



***FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT***

***YEARS ENDED AUGUST 31, 2020 AND 2019***

## CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 12

## INDEPENDENT AUDITORS' REPORT

To The Board of Trustees  
Legal Outreach, Inc.  
Long Island City, New York

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Legal Outreach, Inc. which comprise the balance sheets as of August 31, 2020 and 2019, and the related statements of activities, cash flows and functional expenses for the years 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Legal Outreach, Inc. as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 2 to the financial statements, in 2019 the Organization adopted Accounting Standards Update No. 2018-08 Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958); and, No. 2014-09 Revenue from Contracts with Customers (Topic 606). Our opinion is not modified with respect to these matters.

*Dorfman Abrams Music, LLC*

Saddle Brook, New Jersey

June 19, 2021

LEGAL OUTREACH, INC.

BALANCE SHEETS

ASSETS

	August 31,	
	2020	2019
Cash and cash equivalents	\$ 3,979,196	\$ 3,626,496
Contributions receivable	121,534	337,580
Accounts receivable		29,806
Prepaid expenses	11,005	9,791
Property and equipment, net	20,091	37,167
Security deposit	84,765	84,765
Total assets	<u>\$ 4,216,591</u>	<u>\$ 4,125,605</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and other accrued expenses	\$ 107,942	\$ 259,068
Deferred rent payable	40,409	31,151
Refundable advance - Paycheck Protection Program	286,135	
Total liabilities	<u>434,486</u>	<u>290,219</u>
Net assets:		
Without donor restrictions	3,567,105	3,560,386
With donor restrictions	215,000	275,000
Total net assets	<u>3,782,105</u>	<u>3,835,386</u>
Total liabilities and net assets	<u>\$ 4,216,591</u>	<u>\$ 4,125,605</u>

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

LEGAL OUTREACH, INC.  
STATEMENTS OF ACTIVITIES

	Year ended August 31, 2020			Year ended August 31, 2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating support and revenues:						
Public support:						
Contributions and grants	\$ 378,044	\$ 1,310,592	\$ 1,688,636	\$ 464,868	\$ 1,515,467	\$ 1,980,335
Special events (net of related expenses of \$8,253 in 2020 and \$58,795 in 2019)	386,254		386,254	482,239		482,239
In-kind legal mentor services	219,472		219,472	274,046		274,046
In-kind facilities	7,650		7,650	67,500		67,500
Government grants		38,203	38,203		20,000	20,000
Miscellaneous income				27,158		27,158
Net assets released from restrictions	1,408,795	(1,408,795)		1,537,967	(1,537,967)	
Total public support	2,400,215	(60,000)	2,340,215	2,853,778	(2,500)	2,851,278
Revenue:						
Program revenues	84,750		84,750	85,850		85,850
Interest income	33,166		33,166	62,609		62,609
Rental income	37,681		37,681	55,891		55,891
Total revenue	155,597		155,597	204,350		204,350
Total support and revenue	2,555,812	(60,000)	2,495,812	3,058,128	(2,500)	3,055,628
Expenses:						
Program services	1,956,853		1,956,853	2,423,107		2,423,107
Supporting services:						
Management and general	306,690		306,690	205,234		205,234
Fundraising	268,474		268,474	406,234		406,234
Total expenses - before depreciation	2,532,017		2,532,017	3,034,575		3,034,575
Depreciation	17,076		17,076	302,273		302,273
Total operating expenses	2,549,093		2,549,093	3,336,848		3,336,848
Change in net assets from operations	6,719	(60,000)	(53,281)	(278,720)	(2,500)	(281,220)
Net assets, beginning of year	3,560,386	275,000	3,835,386	3,839,106	277,500	4,116,606
Net assets, end of year	<u>\$ 3,567,105</u>	<u>\$ 215,000</u>	<u>\$ 3,782,105</u>	<u>\$ 3,560,386</u>	<u>\$ 275,000</u>	<u>\$ 3,835,386</u>

LEGAL OUTREACH, INC.  
STATEMENTS OF CASH FLOWS

	Year ended August 31,	
	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (53,281)	\$ (281,220)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	17,076	302,273
Bad debt expense	10,080	10,776
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	205,966	(86,827)
Accounts receivable	29,806	(24,556)
Prepaid expenses	(1,214)	946
Increase (decrease) in:		
Accounts payable and other accrued expenses	(151,126)	(15,422)
Deferred rent payable	9,258	22,288
Refundable advance - Paycheck Protection Program	286,135	
Net cash provided (used) by operating activities	352,700	(71,742)
Cash flows from investing activities:		
Property and equipment acquisitions		(18,785)
Net cash used in investing activities		(18,785)
Net increase (decrease) in cash and cash equivalents	352,700	(90,527)
Cash and cash equivalents, beginning of year	3,626,496	3,717,023
Cash and cash equivalents, end of year	<u>\$ 3,979,196</u>	<u>\$ 3,626,496</u>

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

LEGAL OUTREACH, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended August 31, 2020 and 2019

	Program services		Management and general		Supporting services		Total		Total program and supporting services	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Salaries	\$ 956,279	\$ 1,118,028	\$ 173,484	\$ 107,673	\$ 144,633	\$ 252,365	\$ 318,117	\$ 360,038	\$ 1,274,396	\$ 1,478,066
Payroll taxes	75,763	87,757	13,745	8,452	11,459	19,809	25,204	28,261	100,967	116,018
Pension	32,624	39,166	20,489	12,553	11,119	9,919	31,608	22,472	64,232	61,638
Employee benefits	79,322	83,896	14,390	8,080	11,998	18,937	26,388	27,017	105,710	110,913
Total salaries and related expenses	1,143,988	1,328,847	222,108	136,758	179,209	301,030	401,317	437,788	1,545,305	1,766,635
Occupancy costs	368,868	492,679	34,653	39,943	72,006	82,998	106,659	122,941	475,527	615,620
Professional mentorships	193,546	274,046							193,546	274,046
Student stipends	80,165	88,377							80,165	88,377
Awards	70,377	77,780							70,377	77,780
Program support expenses	52,452	102,846							52,452	102,846
Professional fees			41,326	23,123			41,326	23,123	41,326	23,123
Repairs and maintenance	14,065	15,558	2,551	1,430	2,127	3,038	4,678	4,468	18,743	20,026
Insurance	12,772	13,793	2,317	1,296	1,932	2,693	4,249	3,989	17,021	17,782
Communications and equipment	12,513	12,986	2,270	1,194	1,893	2,536	4,163	3,730	16,676	16,716
Bad debt expense					10,080	10,776	10,080	10,776	10,080	10,776
Office supplies and expenses	6,012	12,157	1,091	1,118	909	2,374	2,000	3,492	8,012	15,649
Equipment rentals	1,298	2,918	236	268	198	570	434	838	1,732	3,756
Dues and membership	797	1,120	138	104	120	219	258	323	1,055	1,443
Total expenses - before depreciation	1,956,853	2,423,107	306,690	205,234	268,474	406,234	575,164	611,468	2,532,017	3,034,575
Depreciation	12,813	234,474	2,325	22,027	1,938	45,772	4,263	67,799	17,076	302,273
Total operating expenses	\$ 1,969,666	\$ 2,657,581	\$ 309,015	\$ 227,261	\$ 270,412	\$ 452,006	\$ 579,427	\$ 679,267	\$ 2,549,093	\$ 3,336,848

LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

1. Nature of the Organization

Legal Outreach, Inc. (the Organization), is a college preparatory and pipeline diversity organization that organizes and implements law-based educational programs to inspire and prepare middle school, high school, and college students from underserved communities to strive for academic excellence, higher education and professional careers. The Organization is located in Long Island City, New York. The major sources of support are from contributions, grants, and program revenues.

Legal Outreach, Inc. is a not-for-profit organization incorporated in 1983, in the State of New York.

2. Summary of significant accounting policies

Basis of presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consists of demand deposit accounts with maturities of three months or less for the purpose of the statement of cash flows.

Contributions receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, unless management deems the discount to be immaterial to the financial statements. All contributions are expected to be collected within one year.

Accounts receivable

Accounts receivable consist primarily of amounts from government grants and rental income. All accounts receivable are expected to be collected within one year.



LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

2. Summary of significant accounting policies (continued)

Allowance for doubtful receivables

The Organization determines whether an allowance for uncollectible receivables should be provided, based on management's assessments of the age of the Organization's receivables, current economic conditions and historical experience. As of August 31, 2020 and 2019, the Organization determined that an allowance was not necessary.

Revenue and revenue recognition

The Organization recognizes contributions when cash or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a 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. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

A portion of the Organization's revenue is derived from one federal grant, which is conditioned upon certain performance requirements and/or the incurrence of qualifying expenses. Amounts received are recognized as revenue when the Organization receives the funds.

The Organization recognizes revenue from special events when the events takes place. Amounts received prior to the commencement of the event, including deposits, are deferred to the applicable period.

The Organization has adopted Accounting Standards Update No. 2018-08 Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958-605); and, No. 2014-09 Revenue from Contracts with Customers (Topic 606) as management believes the standards improve the usefulness and understandability of the Organization's financial reporting.

Analysis of various provisions of these standards resulted in a change in the way the Organization recognizes revenue for certain government grants which had previously been treated as without donor restriction. These amounts have been reclassified as with donor restriction in the amount of \$20,000 for the year ended August 31, 2019.

LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition (continued)

In-kind contributions

In-kind contributions are reflected as contributions at their fair value at the date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The Organization received donated materials in the amount of \$292 and \$47,870 during the year ended August 31, 2020 and 2019, which are reported as part of special events. In addition, donated specialized services and facilities have been recognized in the accompanying financial statements. The donated services require professional skills, and would typically be purchased if not provided by donation. The Organization benefits from professional services for students' internships and mentorships, which were valued at \$219,472 and \$274,046 for the years ended August 31, 2020 and 2019, respectively. As part of the students' professional exposure program, facilities were also donated and valued at \$7,650 and \$67,500 for years ended August 31, 2020 and 2019 respectively. Donated facilities are reported in the accompanying financial statements as part of occupancy costs in the statement of functional expenses.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to related cost of depreciable assets to operations over the estimated useful lives. The Organization capitalizes property and equipment with useful lives of two years or more and a cost of \$1,500 or more, unless such property and equipment is funded by a grantor, and the grantor retains title to the property and equipment.

Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Furniture and equipment	5 years
Leasehold improvements	10 years

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as time and effort and square footage.

Income taxes

The Organization is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.

LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

3. Risks and uncertainties

Financial instruments that potentially subject the Organization to concentrations of credit risks consist principally of cash and cash equivalents, accounts receivable and contributions receivable. The Organization maintains its cash and cash equivalents in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Concentrations of credit risks with respect to the accounts receivable are from a government grant. Concentrations of credit risks with respect to contributions receivable are limited due to the fact that they are from substantial contributors and established foundations. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Pandemic

In the first quarter of 2020, the outbreak of a novel strain of coronavirus, COVID-19, was declared a Pandemic. The Pandemic did not have an impact on the Organization's business until March 2020. The Pandemic continued to impact certain projects through the middle to later part of the year when certain municipalities began to ease restrictions to allow for the gradual re-opening and expansion of business activities and, as of resumed more normalized operations. In response to the Pandemic, management has modified certain business and workforce practices and implemented new protocols to promote social distancing and enhance health and safety measures. Due to the Pandemic, the Organization also changed its platform to provide off site training events which have continued on a virtual platform. The Organization has reviewed its operations in light of the COVID-19 Pandemic. Based on that review, it does not anticipate that the COVID-19 Pandemic will have a material impact on its operations. However, events surrounding the Federal and State responses could change that analysis, and that change could be material.

4. Availability and liquidity

The following represents the Organization's financial assets at August 31, 2020:

Financial assets at year end

Cash	\$ 3,979,196
Contributions receivable	<u>121,534</u>
Total financial assets	<u>4,100,730</u>

Less amounts not available to be used within one year:

Net assets with donor restrictions	215,000
Less net assets with purpose restrictions to be met in less than a year	<u>(215,000)</u>
	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,100,730</u>

The Organization's goal is generally to maintain financial assets to meet 180 days of operating expenses (approximately \$653,000). As part of its liquidity plan, excess cash is maintained in money market accounts. In addition to these available financial assets, a significant portion of the Organization's annual expenditures will be funded by current year operating revenues including grants, fees for services, and contributions.

LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

5. Property and equipment

Property and equipment consisted of the following at August 31:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 82,086	\$ 82,086
Leasehold improvements	<u>2,954,057</u>	<u>2,954,057</u>
	3,036,143	3,036,143
Less accumulated depreciation	<u>3,016,052</u>	<u>2,998,976</u>
	<u>\$ 20,091</u>	<u>\$ 37,167</u>

Depreciation expense for the years ended August 31, 2020 and 2019 was \$17,076 and \$302,273, respectively.

6. Refundable advance - Paycheck Protection Program

In May, 2020, the Organization was granted a loan in the amount of \$286,135 pursuant to the Paycheck Protection Program (the PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and related interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The Organization has determined the PPP to be a conditional contribution and, as such, it has recorded the proceeds of the loan as a refundable advance and has not included it in revenues as of August 31, 2020. The Organization did not recognize income until all conditions were met and the loan was fully forgiven by the Small Business Administration. The loan and related interest were fully forgiven on February 17, 2021.

LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

7. Commitments and contingencies

The Organization leases real property for program and administrative purposes. Effective May 2018, the Organization exercised the first of two five-year renewal options at an increase of 3% per annum.

Historically the Organization has paid real estate taxes as part of the lease, however the Organization has negotiated a reduction in rent where they are not responsible for the payment of real estate taxes up to June 2020. In addition, the Organization has negotiated a reduction of rent by \$10,000 per month for each month from and including April 2021 through and including August 2021. The conception of the \$50,000 has been reflected in the table below.

Future minimum annual rental commitments under noncancelable rental lease obligations are as follows:

Year ending August 31:	
2021	\$ 410,806
2022	474,630
2023	<u>322,686</u>
	<u>\$ 1,208,122</u>

The Organization's rent expense, including escalation charges, for the years ended August 31, 2020 and 2019 was \$452,213 and \$452,341, respectively.

8. Net assets

Net assets were as follows for the years ended August 31:

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Undesignated	\$ 3,567,105	\$	\$ 3,567,105	\$ 3,560,386	\$	\$ 3,560,386
Specific purpose: SLI and College Bound Program		215,000	215,000		275,000	275,000
Total net assets	<u>\$ 3,567,105</u>	<u>\$ 215,000</u>	<u>\$ 3,782,105</u>	<u>\$ 3,560,386</u>	<u>\$ 275,000</u>	<u>\$ 3,835,386</u>

Releases from net assets with donor restrictions are as follows at August 31:

	2020	2019
Satisfaction of purpose restrictions: SLI and College Bound Program	<u>\$ 1,408,795</u>	<u>\$ 1,537,967</u>

LEGAL OUTREACH, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2020 and 2019

9. Significant source of support

During the year ended August 31, 2020, the Organization received approximately 11% of its support and revenue income from one foundation. During the year ended August 31, 2019, the Organization received approximately 21% of its support and revenue income from two foundations. Amounts due to the Organization from these foundations were \$120,000 at August 31, 2019. No balance was due from the foundation at August 31, 2020.

10. Pension plan

The Organization maintains a 403(b)-plan covering all eligible employees as defined in the plan document. Based upon the availability of funds, the Organization contributes up to 15% of each eligible employee's salary as determined by the Board of Directors. Pension plan expenses amounted to \$64,232 and \$61,638 for the years ended August 31, 2020 and 2019, respectively.

11. Subsequent events

Subsequent events have been evaluated through June 19, 2021, which is the date the financial statements were available to be issued. The Organization is not aware of any material subsequent events, except as noted below.

In February 2021, the Organization was granted a second loan in the amount of \$253,122 pursuant to the Paycheck Protection Program under the CARES Act. Under the terms of this loan, loans could be fully forgiven when used for payroll costs, interest on mortgages, rent and utilities. The Organization intends to use the entire loan amount for qualifying expenses.