

Philadelphia VIP, Inc.

Financial Statements
Year Ended December 31, 2019



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PHILADELPHIA VIP, INC.

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
<i>Statement of Financial Position</i>	3
<i>Statement of Activities</i>	4
<i>Statement of Functional Expenses</i>	5
<i>Statement of Cash Flows</i>	6
<i>Notes to Financial Statements</i>	7



INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Philadelphia VIP, Inc.
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of Philadelphia VIP, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia VIP, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Philadelphia VIP, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD LLP

Philadelphia, Pennsylvania
May 14, 2020

PHILADELPHIA VIP, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019 with comparative totals for 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 753,449	\$ 748,117
Grants and contributions receivable	417,164	380,188
Prepaid expenses and other assets	41,369	44,269
Equipment, net of accumulated depreciation of \$39,036 and \$27,438 as of December 31, 2019 and 2018, respectively	<u>35,601</u>	<u>14,885</u>
Total assets	<u>\$ 1,247,583</u>	<u>\$ 1,187,459</u>
LIABILITIES		
Accounts payable	\$ 14,196	\$ 9,182
Deferred rent	<u>27,501</u>	<u>24,797</u>
Total liabilities	<u>41,697</u>	<u>33,979</u>
NET ASSETS		
Without donor restrictions	963,857	877,993
With donor restrictions	<u>242,029</u>	<u>275,487</u>
Total net assets	<u>1,205,886</u>	<u>1,153,480</u>
Total liabilities and net assets	<u>\$ 1,247,583</u>	<u>\$ 1,187,459</u>

PHILADELPHIA VIP, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2019 with comparative totals for 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	Totals	
			<u>2019</u>	<u>2018</u>
SUPPORT AND REVENUE				
Grants and contributions	\$ 1,479,502	\$ 106,500	\$ 1,586,002	\$ 1,324,980
Fundraising event	37,556	-	37,556	61,662
Interest income	547	-	547	510
In kind contributions	5,163,500	-	5,163,500	5,187,777
Net assets released from restrictions				
Satisfaction of program or time restrictions	139,958	(139,958)	-	-
Total support and revenue	<u>6,821,063</u>	<u>(33,458)</u>	<u>6,787,605</u>	<u>6,574,929</u>
EXPENSES				
Program services	6,221,634	-	6,221,634	6,353,871
Supporting services				
Management and general	204,530	-	204,530	157,722
Fundraising	299,284	-	299,284	148,887
Costs of direct benefit to donor	9,751	-	9,751	12,313
Total expenses	<u>6,735,199</u>	<u>-</u>	<u>6,735,199</u>	<u>6,672,793</u>
Change in net assets	<u>85,864</u>	<u>(33,458)</u>	<u>52,406</u>	<u>(97,864)</u>
NET ASSETS				
Beginning of year	<u>877,993</u>	<u>275,487</u>	<u>1,153,480</u>	<u>1,251,344</u>
End of year	<u>\$ 963,857</u>	<u>\$ 242,029</u>	<u>\$1,205,886</u>	<u>\$1,153,480</u>

See accompanying notes

PHILADELPHIA VIP, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2019 with comparative totals for 2018

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Costs of Direct Benefit To Donor</u>	<u>Totals</u>	
		<u>Management and General</u>	<u>Fund Raising</u>		<u>2019</u>	<u>2018</u>
Payroll	\$ 748,726	\$ 99,514	\$ 99,514	\$ -	\$ 947,754	\$ 910,502
Payroll taxes	62,200	8,267	8,267	-	78,734	75,674
Employee benefits	<u>92,144</u>	<u>12,247</u>	<u>12,247</u>	<u>-</u>	<u>116,638</u>	<u>106,973</u>
Total payroll and related expenses	903,070	120,028	120,028	-	1,143,126	1,093,149
Contributed services and facilities	4,988,143	42,600	132,757	-	5,163,500	5,187,777
Depreciation	9,162	1,218	1,218	-	11,598	12,055
Event expenses	-	-	-	9,751	9,751	11,596
Fundraising consultant	-	-	24,675	-	24,675	15,110
Insurance expense	10,335	815	815	-	11,965	12,177
Marketing and communications	518	-	962	-	1,480	23,221
Office expense	27,558	3,663	3,663	-	34,884	66,819
Other direct program expense	163,968	-	-	-	163,968	83,873
Professional fees	-	20,300	-	-	20,300	5,500
Program litigation fees and expenses	73	-	-	-	73	371
Rent	113,089	15,031	15,031	-	143,151	142,738
Staff development	<u>5,718</u>	<u>875</u>	<u>135</u>	<u>-</u>	<u>6,728</u>	<u>18,407</u>
Total expenses	<u>\$ 6,221,634</u>	<u>\$ 204,530</u>	<u>\$ 299,284</u>	<u>\$ 9,751</u>	<u>\$ 6,735,199</u>	<u>\$ 6,672,793</u>

See accompanying notes

PHILADELPHIA VIP, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2019 with comparative totals for 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 52,406	\$ (97,864)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	11,598	12,055
(Increase) decrease in		
Grants and contributions receivable	(36,976)	(89,940)
Prepaid expenses and other assets	2,900	2,349
Increase (decrease) in		
Accounts payable	5,014	1,152
Deferred rent	2,704	5,667
Net cash provided by (used for) operating activities	<u>37,646</u>	<u>(166,581)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>(32,314)</u>	<u>(2,528)</u>
Net change in cash	5,332	(169,109)
CASH		
Beginning of year	<u>748,117</u>	<u>917,226</u>
End of year	<u>\$ 753,449</u>	<u>\$ 748,117</u>

PHILADELPHIA VIP, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(1) ORGANIZATION

Philadelphia VIP, Inc. (the **"Organization"** or **"VIP"**) has a 38-year history as the only legal aid organization in Philadelphia entirely dedicated to securing pro bono (i.e., free) legal assistance for low-income individuals, families, businesses, and nonprofits. Created by the Philadelphia Bar Association, the Organization was incorporated in 1981 under the Non-Profit Corporation Law of 1972 of the Commonwealth of Pennsylvania. Originally, the Organization was named the Philadelphia Volunteer Lawyers Action Program, and was renamed Philadelphia VIP, Inc. in 1986.

Too often, a person's ability to achieve a fair and just outcome in a legal matter depends not on the merits of the case but on her/his ability to pay for a lawyer. This results in a "civil justice gap" whereby each year tens of thousands of Philadelphians confront daunting legal matters that implicate basic needs and central relationships – housing, income, family composition – on their own without counsel, simply because they cannot afford to hire an attorney. VIP was founded and continues to exist to help close that gap.

To that end, the goal of VIP is to provide civil legal services to low-income residents of the City of Philadelphia. VIP pursues this goal by recruiting, training, and supporting thousands of legal professionals throughout Philadelphia who then provide pro bono legal services to VIP's low-income clients. VIP volunteers represent individuals, small businesses, and nonprofits on civil legal matters in four priority areas: (1) preventing homelessness; (2) supporting family stability; (3) maintaining family income; and (4) promoting community economic development. VIP has earned a reputation as the "hub of pro bono" in Philadelphia.

VIP primarily accepts referrals from Community Legal Services, Inc. ("CLS") and Philadelphia Legal Assistance Center, Inc. ("PLA"), and also receives referrals from other law offices, social service agencies, the courts, legislative offices, and individual attorneys.

VIP relies on funding from the legal community, private foundations, corporations, individuals, and government grants.

VIP is independently operated and governed. The by-laws of VIP specify that appointments to its Board of Directors are to be confirmed subsequently by the Board of Governors of the Philadelphia Bar Association ("Association").

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the following classes of net assets:

Without donor restrictions

Net assets which are not subject to donor-imposed restrictions.

With donor restrictions

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Organization and/or the passage of time. When a restriction is satisfied, 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."

PHILADELPHIA VIP, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Also included in this category are net assets that are subject to donor-imposed restrictions that require the net assets be maintained indefinitely while permitting the Organization to expense the income generated in accordance with the provisions of the contributions.

Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles ("GAAP"). Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Estimates

In preparing financial statements in conformity with GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could vary from those estimates.

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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 of assets other than cash are recorded at their estimated fair value at the date of donation.

Conditional promises to VIP at December 31, 2019 amount to \$500,000 and relate to a grant for core support for the period of July 2018 through June 2022. These funds are conditional upon the donor's review and approval of reports and activities as submitted by VIP and therefore have not been recognized as revenue at December 31, 2019.

A portion of the Organization's revenue is derived from cost-reimbursement grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization received cost-reimbursable grants of approximately \$454,000 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred.

The Organization also holds special fundraising events. The Organization records special events revenue equal to the fair value of direct benefits to donors and contribution income for the excess received when the event takes place.

Contributions and grants received are recorded as net assets without donor restrictions or with donor restrictions depending on the absence or existence and nature of any donor restrictions. Unconditional contributions and grants are recognized as revenue when the related promise to give is received. Conditional contributions and grants are recognized as revenue when the conditions are satisfied.

The Organization uses the allowance method to determine uncollectible grants and contributions receivable. The allowance is based on prior years' experience and management's analysis of specific amounts due. Management has determined that a provision for doubtful accounts is not necessary as of December 31, 2019.

PHILADELPHIA VIP, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Contributed Services

The Organization recognizes revenue for donated services received when they require specialized skills which would need to be purchased if they were not donated. Donated services are recorded as both revenue and expenses in the accompanying statement of activities at their estimated value at the date of receipt.

Property and Equipment

Equipment is stated at cost if purchased. Contributions of equipment are recorded at fair value at the date of donation. The Organization capitalizes all significant additions over \$1,000 while all other costs that do not improve or extend the useful lives of the respective assets are expensed in the period in which they occur. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets.

Computers	3 years
Phone system	10 years

Deferred Rent

The deferred rent liability represents the cumulative excess of straight line rent expense over the actual rent paid according to the lease terms.

Functional Expenses

The costs of providing the Organization's various programs and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

The financial statements have certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll and related expenses, insurance, office expenses, rent, and depreciation, which are allocated on the basis of estimates of time and effort.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). As a result, no provision or liability for income taxes is included in the accompanying financial statements.

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain income tax positions taken on their tax returns. GAAP prescribes a minimum recognition threshold that a tax position is required to meet in order to be recognized in the financial statements. The Organization believes that it had no uncertain tax positions as defined in GAAP.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk are cash and grants and contributions receivable. The Organization maintains its cash at high quality financial institutions. At times, such deposits may exceed federally-insured limits.

Revenues from three sources accounted for 46% of revenues in 2019. These same sources comprise 54% of accounts receivable at December 31, 2019.

PHILADELPHIA VIP, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Accounting Pronouncements Adopted

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Organization adopted ASU 2014-09 on January 1, 2019 using the modified retrospective method approach.

The Organization performed an analysis of revenue streams and transactions under ASU 2014-09, including applying the portfolio approach as a practical expedient to group contracts with similar characteristics such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. The impact of adopting ASU 2014-09 was not material to total revenues without donor restrictions, excess of revenues over expenses, or total net assets. The Organization's revenue recognition policies are detailed within Note 2.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and accounting guidance for contributions received and made and assists entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance, and in determining whether a contribution is conditional. The Organization adopted ASU 2018-08 on January 1, 2019.

(3) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects VIP's financial assets as of the statement of financial position date and the amounts available within one year of that date.

Cash	\$ 753,449
Grants and contributions receivable	<u>417,164</u>
Total financial assets	1,170,613
Less: Financial assets not available for general operations within one year	
Restricted by donor for specific purposes or periods	<u>(242,029)</u>
Financial assets available for general expenditures within one year	<u>\$ 928,584</u>

Liquidity Management

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

PHILADELPHIA VIP, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(4) GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable as of December 31, 2019 are as follows:

Foundations and organizations	\$ 203,840
Individuals	16,735
City of Philadelphia	<u>196,589</u>
	<u><u>\$ 417,164</u></u>

Grants and contributions receivable are expected to be fully collectible in 2020.

(5) IN KIND CONTRIBUTIONS

The Organization has recognized the following in kind contributions as of December 31, 2019:

<u>Contributor</u>	<u>Nature of Contribution</u>	<u>Fair Value</u>
Pro bono attorneys	Legal representation	\$4,921,459
Other	Event-related expenses	4,957
Other	Technical services, printing, other	<u>237,084</u>
		<u><u>\$ 5,163,500</u></u>

(6) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions, as of December 31, 2019, consist of the following:

	<u>December 31, 2018</u>		<u>Releases from Restrictions</u>	<u>December 31, 2019</u>
		<u>Contributions</u>		
Purpose Restricted				
Long Term Projects	\$ 190,112	\$ -	\$ -	\$ 190,112
Time Restricted	<u>85,375</u>	<u>106,500</u>	<u>(139,958)</u>	<u>51,917</u>
	<u><u>\$ 275,487</u></u>	<u><u>\$ 106,500</u></u>	<u><u>\$ (139,958)</u></u>	<u><u>\$ 242,029</u></u>

(7) LEASE COMMITMENT

The Organization leases office space under a noncancelable operating lease expiring in November 2021. Rent expense for the year ended December 31, 2019 was \$143,151.

Scheduled future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2020	\$ 144,994
2021	<u>135,807</u>
	<u><u>\$ 280,801</u></u>

PHILADELPHIA VIP, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(8) PENSION

The Organization has a discretionary contributory 403(b) retirement plan (the "*Plan*") which covers all employees who meet certain service requirements. The Organization, at its discretion, may make contributions to the Plan. Pension expense was \$21,134 for the year ended December 31, 2019.

(9) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 14, 2020, the date on which the financial statements were available to be issued. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our VIP clients and employees and impact on our donors and their level of contributions, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain. No other material subsequent events have occurred since December 31, 2019 that require recognition or disclosure in the financial statements.