



Report of Independent Auditors and
Financial Statements

California Rural Legal Assistance, Inc.

December 31, 2022 and 2021

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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 statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years 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, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Emphasis of Matter – Adoption of an Accounting Standard

As discussed in Note 9 to the financial statements, as of January 1, 2022, California Rural Legal Assistance, Inc. adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The ASU has been applied using a modified-retrospective approach. Our opinion is not modified with respect to this matter.



San Francisco, California
April 28, 2023

Financial Statements

California Rural Legal Assistance, Inc.
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,707,700	\$ 7,547,208
Client trust funds	140,236	275,404
Grants receivable	1,694,094	1,142,501
Other receivables	39,926	60,075
Prepaid expenses	174,607	251,046
Total current assets	12,756,563	9,276,234
NONCURRENT ASSETS		
Property and equipment, net	2,827,608	2,760,410
Operating lease right-of-use assets	687,460	-
Pledges receivable, long term	57,662	43,739
Deposits	38,746	36,896
Cash and cash equivalents held for endowment	-	127,524
Total noncurrent assets	3,611,476	2,968,569
Total assets	\$ 16,368,039	\$ 12,244,803

See accompanying notes to financial statements.

California Rural Legal Assistance, Inc.
Statements of Financial Position (Continued)
December 31, 2022 and 2021

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 320,749	\$ 273,914
Notes payable, current portion	74,060	69,907
Accrued salaries	519,573	457,458
Accrued vacation	753,061	729,951
Other accrued liabilities	56,837	104,854
Client trust funds payable	140,236	275,404
Deferred rental income, current portion	15,885	25,167
Operating lease liabilities, current portion	271,751	-
Deferred revenue	6,034,658	1,429,489
Total current liabilities	8,186,810	3,366,144
NONCURRENT LIABILITIES		
Deferred rental income, net of current portion	37,029	61,649
Operating lease liabilities, net of current portion	342,745	-
Notes payable, net of current portion	868,137	943,249
Total noncurrent liabilities	1,247,911	1,004,898
Total liabilities	9,434,721	4,371,042
NET ASSETS		
Without donor restrictions:		
Available for operations	4,035,209	4,136,233
Board-designated reserve	1,000,000	1,000,000
Total without donor restrictions	5,035,209	5,136,233
With donor restrictions	1,898,109	2,737,528
Total net assets	6,933,318	7,873,761
Total liabilities and net assets	\$ 16,368,039	\$ 12,244,803

See accompanying notes to financial statements.

California Rural Legal Assistance, Inc.
Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND OTHER INCOME						
Grant revenue	\$ 774,080	\$ 19,991,066	\$ 20,765,146	\$ 349,348	\$ 15,013,411	\$ 15,362,759
Contributions	287,570	106,491	394,061	386,916	271,708	658,624
In-kind contributions	104,700	-	104,700	-	-	-
Attorney's fees and cost recovery	184,662	81,938	266,600	243,764	-	243,764
Gain on PPP loan forgiveness	-	-	-	2,250,000	-	2,250,000
Other revenue	151,646	77,128	228,774	88,764	-	88,764
Net assets released from restrictions	21,096,042	(21,096,042)	-	19,183,149	(19,183,149)	-
Total support, revenue, and other income	<u>22,598,700</u>	<u>(839,419)</u>	<u>21,759,281</u>	<u>22,501,941</u>	<u>(3,898,030)</u>	<u>18,603,911</u>
FUNDRAISING EVENTS						
Revenues from special events	182,324	-	182,324	-	-	-
Less: cost of direct benefits to attendees	(57,685)	-	(57,685)	-	-	-
Total fundraising events	<u>124,639</u>	<u>-</u>	<u>124,639</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and other income, and fundraising events	<u>22,723,339</u>	<u>(839,419)</u>	<u>21,883,920</u>	<u>22,501,941</u>	<u>(3,898,030)</u>	<u>18,603,911</u>
EXPENSES						
Program services	18,479,322	-	18,479,322	16,563,045	-	16,563,045
Management and general	3,561,219	-	3,561,219	2,632,020	-	2,632,020
Fundraising	783,822	-	783,822	748,768	-	748,768
Total expenses	<u>22,824,363</u>	<u>-</u>	<u>22,824,363</u>	<u>19,943,833</u>	<u>-</u>	<u>19,943,833</u>
CHANGES IN NET ASSETS	(101,024)	(839,419)	(940,443)	2,558,108	(3,898,030)	(1,339,922)
NET ASSETS, beginning 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>
NET ASSETS, end of year	<u>\$ 5,035,209</u>	<u>\$ 1,898,109</u>	<u>\$ 6,933,318</u>	<u>\$ 5,136,233</u>	<u>\$ 2,737,528</u>	<u>\$ 7,873,761</u>

See accompanying notes to financial statements.

California Rural Legal Assistance, Inc.
Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 11,562,245	\$ 1,636,307	\$ 518,226	\$ 13,716,778	\$ 10,073,935	\$ 1,563,824	\$ 484,907	\$ 12,122,666
Payroll taxes and fringe benefits	3,184,542	242,805	83,086	3,510,433	2,649,435	411,284	127,530	3,188,249
Professional fees	639,921	739,108	6,316	1,385,345	1,040,050	161,452	50,063	1,251,565
Occupancy	755,218	64,228	792	820,238	625,396	89,938	23,556	738,890
Dues and subscriptions	345,229	71,388	2,303	418,920	354,526	41,215	4,402	400,143
Other expenses	249,272	37,616	125,181	412,069	61,209	22,209	3,476	86,894
Telecommunication	357,976	38,665	3,042	399,683	403,269	62,601	19,411	485,281
Travel	168,619	144,616	10,731	323,966	56,397	47,577	2,895	106,869
Office supplies	206,614	88,979	1,102	296,695	277,804	32,295	3,449	313,548
Subgrant	289,562	-	-	289,562	290,000	-	-	290,000
Conferences, conventions, and meetings	165,193	88,549	2,497	256,239	101,873	15,814	4,904	122,591
Insurance	38,664	152,596	800	192,060	121,432	18,850	5,845	146,127
Utilities	160,103	14,881	619	175,603	134,248	15,607	1,667	151,522
Depreciation expense	3,852	149,024	-	152,876	127,859	14,864	1,587	144,310
Settlement	140,416	-	-	140,416	-	100,000	-	100,000
Program expenses	131,918	5,646	-	137,564	96,370	5,277	-	101,647
Interest	292	54,883	-	55,175	50,280	7,805	2,420	60,505
Printing and publications	24,812	7,249	15,339	47,400	22,609	4,493	5,726	32,828
Postage and delivery	26,093	6,166	6,993	39,252	37,651	5,845	1,812	45,308
Meals and entertainment	25,056	12,015	649	37,720	14,839	2,304	713	17,856
Finance charges	845	4,998	6,021	11,864	278	5,105	3,270	8,653
Advertising	2,880	1,500	125	4,505	23,585	3,661	1,135	28,381
	<u>\$ 18,479,322</u>	<u>\$ 3,561,219</u>	<u>\$ 783,822</u>	<u>\$ 22,824,363</u>	<u>\$ 16,563,045</u>	<u>\$ 2,632,020</u>	<u>\$ 748,768</u>	<u>\$ 19,943,833</u>

See accompanying notes to financial statements.

California Rural Legal Assistance, Inc.
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (940,443)	\$ (1,339,922)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	152,876	144,310
Amortization of operating lease right-of-use assets	209,485	-
Gain on PPP loan forgiveness	-	(2,250,000)
Changes in operating assets and liabilities:		
Grants receivable	(551,593)	(353,653)
Pledges receivable	(13,923)	(43,739)
Other receivables	20,148	47,993
Prepaid expenses and deposits	75,589	(140,945)
Accounts payable	46,835	34,672
Accrued liabilities	37,989	(180,243)
Deferred rental income	(25,394)	(35,222)
Operating lease liabilities	(292,739)	-
Deferred revenue	4,605,169	1,429,489
Client trust funds payable	(135,168)	51,161
Net cash provided by (used in) operating activities	3,188,831	(2,636,099)
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of equipment	(220,073)	(69,202)
Net cash used in investing activity	(220,073)	(69,202)
CASH FLOWS FROM FINANCING ACTIVITY		
Principal payments on notes payable	(70,959)	(65,626)
Net cash used in financing activity	(70,959)	(65,626)
CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
	2,897,799	(2,770,927)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	7,950,136	10,721,063
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	\$ 10,847,935	\$ 7,950,136
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest	\$ 55,175	\$ 60,505

See accompanying notes to financial statements.

California Rural Legal Assistance, Inc.
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF TOTALS IN THE STATEMENTS OF CASH FLOWS TO RELATED CAPTIONS IN THE STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 10,707,700	\$ 7,547,208
Client trust funds	140,236	275,404
Cash and cash equivalents held for endowment	-	127,524
Total cash, cash equivalents, and restricted cash	<u>\$ 10,847,936</u>	<u>\$ 7,950,136</u>

See accompanying notes to financial statements.

California Rural Legal Assistance, Inc. Notes to Financial Statements

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 (“U.S. 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. At December 31, 2022, CRLA 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). If any of the financial institutions with whom CRLA does business were to be placed into receivership with the FDIC, CRLA may be unable to access the cash they have on deposit with such institutions. If CRLA was unable to access its cash and cash equivalents as needed, CRLA’s financial position and ability to operate its business could be adversely affected. CRLA has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

California Rural Legal Assistance, Inc. Notes to Financial Statements

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, 2022 and 2021, 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, 2022 and 2021, CRLA had outstanding pledges receivable in the amount of \$57,662 and \$43,739, respectively.

Leases – Transactions give rise to leases when CRLA receives substantially all of the economic benefits from, and has the ability to direct, the use of the specified property and equipment. CRLA primarily has lessee activity that is classified as operating leases. Operating leases are included in operating lease right-of-use assets, current portion of operating lease liabilities, and operating lease liabilities, less current portions in the statements of financial position.

Operating lease right-of-use assets represents the right to use an underlying asset for the term and operating lease liabilities represent obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, CRLA uses the applicable incremental borrowing rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and right-of-use asset if management determined it was not reasonably certain that the lease would be extended.

CRLA has agreements with lease and non-lease components, such as common area maintenance, and has elected to account for the lease and non-lease components as separate components. CRLA has elected not to recognize right-of-use assets and lease liabilities for leases of terms less than twelve months.

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. CRLA regularly evaluates its long-lived assets for indicators of possible impairment. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset's fair value or discounted estimates of future cash flows. CRLA has not identified any such impairment losses to date.

California Rural Legal Assistance, Inc. Notes to Financial Statements

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 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 year ended December 31, 2022, CRLA received donated professional services in the amount of \$104,700. During the year ended December 31, 2021, CRLA did not receive any pro bono 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 (“IRC”) 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 IRC 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 U.S. GAAP 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, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“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, *Revenue from Contracts with Customers*, 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.

New accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU No. 2016-02”), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-of-use (“ROU”) asset and lease liability, initially measured at the present value of the lease payments, in the statement of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of CRLA’s leasing activities. Management adopted ASU No. 2016-02 beginning January 1, 2022. In 2018 FASB issued an update to its guidance providing companies with the option to adopt provisions of standard prospectively without adjusting comparative periods; CRLA elected this option. CRLA elected the package of transition practical expedient, which allows entities use hindsight when determining lease term and impairment of ROU assets. CRLA makes certain assumptions and judgements in determining the discount rate. As most of CRLA’s leases do not provide an implicit rate, CRLA uses the treasury constant maturities rate in determining the present value of lease payments. Management recorded \$896,945 for both operating lease ROU assets and operating lease liabilities, respectively, on its statements of financial position from a lessee perspective as of January 1, 2022. The adoption of ASU No. 2016-02 did not have a significant impact on the results of operations or cash flows. The adoption of ASU No. 2016-02 also implemented additional disclosure requirements. See further in Note 9.

California Rural Legal Assistance, Inc.
Notes to Financial Statements

During 2022, CRLA adopted 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 adoption of ASU No. 2020-07 did not have a significant impact to CRLA's 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.

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:

	2022	2021
Financial assets at December 31:		
Cash and cash equivalents	\$ 10,707,700	\$ 7,547,208
Grants receivable	1,694,094	1,142,501
Other receivables	39,926	60,075
Total financial assets	12,441,720	8,749,784
Less amounts not available to be used within one year		
Donor restricted net assets	1,898,109	2,737,528
Board-designated net assets	1,000,000	1,000,000
	2,898,109	3,737,528
Financial assets available to meet general expenditures within one year	\$ 9,543,611	\$ 5,012,256

Note 3 – Grants Receivable

Grants receivable as of December 31 consisted of the following:

	2022	2021
Receivable in one year or less	\$ 1,694,094	\$ 1,142,501

California Rural Legal Assistance, Inc.
Notes to Financial Statements

Note 4 – Property and Equipment, Net

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

	2022		
	Non-LSC	LSC	Total
Building	\$ 2,242,873	\$ 549,899	\$ 2,792,772
Building improvements	1,036,830	480,337	1,517,167
Law library	-	391,111	391,111
Furniture and equipment	165,678	-	165,678
Office equipment	57,906	45,794	103,700
Leasehold improvements	81,048	-	81,048
	<u>3,584,335</u>	<u>1,467,141</u>	<u>5,051,476</u>
Less: accumulated depreciation and amortization	<u>(1,911,010)</u>	<u>(1,270,848)</u>	<u>(3,181,858)</u>
	1,673,325	196,293	1,869,618
Land	<u>791,250</u>	<u>166,740</u>	<u>957,990</u>
Total	<u>\$ 2,464,575</u>	<u>\$ 363,033</u>	<u>\$ 2,827,608</u>

	2021		
	Non-LSC	LSC	Total
Building	\$ 2,242,873	\$ 549,899	\$ 2,792,772
Building improvements	858,017	480,337	1,338,354
Law library	-	391,111	391,111
Furniture and equipment	204,329	-	204,329
Office equipment	60,622	46,178	106,800
Leasehold improvements	84,579	-	84,579
	<u>3,450,420</u>	<u>1,467,525</u>	<u>4,917,945</u>
Less: accumulated depreciation and amortization	<u>(1,875,314)</u>	<u>(1,240,211)</u>	<u>(3,115,525)</u>
	1,575,106	227,314	1,802,420
Land	<u>791,250</u>	<u>166,740</u>	<u>957,990</u>
Total	<u>\$ 2,366,356</u>	<u>\$ 394,054</u>	<u>\$ 2,760,410</u>

For the years ended December 31, 2022 and 2021, depreciation and amortization expense was \$152,876 and \$144,310, respectively.

California Rural Legal Assistance, Inc.
Notes to Financial Statements

Note 5 – Notes Payable

Notes payable, net consisted of the following:

	2022	2021
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.	\$ 922,582	\$ 981,009
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.	19,615	32,147
	942,197	1,013,156
Less: current portion	(74,060)	(69,907)
	\$ 868,137	\$ 943,249

Annual maturities of the notes payable are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 74,060
2024	69,987
2025	67,708
2026	71,656
2027	75,834
Thereafter	582,952
	\$ 942,197

Note 6 – Deferred Revenue

In accordance with the adoption of ASU No. 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, \$6,034,658 and \$1,429,489 was recognized as deferred revenue as of December 31, 2022 and 2021, respectively. These amounts are directly attributable to unspent grant funds received during the respective year.

California Rural Legal Assistance, Inc.
Notes to Financial Statements

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31 were restricted for the following:

	<u>2022</u>	<u>2021</u>
Subject to purpose restrictions:		
Civil legal services	\$ 1,568,005	\$ 2,293,632
LSC - property	196,293	205,930
Fellowship	133,811	110,442
	<u>1,898,109</u>	<u>2,610,004</u>
Donor-restricted endowments:		
Michael Muniz Fellowship Endowment	-	127,524
	<u>\$ 1,898,109</u>	<u>\$ 2,737,528</u>

For the years ended December 31, 2022 and 2021, 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:

	<u>2022</u>	<u>2021</u>
Civil legal services	\$ 20,958,056	\$ 19,146,262
Fellowship	-	23,965
LSC property	9,637	12,922
Jose Padilla fellowship fund	825	-
Michael Muniz fellowship endowment	127,524	-
	<u>\$ 21,096,042</u>	<u>\$ 19,183,149</u>

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;

California Rural Legal Assistance, Inc.
Notes to Financial Statements

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

As of December 31, 2021, the endowment assets of \$127,524 were held in cash and cash equivalents.

During the year ended December 31, 2022, the original donor reached out to CRLA and requested CRLA to grant out the endowment assets to eligible 501(c)3 organizations on their behalf resulting in CRLA releasing all of its endowment assets as of December 31, 2022.

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, 2022 and 2021, CRLA did not have any underwater endowments.

CRLA’s endowment consisted of one fund and includes only donor-restricted funds. During the years ended December 31, 2022 and 2021, endowment net asset activity was as follows:

	Unappropriated Earnings	Perpetual in Nature	Total
Endowments January 1, 2021	\$ 1,261	\$ 125,000	\$ 126,261
Investment return, net	1,263	-	1,263
Endowments, December 31, 2021	2,524	125,000	127,524
Granted out, as requested by donor	(2,524)	(125,000)	(127,524)
Endowments, December 31, 2022	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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.

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The maturity and future minimum commitments of total operating lease obligations at December 31, 2022, are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 273,694
2024	182,824
2025	138,999
2026	<u>22,304</u>
Total lease payments	617,821
Less present value discount	<u>(3,325)</u>
Operating lease liabilities	<u>\$ 614,496</u>

Lease expenses are recorded on a straight-line basis over the life of the lease as included in occupancy expense in the statement of activities and changes in net assets. For the years ended December 31, 2022 and 2021, office rent expense was \$555,605 and \$531,999, and equipment rent expense was \$73,246 and \$70,643, respectively.

The following table includes supplemental lease information as of and for the year ended December 31, 2022:

<u>Lease Term and Discount Rate</u>	
Weighted average remaining lease term (in years)	3.25
Weighted average discount rate	0.40%

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 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 \$319,997 and \$310,473, respectively, to the plan for the years ended December 31, 2022 and 2021.

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.

California Rural Legal Assistance, Inc.
Notes to Financial Statements

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 are summarized below:

	2022	2021
Support:		
LSC basic grant	\$ 5,483,169	\$ 5,312,383
LSC rate	12.50%	12.50%
	685,396	664,048
Add prior year shortfall	16,693	-
PAI required threshold	\$ 702,089	\$ 664,048
Expenses:		
Salaries and wages:		
Lawyers	\$ 319,897	\$ 300,895
Clerical and others	167,055	140,594
Payroll tax/fringe benefits	131,277	102,780
Community workers	15,703	25,013
Space and occupancy	30,244	28,265
Telephone	13,968	17,475
Library	9,108	10,146
Insurance	6,742	5,617
Technology	5,355	4,884
Other expense	4,080	8,139
Program travel	3,289	597
Equipment rent and related	2,811	2,932
Training	695	-
Supplies and materials	148	-
Printing and postage	12	18
Total expenses	710,384	647,355
Total PAI expenses over (under) the requirement threshold	\$ 8,295	\$ (16,693)

California Rural Legal Assistance, Inc.

Notes to Financial Statements

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 novel coronavirus (“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 year ended December 31, 2021, and received full forgiveness of its \$2,250,000 PPP loan on 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 2022, 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, 2022, 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.

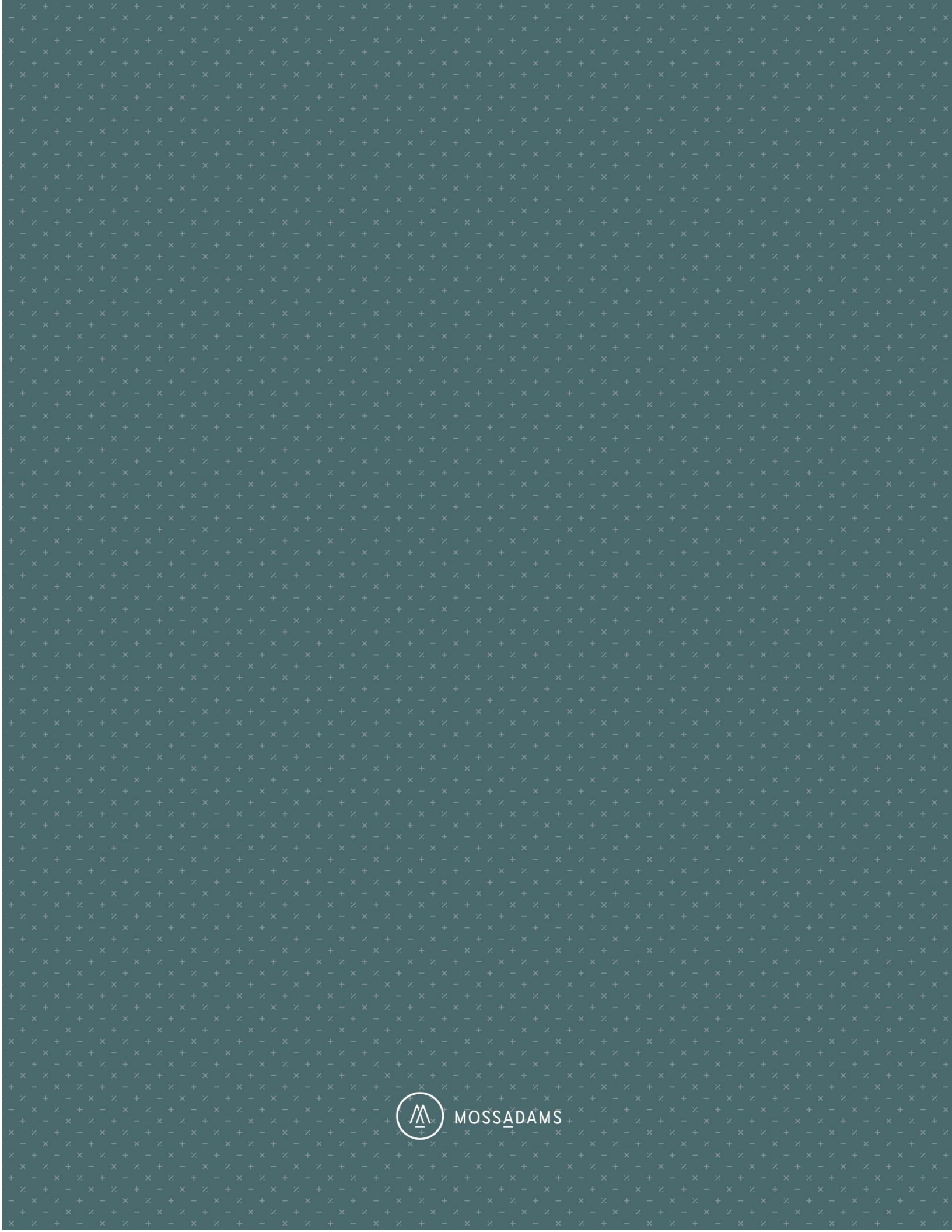
California Rural Legal Assistance, Inc.

Notes to Financial Statements

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 April 28, 2023, which is the date the financial statements were available to be issued.



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