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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

New York, New York
December 21, 2018

The Legal Aid Society

Statement of Financial Position
June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	**$ 26,165,376**	$ 33,300,932
Receivables from grants, governmental contracts, and other	**41,985,598**	38,181,221
Investments, at fair value	**24,178,987**	8,859,340
Deferred charges and other assets	**7,050,314**	5,563,289
Property and equipment, at cost, net	**5,514,794**	5,292,176
Total assets	**$ 104,895,069**	$ 91,196,958
Liabilities and Net Asset (Deficiency)		
Liabilities:		
Accounts payable and accrued expenses	**$ 2,940,058**	$ 3,188,235
Line of credit	**2,128,222**	-
Accrued payroll and other employee expenses	**32,249,063**	37,880,341
Program advances	**513,036**	181,030
Accrued postretirement health and benefits cost	**52,375,870**	47,047,169
Pension liability	**10,187,122**	20,466,898
Deferred lease incentives and lease obligations	**18,967,803**	18,969,335
Total liabilities	**119,361,174**	127,733,008
Commitments and contingencies		
Net assets:		
Unrestricted	**(20,144,724)**	(42,217,546)
Temporarily restricted	**3,612,596**	3,615,473
Permanently restricted	**2,066,023**	2,066,023
Total net assets (deficiency)	**(14,466,105)**	(36,536,050)
Total liabilities and net assets (deficiency)	**$ 104,895,069**	$ 91,196,958

See notes to financial statements.

The Legal Aid Society

Statement of Activities
Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018				2017
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Summarized Comparative Total
Support and revenue:					
Program support and revenue:					
Criminal Defense Practice	**$ 160,275,531**	**$ 361,295**	**$ -**	**$ 160,636,826**	$ 157,633,083
Juvenile Rights Practice	**45,938,678**	**500,754**	**-**	**46,439,432**	43,607,277
Civil Practice	**64,036,681**	**2,890,935**	**-**	**66,927,616**	49,007,268
Contributions (net of direct expenses related to the benefit)	**14,852,440**	**17,785**	**-**	**14,870,225**	14,815,288
Return on investments, net	**89,445**	**269,501**	**-**	**358,946**	486,497
Court awards	**278,010**	**-**	**-**	**278,010**	216,154
Other income	**1,659**	**-**	**-**	**1,659**	205
Net assets released from restrictions - satisfaction of program and time restrictions	**4,043,147**	**(4,043,147)**	**-**	**-**	-
Total support and revenue before in-kind contributions	**289,515,591**	**(2,877)**	**-**	**289,512,714**	265,765,772
Operating expenses:					
Program services:					
Criminal Defense Practice	**148,818,652**	**-**	**-**	**148,818,652**	152,406,427
Juvenile Rights Practice	**43,515,132**	**-**	**-**	**43,515,132**	43,648,018
Civil Practice	**61,294,437**	**-**	**-**	**61,294,437**	58,025,671
Total program services before in-kind contributions	**253,628,221**	**-**	**-**	**253,628,221**	254,080,116
Supporting services:		**-**	**-**		
Administrative expenses	**17,264,538**	**-**	**-**	**17,264,538**	14,398,169
Fundraising expenses	**1,086,368**	**-**	**-**	**1,086,368**	877,532
Total supporting services	**18,350,906**	**-**	**-**	**18,350,906**	15,275,701
Total operating expenses before in-kind contributions	**271,979,127**	**-**	**-**	**271,979,127**	269,355,817
Results of operations	**17,536,464**	**(2,877)**	**-**	**17,533,587**	(3,590,045)
In-kind contributions:					
Revenue from legal services	**93,634,375**	**-**	**-**	**93,634,375**	86,683,863
Program expenses from legal services	**(93,634,375)**	**-**	**-**	**(93,634,375)**	(86,683,863)
Total in-kind contributions	**-**	**-**	**-**	**-**	-
Change in net assets before pension liability adjustment	**17,536,464**	**(2,877)**	**-**	**17,533,587**	(3,590,045)
Pension and other postretirement-related changes:					
Other than net periodic costs	**4,536,358**	**-**	**-**	**4,536,358**	14,509,327
Change in net assets	**22,072,822**	**(2,877)**	**-**	**22,069,945**	10,919,282
Net assets (deficiency):					
Beginning	**(42,217,546)**	**3,615,473**	**2,066,023**	**(36,536,050)**	(47,455,332)
Ending	**$ (20,144,724)**	**$ 3,612,596**	**$ 2,066,023**	**$ (14,466,105)**	$ (36,536,050)

See notes to financial statements.

The Legal Aid Society

Statement of Functional Expenses
Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018									2017
	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	$ 71,402,713	$ 20,941,481	$ 25,289,784	$ -	$ 117,633,978	$ 4,127,511	$ 277,579	$ 4,405,090	$ 122,039,068	$ 121,099,244
Support staff salaries	18,016,081	5,309,483	7,876,062	-	31,201,626	3,544,380	141,644	3,686,024	34,887,650	35,422,780
Fringe benefits and other employee costs	42,244,516	13,060,033	18,088,225	-	73,392,774	4,059,384	197,873	4,257,257	77,650,031	76,671,857
Total employee expenses	131,663,310	39,310,997	51,254,071	-	222,228,378	11,731,275	617,096	12,348,371	234,576,749	233,193,881
Other expenses:										
Occupancy costs	10,993,112	2,695,491	6,153,756	-	19,842,359	1,511,869	99,612	1,611,481	21,453,840	20,442,991
Communications	490,528	149,881	256,411	-	896,820	135,459	4,284	139,743	1,036,563	1,023,782
Office operating	847,056	259,715	291,742	-	1,398,513	417,849	2,682	420,531	1,819,044	1,729,959
Purchases and leases of furniture and equipment	433,519	151,284	524,707	-	1,109,510	881,298	169,453	1,050,751	2,160,261	2,271,464
Law books and reference materials	611,287	236,600	479,934	-	1,327,821	9,709	2,854	12,563	1,340,384	1,170,679
Trial minutes	409,287	150,615	13,947	-	573,849	879	-	879	574,728	621,405
Cost of investigations and expert witnesses	1,267,957	39,815	446,420	-	1,754,192	50,823	-	50,823	1,805,015	1,646,909
Professional services	110,210	59,380	528,453	-	698,043	611,146	9,000	620,146	1,318,189	1,646,473
Transportation	789,850	71,878	199,106	-	1,060,834	27,358	2,638	29,996	1,090,830	1,024,208
Insurance	395,019	122,213	161,300	-	678,532	33,152	2,185	35,337	713,869	745,104
Depreciation and amortization	341,171	107,352	385,449	-	833,972	88,830	-	88,830	922,802	1,128,657
Other	466,346	159,911	599,141	-	1,225,398	1,764,891	176,564	1,941,455	3,166,853	2,710,305
Total other expenses	17,155,342	4,204,135	10,040,366	-	31,399,843	5,533,263	469,272	6,002,535	37,402,378	36,161,936
Total expenses before contributed legal services and direct expenses related to the benefit	148,818,652	43,515,132	61,294,437	-	253,628,221	17,264,538	1,086,368	18,350,906	271,979,127	269,355,817
Contributed legal services	-	-	-	93,634,375	93,634,375	-	-	-	93,634,375	86,683,863
Direct expenses related to the benefit	-	-	-	-	-	-	465,374	465,374	465,374	433,401
	-	-	-	93,634,375	93,634,375	-	465,374	465,374	94,099,749	87,117,264
Total 2018 expenses	$ 148,818,652	$ 43,515,132	$ 61,294,437	$ 93,634,375	$ 347,262,596	$ 17,264,538	$ 1,551,742	$ 18,816,280	$ 366,078,876	
Total 2017 expenses	$ 152,406,427	$ 43,648,018	$ 58,025,671	$ 86,683,863	$ 340,763,979	$ 14,398,169	$ 1,310,933	$ 15,709,102		$ 356,473,081

See notes to financial statements.

The Legal Aid Society

Statement of Cash Flows
Year Ended June 30, 2018
(with summarized financial information for the year ended June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ 22,069,945**	$ 10,919,282
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of deferred lease incentives	**(21,560)**	1,553,442
Amortization of deferred lease obligations	**20,028**	341,492
Depreciation and amortization	**922,802**	1,128,657
Realized and unrealized gain on investments	**(141,598)**	(300,859)
Pension and other postretirement-related changes:		
Other than net periodic costs	**(4,536,358)**	(14,509,327)
Changes in operating assets and liabilities:		
Increase in receivables from grants, governmental contracts and other	**(3,804,377)**	(2,792,897)
Increase in deferred charges and other assets	**(1,487,025)**	(352,963)
(Decrease) increase in accounts payable and accrued expenses	**(248,177)**	1,586,873
(Decrease) increase in accrued payroll and other employee expenses	**(5,631,278)**	8,565,357
Increase in program advances	**332,006**	176,707
Increase in accrued postretirement health and benefits cost	**4,104,112**	4,560,085
Decrease in pension liability	**(4,518,829)**	(81,750)
Net cash provided by operating activities	**7,059,691**	10,794,099
Cash flows from investing activities:		
Proceeds from sale of investments	**31,508,946**	1,141,828
Purchase of investments	**(46,686,995)**	(1,311,617)
Purchases of property and equipment	**(1,145,420)**	(2,163,534)
Net cash used in investing activities	**(16,323,469)**	(2,333,323)
Cash flows from financing activities:		
Proceeds from line of credit	**2,128,222**	-
Net cash provided by financing activities	**2,128,222**	-
Net (decrease) increase in cash and cash equivalents	**(7,135,556)**	8,460,776
Cash and cash equivalents:		
Beginning	**33,300,932**	24,840,156
Ending	**$ 26,165,376**	$ 33,300,932
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	**$ 19,202**	$ -

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, 2018, the Society had an operating surplus (excess of revenue, other than post-retirement charges, over expenses) of $17.5 million, and an improvement in working capital (excess of current assets over current liabilities) to $56.7 million at June 30, 2018.

The Society's statement of financial position at June 30, 2018, shows cash and cash equivalents of $26.2 million and total assets of $104.9 million. It also shows a net asset deficiency (excess of total liabilities over total assets) of $14.5 million, an improvement of $22.1 million from June 30, 2017. 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 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. On December 14, 2016, the Society's Board of Directors adopted a plan designed to reduce the net asset deficiency in the Society's defined benefit pension plan to zero over 15 years.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 Return on investments, net 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 2015, 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 U.S.GAAP. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2017, 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 December 21, 2018, for these financial statements.

Recently issued accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (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 this ASU 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 is currently evaluating 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. 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.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, to improve guidance related to the presentation of defined benefit costs. Under the new guidance, an employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The ASU also provides guidance related to the presentation of the other components of net benefit cost. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the impact of this ASU on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958, "Not-for-Profit Entities," of the FASB ASC for evaluating whether a transaction is reciprocal (i.e. an exchange transaction) or nonreciprocal (i.e. a contribution) and for distinguishing between conditional and unconditional contributions. The ASU may be adopted using either: (a) the modified prospective basis, with no restatement of opening net assets or (b) the full retrospective method. Under the modified prospective basis, the ASU is applied to agreements that are not completed as of the effective date, with the ASU's guidance applied onto the portion of revenue or expenses not yet recognized, or entered into after the effective date. The ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. Management has not evaluated the impact of this ASU on the financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements (Concepts Statement),* including the consideration of costs and benefits. The Concepts Statement was finalized by the FASB on August 28, 2018. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Management has not evaluated the impact of this ASU on the financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20).* The amendments in this Update remove disclosures that no longer are considered cost beneficial, clarify specific requirements of disclosures, and add disclosure requirements identified as relevant.

Note 3. Investments

The fair value of the Society's endowment and other investments consists of the following as of June 30:

	2018	2017
Cash equivalents	$ 1,009,692	$ 1,013,193
Mutual funds	4,071,080	3,675,099
U.S. fixed income	19,098,215	4,171,048
	$ 24,178,987	$ 8,859,340

The return on endowment and other investments shown in the accompanying statement of activities consists of the following for the year ended June 30:

	2018	2017
Interest and dividends	$ 328,337	$ 227,654
Realized gain	108,698	99,814
Unrealized gain	32,900	201,045
Investment fees	(110,989)	(42,016)
	$ 358,946	$ 486,497

The unrealized gain includes investments in U.S. fixed income of durations of less than five years, which will be held to maturity.

The Society's investments at June 30, 2018 and 2017, 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.

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

	2018	2017
Cash equivalents	$ 1,009,692	$ 1,013,193
Mutual funds:		
U.S. large-cap equities	1,630,964	1,376,427
International equities	1,349,805	1,345,115
Core fixed income securities	1,090,311	953,557
U.S. fixed income	19,098,215	4,171,048
Subtotal – investments	24,178,987	8,859,340
Commercial paper[(a)]	12,600,000	22,100,000
	$ 36,778,987	$ 30,959,340

(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, 2018 and 2017.

Note 5. Contributions

Contributions consisted of the following for each fiscal year:

	2018	2017
Contributions	$ 11,588,299	$ 10,947,138
Benefits and special events	3,329,888	4,006,682
Bequests	417,412	294,869
	15,335,599	15,248,689
Less related direct expenses	(465,374)	(433,401)
	$ 14,870,225	$ 14,815,288

Note 6. Property and Equipment

Property, equipment and leasehold improvements are summarized as follows:

	2018	2017
Property and leasehold improvements	$ 17,317,265	$ 16,643,049
Furniture and equipment	2,321,295	2,291,270
Computer and technology	1,645,260	1,545,079
Mobile outreach van	146,936	146,936
	21,430,756	20,626,334
Less accumulated depreciation and amortization	(15,915,962)	(15,334,158)
	$ 5,514,794	$ 5,292,176

Note 7. Line of Credit

In March 2018, the Society took out a $3,500,000 line of credit with interest at a rate per annum equal to variable Libor Rate plus 1.50% (3.625% at June 30, 2018). At June 30, 2018, the outstanding balance on the line of credit was $2,128,222. Certain investment securities are held as collateral by the Society. The line of credit matures on March 31, 2020.

Note 8. Lease Commitments

As of June 30, 2018, 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:	
2019	$ 19,000,000
2020	19,300,000
2021	19,600,000
2022	19,800,000
2023	17,700,000
Thereafter	112,900,000
	$ 208,300,000

Note 8. Lease Commitments (Continued)

Several leases for office space contain escalation clauses related to the lessor's real estate taxes, utilities and other building operating expenses. The rental expense was approximately $17,289,000 and $15,789,000 for the years ended June 30, 2018 and 2017, respectively.

The Society received net incentives from certain landlords for the purchase of furniture and equipment and leasehold improvements. Deferred lease incentive balance was $6,493,802 and $6,515,363 as of June 30, 2018 and 2017, respectively, and is included in deferred lease obligations and lease incentives in the accompanying statement of financial position. Deferred lease incentives are being amortized over the term of the respective leases.

Note 9. 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:

	2018	2017
Civil Practice	$ 279,709	$ 306,502
Juvenile Rights Practice	427,622	356,755
Criminal Defense Practice	606,307	810,822
Endowment investment gains	2,077,907	1,808,406
Other	221,051	332,988
	$ 3,612,596	$ 3,615,473

The total of these net assets released from restriction due to satisfaction of time and purpose restrictions amounted to $4,043,147 and $3,850,431 during the years ended June 30, 2018 and 2017, respectively.

Note 10. 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 and Investment 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, 2018 and 2017.

On a quarterly basis, the Finance and Investment 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 and Investment Committee reports to the Board on these issues.

Note 10. Permanently Restricted Net Assets (Continued)

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017, consist of:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, at June 30, 2016	$ 1,322,857	$ 2,066,023	$ 3,388,880
Investment return:			
Investment gain	485,549	-	485,549
Total change in investments	485,549	-	485,549
Endowment net assets, at June 30, 2017	1,808,406	2,066,023	3,874,429
Investment return:			
Investment gain	269,501	-	269,501
Total change in investments	269,501	-	269,501
Endowment net assets, at June 30, 2018	$ 2,077,907	$ 2,066,023	$ 4,143,930

Note 11. 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 $6,627,694 and $2,865,231 in fiscal 2018 and 2017, respectively. The Society has developed a Board approved plan for annual funding contributions to eliminate the Retirement Plan's underfunding over a 15-year period, beginning with the year ended June 30, 2017.

The Society made contributions to the defined contribution plan for nonunion employees of approximately $2,465,000 and $2,335,000 in fiscal 2018 and 2017, 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 $5,455,000 and $5,621,000 in fiscal 2018 and 2017, 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 $2,610,000 and $2,658,000 in fiscal 2018 and 2017, respectively.

Note 11. 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 2017, 2016 and 2015 are for the plan's year-end at December 31, 2017, 2016 and 2015, 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% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The funded percentages for these years are 82.5%, 83.7%, and 87.5, 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
2017	$ 2,696,320	No
2016	2,427,974	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 the years ended June 30, 2018 and 2017, amounted to approximately $803,000 and $779,000, respectively. The corresponding costs recognized for the change in the long-term benefit obligation for healthcare in the years ended June 30, 2018 and 2017 are $811,000 and $202,000, respectively.

Note 11. Employee Benefit Plans (Continued)

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2018	2017	2018	2017
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 79,456,769	$ 86,158,686	$ 47,047,169	$ 47,853,880
Service cost	-	-	1,990,494	2,223,179
Interest cost	2,883,130	2,866,844	2,106,258	1,939,146
Plan participants' contributions	-	-	108,313	111,378
Special Termination Benefits		-	-	21,000
Actuarial (gain) loss	(3,185,315)	(4,057,414)	2,094,239	(4,217,052)
Benefits paid	(6,131,753)	(5,511,347)	(970,603)	(884,362)
Benefit obligation at end of year	73,022,831	79,456,769	52,375,870	47,047,169
Change in plan assets:				
Fair value of plan assets at beginning of year	58,989,871	56,467,507	-	-
Actual return on plan assets	4,329,980	6,117,733	-	-
Employer contributions	6,627,694	2,865,231	862,290	772,984
Plan participants' contributions	-	-	108,313	111,378
Benefits paid	(6,131,753)	(5,511,347)	(970,603)	(884,362)
Expenses paid	(980,083)	(949,253)	-	-
Fair value of plan assets at end of year	62,835,709	58,989,871	-	-
Funded status at end of year	$ (10,187,122)	$ (20,466,898)	$ (52,375,870)	$ (47,047,169)

Note 11. Employee Benefit Plans (Continued)

June 30,	Retirement Plan Benefits 2018	Retirement Plan Benefits 2017	Postretirement Health and Benefits 2018	Postretirement Health and Benefits 2017
Amounts recognized as liabilities in the statement of financial position	$ (10,187,122)	$ (20,466,898)	$ (52,375,870)	$ (47,047,169)
Amounts recognized as cumulative changes in pension and other postretirement costs other than net periodic costs:				
Prior service (credit) cost	$ -	$ -	$ (23,773)	$ 34,010
Net actuarial loss	25,308,001	31,068,945	19,842,900	18,560,531
Net amount recognized	$ 25,308,001	$ 31,068,945	$ 19,819,127	$ 18,594,541
Components of net benefit cost:				
Components of net periodic benefit cost:				
Service	$ -	$ -	$ 1,990,494	$ 2,223,179
Expense	920,000	860,000	-	-
Interest	2,883,130	2,866,844	2,106,258	1,939,146
Expected return on plan assets	(4,546,334)	(4,504,037)	-	-
Special Termination Benefits	-	-	-	21,000
Amortization of prior service cost	-	-	57,783	57,783
Amortization of losses	2,852,066	3,560,674	811,867	1,091,961
Net periodic benefit cost	2,108,862	2,783,481	4,966,402	5,333,069
Changes in pension and postretirement costs other than net periodic costs				
Prior service cost	-	-	(57,783)	(57,783)
Net (gain) loss	(5,760,944)	(9,142,531)	1,282,369	(5,309,013)
Net changes in other than periodic cost	(5,760,944)	(9,142,531)	1,224,586	(5,366,796)
Net benefit cost	$ (3,652,082)	$ (6,359,050)	$ 6,190,988	$ (33,727)

Note 11. Employee Benefit Plans (Continued)

During fiscal 2018, the mortality table was updated to the MP-2017 Mortality Table from the MP-2016 Mortality Table in fiscal 2017.

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

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2018	2017	2018	2017
Discount rate	4.20%	3.80%	4.25%	4.35%

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2018	2017	2018	2017
Discount rate	3.80%	3.45%	4.35%	3.90%
Expected return on plan assets	7.85%	7.85%	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 7.70% in fiscal year 2019 and was 6.50% in fiscal year 2018. The 7.70% rate in fiscal year 2019 is expected to gradually decline to 4.75% in fiscal year 2027.

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, 2018, is as follows:

	One-Percentage-Point Decrease	One-Percentage-Point Increase
Year-end postretirement health benefit obligation	$ (9,982,000)	$ 13,332,000
Total of service and interest cost components	(948,000)	1,332,000

Note 11. Employee Benefit Plans (Continued)

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

	Retirement Plan Benefits	Postretirement Health Benefits
Year ending June 30:		
2019	$ 6,938,503	$ 889,000
2020	6,580,004	975,000
2021	5,994,704	1,078,000
2022	5,793,954	1,189,000
2023	5,755,520	1,311,000
2024 - 2028	25,451,797	8,492,000

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 11. Employee Benefit Plans (Continued)

The fair value of the Retirement Plan's investments at June 30, 2018 and 2017 (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)		%	%
	2018	2017	2018	2017
Cash equivalents	$ 5,195,080	$ 2,378,223	8.3%	4.0%
Mutual funds:				
Large-cap	16,569,622	17,798,720	26.4%	30.2%
Mid-cap	6,420,354	5,732,936	10.2%	9.7%
Small-cap	4,537,301	3,528,327	7.2%	6.0%
International	6,757,890	6,466,486	10.8%	11.0%
Emerging markets	2,511,363	1,912,186	4.0%	3.2%
Equity REITs	817,824	783,934	1.3%	1.3%
Indexed trust fund	450,533	396,549	0.7%	0.7%
Fixed income	19,575,742	19,992,510	31.1%	33.9%
	$ 62,835,709	$ 58,989,871	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 12. 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, 2018, receivables from grants and governmental contracts include accrued revenue aggregating approximately $1,700,000 from unexecuted and/or unregistered contracts with the state/city of New York Agencies as of December 21, 2018. The ultimate realization of these contracts receivable is subject to the execution of these contracts by New York State and City of New York Agencies. However, management believes that the Society will ultimately collect these amounts as these are amounts due for services performed or expenditures incurred on recurring contracts with the New York State and City of New York Agencies.

Note 12. 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.