

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND 2021
INDEPENDENT AUDITORS' REPORT

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Philadelphia Lawyers for Social Equity
Philadelphia, Pennsylvania

Opinion

We have audited the accompanying financial statements of Philadelphia Lawyers for Social Equity (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Lawyers for Social Equity as of June 30, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Philadelphia Lawyers for Social Equity 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 these 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 Philadelphia Lawyers for Social Equity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

(Continued)

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Philadelphia Lawyers for Social Equity'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 Philadelphia Lawyers for Social Equity'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.



Philadelphia, Pennsylvania

December 19, 2022

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 687,853	\$ 443,089
Grants and contributions receivable	376,420	91,130
Prepaid and other assets	13,528	12,744
Total assets	\$ 1,077,801	\$ 546,963
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 22,862	\$ 2,119
Accrued payroll and other liabilities	80,379	52,050
Deferred revenue	31,250	48,000
Total liabilities	134,491	102,169
Commitments		
Net assets		
Without donor restrictions		
Undesignated	16,283	121,758
Board designated - reserve fund	253,600	160,554
Total without donor restrictions	269,883	282,312
With donor restrictions	673,427	162,482
Total net assets	943,310	444,794
Total liabilities and net assets	\$ 1,077,801	\$ 546,963

See notes to financial statements.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support and revenue				
Contributions				
Foundation	\$ 180,152	\$ 946,250	\$ 1,126,402	396,430
Government grants	-	-	-	75,000
Other	91,240	117,975	209,215	110,623
Program services	175,420	-	175,420	124,180
Other income	131	-	131	376
Gain on forgiveness of debt	-	-	-	62,214
Net assets released from restriction	553,280	(553,280)	-	-
Total support and revenue	1,000,223	510,945	1,511,168	768,823
Expenses				
Program services				
Expungement	193,800	-	193,800	110,040
Pardons	302,227	-	302,227	278,930
Community	295,788	-	295,788	194,625
	791,815	-	791,815	583,595
Supporting services				
Management and general	157,183	-	157,183	78,274
Fundraising	63,654	-	63,654	21,731
	220,837	-	220,837	100,005
Total expenses	1,012,652	-	1,012,652	683,600
Changes in net assets	(12,429)	510,945	498,516	85,223
Net assets, beginning of year	282,312	162,482	444,794	359,571
Net assets, end of year	\$ 269,883	\$ 673,427	\$ 943,310	444,794

See notes to financial statements.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2021

	Without Donor Resrictions	With Donor Restrictions	Total
Support and revenue			
Contributions			
Foundation	\$ 49,023	347,407	396,430
Government grants	-	75,000	75,000
Other	110,623	-	110,623
Program services	124,180	-	124,180
Other income	376	-	376
Gain on forgiveness of debt	62,214	-	62,214
Net assets released from restriction	340,591	(340,591)	-
Total support and revenue	687,007	81,816	768,823
Expenses			
Program services			
Expungement	110,040	-	110,040
Pardons	278,930	-	278,930
Community	194,625	-	194,625
	583,595	-	583,595
Supporting services			
Management and general	78,274	-	78,274
Fundraising	21,731	-	21,731
	100,005	-	100,005
Total expenses	683,600	-	683,600
Changes in net assets	3,407	81,816	85,223
Net assets, beginning of year	278,905	80,666	359,571
Net assets, end of year	\$ 282,312	\$ 162,482	\$ 444,794

See notes to financial statements.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services			Supporting Services				
	Expungement	Pardons	Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Payroll	\$ 144,333	\$ 191,571	\$ 212,649	\$ 548,553	\$ 104,401	\$ 51,916	\$ 156,317	\$ 704,870
Payroll taxes and employee benefits	22,593	32,796	34,017	89,406	19,458	10,266	29,724	119,130
	166,926	224,367	246,666	637,959	123,859	62,182	186,041	824,000
Advertising and promotion	2,764	4,212	5,051	12,027	-	-	-	12,027
Bank fees	-	-	-	-	1,995	-	1,995	1,995
Consulting	-	8,950	-	8,950	-	-	-	8,950
Dues and subscriptions	822	1,252	1,502	3,576	-	-	-	3,576
Information technology	5,420	8,259	9,906	23,585	1,276	-	1,276	24,861
Insurance	1,060	1,616	1,939	4,615	321	108	429	5,044
Miscellaneous	2,951	15,950	5,393	24,294	5,651	-	5,651	29,945
Office	6,763	10,309	12,364	29,436	2,049	689	2,738	32,174
Professional fees	-	16,500	-	16,500	20,023	-	20,023	36,523
Rent	6,631	10,107	12,122	28,860	2,009	675	2,684	31,544
Travel	463	705	845	2,013	-	-	-	2,013
Total expenses	\$ 193,800	\$ 302,227	\$ 295,788	\$ 791,815	\$ 157,183	\$ 63,654	\$ 220,837	\$ 1,012,652

See notes to financial statements.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services			Supporting Services				
	Expungement	Pardons	Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Payroll	\$ 80,932	\$ 168,135	\$ 149,698	\$ 398,765	\$ 42,663	\$ 17,668	\$ 60,331	\$ 459,096
Payroll taxes and employee benefits	12,647	29,328	23,641	65,616	8,429	3,684	12,113	77,729
	93,579	197,463	173,339	464,381	51,092	21,352	72,444	536,825
Advertising and promotion	1,865	2,033	2,412	6,310	-	-	-	6,310
Bank fees	-	-	-	-	714	-	714	714
Consulting	-	20,150	-	20,150	-	-	-	20,150
Dues and subscriptions	830	905	1,073	2,808	-	-	-	2,808
Information technology	1,494	1,628	1,932	5,054	907	-	907	5,961
Insurance	879	958	1,136	2,973	554	35	589	3,562
Interest	-	-	-	-	449	-	449	449
Miscellaneous	1,405	32,531	1,818	35,754	4,706	-	4,706	40,460
Office	4,283	4,668	5,538	14,489	2,699	172	2,871	17,360
Professional fees	1,182	13,664	1,529	16,375	14,447	-	14,447	30,822
Rent	4,293	4,679	5,550	14,522	2,706	172	2,878	17,400
Travel	230	251	298	779	-	-	-	779
Total expenses	\$ 110,040	\$ 278,930	\$ 194,625	\$ 583,595	\$ 78,274	\$ 21,731	\$ 100,005	\$ 683,600

See notes to financial statements.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2022	2021
Cash flows from operating activities		
Changes in net assets	\$ 498,516	85,223
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Gain on forgiveness of debt	-	(62,214)
Changes in operating assets and liabilities:		
Grants and contributions receivable	(285,290)	(19,979)
Prepaid and other assets	(784)	(3,800)
Accounts payable and accrued expenses	20,743	2,570
Accrued payroll and other liabilities	28,329	3,332
Deferred revenue	(16,750)	48,000
Net cash provided by operating activities	244,764	53,132
Net increase in cash and cash equivalents	244,764	53,132
Cash and cash equivalents, beginning of year	443,089	389,957
Cash and cash equivalents, end of year	\$ 687,853	443,089

See notes to financial statements.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION

Organization and Nature of Activities

Philadelphia Lawyers for Social Equity (the "Organization"), is a nonprofit organization who seeks a more equitable social environment for those with criminal records through individual representation, strategic litigation, community education, research and advocacy. The Organization does this by seeking expungements in criminal court and pardons from the Governor; educating elected, business and community leaders; empowering and organizing under-resourced communities, and leading legislative, administrative and systemic reform.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements reflect the accounts of the Organization and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and presented in accordance with Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*.

Support and Revenue Recognition

The Organization determines the amount of revenue to be recognized from contracts with customers through application of the following steps:

- Identification of the contract, or contracts with customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and recognition of revenue when or as the Organization satisfies the performance obligations.

Program revenues consist of contracts that require the Organization to perform legal services, clinics and training events in the community and to local businesses. The revenue for these contracts is earned at a point in time when the service is provided or training event occurs and amounted to \$175,420 and \$124,180 for the years ended June 30, 2022 and 2021, respectively.

Support is recognized in accordance with ASC 958, *Not-for-Profit Entities*, (Topic 958). The Organization recognizes contributions when cash is received. Contributions and grants received are recorded as support with or without restrictions depending on the existence and/or nature of any donor restrictions.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Revenue Recognition (Continued)

Contributions and Grants – In accordance with ASC 958, grants awarded to the Organization which are generally considered nonreciprocal transactions restricted by funders/supporters for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the grant agreements are met. Unconditional promises to give cash and other assets to the Organization are reported as contributions and grants and recorded at fair value on the date the promise is received. All contributions are considered to be available for use without restriction unless specifically restricted by the donor. Contributions received for specific purposes or with donor stipulations are reported as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Net Assets

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets 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. From time to time, the Board of Directors may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. The Organization has board designated net assets of \$253,600 and \$160,554 as of June 30, 2022 and 2021, respectively.

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 or purposes specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, other support, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions Receivable

Grants and contributions receivable are reported at the amount management expects to collect from outstanding balances at year-end. The Organization's management has determined that these receivables are fully collectible; therefore, no allowance for uncollectible accounts was considered necessary at June 30, 2022 and 2021. At June 30, 2022 and 2021, the receivables are due within one year.

Deferred Revenue

Deferred revenue consists primarily of program revenues received but not earned as of the date of the statement of financial position. Deferred revenues will be earned as the program conditions are met.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$12,027 and \$6,310 for the years ended June 30, 2022 and 2021, respectively.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited. Salaries, employee benefits and payroll taxes are allocated based on estimates of time and effort incurred by personnel. All other expenses are allocated based upon time and effort by personnel or another appropriate method as determined by management.

Income Taxes

The Organization is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(c)(3), and is exempt from state income taxes under the provisions of the Pennsylvania Nonprofit Corporation Law. The Organization is not a private foundation.

Gain on Forgiveness of Debt

The Organization received a loan, under the Paycheck Protection Program, (the "PPP Loan"), which was subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds were used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent, and covered utility payments incurred by the Organization.

The PPP loan was forgiven as of June 30, 2021, and the Organization recognized a gain on debt forgiveness of \$62,214 for the year ended June 30, 2021.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. The new ASU will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discontinued basis, and b) a right-of-use asset, which is an asset that represents the lessees' right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. A lessee will no longer be provided with a source of off-balance sheet financing. ASU 2016-02 will be effective for nonpublic businesses for fiscal years beginning after December 15, 2021. Early application is permitted. The Organization is currently evaluating the effect that this new guidance will have on its financial statements and related disclosures.

3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the statement of financial position date as of June 30, 2022 and 2021 for general expenditure are as follows:

	June 30,	
	2022	2021
Cash and cash equivalents	\$ 687,853	\$ 443,089
Grants and contributions receivable	376,420	91,130
Total financial assets available within one year	1,064,273	534,219
Less: amounts unavailable for general expenditures within one year, due to		
Restricted by donor for specific purpose	(673,427)	(162,482)
Unavailable to management without Board's approval	(253,600)	(160,554)
Total amounts unavailable for general expenditure within one year	(927,027)	(323,036)
Total financial assets available to management for general expenditure within one year	\$ 137,246	\$ 211,183

The Organization's financial assets available to meet cash needs for general expenditures within one year represents funding for ongoing operational requirements and program expenditures in fiscal year 2023.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

3 – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The Organization has certain donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been excluded in the above qualitative information for financial assets to meet general expenditures within one year.

Liquidity Management

Management and the Board of Directors provide guidance and oversight for the management of cash and cash equivalents. The Organization maintains an adequate level of cash to meet on-going operational requirements and excess cash may be invested in investments.

4 – NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization’s net assets without donor restrictions are comprised of undesignated and Board designated amounts for the following purposes at:

	June 30,	
	2022	2021
Undesignated	\$ 16,283	\$ 121,758
Board designated – reserve fund	253,600	160,554
	<u>\$ 269,883</u>	<u>\$ 282,312</u>

Without restrictions, Board Designated Funds

During the fiscal years ended June 30, 2022 and 2021, The Board has designated funds, equivalent to approximately 3 months’ worth of operating expenses, as a Reserve Fund and adopted a policy related to the maintenance and use of those funds. The purpose of this Reserve Fund Policy is to ensure the fiscal soundness of the Organization and to provide a source of internal funds for organizational priorities. The Reserve Fund is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses.

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

	June 30,	
	2022	2021
Subject to expenditure for specified purposes:		
Expungement, Pardon & Community Education	\$ 568,443	\$ 45,546
Pardon Program	90,009	116,936
Community Education	14,975	-
	<u>\$ 673,427</u>	<u>\$ 162,482</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes by the expiration of a time restriction or by occurrence of other events specified by donors.

	Year Ended June 30,	
	2022	2021
Purpose restrictions accomplished		
Expungement, Pardon & Community Education	\$ 379,102	\$ 206,551
Pardon program	171,177	134,040
Community Education	3,000	-
	<u>\$ 553,280</u>	<u>\$ 340,591</u>

6 – COMMITMENTS

The Organization began leasing new office space on March 1, 2021 under a one year noncancelable lease through February 28, 2022. The Organization began leasing new office space on March 1, 2022 under a three year noncancelable lease through February 28, 2025. Rent expense for office space including shared utilities and other costs for the year ended June 30, 2022 and 2021 was \$31,544 and \$17,400, respectively.

The future minimum lease payments required under the non-cancelable leases as of June 30, 2022 are as follows:

Year Ending June 30,	
2023	\$ 39,222
2024	39,222
2025	13,074
	<u>\$ 78,444</u>

PHILADELPHIA LAWYERS FOR SOCIAL EQUITY

NOTES TO FINANCIAL STATEMENTS

7 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC). These accounts are protected by the FDIC up to \$250,000. At times, during the year these balances may exceed FDIC limits; however, the Organization has not experienced any losses in such accounts.

8 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2022, the Organization entered into a one year agreement to provide legal services to a company that is owned by a board member of the Organization in the amount of \$50,000, which accounted for 29% of the Organization's program service revenue.

9 – UNCERTAIN TAX POSITIONS

Management of the Organization considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities, including changes to the Organization's status as a not-for-profit entity. Management believes the Organization met the requirements to maintain its tax-exempt status and has not identified any material uncertain tax positions subject to the unrelated business income tax that require recognition or disclosure in the accompanying financial statements.

10 – SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 19, 2022, the date on which the financial statements were available to be issued.