

# **The Legal Aid Society**

Financial Report  
June 30, 2021

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## 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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 31, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Emphasis of Matter**

As discussed in Note 14 to the financial statements, The Legal Aid Society has recognized a receivable amounting to approximately \$3,400,000 from unexecuted and/or unregistered contracts with the State/City of New York. As a result, the State/City of New York may claim not to be obligated to pay The Legal Aid Society for the contract services performed. Consequently, the ultimate realization of these contract receivables is subject to the execution of these contracts by the State/City of New York. Our opinion is not modified with respect to this matter.

*RSM US LLP*

New York, New York  
January 3, 2022

The Legal Aid Society

Statement of Financial Position

June 30, 2021

(With Comparative Financial Information as of June 30, 2020)

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 18,400,584	\$ 17,246,696
Receivables from grants, governmental contracts and other	97,647,480	87,851,531
Investments, at fair value	11,268,514	20,333,650
Deferred charges and other assets	826,566	1,031,212
Property and equipment, at cost, net	3,930,825	4,239,865
	<u>                    </u>	<u>                    </u>
<b>Total assets</b>	<b>\$ 132,073,969</b>	<b>\$ 130,702,954</b>
<b>Liabilities and Net Assets (Deficiency)</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,132,074	\$ 12,227,252
Accrued payroll and other employee expenses	36,910,784	33,043,197
Program advance	952,521	-
Line of credit	2,250,000	-
Accrued postretirement health and benefits cost	71,569,807	70,213,668
Pension liability	4,274,168	18,615,274
Deferred lease incentives and lease obligations	14,100,397	16,430,466
	<u>                    </u>	<u>                    </u>
<b>Total liabilities</b>	<b>143,189,751</b>	<b>150,529,857</b>
Commitments and contingencies		
Net assets:		
Without donor restrictions	<u>(18,260,306)</u>	<u>(25,966,724)</u>
With donor restrictions		
Purpose and time restricted	5,043,501	4,048,798
Perpetual in nature	2,101,023	2,091,023
	<u>                    </u>	<u>                    </u>
<b>Total net assets with donor restrictions</b>	<b>7,144,524</b>	<b>6,139,821</b>
	<u>                    </u>	<u>                    </u>
<b>Total net assets (deficiency)</b>	<b>(11,115,782)</b>	<b>(19,826,903)</b>
	<u>                    </u>	<u>                    </u>
<b>Total liabilities and net assets (deficiency)</b>	<b>\$ 132,073,969</b>	<b>\$ 130,702,954</b>

See notes to financial statements.

# The Legal Aid Society

## Statement of Activities

Year Ended June 30, 2021

(With Summarized Comparative Financial Information for the Year Ended June 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Comparative Total
Support and revenue:				
Program support and revenue:				
Criminal defense practice	\$ 186,444,833	\$ 908,714	\$ 187,353,547	\$ 189,820,151
Juvenile rights practice	43,972,035	202,610	44,174,645	48,160,137
Civil practice	78,605,949	1,739,216	80,345,165	76,282,732
Contributions (net of direct expenses related to the benefit)	14,809,628	78,350	14,887,978	15,414,814
Return on investments, net	45,201	1,199,736	1,244,937	907,533
Court awards	47,374	-	47,374	96,614
Other income	2,345	-	2,345	150,225
Net assets released from restrictions – satisfaction of program and time restrictions	3,123,923	(3,123,923)	-	-
<b>Total support and revenue before in-kind contributions</b>	<b>327,051,288</b>	<b>1,004,703</b>	<b>328,055,991</b>	<b>330,832,206</b>
Operating expenses:				
Program services:				
Criminal defense practice	177,742,355	-	177,742,355	173,872,914
Juvenile rights practice	47,028,598	-	47,028,598	46,503,797
Civil practice	82,962,504	-	82,962,504	78,065,372
<b>Total program services before in-kind contributions</b>	<b>307,733,457</b>	<b>-</b>	<b>307,733,457</b>	<b>298,442,083</b>
Supporting services:				
Administrative expenses	24,777,081	-	24,777,081	22,423,941
Fundraising expenses	1,588,475	-	1,588,475	1,262,678
<b>Total supporting services</b>	<b>26,365,556</b>	<b>-</b>	<b>26,365,556</b>	<b>23,686,619</b>
<b>Total operating expenses before in-kind contributions</b>	<b>334,099,013</b>	<b>-</b>	<b>334,099,013</b>	<b>322,128,702</b>
<b>Results of operations before in-kind contributions</b>	<b>(7,047,725)</b>	<b>1,004,703</b>	<b>(6,043,022)</b>	<b>8,703,504</b>
In-kind contributions:				
Revenue from legal services	86,346,909	-	86,346,909	82,358,546
Program expenses from pro bono services	(86,346,909)	-	(86,346,909)	(82,358,546)
<b>Total in-kind contributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets before pension liability adjustment</b>	<b>(7,047,725)</b>	<b>1,004,703</b>	<b>(6,043,022)</b>	<b>8,703,504</b>
Pension and other postretirement-related changes:				
Other than net periodic costs	14,754,143	-	14,754,143	(17,727,538)
<b>Change in net assets</b>	<b>7,706,418</b>	<b>1,004,703</b>	<b>8,711,121</b>	<b>(9,024,034)</b>
Net assets (deficiency):				
Beginning	(25,966,724)	6,139,821	(19,826,903)	(10,802,869)
Ending	\$ (18,260,306)	\$ 7,144,524	\$ (11,115,782)	\$ (19,826,903)

See notes to financial statements.

## The Legal Aid Society

### Statement of Functional Expenses

Year Ended June 30, 2021

(With Summarized Comparative Financial Information for the Year Ended June 30, 2020)

	2021								2020	
	Program Services				Supporting Services				Total	Summarized Comparative Total
	Criminal Defense Practice	Juvenile Rights Practice	Civil Practice	Pro Bono Services	Total Program Services	Administrative	Fundraising	Total Supporting Services		
Employee expenses:										
Professional staff salaries	\$ 82,691,743	\$ 22,707,399	\$ 35,583,338	\$ -	\$ 140,982,480	\$ 6,680,494	\$ 545,963	\$ 7,226,457	\$ 148,208,937	\$ 140,591,747
Support staff salaries	23,815,643	6,293,592	10,112,441	-	40,221,676	4,596,247	286,189	4,882,436	45,104,112	44,613,142
Fringe benefits and other employee costs	53,170,028	14,456,780	22,782,790	-	90,409,598	5,392,422	394,555	5,786,977	96,196,575	88,857,047
<b>Total employee expenses</b>	<b>159,677,414</b>	<b>43,457,771</b>	<b>68,478,569</b>	<b>-</b>	<b>271,613,754</b>	<b>16,669,163</b>	<b>1,226,707</b>	<b>17,895,870</b>	<b>289,509,624</b>	<b>274,061,936</b>
Other expenses:										
Occupancy costs	11,092,129	2,443,057	6,573,828	-	20,109,014	1,395,686	124,527	1,520,213	21,629,227	22,709,864
Communications	1,191,906	314,688	662,954	-	2,169,548	144,186	12,823	157,009	2,326,557	1,833,665
Office operating	588,846	134,756	223,218	-	946,820	732,815	3,639	736,454	1,683,274	1,954,608
Purchases and leases of furniture and equipment	2,250,205	257,479	935,120	-	3,442,804	718,869	106,408	825,277	4,268,081	4,413,017
Law books and reference materials	578,979	118,993	553,508	-	1,251,480	12,322	3,712	16,034	1,267,514	1,468,944
Trial minutes	138,882	21,696	6,122	-	166,700	-	-	-	166,700	394,058
Cost of investigations and expert witnesses	789,532	18,191	619,493	-	1,427,216	7,204	-	7,204	1,434,420	2,044,873
Professional services	98,724	27,801	3,664,230	-	3,790,755	1,496,556	-	1,496,556	5,287,311	5,944,207
Transportation	305,682	8,606	43,796	-	358,084	4,220	-	4,220	362,304	971,813
Insurance	450,347	123,297	208,654	-	782,298	51,170	4,752	55,922	838,220	781,534
Depreciation and amortization	196,130	58,924	257,617	-	512,671	149,293	-	149,293	661,964	730,502
Other	383,579	43,339	735,395	-	1,162,313	3,395,597	105,907	3,501,504	4,663,817	4,819,681
<b>Total other expenses</b>	<b>18,064,941</b>	<b>3,570,827</b>	<b>14,483,935</b>	<b>-</b>	<b>36,119,703</b>	<b>8,107,918</b>	<b>361,768</b>	<b>8,469,686</b>	<b>44,589,389</b>	<b>48,066,766</b>
<b>Total expenses before contributed legal services and direct expenses related to the benefit</b>	<b>177,742,355</b>	<b>47,028,598</b>	<b>82,962,504</b>	<b>-</b>	<b>307,733,457</b>	<b>24,777,081</b>	<b>1,588,475</b>	<b>26,365,556</b>	<b>334,099,013</b>	<b>322,128,702</b>
Contributed legal services	-	-	-	86,346,909	86,346,909	-	-	-	86,346,909	82,358,546
Direct expenses related to the benefit	-	-	-	-	-	-	186,340	186,340	186,340	30,060
	-	-	-	86,346,909	86,346,909	-	186,340	186,340	86,533,249	82,388,606
<b>Total 2021 expenses</b>	<b>\$ 177,742,355</b>	<b>\$ 47,028,598</b>	<b>\$ 82,962,504</b>	<b>\$ 86,346,909</b>	<b>\$ 394,080,366</b>	<b>\$ 24,777,081</b>	<b>\$ 1,774,815</b>	<b>\$ 26,551,896</b>	<b>\$ 420,632,262</b>	
<b>Total 2020 expenses</b>	<b>\$ 173,872,914</b>	<b>\$ 46,503,797</b>	<b>\$ 78,065,372</b>	<b>\$ 82,358,546</b>	<b>\$ 380,800,629</b>	<b>\$ 22,423,941</b>	<b>\$ 1,292,738</b>	<b>\$ 23,716,679</b>		<b>\$ 404,517,308</b>

See notes to financial statements.

## The Legal Aid Society

### Statement of Cash Flows

Year Ended June 30, 2021

(With Comparative Financial Information for the Year Ended June 30, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 8,711,121	\$ (9,024,034)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Amortization of deferred lease incentives	(919,212)	(858,691)
Amortization of deferred lease obligations	(1,410,857)	(565,664)
Depreciation and amortization	661,964	730,502
Realized and unrealized gain on investments	(1,082,129)	(243,862)
Pension and other postretirement-related changes, other than net periodic costs	(14,754,143)	17,727,538
Changes in operating assets and liabilities:		
Increase in receivables from grants, governmental contracts and other	(9,795,949)	(18,184,103)
Decrease in deferred charges and other assets	204,646	5,630,165
Increase in accounts payable and accrued expenses	904,822	7,023,674
Increase in accrued payroll and other employee expenses	3,867,587	718,809
Increase in program advances	952,521	-
Increase in accrued postretirement health and benefits cost	1,769,176	1,469,140
Decrease in pension liability	-	(3,700,000)
<b>Net cash (used in) provided by operating activities</b>	<b>(10,890,453)</b>	<b>723,474</b>
Cash flows from investing activities:		
Proceeds from sale of investments	14,295,400	53,687,600
Purchase of investments	(4,148,135)	(48,870,113)
Purchases of property and equipment	(352,924)	(52,662)
<b>Net cash provided by investing activities</b>	<b>9,794,341</b>	<b>4,764,825</b>
Cash flows from financing activities:		
Payment on line of credit	-	(744,009)
Proceeds from line of credit	2,250,000	744,009
<b>Net cash provided by financing activities</b>	<b>2,250,000</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,153,888</b>	<b>5,488,299</b>
Cash and cash equivalents:		
Beginning	17,246,696	11,758,397
Ending	\$ 18,400,584	\$ 17,246,696
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	\$ 23,656	\$ 3,477

See notes to financial statements.



## The Legal Aid Society

### Notes to Financial Statements

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#### 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, 2021, the Society recognized an operating deficit without donor restrictions (excess of expenses, other than postretirement charges, over revenue) of \$7.1M. Total assets grew by \$1.4M. The increase is a combination of an increase in accounts receivable of \$9.8M and an increase in cash and cash equivalents of \$1.2M. The above increase is partially offset by the decrease in unrestricted investments of \$10.3M. The Society's overall working capital was \$101M (consisting of cash and cash equivalents, accounts receivable, prepaid expenses and non-endowment investments, less accounts payable, other accrued expenses, program advances and line of credit).

The Society's statement of financial position at June 30, 2021, shows cash and cash equivalents of \$18.4M, and total assets of \$132.1M. It also shows a net asset deficiency (excess of total liabilities over total assets) of \$11.1M. The net asset deficiency results from the actuarial determinations of: (i) the future obligations of the Society to pay postretirement and post-employment 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 two classes of net assets, without donor restrictions and with donor restrictions, 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:

**Net assets without donor restrictions:** Net assets available for use in general operations and not subject to donor restrictions.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Net assets with donor restrictions:** Net assets subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**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.

**Collectability of receivables:** All receivables are due for collection within one year.

**Investments:** Investments in equity and debt securities are stated at their fair values. Investment return is allocated among net assets without donor restrictions and net assets with donor restrictions, 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. See Note 5 for the definition of fair value hierarchy.

**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 3 to 10 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.

**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 net assets without donor restrictions class as the related services are performed.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

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.

As of June 30, 2021, the Society had outstanding unrecorded conditional receivables from grants, governmental contracts and other of approximately \$50,307,000. Revenue for these conditional grants and contracts will be recognized in future periods when the related barriers are overcome or when the conditions 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 support without donor restrictions or support with donor restrictions, 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 2018, which is the standard statute of limitations look-back period.

**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, 2020, from which the summarized information was derived.

**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 January 3, 2022, for these financial statements.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Recently adopted accounting pronouncements:** The Society adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods and services to customers. The adoption of ASU 2014-09 did not have an impact on the Society's financial position, activities, net assets or cash flows as of the adoption date or for the years ended June 30, 2021 and 2020.

The Society adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes, modifies, and adds certain disclosure requirements of ASC Topic 820. The adoption of this ASU had no impact on the Society's financial position, activities, net assets or cash flows as of the adoption date or for the years ended June 30, 2021 and 2020.

**Recently issued accounting pronouncements:** 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. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02, making it effective for annual reporting periods beginning after December 15, 2021. The Society is evaluating the impact of this ASU on the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. This update represents a significant change in the allowance for credit losses accounting model by requiring immediate recognition of management's estimates of current expected credit losses. Under the prior model, losses were recognized only as they were incurred, which the FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The ASU is effective for fiscal years beginning after December 15, 2022. The Society is evaluating 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 ASU remove disclosures that no longer are considered cost beneficial, clarify specific requirements of disclosures and add disclosure requirements identified as relevant. The ASU will be effective for fiscal years beginning after December 15, 2021. Earlier adoption is permitted. The Society is evaluating the impact of this ASU on the financial statements.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This ASU provides narrow-scope improvements to Topic 326. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. The Society is evaluating the impact of this ASU on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU clarifies the presentation and disclosure of contributed nonfinancial assets, including fixed assets and other items. This ASU does not change existing recognition and measurement requirements for contributed nonfinancial assets. This ASU is effective for fiscal years beginning after June 15, 2021. The Society is evaluating the impact of this ASU on the financial statements.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 3. Liquidity and Availability of Resources

The following represents the Society's financial assets as of June 30, 2021 and 2020, available to meet general expenditures over the next 12 months:

	2021	2020
Financial assets at June 30:		
Cash and cash equivalents	\$ 18,400,584	\$ 17,246,696
Receivables from grants, governmental contracts and other	97,647,480	87,851,531
Investments	5,533,856	15,808,728
Total financial assets at June 30	<u>\$ 121,581,920</u>	<u>\$ 120,906,955</u>

The Society's goal is to actively manage working capital to achieve short-term asset levels equivalent to three to four months of the year's average monthly expenses. At all times, the Society strives to maintain, at minimum, \$30M, which equates to approximately one month's average expenses, in cash and cash equivalents, and marketable securities.

#### Note 4. Investments

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

	2021	2020
Cash equivalents	\$ 1,502,006	\$ 1,524,555
Certificates of deposit	-	10,315,601
Mutual funds	5,613,812	4,440,268
Fixed income	4,152,696	4,053,226
	<u>\$ 11,268,514</u>	<u>\$ 20,333,650</u>

The Society's investments at June 30, 2021 and 2020, were held at one financial institution.

#### Note 5. 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.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 5. Fair Value (Continued)

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

	2021	2020
Cash equivalents	\$ 1,502,006	\$ 1,524,555
Certificates of deposit	-	10,315,601
Mutual funds:		
U.S. large cap equities	2,719,842	2,033,166
International equities	1,504,813	894,578
Core fixed income securities	1,389,157	1,512,524
Fixed income:		
Corporate bonds	3,621,006	4,053,226
International bonds	250,417	-
Other	281,273	-
Subtotal – investments	11,268,514	20,333,650
Commercial paper <sup>(a)</sup>	14,500,000	7,900,000
	<u>\$ 25,768,514</u>	<u>\$ 28,233,650</u>

(a) Commercial paper is classified as cash and cash equivalents on the statement of financial position.

The Society classifies all of its investments as Level 1, except for U.S. fixed income and certificates of deposit, which are 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.

Certificates of deposit are adjusted for interest earned which approximates fair value.

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 a financial institution at June 30, 2021 and 2020.

The Society assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2 and 3 during the years ended June 30, 2021 and 2020.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 6. Contributions

Contributions consisted of the following for each fiscal year:

	2021	2020
Contributions	\$ 12,028,371	\$ 11,972,321
Benefits and special events	2,996,012	2,825,150
Bequests	49,935	647,403
	<u>15,074,318</u>	<u>15,444,874</u>
Less related direct expenses	(186,340)	(30,060)
	<u>\$ 14,887,978</u>	<u>\$ 15,414,814</u>

#### Note 7. Property and Equipment

Property, equipment and leasehold improvements are summarized as follows:

	2021	2020
Property and leasehold improvements	\$ 16,425,382	\$ 16,425,259
Furniture and equipment	2,321,295	2,321,295
Computer and technology	1,133,355	1,186,761
Mobile outreach van	146,935	146,935
Capital work in progress	352,802	-
	<u>20,379,769</u>	<u>20,080,250</u>
Less accumulated depreciation and amortization	(16,448,944)	(15,840,385)
	<u>\$ 3,930,825</u>	<u>\$ 4,239,865</u>

#### Note 8. Line of Credit

In November 2020, the Society took out a \$2.25M from the line of credit amount of \$3.5M. The line of credit is a variable loan with a base rate of variable Secured Overnight Financing Rate (SOFR) plus 1.60%. The outstanding loan balance was \$2,250,000 and \$0 for the years ended June 30, 2021 and 2020, respectively. Certain investment securities are held as collateral by the lender. The line of credit matures on June 30, 2022.

#### Note 9. Lease Commitments

As of June 30, 2021, 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:

Years ending June 30:	
2022	\$ 19,900,000
2023	17,700,000
2024	19,000,000
2025	19,500,000
2026	19,200,000
Thereafter	428,100,000
	<u>\$ 523,400,000</u>

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 9. 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 \$17,348,000 and \$18,307,000 for the years ended June 30, 2021 and 2020, respectively.

The Society received net incentives from certain landlords for the purchase of furniture and equipment and leasehold improvements. Deferred lease incentive balance was \$3,857,000 and \$4,776,000 as of June 30, 2021 and 2020, 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 10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2021	2020
Subject to expenditures for specific purpose:		
Criminal defense practice	\$ 657,325	\$ 209,030
Juvenile rights practice	200,142	754,762
Civil practice	335,335	502,394
Other	217,064	148,713
Endowment:		
Perpetual in nature	2,101,023	2,091,023
Endowment accumulated investment earnings	3,633,635	2,433,899
	<u>\$ 7,144,524</u>	<u>\$ 6,139,821</u>

The total net assets released from restriction due to satisfaction of time and purpose restrictions amounted to \$3,117,308 and \$2,812,446 during the years ended June 30, 2021 and 2020, respectively.

#### Note 11. Endowment Funds

The Society's endowment consists of 15 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 retain in perpetuity the original value of initial and subsequent gift amounts. Earnings on donor-restricted funds are subject to appropriation 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, 2021 and 2020.

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.



## The Legal Aid Society

### Notes to Financial Statements

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#### Note 11. Endowment Funds (Continued)

Changes in endowment net assets for the fiscal years ended June 30 consist of:

	Perpetual in Nature	Accumulated Earnings	Total
Endowment net assets, at June 30, 2019	\$ 2,066,023	\$ 2,301,995	\$ 4,368,018
Contribution	25,000	-	25,000
Net investment earnings	-	131,904	131,904
Endowment net assets, at June 30, 2020	2,091,023	2,433,899	4,524,922
Contribution	10,000	-	10,000
Net investment earnings	-	1,199,736	1,199,736
Endowment net assets, at June 30, 2021	<u>\$ 2,101,023</u>	<u>\$ 3,633,635</u>	<u>\$ 5,734,658</u>

#### Note 12. Functional Allocation of Expenses

Certain expenses are attributable to more than one practice, program or supporting function. These expenses are allocated as following:

- Salary expense is allocated based on time and effort, with the exception of supporting services.
- Fringe benefits are allocated based on employees' full-time equivalents.
- Occupancy costs are allocated based on a square footage algorithm based on estimated usage.
- Certain communications equipment, maintenance agreements and consulting engagements are allocated across practices based on full-time equivalents; others are charged directly to the practices.
- Depreciation expense is charged directly to the practices.

#### Note 13. 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.

The Society made contributions of approximately \$0 and \$3,700,000 in fiscal 2021 and 2020, 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 \$3,259,000 and \$3,000,000 in fiscal 2021 and 2020, respectively.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 13. Employee Benefit Plans (Continued)

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 approximately \$6,457,000 and \$5,918,000 in fiscal 2021 and 2020, 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 \$3,965,000 and \$3,815,000 in fiscal 2021 and 2020, respectively.

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 2020, 2019 and 2018, are for the plan's year-end at December 31, 2020, 2019 and 2018, 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 82.3%, 83.6% and 83.5%, respectively. The expiration date of the collective bargaining agreement requiring contributions is September 30, 2021. 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
2020	\$ 4,127,469	No
2019	3,296,036	No

The Society also has other postretirement benefit 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, 2021 and 2020, amounted to approximately \$1,293,000 and \$1,139,000, respectively. The corresponding credit recognized for the decrease in the long-term benefit obligation for healthcare in the years ended June 30, 2021 and 2020, is \$(21,000) and \$(1,648,000), respectively.

## The Legal Aid Society

### Notes to Financial Statements

#### Note 13. Employee Benefit Plans (Continued)

The changes of retirement plan benefit obligations and postretirement health and benefits obligations during the years ended June 30, 2021 and 2020, are shown in the below tables.

June 30:	Retirement Plan Benefits		Postretirement Health and Benefits	
	2021	2020	2021	2020
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 78,134,473	\$ 75,936,243	\$ 70,213,668	\$ 58,332,320
Service cost	-	-	2,863,449	2,491,353
Interest cost	1,897,748	2,461,593	2,127,987	2,198,504
Plan participants' contributions	-	-	142,879	158,099
Special termination benefits:				
Actuarial (gain) loss	(556,415)	6,238,850	(2,541,024)	8,213,704
Settlements	(3,093,870)	-	-	-
Benefits paid	(5,025,861)	(6,502,213)	(1,237,152)	(1,180,312)
Benefit obligation at end of year	71,356,075	78,134,473	71,569,807	70,213,668
Change in plan assets:				
Fair value of plan assets at beginning of year				
	59,519,199	60,936,299	-	-
Actual return on plan assets	16,666,241	2,088,750	-	-
Employer contributions	-	3,700,000	1,094,273	1,022,213
Plan participants' contributions	-	-	142,879	158,099
Settlements	(3,093,870)	-	-	-
Benefits paid	(5,025,861)	(6,502,213)	(1,237,152)	(1,180,312)
Expenses paid	(983,802)	(703,637)	-	-
Fair value of plan assets at end of year	67,081,907	59,519,199	-	-
Funded status at end of year	\$ (4,274,168)	\$ (18,615,274)	\$ (71,569,807)	\$ (70,213,668)

# The Legal Aid Society

## Notes to Financial Statements

### Note 13. Employee Benefit Plans (Continued)

June 30:	Retirement Plan Benefits		Postretirement Health and Benefits	
	2021	2020	2021	2020
Amounts recognized as liabilities in the statement of financial position	\$ (4,274,168)	\$ (18,615,274)	\$ (71,569,807)	\$ (70,213,668)
Amounts recognized as cumulative changes in pension and other postretirement costs other than net periodic costs:				
Prior service credit	\$ -	\$ -	\$ (74,613)	\$ (135,767)
Net actuarial loss	17,887,808	35,541,414	25,711,227	29,263,408
Net amount recognized	\$ 17,887,808	\$ 35,541,414	\$ 25,636,614	\$ 29,127,641
Components of net benefit cost:				
Components of net periodic benefit cost:				
Service cost	\$ -	\$ -	\$ 2,863,449	\$ 2,491,353
Expenses	790,000	930,000	-	-
Interest cost	1,897,748	2,461,593	2,127,987	2,198,504
Expected return on plan assets	(3,778,160)	(4,364,740)	-	-
Amortization of prior service cost	-	-	(61,154)	54,211
Amortization of losses	3,627,329	2,968,955	1,011,157	800,401
Recognized loss due to settlements	775,583	-	-	-
Net periodic benefit cost	3,312,500	1,995,808	5,941,439	5,544,469
Changes in pension and postretirement costs other than net periodic costs:				
Prior service cost	-	-	61,154	(54,211)
Net (gain) loss	(17,653,606)	5,319,522	(3,552,181)	7,413,303
Net changes in other than periodic cost	(17,653,606)	5,319,522	(3,491,027)	7,359,092
Net benefit cost	\$ (14,341,106)	\$ 7,315,330	\$ 2,450,412	\$ 12,903,561

The service cost component of net periodic costs is included in fringe benefits and other employee costs in the statement of functional expenses. Other components of net periodic costs are included in pension and other postretirement-related changes other than net periodic costs in the statement of activities.

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

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2021	2020	2021	2020
Discount rate	2.55%	2.55%	3.25%	3.20%

Weighted-average assumptions to determine net benefit costs for these years ended June 30, are:

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2021	2020	2021	2020
Discount rate	2.55%	3.40%	3.20%	3.85%
Expected return on plan assets	6.50%	7.50%	N/A	N/A

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 13. Employee Benefit Plans (Continued)

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 are based on national trends, are 7.05% and 6.85% in years ended June 30, 2021 and 2020, respectively. The 7.05% rate in fiscal year 2021 is expected to gradually decline to 4.75% in fiscal year 2030.

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, 2021, is as follows:

	One Percentage Point Decrease	One Percentage Point Increase
Year-end postretirement health benefit obligation	\$ (14,248,000)	\$ 19,410,000
Total of service and interest cost components	(1,252,000)	1,801,000

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

	Retirement Plan Benefits	Postretirement Health Benefits
Years ending June 30:		
2022	\$ 5,662,124	\$ 1,102,000
2023	5,513,674	1,226,000
2024	5,807,330	1,352,000
2025	5,058,926	1,478,000
2026	5,383,264	1,615,000
2027-2031	22,351,276	10,334,000

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 71% in equities, 28% in fixed income and 1% in others. 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.

## The Legal Aid Society

### Notes to Financial Statements

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#### Note 13. Employee Benefit Plans (Continued)

The fair value of the Retirement Plan's investments at June 30, 2021 and 2020 (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)			
			%	%
	2021	2020	2021	2020
Cash equivalents	\$ 202,753	\$ 3,573,155	0.3%	6.0%
Mutual funds:				
Large-cap	32,309,485	23,668,126	48.2%	39.8%
Mid-cap	5,380,090	4,391,912	8.0%	7.4%
Small-cap	5,191,911	2,222,962	7.7%	3.7%
International	4,553,224	3,844,741	6.8%	6.5%
Emerging markets	3,764,187	2,600,212	5.6%	4.4%
Indexed trust fund	562,476	4,632,648	0.8%	7.8%
Fixed income	15,117,781	14,585,443	22.6%	24.4%
	<u>\$ 67,081,907</u>	<u>\$ 59,519,199</u>	<u>100%</u>	<u>100%</u>

**Mutual funds:** Valued at the NAV 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 14. 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, 2021, receivables from grants and governmental contracts include accrued revenue aggregating approximately \$3,400,000 from unexecuted and/or unregistered contracts with the state/city of New York Agencies as of January 3, 2022. 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. Management is continuously monitoring the status of these contracts. 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.

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.

## The Legal Aid Society

### Notes to Financial Statements

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#### **Note 14. Contingencies (Continued)**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Society operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Society. Accordingly, management cannot presently estimate the overall operational and financial impact to the Society.