy.

Mutual funds are valued at the net asset value (NAV) of shares held by the Society at year-end.

U.S. fixed income is valued based on the last reported bid price provided by broker-dealers.

Commercial paper is a short-term unsecured promissory note issued by creditworthy corporations and banks. It earns competitive, market-determined yields/rates and is traded on all major exchanges. The commercial paper was issued by the financial institution at June 30, 2016 and 2015.

Note 5. Contributions

Contributions consisted of the following for each fiscal year:

	2016	2015
Contributions	$ 10,672,319	$ 10,442,540
Benefits and special events	3,157,005	4,031,520
Bequests	108,871	210,000
	13,938,195	14,684,060
Less related direct expenses	(326,059)	(403,831)
	$ 13,612,136	$ 14,280,229

Note 6. Property and Equipment

Property, equipment and leasehold improvements are summarized as follows:

	2016	2015
Property and leasehold improvements	$ 15,960,996	$ 15,083,510
Furniture and equipment	2,291,270	4,160,114
Computer and technology	3,915,697	5,031,476
Mobile outreach van	146,936	146,936
	22,314,899	24,422,036
Less accumulated depreciation and amortization	(18,057,600)	(20,093,224)
	$ 4,257,299	$ 4,328,812

Note 7. Commitments

As of June 30, 2016, annual future minimum lease payments, which exclude payments based on pass-through expenses and escalations under non-cancelable operating leases for all of the Society's facilities, are approximately as follows:

Year ending June 30:	
2017	$ 15,100,000
2018	15,600,000
2019	16,100,000
2020	16,300,000
2021	16,600,000
Thereafter	122,900,000
	$ 202,600,000

Several leases for office space contain escalation clauses related to the lessor's real estate taxes, utilities and other building operating expenses. During fiscal 2016 and 2015, the Society recognized increased occupancy expenses for additional space taken within several locations. The rental expense was approximately $14,010,000 and $13,470,000 for the years ended June 30, 2016 and 2015, respectively.

In 2004, the Society received net incentives from certain landlords of approximately $12,692,000 for the purchase of furniture and equipment and leasehold improvements, which is included in deferred lease obligations and lease incentives in the accompanying statement of financial position and is being amortized over 20 years, the term of the respective leases.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are recorded throughout the course of the year on the statement of activities. Temporarily restricted net assets are available for the following purposes at June 30:

	2016	2015
Civil Practice	$ 514,466	$ 748,003
Juvenile Rights Practice	631,305	391,675
Criminal Defense Practice	1,013,619	14,115
Endowment interest	1,322,857	1,450,947
Other	158,200	192,834
	$ 3,640,447	$ 2,797,574

The total of these net assets released from restriction due to satisfaction of time and purpose restrictions amounted to $4,319,897 and $4,535,456 during the years ended June 30, 2016 and 2015, respectively.

Note 9. Permanently Restricted Net Assets

The Society's endowment consists of 14 individual funds established for a variety of purposes. The endowments include only donor-restricted endowment funds. The Society's board of directors interprets the New York law as requiring that the Society classify the original value of gifts donated to the permanent endowment as permanently restricted net assets. Earnings on donor-restricted funds are classified separately as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Society in a manner consistent with its spending policies pursuant to the donor restrictions.

The board of directors has delegated authority to its Finance Committee to oversee the investment of the endowment assets with the objective of achieving capital growth and income stability. On an annual basis and consistent with its spending policy, the Society decides whether to appropriate endowment funds for expenditure as part of its annual budgeting process. There were no appropriations in the fiscal years ended June 30, 2016 and 2015.

On a quarterly basis, the Finance Committee monitors the performance of the qualified investment professionals, the performance of the endowment and the objectives for and use of the earnings on the endowment to ensure that these are consistent with the directions of the donors and the mission of the Society. At least once a year, the Finance Committee reports to the board on these issues.

Note 9. Permanently Restricted Net Assets (Continued)

Changes in endowment net assets for the fiscal years ended June 30, 2016 and 2015 consist of:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, at June 30, 2014	$ 1,377,424	$ 2,066,023	$ 3,443,447
Investment return			
Investment gain	73,523	-	73,523
Total investment return	73,523	-	73,523
Endowment net assets, at June 30, 2015	1,450,947	2,066,023	3,516,970
Investment return			
Investment loss	(128,090)	-	(128,090)
Total investment loss	(128,090)	-	(128,090)
Endowment net assets, at June 30, 2016	$ 1,322,857	$ 2,066,023	$ 3,388,880

Note 10. Employee Benefit Plans

All current employees of the Society are covered either by a defined contribution plan or by a multi-employer pension plan. In addition, certain current management and nonunion employees who began their employment with the Society prior to December 1, 2004 are covered by the Society's retirement plan (the Retirement Plan), a defined benefit plan.

Benefits under the Retirement Plan are generally based upon years of service and the salary of the employee. The assets of the Retirement Plan consist primarily of mutual funds. Effective July 1, 1999, the Society amended its Retirement Plan to include a cash balance feature and a lump-sum option. On November 30, 2004, the Society froze the accumulation of Retirement Plan benefits as part of its financial restructuring. The Retirement Plan was replaced by a defined contribution plan effective December 1, 2004.

Because of the Retirement Plan’s underfunding, the Society made contributions of $6,005,844 and $2,237,000 in fiscal 2016 and 2015, respectively.

The Society made contributions to the defined contribution plan for nonunion employees of approximately $2,219,000 and $1,864,000 in fiscal 2016 and 2015, respectively.

Pursuant to a collective bargaining agreement, the Society made contributions related to the Association of Legal Aid Attorneys defined contribution plan, which covers unionized staff attorneys, of $5,299,000 and $5,045,000 in fiscal 2016 and 2015, respectively.

Pursuant to a collective bargaining agreement that covers a number of its employees, the Society made contributions related to the Service Employees International Union, Local 1199 pension fund, which is a national multi-employer pension plan, of approximately $2,354,000 and $2,314,000 in fiscal 2016 and 2015, respectively.

Note 10. Employee Benefit Plans (Continued)

The risks of participating in a multi-employer plan are different from single employer plans in the following respects:

(a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

(c) If the Society stops participating in the multi-employer plan, and continues in business, the Society could be required to pay an amount, referred to as withdrawal liability, based on the unfunded status of the plan.

The legal name of the pension fund is 1199SEIU Health Care Employees Pension Fund. The EIN/Pension Plan Number is 13-3604862/001. The most recent Pension Protection Act (PPA) zone status available in 2015, 2014 and 2013 are for the plan's year-end at December 31, 2015, 2014 and 2013, respectively. For each of these years, the plan’s PPA zone status is “Green Zone”. The zone status is based on information that the Society received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80 percent funded. The funded percentages for these years are 87.5%, 90.7% and 91.7%, respectively. The expiration date of the collective bargaining agreement requiring contributions is September 30, 2018. There is no funding improvement plan or rehabilitation plan that has been implemented or pending.

The Society’s participation in the plan for the annual period ended December 31, is outlined in the table below.

Year	Employer Contributions	Greater Than 5% of Total
2015	1,999,312	No
2014	2,520,854	No

The Society also has other postretirement benefits plans covering substantially all its employees. The Society funds its postretirement benefits other than pensions on a pay-as-you-go basis. Such benefits consist of medical, dental, and vision premiums.

In addition, the Society accounts for long-term disability benefits in accordance with ASC Topic 712, *Nonretirement Postemployment Benefits*. The costs recognized for long-term disability premiums in fiscal years 2016 and 2015 amounted to approximately $803,000 and $709,000, respectively. The corresponding costs recognized for the change in the long-term benefit obligation for healthcare in fiscal 2016 and 2015 is ($208,000) and $603,000, respectively.

Note 10. Employee Benefit Plans (Continued)

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2016	2015	2016	2015
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 81,447,069	$ 81,813,389	$ 33,633,487	$ 28,828,613
Service cost	-	-	1,126,993	959,946
Interest cost	3,302,292	3,081,924	1,585,710	1,272,514
Plan participants' contributions	-	-	95,795	83,202
Special Termination Benefits	-	-	44,000	-
Actuarial loss	6,463,658	2,521,128	12,085,842	3,182,232
Benefits paid	(5,054,333)	(5,969,372)	(717,947)	(693,020)
Benefit obligation at end of year	86,158,686	81,447,069	47,853,880	33,633,487
Change in plan assets:				
Fair value of plan assets at beginning of year	56,363,967	59,453,665	-	-
Actual return on plan assets	(242,923)	1,297,587	-	-
Employer contributions	6,005,844	2,237,124	622,152	609,818
Plan participants' contributions	-	-	95,795	83,202
Benefits paid	(5,054,333)	(5,969,372)	(717,947)	(693,020)
Expenses paid	(605,048)	(655,037)	-	-
Fair value of plan assets at end of year	56,467,507	56,363,967	-	-
Funded status at end of year	$ (29,691,179)	$ (25,083,102)	$ (47,853,880)	$ (33,633,487)

Note 10. Employee Benefit Plans (Continued)

June 30,	Retirement Plan Benefits 2016	Retirement Plan Benefits 2015	Postretirement Health and Benefits 2016	Postretirement Health and Benefits 2015
Amounts recognized as liabilities in the statement of financial position	$ (29,691,179)	$ (25,083,102)	$ (47,853,880)	$ (33,633,487)
Amounts recognized as cumulative Changes in pension and other Postretirement costs other than net periodic costs:				
Prior service credit	$ -	$ -	$ 91,793	$ 149,576
Net actuarial loss	40,211,476	32,711,031	23,869,544	12,285,013
Net amount recognized	$ 40,211,476	$ 32,711,031	$ 23,961,337	$ 12,434,589
Components of net benefit cost:				
Components of net periodic benefit cost:				
Service	$ -	$ -	$ 1,126,993	$ 959,946
Expense	680,000	620,000	-	-
Interest	3,302,292	3,081,924	1,585,710	1,272,514
Expected return (loss) on plan assets	(4,119,842)	(4,286,396)	44,000	-
Amortization of prior service cost	-	-	57,783	57,783
Amortization of losses	3,251,026	3,128,126	501,311	364,332
Net periodic cost	3,113,476	2,543,654	3,315,797	2,654,575
Changes in pension and postretirement costs other than net periodic costs				
Prior service credit	-	-	(57,783)	(57,783)
Net loss	7,500,445	2,416,848	11,584,531	2,817,900
Net other than periodic cost	7,500,445	2,416,848	11,526,748	2,760,117
Net benefit cost	$ 10,613,921	$ 4,960,502	$ 14,842,545	$ 5,414,692

Note 10. Employee Benefit Plans (Continued)

During fiscal 2016, the mortality table was updated to the RP-2015 Mortality Table to reflect more recent data published by the Society of Actuaries.

Weighted-average assumptions to determine benefit obligations at June 30:

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2016	2015	2016	2015
Discount rate	3.45%	4.25%	3.90%	4.90%

Weighted-average assumptions used to determine net periodic benefit cost at June 30:

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2016	2015	2016	2015
Discount rate	4.25%	4.00%	4.90%	4.60%
Expected return on plan assets	7.65%	8.00%	N/A	N/A

The assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. For measurement purposes, the assumed rates for future increases in healthcare, which is based on national trends, is 6.95 % in 2017 and was 7.65% in 2016. The 6.95% rate in 2017 is expected to gradually decline to 4.75% in 2024.

The effect of a one-percentage-point change in the healthcare cost trend rate on the year-end postretirement health benefit obligation and total service and interest cost components for the year ended June 30, 2016 is as follows:

	One-Percentage-Point Decrease	One-Percentage-Point Increase
Year-end postretirement health benefit obligation	$ (9,534,000)	$ 12,867,000
Total of service and interest cost components	(549,000)	744,000

Note 10. Employee Benefit Plans (Continued)

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid as follows:

Year ending June 30:	Retirement Plan Benefits	Postretirement Health Benefits
2017	$ 6,695,841	$ 820,000
2018	6,186,675	843,000
2019	6,257,264	920,000
2020	6,492,510	901,000
2021	6,029,571	996,000
2022 - 2026	27,514,604	6,652,000

The Society has adopted a policy for the investment of the assets of the Retirement Plan, which is administered by, and may be altered by, the Retirement and Benefits Committee of the Society's board of directors. The investment policy has been established to consider both the current and projected financial requirements of the Retirement Plan. The Retirement Plan 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 Retirement Plan uses a balanced asset allocation including both equity-based and fixed income investments to achieve its long-term objectives. Those objectives are:

- Maximize return within reasonable and prudent levels of risk of loss of principal.
- Maintain sufficient liquidity to meet benefits payment obligations on a timely basis.

The portfolio approach for the Retirement Plan is to maintain a balance of approximately 60% in equities and 40% in fixed income. Equity securities include investments in mutual funds invested in large-, mid-, and small-cap companies located in the United States and internationally. Fixed income securities are comprised of mutual funds invested in low-risk interest-bearing investments.

Note 10. Employee Benefit Plans (Continued)

The fair value of the Retirement Plan's investments at June 30, 2016 and 2015 (all of which are Level 1 – see Note 2), by asset category, are as follows:

	Fair Value Using Quoted Prices in Active Markets for Identical Assets (All Level 1)		%	%
	2016	2015	2016	2015
Cash equivalents	$ 5,376,443	$ 1,173,768	9.5%	2.1%
Mutual funds:				
Large-cap	16,168,847	18,393,260	28.6%	32.6%
Mid-cap	4,955,831	4,927,952	8.8%	8.7%
Small-cap	2,802,475	3,341,209	5.0%	5.9%
International	5,802,094	6,038,706	10.3%	10.7%
Emerging markets	1,861,209	2,894,818	3.3%	5.1%
Equity REITs	823,553	885,493	1.5%	1.6%
Indexed trust fund	406,658	466,759	0.7%	0.8%
Fixed income	18,270,397	18,242,002	32.4%	32.5%
	$ 56,467,507	$ 56,363,967	100%	100%

Following is a description of the valuation methodologies used for assets measured at fair value.

***Mutual funds**:* Valued at the net asset value held by the Retirement Plan at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes that its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 11. Contingencies

There are a number of pending legal actions against the Society which, in the opinion of management, will not result in material loss to the Society and no amounts have been accrued in the accompanying financial statements for such contingency.

As of June 30, 2016, receivables from grants and governmental contracts include accrued revenue aggregating approximately $2,400,000 from unexecuted and/or unregistered contracts with the state/city

Note 11. Contingencies (Continued)

Certain grants and contracts are currently subject to and may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.