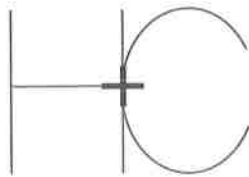


SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
FINANCIAL STATEMENTS
AUGUST 31, 2016

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES

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Certified Public Accountants

David J. McCaughin, CPA
John S. McNamara, CPA

Independent Auditor's Report

To the Board of Directors
Shelter Legal Services Foundation, Inc.
d/b/a Veterans Legal Services
Boston, Massachusetts

We have audited the accompanying financial statements of Shelter Legal Services Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, changes in net assets, 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.

To the Board of Directors
Page Two

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 Shelter Legal Services Foundation, Inc. as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hughes and Company, P.C.

Hughes and Company, P.C.
Melrose, Massachusetts
April 4, 2017

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2016

ASSETS

Current Assets	
Cash-operating	\$ 307,231
Investment, at market	500
Prepaid expenses	4,786
Unconditional promises to give	50,000
Grants receivable	10,326
Total Current Assets	<u>372,843</u>
Property and Equipment	
Office furniture and equipment	11,375
Less accumulated depreciation	<u>(3,937)</u>
Property and Equipment, net	<u>7,438</u>
Cash, restricted for endowment	250,309
Investment, restricted for endowment	16,597
Security Deposit	<u>20,268</u>
Total Assets	<u>\$ 667,455</u>

LIABILITIES AND NET ASSETS

Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	<u>\$ 18,720</u>
Total Current Liabilities	<u>18,720</u>
Total Liabilities	<u>18,720</u>
Net Assets	
Unrestricted	271,829
Temporarily restricted	110,000
Permanently restricted	266,906
Total Net Assets	<u>648,735</u>
Total Liabilities and Net Assets	<u>\$ 667,455</u>

The accompanying notes are an integral part of the financial statements

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2016

Unrestricted Net Assets

Support and Revenue

Government grants	\$ 48,588
Other grants and contributions	216,881
Event income, net of event expenses of \$52,528	252,260
Interest income	975
Total Unrestricted Revenue and Support	518,704

Net Assets released from restrictions

Purpose and time restrictions satisfied	185,000
Total Unrestricted Revenue, Support and Reclassifications	703,704

Expenses and losses

Program expenses	440,827
General and Administrative	63,303
Fundraising	26,727
Total Expenses	530,857

Unrealized loss on investment	500
Total Expenses and Losses	531,357

Change in Unrestricted Net Assets	172,347
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Temporarily Restricted Net Assets

Corporate and private foundation grants	110,000
Net assets released from restrictions	(185,000)
Change in Temporarily Restricted Net Assets	(75,000)

Permanently Restricted Net Assets

Corporate and private foundation grants	250,000
Interest income	309
Unrealized loss on investment	(16,597)
Change in Permanently Restricted Net Assets	233,712

Change in Net Assets	\$ 331,059
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The accompanying notes are an integral part of the financial statements

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED AUGUST 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets beginning of year, as previously reported	\$ 92,469	\$ 100,000	\$ -	\$ 192,469
Adjustment to record donated investments	1,000	-	33,194	34,194
Adjustment to convert to accrual basis of accounting	<u>6,013</u>	<u>85,000</u>	<u>-</u>	<u>91,013</u>
Net Assets beginning of year, as restated	99,482	185,000	33,194	317,676
Change in Net Assets	<u>172,347</u>	<u>(75,000)</u>	<u>233,712</u>	<u>331,059</u>
Net Assets, Ending	<u>\$ 271,829</u>	<u>\$ 110,000</u>	<u>\$ 266,906</u>	<u>\$ 648,735</u>

The accompanying notes are an integral part of the financial statements

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2016

	<u>Program</u> <u>Expenses</u>	<u>General and</u> <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Client Fees and Expenses	\$ 559	\$ -	\$ -	\$ 559
Depreciation	950	949	-	1,899
Dues and Subscriptions	896	224	-	1,120
Employee Benefits	26,469	3,114	1,557	31,140
Fees	-	1,675	-	1,675
Insurance	7,074	1,524	-	8,598
Meetings	3,278	3,278	-	6,556
Occupancy	50,433	5,933	2,967	59,333
Office Supplies	5,800	1,451	-	7,251
Other Expense	-	3,065	-	3,065
Payroll	284,233	33,439	16,720	334,392
Payroll Taxes	23,467	2,761	1,380	27,608
Postage	644	161	-	805
Printing and Copying	898	224	-	1,122
Professional Fees	22,674	4,200	3,949	30,823
Retirement Plan	2,620	308	154	3,082
Telephone	7,628	848	-	8,476
Training	378	-	-	378
Travel	2,826	149	-	2,975
	<u>\$440,827</u>	<u>\$ 63,303</u>	<u>\$ 26,727</u>	<u>\$ 530,857</u>

The accompanying notes are an integral part of the financial statements

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2016

Cash Flows from Operating Activities	
Change in net assets	\$ 331,059
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	1,899
Unrealized loss on investments	17,097
(Increase) Decrease in:	
Prepaid expenses	(4,786)
Unconditional promises to give	35,000
Grants receivable	5,003
Increase (Decrease) in:	
Accounts payable and accrued expenses	9,404
Net Cash Provided by Operating Activities	<u>394,676</u>
 Cash Flows from Financing Activities:	
Changes in restricted cash balances	<u>(250,309)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(250,309)</u>
 Net Increase in Cash	144,367
 Cash, Beginning	<u>162,864</u>
 Cash, Ending	<u><u>\$ 307,231</u></u>
 Supplemental cash flows information:	
Cash paid during the year for:	
Income taxes	<u>\$ -</u>
Interest	<u>\$ -</u>

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

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 1 - Nature of Activities

Shelter Legal Services Foundation, Inc., doing business as Veterans Legal Services, was incorporated on October 16, 1991 and became a 501(c)(3) non-profit organization in 1994. The Organization was formed for the purpose of providing free civil legal services to low-income veterans. Through restricted funding, the Organization also provided legal services to the homeless and those being evicted in Cambridge, MA through July 31, 2016. The Organization utilizes volunteer assistance of law students and attorneys to represent its clients in civil matters throughout the greater Boston area.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets - Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets - Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Organization's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in common stock are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

Property and Equipment

Property and equipment are stated at cost. Major additions and betterments are capitalized, while replacements, maintenance and repairs which do not improve or extend the useful lives of the respective assets, and expenditures for leased equipment and furniture, are expensed in the year incurred.

As of August 31, 2016, the Organization's property and equipment consists of furniture and office equipment, which is being depreciated over five years using the straight-line method. Depreciation expense totaled \$1,899 for the year ended August 31, 2016.

Contributions

Contributions are recognized when the donor makes a promise to give in writing to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets.

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions (continued)

When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. All contributions receivable as of August 31, 2016 are due within one year. Donor restricted gifts that are received and expended within the same year are reported as unrestricted.

Grants and Support

Grants are awarded to the Organization by the City of Cambridge (through the U. S. Department of Housing and Urban Development), the Massachusetts Bar Foundation, the Boston Bar Foundation, and private and family institutions. The Organization receives other support from fundraising events and activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Income Taxes

The Organization is a nonprofit Massachusetts corporation. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization Return of Organization Exempt from Income Tax for the years ended August 31, 2016, 2015, 2014, and 2013 are subject to examination by the Internal Revenue Service, generally three to four years after the returns were filed.

Concentrations - Cash and Cash Equivalents

The Organization maintains its cash in bank deposit accounts which exceed federally-insured deposit limits. As of August 31, 2016, the Organization had cash balances totaling \$297,996 in excess of the limits. The Organization has not experienced any losses in such accounts.

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Contributed Services

The Organization receives various contributions of services to assist with its programs. No amounts have been reflected in these financial statements as they cannot be reasonably estimated. Approximately 162 volunteers provided services in 2016.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalent.

Compensated Absences

Employees of the Organization are entitled to paid vacation and paid sick days depending on job classification, length of service, and other factors. It is not practicable for the Organization to estimate the amount of compensation for future absences. Accordingly, no liability for compensated absences has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to the employee.

Subsequent Events

The Organization has evaluated subsequent events through April 4, 2017 which is the date the financial statements were available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Prior Period Adjustments

Beginning net assets have been adjusted for the following:

During the year ended August 31, 2016, the Organization converted from the modified cash basis of accounting to the accrual basis of accounting. This is a result of the Organization's revenues having risen to a level that requires an audited financial statement, prepared in accordance with generally accepted accounting principles, be attached to the Form PC filed with the Massachusetts Attorney General.

An adjustment totaling \$6,013 for the net of accounts receivable of \$15,329 and accounts payable of \$9,316 was recorded to restate unrestricted net assets at August 31, 2015. In addition, an adjustment in the amount of \$85,000 for pledges receivable was recorded to restate temporarily restricted net assets at August 31, 2015.

Also, in-kind contributions had not been reflected in the financial statements prior to the year ended August 31, 2016. An adjustment of \$34,194 representing the value of the donated investments as of August 31, 2015 was recorded to restate net assets at August 31, 2015.

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 4 - Investments

Investments consist of approximately 171 million shares of stock that had been donated by a board member in prior years. The original value at donation totaled \$198,333. The shares have decreased in value over the years. During the year ended August 31, 2016, the Organization recorded an unrealized loss of \$17,097. As of August 31, 2016, the stock was worth \$17,079, of which \$16,597 is restricted for the purpose of establishing an endowment fund.

Note 5 - Commitments

The Organization moved into new office space in Boston, Massachusetts that it leased starting August 1, 2015. The lease requires monthly payments of \$4,785 plus electricity at \$289 for a total of \$5,074, beginning September 30, 2015, with a dollar per square foot increase each year for 5 years. Also, the Organization was required to pay a security deposit of \$20,268. Additional rent is assessed to cover the Organization's share of utilities, real estate taxes and operating expenses. The lease is set to expire in September, 2020.

The Organization estimates that its minimum future annual rent commitment under the lease is as follows:

<u>Year Ending</u>	
2017	\$ 59,115
2018	60,804
2019	62,493
2020	64,182
	<u>\$ 246,594</u>

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of August 31, 2016:

Grants for fiscal year 2017	<u>\$ 110,000</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Pro-bono Director compensation	\$ 50,000
Use in subsequent fiscal year	<u>135,000</u>
	<u>\$185,000</u>

Note 7 - Endowment

The Organization received a gift in 2016 in the amount of \$250,000 to be held as an endowment fund. The fund shall consist of the initial gift, any additional gifts made to the Organization and designated for the fund, and any income from the fund from time to time not spent by the Organization. The fund will be held and administered as a permanent endowment fund to be used for the Organization's general charitable purposes consistent with the governing documents and policies. The fund may be comingled with other funds for investment purposes but shall be accounted for separately in the books and records. All gifts to the fund are irrevocable. The balance in the endowment totaled \$266,906 as of August 31, 2016.

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 7 - Endowment (continued)

The following summarizes the Board approved Investment Policy regarding the endowment.

In the oversight and management of the Organization's endowment assets, the Board of Directors and the Endowment Committee will adhere to the following standards:

- a. The Board of Directors and the Endowment Committee will operate the Organization's endowment investment program in compliance with all applicable laws and regulations concerning the management of investment assets of a nonprofit organization, including the Massachusetts Uniform Prudent Management of Institutional Funds Act ("Massachusetts UPMIFA") (Mass. Gen. Laws c. 180A).
- b. In seeking to achieve the investment objectives of the Organization, the Board of Directors and the Endowment Committee will exercise prudence and appropriate care and loyalty in accordance with Massachusetts UPMIFA and other applicable standards of care and loyalty. All decisions relating to the investment of endowment assets must be based solely on the interest of the Organization.
- c. The Organization will comply with applicable accounting and reporting standards for endowment funds.

The overall endowment investment objectives of the Organization are as follows, stated in descending order of priority:

- a. preserve and grow the economic value of the overall portfolio of endowment assets in light of inflation; and
- b. to the extent possible, provide operating funds for the Organization, net of fund administrative expenses, in an amount that is not subject to large fluctuations from year-to-year.

The Organization is expected to operate in perpetuity, so a long-term investment horizon, defined as 20 years, will be employed.

Permitted investments include: cash and cash equivalents, marketable securities including equities and fixed income securities, and mutual funds. High risk and alternative investments are not permitted except as a component of a low risk mutual fund.

Portfolio assets will be allocated across assets classes in accordance with the following guideline, with rebalancing done on a semi-annual basis or more frequently if deemed necessary:

- 0%-25% Equity
- 75%-100% Fixed Income, Cash or Cash Equivalents

Risk mitigation is an important element in the investment of the Organization's endowment assets.

SHELTER LEGAL SERVICES FOUNDATION, INC.
D/B/A VETERANS LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 7 - Endowment (continued)

The Organization will maintain a reasonable diversification of endowment investment assets within assets classes and investment categories.

Investments within the investment portfolio will be selected to provide liquidity on an as-needed basis.

A cash account may be maintained with a zero to very low risk tolerance to keep cash available for distributions and anticipated expenses.

An endowment gift clearing account may be maintained for the purpose of receiving, liquidating and allocating financial gifts to the Organization's endowment.

The Board of Directors and Endowment Committee or its designee will regularly monitor the endowment fund investment performance. Performance will be evaluated at least quarterly on a total return, net of fees basis. The Portfolio's composite investment performance will be judged against the Organization's long-term real return objective and periodic distribution objective. The performance of Portfolio components will be judged against applicable index measures and the established IPS benchmark defined below by the target asset allocation strategy.

The following index measures will be used in calculating benchmark returns as appropriate:

- Domestic Equity: Russell 3000
- International Equity: MSCI ACWI ex US
- Global Fixed Income: Barclays Aggregate Bond
- Alternatives: HRF: FOF (Hedge Fund: Fund of Funds)

In making distributions from the endowment, the Organization will use a total-return-based spending policy, meaning that distributions will be funded from net investment income, net realized gains, and proceeds from the sale of investments.

Retirement Plan:

The Organization created a 401(k) plan during 2016 which covers substantially all employees. The Organization currently provides a match equal to \$750 per employee. The Organization's matching contributions to the plan totaled \$3,082 for the year ended August 31, 2016.