The Legal Aid Society

Financial Report
June 30, 2022

Contents

Independent Auditor's Report

Board of Directors
The Legal Aid Society

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of The Legal Aid Society (the Society), which comprise the statement of financial position as of June 30, 2022, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as of June 30, 2022, 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.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Society's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information
We have previously audited the Society's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

New York, New York
March 30, 2023

The Legal Aid Society

Statement of Financial Position
June 30, 2022
(With Comparative Financial Information as of June 30, 2021)

	2022	2021
Assets		
Cash and cash equivalents	**$ 48,053,395**	$ 18,400,584
Receivables from grants, governmental contracts and other	**81,494,964**	97,647,480
Investments, at fair value	**10,320,823**	11,268,514
Deferred charges and other assets	**1,414,049**	826,566
Property and equipment, at cost, net	**8,250,370**	3,930,825
Total assets	**$ 149,533,601**	$ 132,073,969
Liabilities and Net Assets (Deficiency)		
Liabilities:		
Accounts payable and accrued expenses	**$ 12,711,083**	$ 13,132,074
Accrued payroll and other employee expenses	**36,396,222**	36,910,784
Program advance	**16,236,234**	952,521
Line of credit	**-**	2,250,000
Leasehold improvement payment from landlord	**3,285,514**	-
Accrued postretirement health and benefits cost	**51,352,054**	71,569,807
Pension liability	**2,612,526**	4,274,168
Deferred lease incentives and lease obligations	**21,261,891**	14,100,397
Total liabilities	**143,855,524**	143,189,751
Commitments and contingencies		
Net assets:		
Without donor restrictions	**(1,170,255)**	(18,260,306)
With donor restrictions		
Purpose and time restricted	**4,742,309**	5,043,501
Perpetual in nature	**2,106,023**	2,101,023
Total net assets with donor restrictions	**6,848,332**	7,144,524
Total net assets (deficiency)	**5,678,077**	(11,115,782)
Total liabilities and net assets (deficiency)	**$ 149,533,601**	$ 132,073,969

See notes to financial statements.

The Legal Aid Society

Statement of Activities
Year Ended June 30, 2022
(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	2022			2021
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Summarized Comparative Total
Support and revenue:				
Program support and revenue:				
Criminal defense practice	**$ 199,557,757**	**$ 874,069**	**$ 200,431,826**	$ 187,353,547
Juvenile rights practice	**48,770,731**	**157,000**	**48,927,731**	44,174,645
Civil practice	**82,199,728**	**3,647,228**	**85,846,956**	80,345,165
Administrative grant	**1,080,712**	**-**	**1,080,712**	-
Contributions (net of direct expenses related to the benefit)	**14,318,935**	**121,173**	**14,440,108**	14,887,978
(Loss) return on investments, net	**(219,162)**	**(728,313)**	**(947,475)**	1,244,937
Court awards	**42,592**	**-**	**42,592**	47,374
Other income	**169,018**	**-**	**169,018**	2,345
Net assets released from restrictions—satisfaction of program and time restrictions	**4,367,349**	**(4,367,349)**	**-**	-
Total support and revenue before in-kind contributions	**350,287,660**	**(296,192)**	**349,991,468**	328,055,991
Operating expenses:				
Program services:				
Criminal defense practice	**187,426,558**	**-**	**187,426,558**	177,742,355
Juvenile rights practice	**48,790,540**	**-**	**48,790,540**	47,028,598
Civil practice	**90,480,441**	**-**	**90,480,441**	82,962,504
Total program services before in-kind contributions	**326,697,539**	**-**	**326,697,539**	307,733,457
Supporting services:				
Administrative expenses	**26,108,354**	**-**	**26,108,354**	24,777,081
Fundraising expenses	**1,912,963**	**-**	**1,912,963**	1,588,475
Total supporting services	**28,021,317**	**-**	**28,021,317**	26,365,556
Total operating expenses before in-kind contributions	**354,718,856**	**-**	**354,718,856**	334,099,013
Results of operations before in-kind contributions	**(4,431,196)**	**(296,192)**	**(4,727,388)**	(6,043,022)
Contributed nonfinancial assets:				
Revenue from legal services	**88,981,574**	**-**	**88,981,574**	86,346,909
Program expenses from pro bono services	**(88,981,574)**	**-**	**(88,981,574)**	(86,346,909)
Total contributed nonfinancial assets	**-**	**-**	**-**	-
Change in net assets before pension liability adjustment	**(4,431,196)**	**(296,192)**	**(4,727,388)**	(6,043,022)
Pension and other postretirement-related changes:				
Other than net periodic costs	**21,521,247**	**-**	**21,521,247**	14,754,143
Change in net assets	**17,090,051**	**(296,192)**	**16,793,859**	8,711,121
Net assets (deficiency):				
Beginning	**(18,260,306)**	**7,144,524**	**(11,115,782)**	(19,826,903)
Ending	**$ (1,170,255)**	**$ 6,848,332**	**$ 5,678,077**	$ (11,115,782)

See notes to financial statements.

The Legal Aid Society

Statement of Functional Expenses
Year Ended June 30, 2022
(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	2022									2021
	Program Services					Supporting Services				
	Criminal Defense Practice	Juvenile Rights Practice	Civil Practice	Pro Bono Services	Total Program Services	Administrative	Fundraising	Total Supporting Services	Total	Summarized Comparative Total
Employee expenses:										
Professional staff salaries	$ 82,149,375	$ 22,827,655	$ 37,643,910	$ -	$ 142,620,940	$ 7,165,941	$ 679,718	$ 7,845,659	$ 150,466,599	$ 148,208,937
Support staff salaries	24,044,672	6,081,743	10,579,296	-	40,705,711	4,276,464	292,802	4,569,266	45,274,977	45,104,112
Fringe benefits and other employee costs	53,439,428	14,695,420	24,190,446	-	92,325,294	6,170,673	483,782	6,654,455	98,979,749	96,196,575
Total employee expenses	159,633,475	43,604,818	72,413,652	-	275,651,945	17,613,078	1,456,302	19,069,380	294,721,325	289,509,624
Other expenses:										
Occupancy costs	17,958,484	3,876,084	9,208,161	-	31,042,729	1,980,344	180,176	2,160,520	33,203,249	20,837,594
Communications	1,255,859	322,137	653,055	-	2,231,051	108,309	9,979	118,288	2,349,339	2,326,557
Office operating	1,169,152	267,766	531,728	-	1,968,646	461,341	4,510	465,851	2,434,497	2,474,907
Purchases and leases of furniture and equipment	3,401,051	238,441	624,971	-	4,264,463	600,395	114,074	714,469	4,978,932	4,268,081
Law books and reference materials	565,379	126,166	631,465	-	1,323,010	3,037	5,344	8,381	1,331,391	1,267,514
Trial minutes	289,664	58,573	7,788	-	356,025	147	-	147	356,172	166,700
Cost of investigations and expert witnesses	1,292,001	42,632	728,490	-	2,063,123	41,863	-	41,863	2,104,986	1,434,420
Professional services	347,124	20,208	3,751,677	-	4,119,009	1,388,393	2,930	1,391,323	5,510,332	5,287,311
Transportation	518,583	20,295	36,335	-	575,213	19,284	81	19,365	594,578	362,304
Insurance	464,073	120,573	227,588	-	812,234	49,862	4,522	54,384	866,618	838,220
Depreciation and amortization	146,483	30,767	216,629	-	393,879	101,170	-	101,170	495,049	661,964
Other	385,230	62,080	1,448,902	-	1,896,212	3,741,131	135,045	3,876,176	5,772,388	4,663,817
Total other expenses	27,793,083	5,185,722	18,066,789	-	51,045,594	8,495,276	456,661	8,951,937	59,997,531	44,589,389
Total expenses before contributed legal services and direct expenses related to the benefit	187,426,558	48,790,540	90,480,441	-	326,697,539	26,108,354	1,912,963	28,021,317	354,718,856	334,099,013
Contributed legal services	-	-	-	88,981,574	88,981,574	-	-	-	88,981,574	86,346,909
Direct expenses related to the benefit	-	-	-	-	-	-	453,699	453,699	453,699	186,340
	-	-	-	88,981,574	88,981,574	-	453,699	453,699	89,435,273	86,533,249
Total 2022 expenses	$ 187,426,558	$ 48,790,540	$ 90,480,441	$ 88,981,574	$ 415,679,113	$ 26,108,354	$ 2,366,662	$ 28,475,016	$ 444,154,129	
Total 2021 expenses	$ 177,742,355	$ 47,028,598	$ 82,962,504	$ 86,346,909	$ 394,080,366	$ 24,777,081	$ 1,774,815	$ 26,551,896		$ 420,632,262

See notes to financial statements.

The Legal Aid Society

Statement of Cash Flows
Year Ended June 30, 2022
(With Comparative Financial Information for the Year Ended June 30, 2021)

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 16,793,859	$ 8,711,121
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of deferred lease incentives	(832,753)	(919,212)
Amortization of deferred lease obligations	7,994,247	(1,410,857)
Depreciation and amortization	495,049	661,964
Realized and unrealized loss (gain) on investments	1,133,452	(1,082,129)
Pension and other postretirement-related changes, other than net periodic costs	(21,521,247)	(14,754,143)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables from grants, governmental contracts and other	16,152,516	(9,795,949)
(Increase) decrease in deferred charges and other assets	(587,483)	204,646
(Decrease) increase in accounts payable and accrued expenses	(420,991)	904,822
(Decrease) increase in accrued payroll and other employee expenses	(514,562)	3,867,587
Increase in program advances	15,283,713	952,521
Increase in accrued postretirement health and benefits cost	1,741,852	1,769,176
Decrease in pension liability	(2,100,000)	-
Net cash provided (used in) by operating activities	33,617,652	(10,890,453)
Cash flows from investing activities:		
Proceeds from sale of investments	2,193,920	14,295,400
Purchase of investments	(2,379,681)	(4,148,135)
Purchase of property and equipment	(4,814,594)	(352,924)
Net cash (used in) provided by investing activities	(5,000,355)	9,794,341
Cash flows from financing activities:		
Payment on line of credit	(2,250,000)	-
Proceeds from line of credit	-	2,250,000
Leasehold improvement payment from landlord	3,285,514	-
Net cash provided by financing activities	1,035,514	2,250,000
Net increase in cash and cash equivalents	29,652,811	1,153,888
Cash and cash equivalents:		
Beginning	18,400,584	17,246,696
Ending	$ 48,053,395	$ 18,400,584
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	$ 31,797	$ 23,656

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, 2022, the Society recognized an operating deficit without donor restrictions (excess of expenses, other than postretirement charges, over revenue) of $4.4M. Total assets grew by $17.5M. The increase is a combination of an increase in cash and cash equivalents of $29.6M, an increase in property and equipment of $4.3M, and offset by a decrease in receivables of $12.6M. The Society's overall working capital was $70.9M (consisting of cash and cash equivalents, accounts receivable, prepaid expenses and non-endowment investments, less accounts payable, other accrued expenses, and program advances).

The Society's statement of financial position at June 30, 2022, shows cash and cash equivalents of $48M, and total assets of $149.5M. It also shows a net asset (excess of total assets over total liabilities) of $5.6M. This is compared with a net asset deficiency of $11M at June 30, 2021. The fluctuation in liabilities from year to year is mainly due to 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 0 over 15 years. At June 30, 2022 the pension plan related net asset deficiency was $2.6M.

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.

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 three 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.

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, 2022 and 2021, the Society had outstanding unrecorded conditional receivables from grants, governmental contracts and other of approximately $54,165,000 and $50,307,000, respectively. 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 2019, 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 (FDIC) 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, 2021, from which the summarized information was derived.

Reclassification: Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation.

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 March 30, 2023, for these financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Recently adopted accounting pronouncements: The Society adopted the Accounting Standards Update (ASU) 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)* in the year ended June 30, 2022. 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 updated disclosures are found in Note 13 of the financial statements.

The Society adopted ASU 2020-07, *Not–for–Profit Entities (Topic 958): Presentation and Disclosures by Not–for–Profit Entities for Contributed Nonfinancial Assets* in the year ended June 30, 2022. 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. The updated disclosures are found in Note 6 of the financial statements.

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 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.

Note 3. Liquidity and Availability of Resources

The following represents the Society's financial assets as of June 30, 2022 and 2021, available to meet general expenditures over the next 12 months:

	2022	2021
Financial assets at June 30:		
Cash and cash equivalents	$ 48,053,395	$ 18,400,584
Receivables from grants, governmental contracts and other	81,494,964	97,647,480
Investments	10,320,823	11,268,514
Total financial assets	139,869,182	127,316,578
Less:		
Amounts subject to satisfaction or appropriation	(1,836,987)	(1,409,866)
Donor restricted endowment funds	(5,011,345)	(5,734,658)
Financial assets available to meet cash needs for general expenditures within one year	$ 133,020,850	$ 120,172,054

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. 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 (NYSE).

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

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

Note 4. Fair Value (Continued)

The Society's investments measured at fair value on a recurring basis, consist of the following as of June 30, 2022 and 2021:

	2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents	$ 1,646,560	$ -	$ -	$ 1,646,560
Mutual funds:				
U.S. large cap equities	2,506,514	-	-	2,506,514
International equities	1,145,690	-	-	1,145,690
Core fixed income securities	1,300,338	-	-	1,300,338
Total mutual funds	4,952,542	-	-	4,952,542
Fixed income:				
Corporate bonds	-	3,721,721	-	3,721,721
Total fixed income	-	3,721,721	-	3,721,721
Total investments	$ 6,599,102	$ 3,721,721	$ -	$ 10,320,823

	2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents	$ 1,502,006	$ -	$ -	$ 1,502,006
Mutual funds:				
U.S. large cap equities	2,719,842	-	-	2,719,842
International equities	1,504,813	-	-	1,504,813
Core fixed income securities	1,389,157	-	-	1,389,157
Total mutual funds	5,613,812	-	-	5,613,812
Fixed income:				
Corporate bonds	-	3,621,006	-	3,621,006
International bonds	-	250,417	-	250,417
Other	-	281,273	-	281,273
Total fixed income	-	3,621,006	-	4,152,696
Total investments	$ 7,115,818	$ 3,621,006	$ -	$ 11,268,514

Mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded. These funds are required to publish their daily net asset value (NAV) and to transact at that price, which constitutes an active market.

Note 4. Fair Value (Continued)

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

The Society's investments at June 30, 2022 and 2021, were held at one financial institution.

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 transfers among Levels 1, 2 and 3 during the years ended June 30, 2022 and 2021.

Note 5. Contributions

Contributions consisted of the following for each fiscal year:

	2022	2021
Contributions	$ 11,631,097	$ 12,028,371
Benefits and special events	3,214,065	2,996,012
Bequests	48,645	49,935
	14,893,807	15,074,318
Less related direct expenses	(453,699)	(186,340)
	$ 14,440,108	$ 14,887,978

Note 6. Contributed Nonfinancial Assets

The Society receives contributed nonfinancial assets in the form of probono legal services. Probono legal services are used for program services and are related to client matters or support of non-case services. These services are valued and are reported at the estimated fair value in the financial statements based on current rates of similar legal services provided by the respected law firms, and do not contain donor-imposed restrictions.

Note 7. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are summarized as follows:

	2022	2021
Property and leasehold improvements	$ 16,425,259	$ 16,425,382
Furniture and equipment	1,531,824	2,321,295
Computer and technology	738,889	1,133,355
Mobile outreach van	146,936	146,935
Capital work in progress	5,167,519	352,802
	24,010,427	20,379,769
Less accumulated depreciation and amortization	(15,760,057)	(16,448,944)
	$ 8,250,370	$ 3,930,825

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 $0 and $2,250,000 for the years ended June 30, 2022 and 2021, respectively. Certain investment securities are held as collateral by the lender. The line of credit matures on June 30, 2023.

Note 9. Lease Commitments

As of June 30, 2022, 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:	
2023	$ 20,020,000
2024	21,140,000
2025	21,560,000
2026	21,330,000
2027	21,410,000
Thereafter	408,740,000
	$514,200,000

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 $29,223,000 and $17,348,000 for the years ended June 30, 2022 and 2021, respectively.

The Society received net incentives from certain landlords for the purchase of furniture and equipment and leasehold improvements. Deferred lease incentive balance was approximately $3,024,000 and $3,857,000 as of June 30, 2022 and 2021, 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.

In connection with the lease agreement with the landlord of the new office at 40 Worth Street, the Society elected to receive Improvement Payments from the landlord to finance the cost of the office renovation. The renovation of the new office is expected to be completed in the year ended June 30, 2024. Accumulated leasehold improvement payments received from the landlord amounted to $3,285,514 as of June 30, 2022. This amount will be repaid to the landlord through adjustments in future rent payments.

Note 10. Net Assets with Donor Restrictions

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

	2022	2021
Subject to expenditures for specific purpose:		
Criminal defense practice	$ 822,243	$ 657,325
Juvenile rights practice	33,648	200,142
Civil practice	697,416	335,335
Other	283,680	217,064
Endowment:		
Perpetual in nature	2,106,023	2,101,023
Endowment accumulated investment earnings	2,905,322	3,633,635
	$ 6,848,332	$ 7,144,524

The total net assets released from restriction due to satisfaction of time and purpose restrictions amounted to $4,367,349 and $3,117,308 during the years ended June 30, 2022 and 2021, 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 Executive and Finance Committee to oversee the investment of the endowment assets with the objective of achieving capital growth and income stability. On an annual basis and consistent with its spending policy, the Society decides whether to appropriate endowment funds for expenditure as part of its annual budgeting process. There were no appropriations in the fiscal years ended June 30, 2022 and 2021.

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

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, 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	2,101,023	3,633,635	5,734,658
Net investment earnings	-	(728,313)	(728,313)
Endowment net assets, at June 30, 2022	$ 2,101,023	$ 2,905,322	$ 5,006,345

Note 11. Endowment Funds (Continued)

During the year ended June 30, 2022, the Society received a donor-restricted endowment contribution of $5,000. This amount was transferred to the investment held for endowment subsequent to year end.

Note 12. Functional Allocation of Expenses

Certain expenses are attributable to more than one practice, program or supporting function. These expenses are allocated as the 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 $2,100,000 and $0 in fiscal 2022 and 2021, 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 $3,211,000 and $3,259,000 in fiscal 2022 and 2021, 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 approximately $6,669,000 and $6,457,000 in fiscal 2022 and 2021, 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 $3,637,000 and $3,965,000 in fiscal 2022 and 2021, respectively.

Note 13. 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 2021, 2020, and 2019 are for the plan's year-end at December 31, 2021, 2020 and 2019, 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 84.5%, 82.3%, and 83.6%, respectively. The expiration date of the collective bargaining agreement requiring contributions was June 30, 2022. The Society is currently operating on the extension and in negotiations with the union. 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
2021	$ 3,832,321	No
2020	4,127,469	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, 2022 and 2021, amounted to approximately $1,277,000 and $1,293,000, respectively. The increase and decrease in the long-term benefit obligation for healthcare in the years ended June 30, 2022 and 2021, is $577,000 and $(21,000), respectively.

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, 2022 and 2021, are shown in the below tables.

	Retirement Plan Benefits		Postretirement Health and Benefits	
June 30:	2022	2021	2022	2021
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 71,356,075	$ 78,134,473	$ 71,569,807	$ 70,213,668
Service cost	-	-	2,945,667	2,863,449
Interest cost	1,761,269	1,897,748	2,230,865	2,127,987
Plan participants' contributions	-	-	183,471	142,879
Special termination benefits:				
Actuarial (gain)	(10,012,863)	(556,415)	(24,190,470)	(2,541,024)
Settlements	-	(3,093,870)	-	-
Benefits paid	(5,506,621)	(5,025,861)	(1,387,286)	(1,237,152)
Benefit obligation at end of year	57,597,860	71,356,075	51,352,054	71,569,807
Change in plan assets:				
Fair value of plan assets at beginning of year	67,081,907	59,519,199	-	-
Actual (loss) gain on plan assets	(8,253,024)	16,666,241	-	-
Employer contributions	2,100,000	-	1,203,815	1,094,273
Plan participants' contributions	-	-	183,471	142,879
Settlements	-	(3,093,870)	-	-
Benefits paid	(5,506,621)	(5,025,861)	(1,387,286)	(1,237,152)
Expenses paid	(436,928)	(983,802)	-	-
Fair value of plan assets at end of year	54,985,334	67,081,907	-	-
Funded status at end of year	$ (2,612,526)	$ (4,274,168)	$ (51,352,054)	$ (71,569,807)

Note 13. Employee Benefit Plans (Continued)

June 30:	Retirement Plan Benefits 2022	Retirement Plan Benefits 2021	Postretirement Health and Benefits 2022	Postretirement Health and Benefits 2021
Amounts recognized as liabilities in the statement of financial position:	$ (2,612,526)	$ (4,274,168)	$ (51,352,054)	$ (71,569,807)
Amounts recognized as cumulative changes in pension and other postretirement costs other than net periodic costs:				
Prior service credit	$ -	$ -	$ (13,459)	$ (74,613)
Net actuarial loss	16,823,549	17,887,808	679,163	25,711,227
Net amount recognized	$ 16,823,549	$ 17,887,808	$ 665,704	$ 25,636,614
Components of net benefit cost:				
Components of net periodic benefit cost:				
Service cost	$ -	$ -	$ 2,945,667	$ 2,863,449
Expenses	600,000	790,000	-	-
Interest cost	1,761,269	1,897,748	2,230,865	2,127,987
Expected return on plan assets	(3,625,257)	(3,778,160)	-	-
Amortization of prior service cost	-	-	(61,154)	(61,154)
Amortization of losses	2,766,605	3,627,329	841,594	1,011,157
Recognized loss due to settlements	-	775,583	-	-
Net periodic benefit cost	1,502,617	3,312,500	5,956,972	5,941,439
Changes in pension and postretirement costs other than net periodic costs:				
Prior service cost	-	-	61,154	61,154
Net gain	(1,064,259)	(17,653,606)	(25,032,064)	(3,552,181)
Net changes in other than periodic cost	(1,064,259)	(17,653,606)	(24,970,910)	(3,491,027)
Net benefit cost	$ 438,358	$ (14,341,106)	$ (19,013,938)	$ 2,450,412

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.

During the year ended June 30, 2022, the retirement benefits plan experienced a decrease in the net benefit obligation. The primary drivers for the decrease were actuarial gains due to discount rate increases partially offset by lower returns on plan assets.

During the year ended June 30, 2022, the postretirement health and benefits plan experienced a decrease in the net benefit obligation. The primary driver for the decrease was actuarial gains due to discount rate increases.

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

	Retirement Plan Benefits 2022	Retirement Plan Benefits 2021	Postretirement Health and Benefits 2022	Postretirement Health and Benefits 2021
Discount rate	4.70%	2.55%	4.95%	3.25%

Note 13. Employee Benefit Plans (Continued)

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

	Retirement Plan Benefits		Postretirement Health and Benefits	
	2022	2021	2022	2021
Discount rate	2.55%	2.55%	3.25%	3.20%
Expected return on plan assets	6.50%	6.50%	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 are based on national trends, are 6.70% and 7.05% in years ended June 30, 2022 and 2021, respectively. The 6.70% rate in fiscal year 2022 is expected to gradually decline to 4.75% in fiscal year 2030.

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:		
2023	$ 5,376,413	$ 1,220,000
2024	5,649,875	1,340,000
2025	4,976,113	1,458,000
2026	5,276,767	1,586,000
2027	4,838,544	1,713,000
2028–2032	21,278,876	10,714,000

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.

Note 13. Employee Benefit Plans (Continued)

The fair value of the Retirement Plan's investments at June 30, 2022 and 2021, (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)		%	%
	2022	2021	2022	2021
Cash equivalents	$ 3,649,783	$ 202,753	6.6%	0.3%
Mutual funds:				
Large-cap	25,575,649	32,309,485	46.5%	48.2%
Mid-cap	4,143,179	5,380,090	7.5%	8.0%
Small-cap	2,588,874	5,191,911	4.7%	7.7%
International	3,044,683	4,553,224	5.5%	6.8%
Emerging markets	1,953,691	3,764,187	3.6%	5.6%
Indexed trust fund	-	562,476	0.0%	0.8%
Fixed income	14,029,475	15,117,781	25.5%	22.6%
	$ 54,985,334	$ 67,081,907	100%	100%

Mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded. Mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded. These funds are required to publish their daily net asset value (NAV) and to transact at that price, which constitutes an active market.

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, 2022, receivables from grants and governmental contracts include accrued revenue aggregating approximately $1,900,000 from unexecuted and/or unregistered contracts with the state/city of New York Agencies as of March 30, 2023. 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.