



*Report of Independent Auditors and
Financial Statements*

California Rural Legal Assistance, Inc.

December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
California Rural Legal Assistance, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of California Rural Legal Assistance, Inc., which comprise the statement of financial position as of December 31, 2021, and 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 California Rural Legal Assistance, Inc., as of December 31, 2021, 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 California Rural Legal Assistance, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 California Rural Legal Assistance, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are 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 California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'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 Comparative Information

The financial statements of California Rural Legal Assistance, Inc., as of December 31, 2020, were audited by other auditors. Their report dated April 30, 2021, expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss Adams LLP

San Francisco, California
May 31, 2022

Financial Statements

California Rural Legal Assistance, Inc.
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,547,208	\$ 10,370,559
Client trust funds	275,404	224,243
Grants receivable	1,142,501	788,848
Other receivables	60,075	108,068
Prepaid expenses	<u>251,046</u>	<u>111,806</u>
Total current assets	9,276,234	11,603,524
Noncurrent assets		
Property and equipment, net	2,760,410	2,835,520
Pledges receivable, long-term	43,739	-
Deposits	36,896	35,191
Cash and cash equivalents held for endowment	<u>127,524</u>	<u>126,261</u>
Total assets	<u>\$ 12,244,803</u>	<u>\$ 14,600,496</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 273,914	\$ 239,242
Notes payable, current portion	69,907	65,751
Paycheck Protection Program (PPP) loan, current portion	-	1,126,472
Accrued salaries	457,458	418,201
Accrued vacation	729,951	809,252
Other accrued liabilities	104,854	245,054
Client trust funds payable	275,404	224,243
Deferred rental income, current portion	25,167	24,253
Deferred revenue	<u>1,429,489</u>	<u>-</u>
Total current liabilities	3,366,144	3,152,468
Noncurrent liabilities		
Deferred rental income, net of current portion	61,649	97,785
Notes payable, net of current portion	943,249	1,013,032
PPP loan, net of current portion	<u>-</u>	<u>1,123,528</u>
Total liabilities	<u>4,371,042</u>	<u>5,386,813</u>
Net assets		
Without donor restrictions		
Available for operations	4,136,233	1,578,125
Board-designated reserve	<u>1,000,000</u>	<u>1,000,000</u>
Total without donor restrictions	5,136,233	2,578,125
With donor restrictions		
	<u>2,737,528</u>	<u>6,635,558</u>
Total net assets	<u>7,873,761</u>	<u>9,213,683</u>
Total liabilities and net assets	<u>\$ 12,244,803</u>	<u>\$ 14,600,496</u>

California Rural Legal Assistance, Inc.
Statements of Activities
Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE AND OTHER INCOME						
Grant revenue	\$ 349,348	\$ 15,013,411	\$ 15,362,759	\$ 725,301	\$ 19,064,904	\$ 19,790,205
Contributions	386,916	271,708	658,624	487,973	-	487,973
Attorneys fees and cost recovery	243,764	-	243,764	399,252	-	399,252
Gain on PPP loan forgiveness	2,250,000	-	2,250,000	-	-	-
Other revenue	88,764	-	88,764	116,249	-	116,249
Net assets released from restrictions	19,183,149	(19,183,149)	-	17,150,399	(17,150,399)	-
Total support, revenue, and other income	22,501,941	(3,898,030)	18,603,911	18,879,174	1,914,505	20,793,679
FUNDRAISING EVENTS						
Revenues from special events	-	-	-	137,545	-	137,545
Less: cost of direct benefits to attendees	-	-	-	(11,754)	-	(11,754)
Total fundraising events	-	-	-	125,791	-	125,791
Total support, revenue, and other income and fundraising events	22,501,941	(3,898,030)	18,603,911	19,004,965	1,914,505	20,919,470
EXPENSES						
Program services	16,563,045	-	16,563,045	15,476,064	-	15,476,064
Management and general	2,632,020	-	2,632,020	2,523,288	-	2,523,288
Fundraising	748,768	-	748,768	746,544	-	746,544
Total expenses	19,943,833	-	19,943,833	18,745,896	-	18,745,896
Change in net assets	2,558,108	(3,898,030)	(1,339,922)	259,069	1,914,505	2,173,574
NET ASSETS, beginning of year	2,578,125	6,635,558	9,213,683	2,319,056	4,721,053	7,040,109
NET ASSETS, end of year	<u>\$ 5,136,233</u>	<u>\$ 2,737,528</u>	<u>\$ 7,873,761</u>	<u>\$ 2,578,125</u>	<u>\$ 6,635,558</u>	<u>\$ 9,213,683</u>

California Rural Legal Assistance, Inc.
Statements of Functional Expenses
Years Ended December 31, 2021 and 2020

	2021				2020			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 10,073,935	\$ 1,563,824	\$ 484,907	\$ 12,122,666	\$ 9,509,353	\$ 1,353,039	\$ 499,747	\$ 11,362,139
Payroll taxes and fringe benefits	2,649,435	411,284	127,530	3,188,249	2,493,717	294,981	108,952	2,897,650
Professional fees	1,040,050	161,452	50,063	1,251,565	585,771	363,511	48,548	997,830
Occupancy	442,091	68,628	21,280	531,999	498,124	58,923	21,763	578,810
Telecommunication	403,269	62,601	19,411	485,281	357,317	48,249	15,193	420,759
Dues and subscriptions	354,526	41,215	4,402	400,143	259,057	73,644	5,197	337,898
Office supplies	277,804	32,295	3,449	313,548	308,287	45,098	883	354,268
Subgrant	290,000	-	-	290,000	290,000	23,437	-	313,437
Facilities	183,305	21,310	2,276	206,891	218,685	46,012	8,075	272,772
Utilities	134,248	15,607	1,667	151,522	109,359	12,652	4,673	126,684
Insurance	121,432	18,850	5,845	146,127	92,632	9,451	3,491	105,574
Depreciation expense	127,859	14,864	1,587	144,310	136,218	3,072	1,799	141,089
Conferences, conventions, and meetings	101,873	15,814	4,904	122,591	56,562	6,984	2,879	66,425
Travel	56,397	47,577	2,895	106,869	217,724	82,757	3,347	303,828
Program expenses	96,370	5,277	-	101,647	175,788	130	-	175,918
Settlement	-	100,000	-	100,000	-	-	-	-
Other expenses	61,209	22,209	3,476	86,894	27,299	48,755	-	76,054
Interest	50,280	7,805	2,420	60,505	55,420	6,556	2,421	64,397
Postage and delivery	37,651	5,845	1,812	45,308	24,785	12,161	4,588	41,534
Printing and publications	22,609	4,493	5,726	32,828	20,095	7,180	9,276	36,551
Advertising	23,585	3,661	1,135	28,381	29,326	3,469	1,281	34,076
Meals and entertainment	14,839	2,304	713	17,856	10,451	18,302	-	28,753
Finance charges	278	5,105	3,270	8,653	94	4,925	4,431	9,450
Special events	-	-	-	-	-	-	11,754	11,754
Special events - cost of direct benefits to attendees	-	-	-	-	-	-	(11,754)	(11,754)
	<u>\$ 16,563,045</u>	<u>\$ 2,632,020</u>	<u>\$ 748,768</u>	<u>\$ 19,943,833</u>	<u>\$ 15,476,064</u>	<u>\$ 2,523,288</u>	<u>\$ 746,544</u>	<u>\$ 18,745,896</u>

See accompanying notes.

California Rural Legal Assistance, Inc.
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,339,922)	\$ 2,173,574
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	144,310	141,089
Gain on PPP loan forgiveness	(2,250,000)	-
Changes in operating assets and liabilities:		
Grants receivable	(353,653)	200,731
Pledges receivable	(43,739)	-
Other receivables	47,993	81,824
Prepaid expenses and deposits	(140,945)	23,463
Accounts payable	34,672	(47,000)
Accrued liabilities	(180,243)	473,813
Deferred rental income	(35,222)	4,373
Deferred revenue	1,429,489	-
Client trust funds payable	51,161	8,491
Net cash (used in) provided by operating activities	<u>(2,636,099)</u>	<u>3,060,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>(69,202)</u>	<u>(105,680)</u>
Net cash used in investing activities	<u>(69,202)</u>	<u>(105,680)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP Loan	-	2,250,000
Principal payments on notes payable	<u>(65,626)</u>	<u>(61,736)</u>
Net cash (used in) provided by financing activities	<u>(65,626)</u>	<u>2,188,264</u>
Change in cash, cash equivalents, and restricted cash	(2,770,927)	5,142,942
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>10,721,063</u>	<u>5,578,121</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 7,950,136</u>	<u>\$ 10,721,063</u>
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 60,505</u>	<u>\$ 64,397</u>
Reconciliation of totals in the statements of cash flows to related captions in the statements of financial position:		
Cash and cash equivalents	\$ 7,547,208	\$ 10,370,559
Client trust funds	275,404	224,243
Cash and cash equivalents held for endowment	<u>127,524</u>	<u>126,261</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 7,950,136</u>	<u>\$ 10,721,063</u>

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – California Rural Legal Assistance, Inc. (CRLA), is a private nonprofit law firm established in 1966 and provides free legal assistance to rural California's low-income population.

CRLA's staff includes attorneys, community workers, paralegals, clerical, and other support staff in its Oakland headquarters, and 16 offices in various rural locations in the state of California. Each rural office has a professional staff supported by CRLA counsel and administrative staff in Oakland.

Nonmanagement attorneys, community workers, and clerical employees are members of Legal Services Workers of Rural California (LSWRC), National Organization of Legal Services Workers (NOLSW), and United Auto Workers (UAW) Local 2320.

Basis of accounting – The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Net assets – Net assets and changes therein are classified as follows:

Without donor restrictions – Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions also include funds designated by the board of directors for specific projects.

With donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met by actions of CRLA and/or the passage of time and net assets to be held in perpetuity as directed by donors. CRLA currently has no net assets to be held in perpetuity as directed by donors.

Cash, cash equivalents, and restricted cash – For purposes of the statement of cash flows, CRLA considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of amounts held in trust for clients and held for endowment.

Concentration of credit risk – Financial instruments that potentially subject CRLA to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking and investing with creditworthy institutions. Such balances, at times, may be in excess of federally insured amounts (currently \$250,000 per depositor). CRLA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Grants and pledges receivable – Grants receivable represent balances due from various foundations, governmental and nongovernmental agencies and are stated at the amount management expects to collect from outstanding balances. Should it become necessary, management will provide for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual accounts. Balances remaining after management has used reasonable collection efforts would be written off through a charge to bad debt expense. At December 31, 2021 and 2020, CRLA determined that the grants receivable were fully collectible.

CRLA recognizes all unconditional gifts and pledges in the period notified. Pledges receivable are reviewed for collectability, and provisions for uncollectible amounts are established when needed. At December 31, 2021 and 2020, CRLA had outstanding pledges receivable in the amount of \$43,739 and \$0, respectively.

California Rural Legal Assistance, Inc.

Notes to Financial Statements

Property and equipment – CRLA capitalizes property and equipment with a cost or fair value in excess of \$5,000. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the gift. Repairs and maintenance are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years.

Property and equipment acquired with federal funds or Legal Services Corporation (LSC) funds are considered to be owned by CRLA while used in the program or in future authorized programs. However, funding sources have a reversionary interest in these assets as well as the determination of use of any proceeds from the sales of these assets.

Client trust funds – CRLA holds funds in trust for its clients relating to settlements awarded by the courts and deposits held for filing and other fees. The balance of such accounts is included as both an asset and a liability of CRLA, because CRLA has a fiduciary responsibility to account for such funds. While such amounts are included in the financial statements, they are separate from the assets and liabilities of CRLA.

In-kind contributions – CRLA records contributed professional services and materials at their estimated fair value on the date of receipt. Contributed services are recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not received through donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses, or additions to property and equipment.

During the years ended December 31, 2021 and 2020, CRLA did not receive any pro bono legal services.

Functional allocation of expenses – Functional expenses of CRLA include program and supporting expenses. Expenses directly attributable and identifiable to individual programs or supporting services are charged directly. CRLA allocates expenses that do not directly benefit an activity between program and supporting expenses based on estimates of the relative benefits to each. CRLA bases its estimates primarily on time spent by personnel on various activities. The management of CRLA reviews and adjusts the estimates at least annually.

Income tax status – CRLA is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code section of the California Revenue and Taxation Code, is subject to income tax.

Each year management considers whether any material tax positions the CRLA has taken are more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions CRLA has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

California Rural Legal Assistance, Inc. Notes to Financial Statements

Revenue recognition – Revenue recognition for contribution and grant income is evaluated under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08 and are accounted for as nonreciprocal transactions. Contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without restriction. All other donor-restricted support is reported as an increase in net assets with donor 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.

CRLA recognizes contributions when cash or other assets or an unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Revenue recognition from attorney's fee awards is evaluated under FASB Accounting Standards Codification (ASC) Topic 606 through the following five steps: (i) identification of the contract of contracts with a customer; (ii) identification of the performance obligation in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

CRLA enters into contracts with clients that are contingent upon the outcome of cases. The contract is rendered effective once the court awards the attorney fee revenue, and collectability of the amount is assured. Services are often performed on behalf of the client prior to the existence of the contract, and in such cases the revenue is recognized on a cumulative catch-up basis at the effective date of the contract. Performance obligations in the contracts consist of legal services provided to clients.

Recently issued accounting standards – The FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02) for lease accounting to increase transparency and comparability among companies by requiring the recognition of lease assets and lease liabilities by lessees. The new standard will be effective for CRLA for the year ending December 31, 2022, and early adoption is permitted. CRLA is currently evaluating the timing of its adoption and its impact on the financial statements.

The FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. The new standard should be applied on a retrospective basis and will be effective for CRLA the year ending December 31, 2022, and early adoption is permitted. CRLA is currently evaluating the timing of its adoption and its impact on the financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

CRLA's primary source of revenue is revenue received from Legal Services Corporation (LSC) and from third-party grants.

CRLA considers contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include program expenses, administrative and general expenses, and fundraising expenses that are expected to be paid in the subsequent year.

California Rural Legal Assistance, Inc.
Notes to Financial Statements

CRLA also receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions.

The table below presents financial assets available to fund general operating expenses within one year at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets at December 31:		
Cash and cash equivalents	\$ 7,547,208	\$ 10,370,559
Grants receivable	1,142,501	788,848
Other receivables	<u>60,075</u>	<u>108,068</u>
Total financial assets	<u>8,749,784</u>	<u>11,267,475</u>
Less: amounts not available to be used within one year		
Donor restricted net assets	2,737,528	6,635,558
Board-designated net assets	<u>1,000,000</u>	<u>1,000,000</u>
	<u>3,737,528</u>	<u>7,635,558</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,012,256</u>	<u>\$ 3,631,917</u>

NOTE 3 – GRANTS RECEIVABLE

Grants receivable as of December 31 consisted of the following:

	<u>2021</u>	<u>2020</u>
Receivable in one year or less	<u>\$ 1,142,501</u>	<u>\$ 788,848</u>

California Rural Legal Assistance, Inc.
Notes to Financial Statements

NOTE 4 – PROPERTY AND EQUIPMENT

At December 31, 2021 and 2020, property and equipment consisted of the following:

	2021	2020
Building	\$ 2,792,772	\$ 2,792,772
Building improvements	1,338,354	1,269,154
Law library	391,111	391,111
Furniture and equipment	204,329	204,329
Office equipment	106,800	106,800
Leasehold improvements	84,579	84,579
	4,917,945	4,848,745
Less: accumulated depreciation and amortization	(3,115,525)	(2,971,215)
	1,802,420	1,877,530
Land	957,990	957,990
	\$ 2,760,410	\$ 2,835,520

For the years ended December 31, 2021 and 2020, depreciation and amortization expense was \$144,310 and \$141,089, respectively.

NOTE 5 – NOTES PAYABLE

Notes payable consisted of the following:

	2021	2020
Note payable to a bank, secured by a deed of trust. Interest at 5.68% and monthly payments of \$9,285 including principal and interest, due March 2034.	\$ 981,009	\$ 1,029,781
Note payable to a bank, secured by a deed of trust. Interest at 8.25% and monthly payments of \$1,226 including principal and interest, due May 2024.	32,147	49,002
	1,013,156	1,078,783
Less: current portion	(69,907)	(65,751)
	\$ 943,249	\$ 1,013,032

California Rural Legal Assistance, Inc.

Notes to Financial Statements

Annual maturities of the notes payable are as follows:

<u>Years Ending December 31,</u>	
2022	\$ 69,907
2023	74,333
2024	70,107
2025	67,708
2026	76,656
Thereafter	<u>654,445</u>
	<u>\$ 1,013,156</u>

NOTE 6 – DEFERRED REVENUE

In accordance with the adoption of FASB ASU 2018-08, CRLA is required to report deferred revenue where there is both a barrier to entitlement and a right of return of the funds. Accordingly, \$1,429,489 and \$0 was recognized as deferred revenue for the years ended December 31, 2021 and 2020, respectively. This amount is directly attributable to unspent LSC funds received during the respective year.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2021 and 2020, were restricted for the following:

	<u>2021</u>	<u>2020</u>
Subject to purpose restrictions		
Civil legal services	\$ 1,231,525	\$ 4,239,032
Civil legal services - housing	784,459	823,059
LSC - property	205,929	218,852
Civil legal services - LGBTQ+	128,529	179,255
Health equity and accessibility	65,156	350,931
Retention of Public Benefits	-	65,231
Fellowship	110,442	28,067
COVID response	14,285	511,143
Essential workers program	20,889	40,000
Civil legal services - Health	48,780	-
Organizing infrastructure	10	45,000
Leadership and advocacy	-	8,727
	<u>2,610,004</u>	<u>6,509,297</u>
Donor-restricted endowments		
Michael Muniz Fellowship Endowment	<u>127,524</u>	<u>126,261</u>
	<u>\$ 2,737,528</u>	<u>\$ 6,635,558</u>

California Rural Legal Assistance, Inc.
Notes to Financial Statements

For the years ended December 31, 2021 and 2020, net assets with donor restrictions were released from donor/grantor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors/grantors as follows:

	2021	2020
Civil legal services	\$ 13,380,584	\$ 13,213,640
Civil legal services - housing	3,685,603	1,698,462
COVID response	711,270	302,524
Health equity and accessibility	482,287	206,792
Retention of public benefits	364,056	23,800
Civil legal services - LGBTQ+	185,827	203,503
Essential workers program	179,111	-
Civil legal services - health	91,220	463,495
Organizational infrastructure	57,577	-
Fellowship	23,965	200,643
LSC property	12,922	-
Leadership and advocacy	8,727	46,204
Census	-	791,336
	\$ 19,183,149	\$ 17,150,399

NOTE 8 – ENDOWMENTS

The Board of Directors of CRLA has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result, CRLA classifies as net assets with donor restrictions held in perpetuity (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, and (3) additions to the endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual in nature is classified as unappropriated endowment earnings until those amounts are appropriated for expenditure by CRLA in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

In accordance with the State of California's enacted version of UPMIFA, CRLA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of CRLA and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of CRLA; and
- (7) The investment policies of CRLA

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As of December 31, 2021 and 2020, the endowment assets of \$127,524 and \$126,261, respectively, were held in cash and cash equivalents until CRLA establishes investment and spending policies for the endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original corpus, or amounts required to be maintained by donors or by law (or become "underwater"). Management has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2021 and 2020, CRLA did not have any underwater endowments.

CRLA's endowment consists of one fund and includes only donor-restricted funds. During the year ended December 31, 2021 and 2020, endowment net asset activity was as follows:

	Unappropriated Earnings	Perpetual in Nature	Total
Endowments January 1, 2020	\$ -	\$ -	\$ -
Contributions	-	125,000	125,000
Investment return, net	<u>1,261</u>	<u>-</u>	<u>1,261</u>
Endowments, December 31, 2020	1,261	125,000	126,261
Investment return, net	<u>1,263</u>	<u>-</u>	<u>1,263</u>
Endowments, December 31, 2021	<u>\$ 2,524</u>	<u>\$ 125,000</u>	<u>\$ 127,524</u>

NOTE 9 – OPERATING LEASES

CRLA leases various office facilities under various noncancelable operating lease arrangements in Coachella, Delano, Fresno, Modesto, San Luis Obispo, Santa Barbara, Santa Maria, Santa Rosa, Stockton, and Vista, California, expiring through March 2026.

Future minimum lease payments under these arrangements at December 31, 2021, are as follows:

<u>Years Ending December 31,</u>	
2022	\$ 416,184
2023	278,314
2024	182,824
2025	138,999
2026	<u>22,305</u>
	<u>\$ 1,038,626</u>

For the years ended December 31, 2021 and 2020, office rent expense was \$567,221 and \$578,810, and equipment rent expense was \$70,643 and \$69,221, respectively.

NOTE 10 – EMPLOYEE BENEFIT PLAN

CRLA has a 401(k) defined contribution profit sharing plan. Eligible employees who are at least age 18 and are not covered under a collective bargaining agreement may defer up to the lesser of 75% of their salary or the limit under the Internal Revenue Code (IRC). CRLA matches 100% of those employee deferrals, up to a maximum of \$2,760 based on their years of services and salaries. During 2019, CRLA amended the plan to match 4% of compensation of all eligible employees, regardless of tenure. Employees eligible for the matching contributions vest immediately in the match. CRLA contributed \$310,473 and \$237,039, respectively, to the plan for the years ended December 31, 2021 and 2020.

Effective January 1, 2006, CRLA established an individually designated retirement plan under IRC 403(b) available to all highly compensated employees within the meaning of IRS 414(q). Eligible participants may contribute an amount equal to the amount of compensation reduced pursuant to the participant's election not to exceed the limit under IRC. CRLA is not required to make any contributions to this plan.

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NOTE 11 – PRIVATE ATTORNEY INVOLVEMENT

CRLA is required by Legal Services Corporation (LSC) to devote at least 12.5% of the LSC's basic grant to promote private attorney involvement (PAI). CRLA's PAI requirement and the related expenses during the years ended December 31, 2021 and 2020, are summarized below:

	<u>2021</u>	<u>2020</u>
Support		
LSC basic grant	\$ 5,312,383	\$ 5,027,725
LSC rate	<u>12.50%</u>	<u>12.50%</u>
PAI required threshold	<u>\$ 664,048</u>	<u>\$ 628,466</u>
Expenses		
Salaries and wages		
Lawyers	\$ 300,895	\$ 399,493
Clerical and others	140,594	82,545
Payroll tax/fringe benefits	102,780	131,765
Community workers	25,013	34,686
Space and occupancy	28,265	35,521
Telephone	17,475	9,591
Library	10,146	4,825
Other expense	8,139	5,595
Insurance	5,617	3,345
Technology	4,884	2,960
Equipment rent and related	2,932	2,664
Program travel	597	7,142
Printing and postage	18	209
Supplies and materials	-	19
Training	-	(450)
Contract service to clients	<u>-</u>	<u>4,748</u>
Total expenses	<u>\$ 647,355</u>	<u>\$ 724,658</u>
Total PAI expenses over the requirement threshold	<u>\$ (16,693)</u>	<u>\$ 96,192</u>

NOTE 12 – PAYCHECK PROTECTION PROGRAM

In April 2020, CRLA received loan proceeds in the amount of \$2,250,000 under the Paycheck Protection Program (PPP), which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the U.S. Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the COVID-19 pandemic. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (8 or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over two years at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, 10 months after the end of the covered period. CRLA may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events, and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

CRLA met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during the fiscal year ended December 31, 2021, and received full forgiveness of its \$2,250,000 PPP loan April 30, 2021, and recognized the full amount as gain on loan forgiveness in the statement of activities for the year ended December 31, 2021.

NOTE 13 – RISKS AND UNCERTAINTIES

The COVID-19 outbreak of 2020 led to severe disruptions and uncertainty in the global supply chain, capital markets, and economies, and those disruptions have since intensified, continued through 2021, and will likely continue for some time. Concern about the potential effects of COVID-19 and the effectiveness of measures being put in place by global governmental bodies and reserve banks at various levels as well as by private organizations to contain or mitigate its spread have adversely affected economic conditions and capital markets globally and have led to unprecedented volatility in the financial markets. The disruption is currently expected to be temporary; however, there is uncertainty around the duration. While CRLA expects this matter may negatively impact its results of operations and financial position, the related impact, including the amount of potential impairment of assets, cannot be reasonably estimated at this time.

At December 31, 2021, there were no significant outstanding legal actions or claims against CRLA. CRLA maintains various forms of insurance that its management believes are adequate to reduce the exposure to these risks to an acceptable level.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. CRLA recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including estimates inherent in the process of preparing the financial statements. CRLA has evaluated subsequent events through May 31, 2022, which is the date the financial statements were available to be issued.

