

**BAY AREA LEGAL AID**

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**FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY SCHEDULES**

**DECEMBER 31, 2022 and 2021**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
Bay Area Legal Aid

### Opinion

We have audited the accompanying financial statements of Bay Area Legal Aid (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2022 and 2021, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Legal Aid as of December 31, 2022 and 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bay Area Legal Aid 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 Bay Area Legal Aid's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the Compliance Supplement for Audits of Legal Services Corporation Recipients 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, including omissions, 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.

## INDEPENDENT AUDITORS' REPORT

continued

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In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the Compliance Supplement for Audits of Legal Services Corporation Recipients, 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 Bay Area Legal Aid'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 Bay Area Legal Aid'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.

### Other Matter

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Private Attorney Involvement (PAI) Compliance, Schedule of Support, Revenue, Expenses, and Changes in Net Assets for Legal Services Corporation ("LSC") Funds, as required by the LSC *Audit Guide for Recipients*, and Schedule of Expenditures of State Awards, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2023, on our consideration of Bay Area Legal Aid's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bay Area Legal Aid's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bay Area Legal Aid's internal control over financial reporting and compliance.

*Harrington Group*

Oakland, California  
April 24, 2023

## BAY AREA LEGAL AID

### STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash	\$ 1,729,243	\$ 3,535,078
Cash held in trust	100,993	75,192
Grants receivable	3,231,681	3,374,909
Pledges receivable (Note 4)	304,415	323,112
Prepaid expenses	59,082	97,937
Other assets	102,939	74,943
Investments (Note 5)	6,155,364	4,871,423
Property and equipment (Note 6)	5,250,026	5,614,499
Right of use assets (Note 10)	2,748,153	-
	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 19,681,896</u></u>	<u><u>\$ 17,967,093</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 662,350	\$ 447,757
Accrued liabilities (Note 7)	1,526,346	1,333,544
Deferred revenue	627,828	788,997
Paycheck protection program loan (Note 8)	-	1,529,934
Lease liability - operating leases (Note 10)	2,748,153	-
Notes payable (Note 9)	2,972,916	3,293,329
	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<u>8,537,593</u>	<u>7,393,561</u>
<b>NET ASSETS</b>		
Without donor restrictions	10,425,180	8,245,420
Without donor restrictions - property and equipment (Note 2)	599,297	1,744,221
With donor restrictions (Note 12)	119,826	583,891
	<u>                    </u>	<u>                    </u>
<b>TOTAL NET ASSETS</b>	<u>11,144,303</u>	<u>10,573,532</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 19,681,896</u></u>	<u><u>\$ 17,967,093</u></u>

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

## BAY AREA LEGAL AID

### STATEMENTS OF ACTIVITIES

For the years ended December 31, 2022 and 2021

	December 31, 2022			December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>						
Government contracts (Note 13)	\$ 2,228,394	\$ 18,727,151	\$ 20,955,545	\$ 1,552,132	\$ 16,394,726	\$ 17,946,858
Donated services (Note 14)	5,537,136		5,537,136	5,938,303		5,938,303
Paycheck protection program loan forgiveness	2,481,861		2,481,861			-
Grants		1,332,667	1,332,667		1,642,476	1,642,476
Contributions	1,266,616		1,266,616	1,277,694		1,277,694
Other revenue	639,097		639,097	961,585		961,585
Attorney fees	231,030		231,030	931,391	29,536	960,927
Rental income	99,645		99,645	66,430		66,430
Interest and dividends	5,676	553	6,229	3,803	992	4,795
(Loss) gain on investments	(212,741)		(212,741)	202,184		202,184
Net assets released from restrictions (Note 12)	20,524,436	(20,524,436)	-	18,364,884	(18,364,884)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>32,801,150</u>	<u>(464,065)</u>	<u>32,337,085</u>	<u>29,298,406</u>	<u>(297,154)</u>	<u>29,001,252</u>
<b>EXPENSES</b>						
Program services	28,288,987		28,288,987	24,513,839		24,513,839
Management and general	2,601,909		2,601,909	1,931,025		1,931,025
Fundraising	875,418		875,418	803,650		803,650
<b>TOTAL EXPENSES</b>	<u>31,766,314</u>	<u>-</u>	<u>31,766,314</u>	<u>27,248,514</u>	<u>-</u>	<u>27,248,514</u>
<b>CHANGE IN NET ASSETS</b>	1,034,836	(464,065)	570,771	2,049,892	(297,154)	1,752,738
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>9,989,641</u>	<u>583,891</u>	<u>10,573,532</u>	<u>7,939,749</u>	<u>881,045</u>	<u>8,820,794</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 11,024,477</u>	<u>\$ 119,826</u>	<u>\$ 11,144,303</u>	<u>\$ 9,989,641</u>	<u>\$ 583,891</u>	<u>\$ 10,573,532</u>

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

**BAY AREA LEGAL AID**

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses
	Housing	Public Benefits	Family Law	Other				
Salaries and wages	\$ 4,220,211	\$ 5,032,705	\$ 1,773,469	\$ 2,004,955	\$ 13,031,340	\$ 1,808,666	\$ 574,745	\$ 15,414,751
Employee benefits	673,250	802,867	282,921	319,851	2,078,889	288,537	91,689	2,459,115
Payroll taxes	346,606	413,336	145,655	164,666	1,070,263	148,545	47,204	1,266,012
Total personnel costs	5,240,067	6,248,908	2,202,045	2,489,472	16,180,492	2,245,748	713,638	19,139,878
Donated services (Note 14)				5,537,136	5,537,136			5,537,136
Sub-grants	2,647,955	156,967	33,584		2,838,506			2,838,506
Occupancy	434,444	518,085	182,567	206,398	1,341,494	144,036	48,811	1,534,341
Telephone	153,228	182,729	64,392	72,796	473,145	50,802	17,216	541,163
Depreciation	146,369	174,549	61,509	69,537	451,964	48,528	16,445	516,937
Professional fees	109,050	130,045	45,826	51,808	336,729	36,155	12,252	385,136
Supplies	45,245	53,956	19,013	21,495	139,709	15,001	5,083	159,793
Internships - law students	50,961	60,772	21,415	24,210	157,358			157,358
Equipment rental and maintenance	41,401	49,372	17,398	19,669	127,840	13,726	4,652	146,218
Dues and fees	36,517	43,547	15,346	17,348	112,758	12,107	4,103	128,968
Insurance	32,799	39,114	13,783	15,582	101,278	10,874	3,685	115,837
Recruiting, staff relations, and strategic planning	29,364	35,018	12,340	13,950	90,672	9,736	3,299	103,707
Library	32,029	38,196	13,460	15,217	98,902			98,902
Client relations	27,125	32,348	11,399	12,887	83,759			83,759
Litigation	24,527	29,249	10,307	11,653	75,736			75,736
Audit	14,667	17,491	6,163	6,968	45,289	4,863	1,648	51,800
Training	14,179	16,908	5,958	6,736	43,781	4,701	1,593	50,075
Advertising and public relations					-		41,085	41,085
Travel	7,142	8,517	3,001	3,393	22,053	2,368	802	25,223
Postage and delivery	5,100	6,082	2,143	2,423	15,748	1,692	573	18,013
Printing and copying	2,446	2,917	1,028	1,161	7,552	811	275	8,638
Miscellaneous	2,295	2,737	964	1,090	7,086	761	258	8,105
<b>TOTAL 2022 FUNCTIONAL EXPENSES</b>	<b>\$ 9,096,910</b>	<b>\$ 7,847,507</b>	<b>\$ 2,743,641</b>	<b>\$ 8,600,929</b>	<b>\$ 28,288,987</b>	<b>\$ 2,601,909</b>	<b>\$ 875,418</b>	<b>\$ 31,766,314</b>

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

**BAY AREA LEGAL AID**

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2021

continued

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses
	Housing	Public Benefits	Family Law	Other				
Salaries and wages	\$ 2,839,467	\$ 4,482,420	\$ 1,528,045	\$ 1,833,118	\$ 10,683,050	\$ 1,281,922	\$ 509,002	\$ 12,473,974
Employee benefits	435,603	687,649	234,418	281,219	1,638,889	196,660	78,086	1,913,635
Payroll taxes	217,854	343,908	117,237	140,644	819,643	98,354	39,053	957,050
Total personnel costs	3,492,924	5,513,977	1,879,700	2,254,981	13,141,582	1,576,936	626,141	15,344,659
Donated services (Note 14)				5,938,303	5,938,303			5,938,303
Sub-grants	1,751,129	142,547	32,312		1,925,988			1,925,988
Occupancy	341,535	539,152	183,796	220,490	1,284,973	138,010	69,005	1,491,988
Depreciation	123,172	194,441	66,284	79,518	463,415	49,772	24,886	538,073
Professional fees	116,296	183,586	62,584	75,079	437,545	46,994	23,497	508,036
Telephone	100,972	159,396	54,338	65,186	379,892	40,802	20,401	441,095
Equipment rental and maintenance	57,662	91,026	31,030	37,226	216,944	23,300	11,650	251,894
Supplies	34,020	53,705	18,308	21,963	127,996	13,747	6,874	148,617
Insurance	25,764	40,671	13,865	16,633	96,933	10,411	5,205	112,549
Recruiting, staff relations, and strategic planning	25,599	40,410	13,776	16,526	96,311	10,344	5,172	111,827
Dues and fees	25,064	39,568	13,489	16,182	94,303	10,129	5,064	109,496
Library	22,744	35,904	12,240	14,683	85,571			85,571
Litigation	13,249	20,915	7,130	8,553	49,847			49,847
Client relations	11,920	18,817	6,415	7,696	44,848			44,848
Audit	10,141	16,008	5,457	6,547	38,153	4,098	2,049	44,300
Work study/law students	7,970	12,581	4,289	5,145	29,985			29,985
Postage and delivery	5,072	8,007	2,729	3,274	19,082	2,050	1,025	22,157
Training	4,853	7,661	2,612	3,133	18,259	1,961	981	21,201
Printing and copying	2,872	4,534	1,546	1,854	10,806	1,161	580	12,547
Travel	1,936	3,057	1,042	1,250	7,285	782	391	8,458
Miscellaneous	1,547	2,441	832	998	5,818	528	312	6,658
Advertising and public relations					-		417	417
<b>TOTAL 2021 FUNCTIONAL EXPENSES</b>	<b>\$ 6,176,441</b>	<b>\$ 7,128,404</b>	<b>\$ 2,413,774</b>	<b>\$ 8,795,220</b>	<b>\$ 24,513,839</b>	<b>\$ 1,931,025</b>	<b>\$ 803,650</b>	<b>\$ 27,248,514</b>

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



## BAY AREA LEGAL AID

### STATEMENTS OF CASH FLOWS For the years ended December 31, 2022 and 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 570,771	\$ 1,752,738
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck protection program loan forgiveness	(2,481,861)	-
Depreciation	516,937	538,073
Reinvested interest and dividends	(6,223)	(4,795)
Unrealized loss (gain) on investments	212,741	(202,184)
(Increase) decrease in operating assets:		
Cash held in trust	(25,801)	18,731
Grants receivable	143,228	1,375,711
Pledges receivable	18,697	(68,080)
Prepaid expenses	38,855	270,777
Other assets	(27,996)	-
Increase (decrease) in operating liabilities:		
Accounts payable	214,593	19,018
Accrued liabilities	192,802	(472,909)
Deferred revenue	(161,169)	(781,001)
	<b>(794,426)</b>	<b>2,446,079</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of investments	1,023,034	40,000
Purchase of investments	(2,513,493)	(18,129)
Purchase of property and equipment	(152,464)	(141,170)
	<b>(1,642,923)</b>	<b>(119,299)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(320,413)	(300,724)
Refunds from payments on paycheck protection program loan	2,481,861	-
Payments on paycheck protection program loan	(1,529,934)	(943,527)
	<b>631,514</b>	<b>(1,244,251)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(1,805,835)</b>	<b>1,082,529</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>3,535,078</b>	<b>2,452,549</b>
<b>CASH, END OF YEAR</b>	<b>\$ 1,729,243</b>	<b>\$ 3,535,078</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Operating activities reflects interest paid of	<b>\$ 138,282</b>	<b>\$ 182,548</b>
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Right of use-operating lease	<b>\$ 2,748,153</b>	<b>\$ -</b>
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Notes payable paid-off from refinancing of debt	<b>\$ -</b>	<b>\$ 3,200,000</b>
Operating lease liability	<b>\$ 2,748,153</b>	<b>\$ -</b>

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

# BAY AREA LEGAL AID

## NOTES TO FINANCIAL STATEMENTS

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### 1. Organization

Bay Area Legal Aid (“BayLegal”), a California not-for-profit corporation, was founded on January 1, 2000. BayLegal is funded by donations, grants, and contracts from federal, state, county, and municipal government, private foundations, corporations, and individuals.

BayLegal provides free civil legal services to low income Bay Area residents to increase their self-sufficiency and improve their quality of life. Its vision is to build a program with the capacity to provide clients with equal access to the justice system and high-quality legal assistance regardless of a client’s location, language, or disability. BayLegal focuses its resources on four priority areas identified by the community as their most pressing: affordable housing and homelessness prevention, access to quality health care, public benefits, and domestic violence prevention.

BayLegal provides legal assistance in a number of ways, including information and referral, advice and brief service, legal representation, public policy development and improvement, trainings at community-based organizations, and community education and outreach.

### 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

**With Donor Restrictions.** Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

# BAY AREA LEGAL AID

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

Per the Accounting Guide for Legal Services Corporations (“LSC”) Recipients, LSC grant and contract funds should be recognized, classified and reported in the recipient’s financial statements as with donor restrictions and increases to with donor restrictions net assets. With donor restrictions LSC net assets can be released with or without donor restrictions net assets only when eligible expenses are incurred.

#### **Allowance for Bad Debt**

Although BayLegal uses the allowance method, management has determined that an allowance for bad debt is not currently required.

#### **Contributions and Pledges Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

#### **Investments**

BayLegal values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statements of Activities as gain (loss) on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

#### **Fair Value Measurements**

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

BayLegal is required to measure the related revenues, non-cash contributions, and certain investments at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

#### **Concentration of Credit Risks**

BayLegal places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. BayLegal has not incurred losses related to these investments.

continued

# BAY AREA LEGAL AID

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

The primary receivable balance outstanding at December 31, 2022 and 2021 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of BayLegal's receivables consist of earned fees from contract programs granted by governmental agencies. BayLegal holds investments in the form of equities, certificates of deposit, and short-term money market investments. Management routinely reviews market values of such investments.

#### Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars for LSC assets and one thousand dollars for non-LSC assets and the useful life is greater than one year.

Property and equipment acquired with federal funds or LSC funds are considered to be owned by BayLegal while used in the program or in future authorized programs. However, funding sources have reversionary interest in these assets, as well as the determination of use of any proceeds from the sale of these assets. On the Statements of Financial Position, these assets have been identified in the net assets as "without donor restrictions – property and equipment".

#### Income Taxes

BayLegal is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by BayLegal in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. BayLegal's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

#### Revenue and Revenue Recognition

BayLegal recognizes contributions when cash, securities or other assets, an unconditional promise to give, or 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 substantially met. The federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Per the LSC Program Letter 20-4 and in conjunction with ASU 2018-08, LSC Basic Field Grant awards do not involve an exchange with recipients of commensurate value and the benefit to LSC is considered indirect because the grant serves the general public. As such these grants are deemed nonexchange/contributions with conditions. BayLegal, upon satisfaction of the conditions outlined in the LSC grant agreements and incurrence of certain qualifying expense, records the LSC revenue as earned.

continued

**2. Summary of Significant Accounting Policies, continued****Recent Accounting Pronouncement**

BayLegal adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of lease transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. BayLegal elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

**Functional Allocation of Expenses**

Costs of providing BayLegal's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. BayLegal uses various statistical bases to allocate indirect costs.

**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 that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

**Donated Materials and Services**

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are measured on a non-recurring basis and recorded at fair value in the period received (see Note 14).

**Subsequent Events**

Management has evaluated subsequent events through April 24, 2023, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

## BAY AREA LEGAL AID

### NOTES TO FINANCIAL STATEMENTS

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#### 3. Liquidity and Availability of Resources

BayLegal regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of liquidity management, BayLegal has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. BayLegal has various sources of liquidity at its disposal, including cash and cash equivalents, and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, BayLegal considers all expenditures related to its ongoing activities and the pattern of income from grants, contracts, fundraising, and investments. The Finance Committee of the Board of Directors meets quarterly to review all financial aspects of the organization and meets on an as-needed basis with BayLegal's investments advisors to review investment results, assess risk, and make recommendations for changes as needed.

As of December 31, 2022 and 2021, the following financial assets could readily be made available within one year of the statement of financial position date to meet its operational cash flow needs:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,729,243	\$ 3,535,078
Grants receivable	3,231,681	3,374,909
Pledges receivable	304,415	323,112
Investments	<u>6,155,364</u>	<u>4,871,423</u>
	<u>\$11,420,703</u>	<u>\$12,104,522</u>

#### 4. Pledges Receivable

Pledges receivables are recorded at estimated net realizable value in the period received. All pledges are deemed to be fully collectible; therefore, no allowance for doubtful accounts has been recorded. Pledges receivable at December 31, 2022 and 2021 of \$304,415 and \$323,112, respectively, are expected to be collected within one year.

#### 5. Investments

Investments at December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Money market	\$4,182,639	\$2,713,707
Exchange traded	930,477	1,005,355
Bond funds	720,270	739,201
Mutual funds	321,978	412,126
Equities	<u>-</u>	<u>1,034</u>
	<u>\$6,155,364</u>	<u>\$4,871,423</u>

continued

## BAY AREA LEGAL AID

### NOTES TO FINANCIAL STATEMENTS

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#### 6. Property and Equipment

Property and equipment at December 31, 2022 and 2021 consist of the following:

	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
<u>December 31, 2022</u>			
Building	\$ 6,716,681	\$ -	\$ 6,716,681
Furniture and equipment	528,472	11,376	539,848
Land	1,249,500		1,249,500
Computer equipment	511,511	93,960	605,471
Leasehold improvements	1,016,510		1,016,510
Law library	186,485		186,485
Software	<u>250,135</u>		<u>250,135</u>
	10,459,294	105,336	10,564,630
Less: accumulated depreciation	<u>(5,215,543)</u>	<u>(99,061)</u>	<u>(5,314,604)</u>
	<u>\$ 5,243,751</u>	<u>\$ 6,275</u>	<u>\$ 5,250,026</u>
 <u>December 31, 2021</u>			
Building	\$ 6,692,445	\$ -	\$ 6,692,445
Furniture and equipment	528,472	11,376	539,848
Land	1,249,500		1,249,500
Computer equipment	455,524	93,960	549,484
Leasehold improvements	1,398,594		1,398,594
Law library	186,485		186,485
Software	<u>301,792</u>		<u>301,792</u>
	10,812,812	105,336	10,918,148
Less: accumulated depreciation	<u>(5,212,951)</u>	<u>(90,698)</u>	<u>(5,303,649)</u>
	<u>\$ 5,599,861</u>	<u>\$ 14,638</u>	<u>\$ 5,614,499</u>

#### 7. Accrued Liabilities

Accrued liabilities at December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Accrued vacation	\$1,037,316	\$ 968,390
Accrued salaries	262,417	270,020
Other accrued liabilities	125,620	19,529
Client trust fund	<u>100,993</u>	<u>75,605</u>
	<u>\$1,526,346</u>	<u>\$1,333,544</u>

continued

## BAY AREA LEGAL AID

### NOTES TO FINANCIAL STATEMENTS

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#### 8. Paycheck Protection Program Loan

On April 8, 2020, BayLegal received loan proceeds in the amount of \$2,473,461 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business.

During the year ended December 2022, BayLegal made payments of \$1,529,934 on the PPP loan waiting for formal approval of the loan forgiveness application.

In May 2022, BayLegal’s application was approved for full forgiveness by its lender and the Small Business Administration (“SBA”). Accordingly, the PPP loan and accrued interest has been forgiven in full and a \$2,481,861 revenue on forgiveness of paycheck protection program loan has been recorded in the Statement of Activities for the year ended December 31, 2022. BayLegal received a full refund on the previous payments.

As of December 31, 2022, there are no liabilities carried on the statements of financial position associated with the PPP loan.

The SBA reserves the right to review any loan in their discretion and the SBA will review a loan any size at any time. Areas of review include eligibility, necessity, calculation of the loan amount, use of loan proceeds, and the calculation of the loan forgiveness amount. PPP loan documentation is to be retained for six years after the date the loan is forgiven or repaid in full.

#### 9. Notes Payable

Notes payable at December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Note payable to a bank, secured by a first deed of trust, interest at 3.850%, monthly payments of \$32,255, due December 2031.	<b>\$2,933,043</b>	\$3,200,000
Note payable to a corporation, secured by a first deed of trust, interest at 2.50%, quarterly payments of \$15,617, due February 2023.	<u>39,873</u>	<u>93,329</u>
	<b><u>\$2,972,916</u></b>	<b><u>\$3,293,329</u></b>

Maturities for notes payable are as follows:

<u>Year ending December 31,</u>	
2023	\$ 317,450
2024	288,321
2025	300,066
2026	311,990
2027	324,389
Thereafter	<u>1,430,700</u>
	<b><u>\$2,972,916</u></b>

continued



## BAY AREA LEGAL AID

### NOTES TO FINANCIAL STATEMENTS

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#### 10. Operating Leases

BayLegal evaluated current office and equipment contracts to determine which met the criteria of a lease. The right-of-use (“ROU”) assets represents BayLegal’s right to use underlying assets for the lease term, and lease liabilities represent BayLegal’s obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. BayLegal has made an election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The discount rate applied to calculate lease liabilities as of December 31, 2022, was 3.85%. The lease payments will be recognized as lease expense on a straight-line basis over the lease term.

Future maturities of the lease liabilities as of December 31, 2022, is as follows:

<u>Year ending December 31,</u>	
2023	\$ 846,644
2024	822,668
2025	704,749
2026	509,160
2027	115,290
Thereafter	<u>9,607</u>
Total lease payments	3,008,118
Less: present value discount	<u>(259,965)</u>
	<u>\$2,748,153</u>

Lease expense under operating leases for the years ended December 31, 2022 and 2021 was \$1,238,533 and \$1,190,013, respectively.

#### 11. Commitments and Contingencies

##### Contracts

BayLegal’s grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, BayLegal has no provisions for the possible disallowance of program costs on its financial statements.

## BAY AREA LEGAL AID

### NOTES TO FINANCIAL STATEMENTS

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#### 12. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Non-LSC	<b>\$113,550</b>	\$569,252
Property purchased with funds from LSC	<u>6,276</u>	<u>14,639</u>
	<b><u>\$119,826</u></b>	<b><u>\$583,891</u></b>

For the years ended December 31, 2022 and 2021, net assets released from donor restrictions were \$20,524,436 and \$18,364,884, respectively.

#### 13. Government Contracts

Government contracts for the years ended December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
San Francisco Mayor's Office Housing and Community Development	<b>\$ 5,016,017</b>	\$ 3,651,867
Legal Service Corporation	<b>4,812,036</b>	4,773,526
Other	<b>1,804,360</b>	1,590,613
Alameda County Social Services Agency CALWORKs Grant	<b>1,300,000</b>	1,269,358
Alameda County Health Care Services Agency	<b>1,237,469</b>	1,187,590
San Francisco Department of Human Services	<b>1,131,146</b>	765,771
Alameda County Behavioral Health Care Services	<b>1,069,961</b>	1,336,382
Equal Access Funds	<b>821,520</b>	322,260
Homeless Prevention	<b>793,983</b>	203,882
IOLTA	<b>501,380</b>	361,420
State of California, Department of Managed Health Care	<b>427,000</b>	422,703
U.S. Department of Housing and Urban Development	<b>389,182</b>	303,293
County of San Francisco, Department on the Status of Women	<b>305,395</b>	332,454
City of San Jose CDBG	<b>290,969</b>	118,382
Santa Clara County Office of Immigrant Relations	<b>206,460</b>	173,873
Victims of Crime (VOCA)	<b>206,000</b>	203,201
Santa Clara County Fund for Legal Services	<b>192,296</b>	180,114
Contra Costa County MLP/ AB109	<b>162,292</b>	423,623
Anti-Displacement ADCIP	<b>150,042</b>	162,932
Covenant House Dream Catcher	<b>120,000</b>	120,000
U.S Department of Justice	<b><u>18,037</u></b>	<b><u>43,614</u></b>
	<b><u>\$20,955,545</u></b>	<b><u>\$17,946,858</u></b>

continued

## BAY AREA LEGAL AID

### NOTES TO FINANCIAL STATEMENTS

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#### 14. Donated Services

BayLegal has received contributions of non-cash services for the years ended December 31, 2022 and 2021, as summarized below.

	<u>2022</u>	<u>2021</u>
Contributed services	<u>\$5,537,136</u>	<u>\$5,938,303</u>

The contributed services recognized are comprised of professional services provided from attorneys. Contributed services are reported at the estimated fair value based on current rates for similar legal services.

#### 15. Employee Benefit Plan

Effective January 1, 2002, BayLegal established a tax-sheltered plan under Internal Revenue Code Section 401(k) available to all permanent employees. BayLegal contributes 4% of the employees' salaries after the completion of the first year of employment with BayLegal. The total amount contributed by BayLegal was \$448,828 and \$410,855 for the years ended December 31, 2022 and 2021, respectively.

#### 16. Fair Value Measurements

The table below present transactions measured at fair value during the years ended December 31, 2022 and 2021 on a recurring:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>				
Exchange traded products	\$ 930,477	\$ -	\$ -	\$ 930,477
Bond funds	720,270			720,270
Mutual funds	321,978			321,978
U.S. equity funds				
	<u>\$1,972,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,972,725</u>
<u>December 31, 2021</u>				
Exchange traded products	\$1,005,355	\$ -	\$ -	\$1,005,355
Bond funds	739,201			739,201
Mutual funds	412,126			412,126
U.S. equity funds	1,034			1,034
	<u>\$2,157,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,157,716</u>

**SUPPLEMENTARY SCHEDULES**

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## BAY AREA LEGAL AID

### SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT (PAI) COMPLIANCE

For the year ended December 31, 2022

#### Support

Basic grant - \$4,812,036 x 12.5%	\$ 601,505
<b>Total support</b>	<u>601,505</u>

#### Expenses

##### Personnel cost

##### Salaries

Attorneys	395,403
Paralegals	70,057
Clerical and other	864
<b>Total personnel salaries</b>	<u>466,324</u>

Employee benefits	74,393
Payroll taxes	38,299
<b>Total personnel costs</b>	<u>579,016</u>

Rents	27,722
Professional fees	27,710
Telephone	23,062
Supplies and printing	10,500
Audit	4,993
Insurance	4,791
Internships - law students	4,148
Professional dues	3,125
Recruitment	2,564
Travel	790
Training, meetings, and conferences	571
Litigation	529
Postage	263
<b>Total non-personnel expenses</b>	<u>110,768</u>

<b>Total expenses</b>	<u>689,784</u>
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<b>Net PAI expenses over the requirement threshold</b>	<u><u>\$ 88,279</u></u>
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See independent auditors' report.

## BAY AREA LEGAL AID

SCHEDULE OF SUPPORT, REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR LEGAL SERVICES CORPORATION FUNDS  
For the year ended December 31, 2022

	Legal Service Corporation	LSC Pro Bono Initiative	Property	Total
<b>Revenue and support</b>				
Government contracts	\$ 4,812,036	\$ -	\$ -	\$ 4,812,036
Interest income	553			553
<b>Total revenue and support</b>	<u>4,812,589</u>	<u>-</u>	<u>-</u>	<u>4,812,589</u>
<b>EXPENSES</b>				
Salaries and wages	3,239,948	9,381		3,249,329
Employee benefits	516,868	1,497		518,365
Payroll taxes	266,097	770		266,867
<b>Total personnel costs</b>	<u>4,022,913</u>	<u>11,648</u>	<u>-</u>	<u>4,034,561</u>
Rents	192,606			192,606
Professional fees	192,527			192,527
Telephone	160,228			160,228
Supplies and printing	72,950			72,950
Audit	34,692			34,692
Insurance	33,288			33,288
Library	20,070			20,070
Professional dues	21,715			21,715
Internships - law students	28,818			28,818
Recruitment	17,816			17,816
Depreciation			8,363	8,363
Travel	5,489			5,489
Training, meetings, and conferences	3,970			3,970
Litigation	3,677			3,677
Postage	1,830			1,830
<b>Total expenses</b>	<u>4,812,589</u>	<u>11,648</u>	<u>8,363</u>	<u>4,832,600</u>
<b>Changes in net assets</b>	-	(11,648)	(8,363)	(20,011)
<b>Net assets, beginning of year</b>	<u>-</u>	<u>11,648</u>	<u>14,639</u>	<u>26,287</u>
<b>Net assets, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,276</u>	<u>\$ 6,276</u>

\* In accordance with LSC Program Letter 20-4, unearned LSC grant award is recorded in the Statement of Financial Position as a deferred revenue.

The 2022 LSC basic field grant award is \$4,812,036, of which BALA has recognized as revenue "with donor restrictions" in 2022. No deferred revenue liability related to the LSC grant is presented in the Statement of Financial Position as of December 31, 2022.

See independent auditors' report.

**BAY AREA LEGAL AID**

SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the year ended December 31, 2022

<u>Program Name</u>	<u>Contract Number</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Program Expenditures</u>
<b>State Awards</b>				
The State Bar of California – Equal Access Fund ("EAF"): Domestic Violence Prevention Project – Regional	Program 93	01/01/21 - 12/31/21	\$ 821,520	\$ 821,520
The State Bar of California – EAF: Homeless Prevention 2	Program 93	01/01/21 - 12/31/23	394,764	126,190
<b>Total The State Bar of California – EAF</b>			<u>1,216,284</u>	<u>947,710</u>
The State Bar of California – Bank grant :				
Pass-through, East Bay Community Law Center, Provide legal services to consumers		01/01/20 - 12/31/22	180,000	97,570
<b>Total The State Bar of California</b>			<u>180,000</u>	<u>97,570</u>
Alameda County Behavioral Health Care Services:				
Alameda County Behavior Health SSI/SSDI Advocacy, Legal Services for Probation Youth, Reentry Civil Legal Services	900154/PC19853	07/01/21 - 06/30/22	1,246,400	447,453
Alameda County Behavior Health SSI/SSDI Advocacy, Legal Services for Probation Youth, Reentry Civil Legal Services	900154/PC19853	07/01/22 - 06/30/23	1,246,400	593,208
<b>Total Alameda County Behavioral Health Care Services</b>			<u>2,492,800</u>	<u>1,040,661</u>
Superior Court of California:				
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-21-D002	07/01/2021-06/30/2022	10,000	5,000
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-22-D004	07/01/2022-06/30/2023	10,000	5,000
<b>Total Superior Court of California</b>			<u>20,000</u>	<u>10,000</u>
State of California Managed Care Funds:				
Pass-through, State of California's Department of Managed Health Care ("DMHC"), Regional Health Care Access	19MCSA012	12/01/19 - 12/31/22	1,310,417	427,000
<b>Total State of California Managed Care Funds</b>			<u>1,310,417</u>	<u>427,000</u>
Alameda County Social Services Agency ("SSA"):				
Alameda County SSA Calworks Advocacy Grant	900154	01/01/21 - 12/31/21	1,300,000	455,000
<b>Total Alameda County SSA</b>			<u>1,300,000</u>	<u>455,000</u>
Department Human Services Agency:				
Pass-through, San Francisco Human Services Agency Individualized Legal Support Services (ILSS)	G-100 (4-19) Grant ID: 1000022061	07/01/2021-06/30/2023	62,492	33,148
SSI Advocacy Services (SSI Advocacy Pilot and HDAP SSI Advocacy program)	G-150 (1-22) Grant ID: 1000022085	07/01/2021-06/30/2023	2,115,686	1,019,839
<b>Total Department of Human Services Agency</b>			<u>2,178,178</u>	<u>1,052,987</u>
Contra Costa County Probation Department:				
Contra Costa County Probation Free Legal Service		07/01/2021-06/30/2022	95,000	47,500
Contra Costa County Probation Free Legal Service	47187-02	07/01/2022-06/30/2023	173,195	54,843
<b>Total Contra Costa County Probation Department</b>			<u>268,195</u>	<u>102,343</u>
Department of Managed Health Care:				
Pass-through, Legal Aid Society of San Diego, CCI Ombudsman - Cal MediConnect	MOU	07/01/20 - 06/30/23	248,290	95,523
<b>Total Department of Managed Health Care</b>			<u>248,290</u>	<u>95,523</u>
Department of Health Care Services:				
Pass-through, California Coverage and Health Initiatives, Pass-through, Legal Aid Society of San Diego, California Coverage and Health Initiatives grant	MOU	7/1/2020-6/30/2023	166,500	58,505
<b>Total Department of Health Care Services</b>			<u>166,500</u>	<u>58,505</u>
California Office of Emergency Services				
Pass-through, Stand! For Families Free of Violence, Domestic Violence Pro Per Clinics		07/01/2021-06/30/2022	20,000	10,809
Pass-through, Stand! For Families Free of Violence, Domestic Violence Pro Per Clinics		07/01/2022-06/30/2023	20,000	12,339
Pass-through, Bill Wilson Center January 1, 2022-December 31, 2026 Homeless Youth and Emergency Services and Housing (YE) Grant		01/01/2022-12/31/2026	175,000	35,000
<b>Total California Office of Emergency Services</b>			<u>215,000</u>	<u>58,148</u>
California Governor's Office of Business and Economic Development:				
California Community Reinvestment Grants Program - Legal Services to Address Barriers to Reentry	CalCRG-2022-1426	06/01/2022-05/31/2025	386,874	65,840
			<u>386,874</u>	<u>65,840</u>
<b>Total State Awards</b>			<u>\$ 9,982,538</u>	<u>\$ 4,411,287</u>