

BAY AREA LEGAL AID

**FINANCIAL STATEMENTS
and
SUPPLEMENTAL SCHEDULES**

DECEMBER 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bay Area Legal Aid

Report on the Financial Statements

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, 2019 and 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Legal Aid as of December 31, 2019 and 2018, 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.

INDEPENDENT AUDITORS' REPORT

continued

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 July 28, 2020, 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

July 28, 2020

BAY AREA LEGAL AID

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 1,672,376	\$ 1,521,602
Cash held in trust	54,876	45,468
Grants receivable	3,358,197	3,010,777
Pledges receivable (Note 4)	492,417	305,773
Prepaid expenses	495,975	3,916
Other assets	74,943	74,943
Investments (Note 5)	2,044,797	1,918,665
Property and equipment (Note 6)	<u>6,233,587</u>	<u>6,604,283</u>
TOTAL ASSETS	<u>\$ 14,427,168</u>	<u>\$ 13,485,427</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 262,875	\$ 315,488
Accrued liabilities (Note 7)	1,385,968	1,140,263
Deferred revenue	1,108,924	489,699
Notes payable (Note 8)	<u>3,955,223</u>	<u>4,441,251</u>
TOTAL LIABILITIES	<u>6,712,990</u>	<u>6,386,701</u>
NET ASSETS		
Without donor restrictions	5,770,725	4,749,443
Without donor restrictions - property and equipment (Note 2)	1,744,221	2,114,916
With donor restrictions (Note 10)	<u>199,232</u>	<u>234,367</u>
TOTAL NET ASSETS	<u>7,714,178</u>	<u>7,098,726</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,427,168</u>	<u>\$ 13,485,427</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, 2019 and 2018

	December 31, 2019			December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Government contracts (Note 11)	\$ 2,579,009	\$ 14,123,759	\$ 16,702,768	\$ 5,478,662	\$ 8,974,776	\$ 14,453,438
Donated services (Note 12)	6,979,720		6,979,720	7,299,550		7,299,550
Grants		1,514,003	1,514,003		1,874,491	1,874,491
Contributions	1,222,100		1,222,100	1,297,336		1,297,336
Attorney fees	454,802	11,500	466,302	138,275		138,275
Gain (loss) on investments	222,922		222,922	(65,331)		(65,331)
Rental income	85,670		85,670	95,661		95,661
Other revenue	74,278		74,278	221,514		221,514
Interest and dividends	695		695	519	98	617
Net assets released from restrictions (Note 10)	15,684,397	(15,684,397)	-	10,915,394	(10,915,394)	-
TOTAL REVENUE AND SUPPORT	<u>27,303,593</u>	<u>(35,135)</u>	<u>27,268,458</u>	<u>25,381,580</u>	<u>(66,029)</u>	<u>25,315,551</u>
EXPENSES						
Program services	24,516,628		24,516,628	22,077,579		22,077,579
Management and general	1,444,095		1,444,095	1,562,687		1,562,687
Fundraising	692,283		692,283	654,836		654,836
TOTAL EXPENSES	<u>26,653,006</u>	<u>-</u>	<u>26,653,006</u>	<u>24,295,102</u>	<u>-</u>	<u>24,295,102</u>
CHANGE IN NET ASSETS	650,587	(35,135)	615,452	1,086,478	(66,029)	1,020,449
NET ASSETS, BEGINNING OF YEAR	<u>6,864,359</u>	<u>234,367</u>	<u>7,098,726</u>	<u>5,777,881</u>	<u>300,396</u>	<u>6,078,277</u>
NET ASSETS, END OF YEAR	<u>\$ 7,514,946</u>	<u>\$ 199,232</u>	<u>\$ 7,714,178</u>	<u>\$ 6,864,359</u>	<u>\$ 234,367</u>	<u>\$ 7,098,726</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, 2019

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses
	Housing	Public Benefits	Family Law	Other				
Salaries and wages	\$ 2,596,441	\$ 4,722,330	\$ 1,411,665	\$ 1,635,643	\$ 10,366,079	\$ 962,572	\$ 421,943	\$ 11,750,594
Employee benefits	387,531	704,830	210,698	244,127	1,547,186	143,668	62,977	1,753,831
Payroll taxes	203,877	370,805	110,846	128,433	813,961	75,583	33,132	922,676
Total personnel costs	3,187,849	5,797,965	1,733,209	2,008,203	12,727,226	1,181,823	518,052	14,427,101
Donated services (Note 12)				6,979,720	6,979,720			6,979,720
Sub-grants	1,340,369	99,313	112,406		1,552,088			1,552,088
Occupancy	314,473	571,954	170,976	198,104	1,255,507	108,389	63,227	1,427,123
Depreciation	104,458	189,986	56,793	65,804	417,041	36,004	21,002	474,047
Professional fees	71,756	130,508	39,013	45,203	286,480	24,732	14,427	325,639
Telephone	65,092	118,387	35,390	41,005	259,874	22,435	13,087	295,396
Equipment rental and maintenance	45,455	82,672	24,713	28,634	181,474	15,667	9,139	206,280
Supplies	37,601	68,387	20,443	23,687	150,118	12,960	7,560	170,638
Training	29,123	52,968	15,834	18,347	116,272	10,038	5,855	132,165
Library	26,140	47,543	14,212	16,468	104,363			104,363
Travel	22,073	40,147	12,001	13,905	88,126	7,608	4,438	100,172
Insurance	19,428	35,336	10,563	12,239	77,566	6,696	3,906	88,168
Dues and fees	14,958	27,205	8,132	9,423	59,718	5,156	3,007	67,881
Recruiting, staff relations, and strategic planning	10,933	19,884	5,944	6,888	43,649	3,768	2,198	49,615
Litigation	12,406	22,564	6,745	7,815	49,530			49,530
Client relations	11,964	21,759	6,505	7,537	47,765			47,765
Audit	9,872	17,955	5,367	6,219	39,413	3,403	1,985	44,801
Printing and copying	7,260	13,204	3,947	4,573	28,984	2,502	1,460	32,946
Postage and delivery	6,172	11,225	3,355	3,888	24,640	2,127	1,241	28,008
Advertising and public relations					-		21,240	21,240
Work study/law students	4,498	8,181	2,446	2,834	17,959			17,959
Miscellaneous	2,284	4,152	1,241	1,438	9,115	787	459	10,361
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 5,344,164	\$ 7,381,295	\$ 2,289,235	\$ 9,501,934	\$ 24,516,628	\$ 1,444,095	\$ 692,283	\$ 26,653,006

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, 2018

continued

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses
	Housing	Healthcare and Economic Security	Domestic Violence Prevention	Other				
Salaries and wages	\$ 2,020,229	\$ 3,796,824	\$ 1,219,427	\$ 1,552,720	\$ 8,589,200	\$ 1,080,821	\$ 410,830	\$ 10,080,851
Employee benefits	311,039	584,568	187,746	239,061	1,322,414	166,406	63,252	1,552,072
Payroll taxes	159,752	300,238	96,428	122,783	679,201	85,467	32,487	797,155
Total personnel costs	2,491,020	4,681,630	1,503,601	1,914,564	10,590,815	1,332,694	506,569	12,430,078
Donated services (Note 12)				7,299,550	7,299,550			7,299,550
Occupancy	284,415	534,531	171,676	218,598	1,209,220	90,240	54,144	1,353,604
Sub-grants	635,506	69,076	206,786		911,368			911,368
Depreciation	102,819	193,238	62,062	79,025	437,144	32,622	19,574	489,340
Professional fees	84,317	158,466	50,894	64,805	358,482	26,752	16,051	401,285
Telephone	59,597	112,007	35,973	45,806	253,383	18,909	11,346	283,638
Equipment rental and maintenance	43,909	82,523	26,504	33,748	186,684	13,932	8,359	208,975
Supplies	30,139	56,643	18,192	23,164	128,138	9,563	5,738	143,439
Training	26,067	48,991	15,734	20,035	110,827	8,271	4,962	124,060
Travel	23,845	44,814	14,393	18,327	101,379	7,565	4,539	113,483
Insurance	17,810	33,473	10,750	13,689	75,722	5,651	3,391	84,764
Dues and fees	17,208	32,341	10,387	13,226	73,162	5,460	3,276	81,898
Library	17,264	32,445	10,420	13,269	73,398			73,398
Litigation	14,145	26,584	8,538	10,871	60,138			60,138
Recruiting, staff relations, and strategic planning	9,169	17,233	5,535	7,047	38,984	2,909	1,746	43,639
Audit	9,035	16,980	5,454	6,944	38,413	2,867	1,720	43,000
Client relations	9,814	18,445	5,924	7,543	41,726			41,726
Printing and copying	8,234	15,475	4,970	6,329	35,008	2,613	1,568	39,189
Postage and delivery	5,936	11,156	3,583	4,562	25,237	1,883	1,130	28,250
Work study/law students	5,226	9,821	3,154	4,016	22,217			22,217
Advertising and public relations					-	265	10,428	10,693
Miscellaneous	1,548	2,910	936	1,190	6,584	491	295	7,370
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 3,897,023	\$ 6,198,782	\$ 2,175,466	\$ 9,806,308	\$ 22,077,579	\$ 1,562,687	\$ 654,836	\$ 24,295,102

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 615,452	\$ 1,020,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	474,047	489,340
Reinvested interest and dividends	(496)	(492)
Unrealized (gain) loss on investments	(222,922)	65,331
(Increase) decrease in operating assets:		
Cash held in trust	(9,408)	(10,397)
Grants receivable	(347,420)	(469,087)
Pledges receivable	(186,644)	239,700
Prepaid expenses	(492,059)	33,536
Other assets	-	(10,513)
Increase (decrease) in operating liabilities:		
Accounts payable	(52,613)	(21,662)
Accrued liabilities	245,705	165,246
Deferred revenue	619,225	(240,405)
	642,867	1,261,046
CASH FLOWS FORM INVESTING ACTIVITIES:		
Sale of investments	110,000	100,000
Purchase of investments	(12,714)	(6,095)
Purchase of property and equipment	(103,351)	(157,494)
	(6,065)	(63,589)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(486,028)	(321,332)
	(486,028)	(321,332)
NET INCREASE IN CASH	150,774	876,125
CASH, BEGINNING OF YEAR	1,521,602	645,477
CASH, END OF YEAR	\$ 1,672,376	\$ 1,521,602
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	\$ 218,162	\$ 233,978

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

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

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

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

2. Summary of Significant Accounting Policies, continued

The primary receivable balance outstanding at December 31, 2019 and 2018 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 five hundred 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.

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 12).

Recently Adopted Accounting Pronouncement

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. BayLegal has implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on the net assets.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. BayLegal has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

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 Trustees 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, 2019 and 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet its operational cash flow needs:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$1,672,376	\$1,521,602
Grants receivable	3,358,197	3,010,777
Pledges receivable	492,417	305,773
Investments	<u>2,044,797</u>	<u>1,918,665</u>
	<u>\$7,567,787</u>	<u>\$6,756,817</u>

4. Pledges Receivable

Pledges receivable 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, 2019 and 2018 of \$492,417 and \$305,773, respectively, are expected to be collected within one year.

5. Investments

Investments at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Exchange traded	\$ 766,020	\$ 666,785
Bond funds	691,255	657,518
Mutual fund	357,163	284,757
Money market	229,287	307,390
Equities	<u>1,072</u>	<u>2,215</u>
	<u>\$2,044,797</u>	<u>\$1,918,665</u>

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at December 31, 2019 and 2018 consist of the following:

	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
<u>December 31, 2019</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	213,185	68,960	282,145
Leasehold improvements	1,398,594		1,398,594
Law library	186,485		186,485
Software	<u>108,260</u>		<u>108,260</u>
	10,376,941	80,336	10,457,277
Less: accumulated depreciation	<u>(4,147,636)</u>	<u>(76,054)</u>	<u>(4,223,690)</u>
	<u>\$ 6,229,305</u>	<u>\$ 4,282</u>	<u>\$ 6,233,587</u>
 <u>December 31, 2018</u>			
Building	\$ 6,692,445	\$ -	\$ 6,692,445
Furniture and equipment	1,987,352	11,376	1,998,728
Land	1,249,500		1,249,500
Computer equipment	917,554	68,960	986,514
Leasehold improvements	1,398,594		1,398,594
Law library	186,485		186,485
Software	<u>108,260</u>		<u>108,260</u>
	12,540,190	80,336	12,620,526
Less: accumulated depreciation	<u>(5,940,189)</u>	<u>(76,054)</u>	<u>(6,016,243)</u>
	<u>\$ 6,600,001</u>	<u>\$ 4,282</u>	<u>\$ 6,604,283</u>

7. Accrued Liabilities

Accrued liabilities at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Accrued vacation	\$ 716,067	\$ 597,773
Accrued salaries	603,062	464,483
Client trust fund	54,876	50,828
Other accrued liabilities	<u>11,963</u>	<u>27,179</u>
	<u>\$1,385,968</u>	<u>\$1,140,263</u>

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

8. Notes Payable

Notes payable at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Note payable to a bank, secured by a first deed of trust, interest at 5.10%, monthly payments of \$26,572, due March 2023.	\$3,213,077	\$3,362,613
Note payable to a bank, secured by a deed of trust and assignment of all rents on real property in Alameda County, California, interest at 5.00%, monthly payments of \$14,248, due May 2023.	534,040	675,396
Note payable to a corporation, secured by a first deed of trust, interest at 2.50%, quarterly payments of \$15,617, due February 2023.	208,106	264,824
Note payable to a bank, secured by a first deed of trust, monthly payments of \$1,083, including interest at 5.10%, due June 2019.	<u>-</u>	<u>138,418</u>
	<u>\$3,955,223</u>	<u>\$4,441,251</u>

Maturities for notes payable are as follows:

<u>Year ending December 31,</u>	
2020	\$ 364,537
2021	382,326
2022	399,534
2023	<u>2,808,826</u>
	<u>\$3,955,223</u>

9. Commitments and Contingencies

Obligations Under Operating Leases

BayLegal leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ending December 31,</u>	
2020	\$ 723,311
2021	705,198
2022	691,296
2023	535,404
2024	455,772
Thereafter	<u>952,972</u>
	<u>\$4,063,953</u>

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies, continued

Rent expense under operating leases for the years ended December 31, 2019 and 2018 was \$1,027,051 and \$992,242, respectively.

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.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Non-LSC	\$194,950	\$230,085
Property purchased with funds from LSC	<u>4,282</u>	<u>4,282</u>
	<u>\$199,232</u>	<u>\$234,367</u>

For the years ended December 31, 2019 and 2018, net assets released from donor restrictions were \$15,684,397 and \$10,915,394, respectively.

11. Government Contracts

Government contracts for the years ended December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Legal Service Corporation	\$ 4,268,687	\$ 4,495,975
San Francisco Mayor's Office of Housing and Community Development	2,424,711	1,542,434
Other	1,901,518	1,867,693
Alameda County Health Care Services Agency	1,336,195	1,218,176
Alameda County Behavioral Health Care Services	1,302,676	1,146,712
Alameda County Social Services Agency CALWORKs Grant	1,264,149	1,217,850
Contra Costa County MLP/AB109	620,436	-
IOLTA	475,020	260,380
State of California, Department of Managed Health Care	470,609	375,952
San Francisco Department of Human Services	401,024	401,024
Equal Access Funds	396,490	470,330
U.S. Department of Justice	394,853	296,270
County of San Francisco, Department on the Status of Women	333,277	292,298
U.S. Department of Housing and Urban Development	327,472	272,133

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

11. Government Contracts, continued

Santa Clara County Fund for Legal Services	145,809	-
Santa Clara County Office of Immigrant Relations	167,469	-
Victims of Crime Act (VOCA) Domestic Violence (DV)	126,962	388,424
Anti-Displacement ADCIP	126,208	-
City of San Jose CDBG	124,884	-
Santa Clara County Reentry	94,319	170,193
California Health Benefit Exchange	-	37,594
	<u>\$16,702,768</u>	<u>\$14,453,438</u>

12. Donated Services

BayLegal has received contributions of non-cash services for the years ended December 31, 2019 and 2018, as summarized below.

	<u>2019</u>	<u>2018</u>
Contributed services	<u>\$6,979,720</u>	<u>\$7,299,550</u>

13. 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 \$356,023 and \$273,670 for the years ended December 31, 2019 and 2018, respectively.

14. Fair Value Measurements

The table below present transactions measured at fair value during the years ended December 31, 2019 and 2018 on a recurring:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2019</u>				
Exchange traded products	\$ 766,020	\$ -	\$ -	\$ 766,020
Bond funds	691,255			691,255
Mutual funds	357,163			357,163
U.S. equity funds	<u>1,072</u>			<u>1,072</u>
	<u>\$1,815,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,815,510</u>
<u>December 31, 2018</u>				
Exchange traded products	\$ 666,785	\$ -	\$ -	\$ 666,785
Bond funds	657,518			657,518
Mutual funds	284,757			284,757
U.S. equity funds	<u>2,215</u>			<u>2,215</u>
	<u>\$1,611,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,611,275</u>

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

14. Fair Value Measurements, continued

The fair value of exchange traded products, bond funds, mutual funds, and U.S. equity funds has been measured on a recurring basis using quoted prices for identical assets in active market (Level 1 inputs).

The table below present transactions measured at fair value during the years ended December 31, 2019 and 2018 on a non-recurring:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2019</u>				
Contributed services	\$ -	\$6,979,720	\$ -	\$6,979,720
Pledged contributions – current year			<u>492,417</u>	<u>492,417</u>
	<u>\$ -</u>	<u>\$6,979,720</u>	<u>\$492,417</u>	<u>\$7,472,137</u>
 <u>December 31, 2018</u>				
Contributed services	\$ -	\$7,299,550	\$ -	\$7,299,550
Pledged contributions – current year			<u>305,773</u>	<u>305,773</u>
	<u>\$ -</u>	<u>\$7,299,550</u>	<u>\$305,773</u>	<u>\$7,605,323</u>

The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions – current year has been measured on a non-recurring basis using the value provided by the donor at the date of pledge and based on evaluating the credit worthiness of the donor (Level 3 inputs).

15. Subsequent Events

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time.

Subsequent to December 31, 2019, the stock market experienced a significant decline in value. As of March 31, 2020, the Dow Jones industrial average declined 23.2% since December 31, 2019, and the Nasdaq composite index declined 14.2%. BayLegal will continue to monitor its investments as it has successfully done in the past but has no immediate plans to change its investment portfolio.

Management has evaluated subsequent events through July 28, 2020, the date which the financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

SUPPLEMENTAL SCHEDULES

BAY AREA LEGAL AID

SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT (PAI) COMPLIANCE

For the year ended December 31, 2019

Support

Basic grant = \$4,268,687 x 12.5%	\$ 533,586
Total support	<u>533,586</u>

Expenses

Personnel cost

Salaries

Attorneys	334,583
Clerical and other	5,072
Paralegals	28,509
	<u>368,164</u>

Employee benefits	54,930
Payroll taxes	28,901
Total personnel costs	<u>451,995</u>

Rents	56,812
Professional fees	19,206
Supplies and printing	13,595
Telephone	12,461
Library	8,036
Training, meetings, and conferences	6,758
Insurance	4,928
Dues	4,417
Computers, furniture, and equipment	4,215
Audit	3,177
Travel	2,840
Litigation	2,783
Equipment rental and maintenance	1,740
Recruitment	1,378
Postage	1,355
Work study/law students	1,259
Total non-personnel	<u>144,960</u>

Total expenses	<u>596,955</u>
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Net PAI expenses over the requirement threshold	<u><u>\$ (63,369)</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, 2019

	Basic Field Grant	ProBono Innovation Award	Property	Total
Revenue and support				
Government contracts	\$ 4,268,687	\$ 138,641	\$ -	\$ 4,407,328
Attorneys fees	11,500			11,500
Total revenue and support	4,280,187	138,641	-	4,418,828
Expenses				
Salaries and wages	2,630,437	147,623		2,778,060
Employee benefits	392,605	22,436		415,041
Payroll taxes	206,546	11,791		218,337
Total personnel costs	3,229,588	181,850	-	3,411,438
Rents	405,906			405,906
Professional fees	137,225			137,225
Supplies and printing	97,134	670		97,804
Telephone	89,029	537		89,566
Library	57,412			57,412
Training, meetings, and conferences	48,287	7,069		55,356
Travel	35,180	754		35,934
Insurance	35,212			35,212
Computers, furniture, and equipment	30,112	2,631		32,743
Dues	31,563			31,563
Audit	22,702			22,702
Litigation	19,885			19,885
Equipment rental and maintenance	12,433			12,433
Recruitment	9,847			9,847
Postage	9,679			9,679
Work study/Law students	8,993			8,993
Depreciation				-
Advertising and public relations				-
Miscellaneous				-
Total expenses	4,280,187	193,511	-	4,473,698
Changes in net assets	-	(54,870)	-	(54,870)
Net assets, beginning of year		30,579	4,282	34,861
Net assets, end of year	\$ -	\$ (24,291)	\$ 4,282	\$ (20,009)

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended December 31, 2019

<u>Program Name</u>	<u>Contract Number</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Program Expenditures</u>
State Awards				
The State Bar of California – Equal Access Fund ("EAF"): Domestic Violence Prevention Project – Regional	Program 93	1/01/19 - 12/31/19	\$ 396,490	\$ 396,490
The State Bar of California – Equal Access Fund ("EAF"): Domestic Violence Prevention Project – Regional	Program 93	10/01/2019 - 6/30/2021	318,452	16,842
Total The State Bar of California – EAF			<u>714,942</u>	<u>413,332</u>
The State Bar of California – EAF Partnership Grants: Contra Costa County Housing Law Clinic	Program 93	01/01/19 - 12/31/19	30,000	30,000
Total The State Bar of California – EAF Partnership Grant			<u>30,000</u>	<u>30,000</u>
Alameda County Behavioral Health Care Services: Alameda County SSI and SSDI Appeals Advocacy Services Projects	900154/PO9413	07/01/18 - 06/30/19	1,246,400	651,898
Alameda County SSI and SSDI Appeals Advocacy Services Projects	900154/PO	07/01/19 - 06/30/20	1,246,400	557,066
Total Alameda County Behavioral Health Care Services			<u>2,492,800</u>	<u>1,208,964</u>
Superior Court of California: Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-18-D005	07/01/18 - 06/30/19	10,000	5,000
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-20-D005	07/01/19 - 06/30/20	10,000	5,000
Total Superior Court of California			<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	16MC-SA016	12/01/16 - 11/30/18	425,000	408,951
Pass-through, DMHC, Regional Health Care Access		12/01/18 - 11/30/21	850,000	61,658
Total State of California Managed Care Funds			<u>1,275,000</u>	<u>470,609</u>
Alameda County Social Services Agency ("SSA"): SSI/SSP or CAPI Benefits Support Services for CalWORKs	900154/PO16261	07/01/18 - 06/30/19	1,300,000	230,359
SSI/SSP or CAPI Benefits Support Services for CalWORKs	900154/PO16261	07/01/19 - 06/30/20	1,300,000	206,861
Total Alameda County SSA			<u>2,600,000</u>	<u>437,220</u>
Department Human Services Agency: Client Advocacy and Individualized Legal Support Services to CalWorks, PAES and ABAWD	G-100 (9-15;HAS)	07/01/17 - 06/30/18	397,980	23,730
Client Advocacy and Individualized Legal Support Services to CalWorks, PAES and ABAWD	G-100 (9-15;HAS)	07/01/18 - 06/30/19	407,390	21,804
Total Department of Human Services Agency			<u>805,370</u>	<u>45,534</u>
Alameda County Probation Department: Community Capacity Fund	9011569/PC15157	07/01/16 - 06/30/19	149,870	72,484
Total Alameda County Probation Department			<u>149,870</u>	<u>72,484</u>
Department of Managed Health Care: Pass-through, Legal Aid Society of San Diego, CCI Ombudsman – Cal MediConnect	MOU	04/01/19 - 06/30/20	112,856	78,022
Total Department of Managed Health Care			<u>112,856</u>	<u>78,022</u>
California Emergency Management Agency: Pass-through, Stand For Families Free of Violence, Domestic Violence Pro Per Clinics	MOU	07/01/18 - 09/30/19	20,000	20,000
Pass-through, Stand For Families Free of Violence, Domestic Violence Pro Per Clinics	MOU	07/01/19-06/30/20	20,000	12,381
Total Domestic Violence Pro Per Clinics			<u>40,000</u>	<u>32,381</u>
Pass-through, Bill Wilson Center Legal Services for Youth Santa Clara	MOU	01/01/18 - 12/31/20	105,000	89,399
Total Legal Services for Youth Santa Clara			<u>105,000</u>	<u>89,399</u>
Total State Awards			<u>\$ 8,345,838</u>	<u>\$ 2,887,945</u>

See independent auditors' report.