



Certified Public Accountants
and Financial Advisors

**CALIFORNIA RURAL LEGAL
ASSISTANCE, INC.**
Financial Statements
December 31, 2019 and 2018

INDEX TO FINANCIAL STATEMENTS

Independent Auditor’s Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7

SUPPLEMENTAL INFORMATION

Schedule of Support, Revenue, Expenses, and Changes In Net Assets for Legal Services Corporation Funds	17
Schedule of Property and Equipment	18
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	21
Independent Auditor’s Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance	23
Schedule of Findings and Questioned Costs	25
Summary Schedule of Prior Audit Findings	27

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
California Rural Legal Assistance, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of California Rural Legal Assistance, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Rural Legal Assistance, Inc. 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Revenue, Expenses and Changes in Net Assets for Legal Services Corporation Funds and Schedule of Property and Equipment as required by the *LSC Audit Guide for Recipients* and the accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal 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 a report dated May 28, 2020 on our consideration of California Rural Legal Assistance, Inc.'s internal control over financial reporting and on our tests of its 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 California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'s internal control over financial reporting and compliance.

SQUAR MILNER LLP

San Francisco, California
May 28, 2020

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,362,369	\$ 4,421,544
Client trust funds	215,752	242,010
Grants receivable	839,579	358,384
Pledges receivable	-	52,600
Other receivables	189,892	458,331
Prepaid expenses	135,737	256,569
Total current assets	6,743,329	5,789,438
Noncurrent Assets		
Property and equipment, net	2,870,929	2,929,201
Pledges and grants receivable - long term	150,000	5,000
Deposits	34,723	38,797
Total assets	\$ 9,798,981	\$ 8,762,436
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 286,242	\$ 398,479
Current portion of notes payable	61,848	56,542
Accrued salaries	279,772	205,721
Accrued vacation	580,973	432,836
Other accrued liabilities	137,949	95,032
Client trust funds payable	215,752	242,010
Deferred rent	19,880	15,825
Total current liabilities	1,582,416	1,446,445
Noncurrent Liabilities		
Deferred rent - long term	97,785	97,785
Notes payable - net of current portion	1,078,671	1,142,153
Total liabilities	2,758,872	2,686,383
Net Assets		
Without donor restrictions		
Available for operations	1,319,056	1,730,502
Board designated reserve	1,000,000	953,831
	2,319,056	2,684,333
With donor restrictions	4,721,053	3,391,720
Total net assets	7,040,109	6,076,053
Total liabilities and net assets	\$ 9,798,981	\$ 8,762,436

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Grant revenue	\$ 505,513	\$ 15,496,628	\$ 16,002,141	\$ 432,333	\$ 13,377,961	\$ 13,810,294
Contributions	685,802	-	685,802	794,345	-	794,345
Attorneys fees and cost recovery	671,647	-	671,647	571,773	-	571,773
In-kind contributions	1,936	-	1,936	-	-	-
Other revenue	413,418	-	413,418	218,646	-	218,646
Net assets released from restrictions	14,167,295	(14,167,295)	-	12,674,159	(12,674,159)	-
TOTAL SUPPORT AND REVENUE	16,445,611	1,329,333	17,774,944	14,691,256	703,802	15,395,058
EXPENSES						
Program services	13,429,320	-	13,429,320	11,822,620	-	11,822,620
Management and general	2,714,107	-	2,714,107	1,340,513	-	1,340,513
Fundraising	667,461	-	667,461	695,141	-	695,141
TOTAL EXPENSES	16,810,888	-	16,810,888	13,858,274	-	13,858,274
CHANGE IN NET ASSETS	(365,277)	1,329,333	964,056	832,982	703,802	1,536,784
NET ASSETS - BEGINNING OF YEAR	2,684,333	3,391,720	6,076,053	1,851,351	2,687,918	4,539,269
NET ASSETS AT END OF YEAR	\$ 2,319,056	\$ 4,721,053	\$ 7,040,109	\$ 2,684,333	\$ 3,391,720	\$ 6,076,053

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 7,796,450	\$ 1,179,294	\$ 382,624	\$ 9,358,368	\$ 7,020,863	\$ 525,694	\$ 387,319	\$ 7,933,876
Payroll taxes and fringe benefits	2,423,385	302,559	98,576	2,824,520	1,798,195	139,390	99,212	2,036,797
Space and occupancy	829,187	94,619	31,734	955,540	819,166	62,048	5,181	886,395
Contract services and professional fees	196,886	651,067	32,072	880,025	142,563	331,451	80,619	554,633
Travel and training	514,983	221,201	19,669	755,853	368,058	105,946	57,750	531,754
Supplies and materials	317,334	70,983	14,980	403,297	322,279	27,039	36,957	386,275
Telephone	332,230	50,113	12,492	394,835	293,241	22,537	6,175	321,953
Miscellaneous	185,176	30,373	5,200	220,749	169,223	10,643	-	179,866
Subgrant	168,482	22,643	6,903	198,028	183,351	24,642	7,511	215,504
Library	138,259	11,289	-	149,547	145,119	-	140	145,259
Insurance	123,601	16,604	5,071	145,276	52,372	3,942	-	56,314
Depreciation expense	40,197	11,449	48,477	100,123	105,885	68,503	9,178	183,566
Litigation expenses	99,260	31	-	99,291	187,062	-	-	187,062
Equipment and maintenance	83,575	11,228	3,428	98,230	75,682	5,696	-	81,378
Memberships	58,654	24,311	1,244	84,209	48,665	3,747	1,123	53,535
Advertising	63,739	8,563	2,615	74,917	20,919	3,669	-	24,588
Interest	57,922	7,781	2,376	68,079	69,977	5,566	3,976	79,519
	<u>\$ 13,429,320</u>	<u>\$ 2,714,107</u>	<u>\$ 667,461</u>	<u>\$ 16,810,888</u>	<u>\$ 11,822,620</u>	<u>\$ 1,340,513</u>	<u>\$ 695,141</u>	<u>\$ 13,858,274</u>

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 964,056	\$ 1,536,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	100,123	183,566
Changes in operating assets and liabilities:		
Grants receivable	(481,194)	43,813
Pledges receivable	(92,400)	39,360
Other receivables	268,439	(410,656)
Prepaid expenses and deposits	124,906	(136,899)
Accounts payable	(112,237)	114,792
Accrued liabilities	265,104	99,031
Deferred rent	4,055	(30,979)
Client trust funds payable	(26,258)	37,307
Net cash provided by operating activities	1,014,594	1,476,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from certificates of deposit	-	749,115
Purchase of equipment	(41,851)	(92,771)
Net cash (used in) provided by investing activities	(41,851)	656,344
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(58,176)	(316,220)
Net cash used in financing activities	(58,176)	(316,220)
Increase in cash, cash equivalents, and restricted cash	914,567	1,816,243
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - beginning of year	4,663,554	2,847,311
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - end of year	\$ 5,578,121	\$ 4,663,554
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 68,079	\$ 77,287
Reconciliation of totals in the statements of cash flows to related captions in the statements of financial position		
Cash and cash equivalents	\$ 5,362,369	\$ 4,421,544
Client trust funds	215,752	242,010
Total cash, cash equivalents, and restricted cash	\$ 5,578,121	\$ 4,663,554

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 sixteen 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.

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

Basis of Accounting

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

Net Assets

Net assets and changes therein are classified as follows:

- Without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions also include funds designated by the board of directors for specific projects.
- With donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of CRLA and/or the passage of time and net assets to be held in perpetuity as directed by donors. CRLA currently has no net assets to be held in perpetuity as directed by donors.

Cash, Cash Equivalents, and Restricted Cash

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

Concentration of Credit Risk

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Pledges Receivable

Grants receivable represent balances due from various foundations, governmental and non-governmental 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, 2019 and 2018, 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, 2019, CRLA did not have any pledges receivable. At December 31, 2018, CRLA determined that the pledges were fully collectible.

Property and Equipment

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

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

Client Trust Funds

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

In-Kind Contributions

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

During the year ended December 31, 2019, CRLA received pro bono legal services of \$1,936 from volunteers who serve as attorneys and paralegals. During the years ended December 31, 2018, CRLA did not receive any pro bono legal services.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

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

Income Tax Status

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Revenue recognition for contribution and grant income is evaluated under Accounting Standards Update ("ASU") 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.

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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

Recently Issued Accounting Standards

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

2. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance in US GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue contracts with customers. ASU 2014-09 and its amendments were included primarily in Accounting Standards Codification ("ASC") 606. CRLA has adjusted the presentation of its financial statements accordingly.

The core principle of ASC 606 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. Revenue is recognized when control of the promised goods or services is transferred to customers. ASC 606 also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements used. CRLA adopted ASC 606 effective January 1, 2019, using the modified retrospective method. The adoption of ASC 606 did not have a material effect on the CRLA's financial position or results of operations and there was no cumulative effect adjustment to the opening balance of net assets as of January 1, 2019 as a result of ASC 606 implementation.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU clarified and improved the scope and accounting guidance around contributions of cash and other assets received and made by all entities, including business entities. The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional. The adoption of ASU 2018-08 did not have a material effect on CRLA's financial position or results of operations.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

2. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT (continued)

The FASB also issued ASU 2016-18, Restricted Cash, which provides guidance for how entities should present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, and restricted cash in the statement of cash flows. As a result, the entity will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. Restricted cash is now included with cash and cash equivalents. During the year ended December 31, 2019, CLRA adopted ASU 2016-18, and the required changes have been reflected in CRLA's statement of cash flows using retrospective adoption.

3. 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, 2019:

Financial assets at December 31, 2019:	
Cash and cash equivalents	\$ 5,362,369
Grants receivable	839,579
Other receivables	<u>189,892</u>
Total financial assets	6,391,840
Less amounts not available to be used within one year:	
Purpose restricted net assets	4,721,052
Board designated net assets	<u>1,000,000</u>
	<u>5,721,052</u>
Financial assets available to meet general expenditures within one year	<u>\$ 670,788</u>

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

4. PLEDGES AND GRANTS RECEIVABLE

Pledges receivable at December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Receivable in one year or less	\$ -	\$ 52,600
Receivable in one to five years	-	5,000
	<u>\$ -</u>	<u>\$ 57,600</u>

Grants receivable as December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Receivable in one year or less	\$ 839,579	\$ 358,384
Receivable in one to five years	150,000	-
	<u>\$ 989,579</u>	<u>\$ 358,384</u>

CRLA did not record the discount on pledges or grants receivable that were due more than one year at December 31, 2019 and 2018 as CRLA believes that the amount is immaterial.

5. PROPERTY AND EQUIPMENT

At December 31, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Building	\$ 2,792,772	\$ 2,792,772
Land	957,990	957,990
Building improvements	1,163,473	1,121,625
Law library	391,111	391,111
Office equipment	106,800	253,353
Furniture and equipment	204,329	57,774
Leasehold improvements	84,579	84,579
	<u>\$ 5,701,054</u>	<u>5,659,204</u>
Less: accumulated depreciation	<u>(2,830,125)</u>	<u>(2,730,003)</u>
	<u>\$ 2,870,929</u>	<u>\$ 2,929,201</u>

For the years ended December 31, 2019 and 2018, depreciation expense was \$100,123 and \$183,566, respectively.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

6. NOTES PAYABLE

Notes payable consisted of the following:

	2019	2018
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.	\$ 1,085,109	\$ 1,133,296
Note payable to a bank, secured by deed of trust. Interest at 8.25% and monthly payments of \$1,251 including principal and interest, due May 2024.	55,410	65,399
Less: current portion	1,140,519 <u>(61,848)</u>	1,198,695 <u>(56,542)</u>
	<u>\$ 1,078,671</u>	<u>\$ 1,142,153</u>

Annual maturities of the notes payable are as follows:

<u>Year ending December 31,</u>	
2020	\$ 61,848
2021	65,751
2022	69,907
2023	74,333
2024	70,107
Thereafter	798,573
	<u>\$ 1,140,519</u>

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2019 and 2018 were restricted for the following restrictions:

	2019	2018
LSC - Basic, Migrant and Attorney Fees	\$ 2,305,500	\$ 2,560,881
Foundations and Non-Government	817,912	638,089
Other Government	1,448,100	80,614
LSC - Property	149,540	112,136
	<u>\$ 4,721,052</u>	<u>\$ 3,391,720</u>

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

7. NET ASSETS WITH DONOR RESTRICTIONS (continued)

For the years ended December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
LSC - Basic, Migrant and Attorney Fees	\$ 8,764,101	\$ 7,920,677
LSC - Disaster Recovery	-	156,479
State Bar of California - Equal Access Fund	1,363,832	1,693,360
Foundations and Non-Government	1,472,545	1,227,776
Other Government	938,323	501,297
Grant receivable - Time Restricted	-	150,000
State Bar of California - IOLTA	1,628,494	1,024,570
	<u>\$ 14,167,295</u>	<u>\$ 12,674,159</u>

8. OPERATING LEASES

CRLA leases various office facilities under various non-cancelable 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. CRLA also leases equipment with various non-cancelable operating lease arrangements expiring through June 2021.

Future minimum lease payments under these arrangements at December 31, 2019 are as follows:

<u>Year ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 323,904	\$ 43,963	\$ 367,867
2021	281,460	1,796	283,256
2022	266,400	-	266,400
2023	185,962	-	185,962
2024	171,449	-	171,449
Thereafter	161,304	-	161,304
	<u>\$ 1,390,479</u>	<u>\$ 45,759</u>	<u>\$ 1,436,238</u>

For the years ended December 31, 2019 and 2018, office rent expense was \$589,553 and \$449,067, and equipment rent expense was \$98,231 and \$71,162, respectively.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

9. EMPLOYEE BENEFIT PLAN

CRLA has a 401(k) defined contribution profit sharing plan. Eligible employees who are at least age 18 and are not covered under a collective bargaining agreement may defer up to the lesser of 75% of their salary or the limit under the Internal Revenue Code (IRC). CRLA matches 100% of those employee deferrals, up to a maximum of \$2,760 based on their years of services and salaries. During 2019, CRLA amended the plan to match 4% of compensation of all eligible employees, regardless of tenure. Employees eligible for the matching contributions vest immediately in the match. CRLA contributed \$217,573 and \$97,800, respectively, to the plan for the years ended December 31, 2019 and 2018.

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 be exceed the limit under IRC. CRLA is not required to make any contributions to this plan.

10. 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, 2019 and 2018 are summarized below:

	<u>2019</u>	<u>2018</u>
Support		
LSC Basic Grant	\$ 4,750,556	\$ 5,362,154
LSC rate	12.50%	12.50%
	<u>\$ 593,820</u>	<u>\$ 670,269</u>
Expenses		
Salaries and wages		
Lawyers	410,260	398,204
Community workers	27,779	21,809
Payroll tax / Fringe benefits	93,622	97,816
Clerical and others	113,704	3,671
Space and Occupancy	34,410	69,632
Equipment rent and related	3,221	5,211
Supplies and Materials	16,259	23,877
Telephone	13,788	22,583
Training	14,850	16,326
Library	6,343	10,062
Insurance	406	5,737
Audit Fees	6,388	7,930
Other expense	505	9,420
Litigation Cost	7,829	17,463
	<u>\$ 749,364</u>	<u>\$ 709,741</u>
Total Expenses		
	<u>\$ 155,545</u>	<u>\$ 39,472</u>
Total PAI expenses over the requirement threshold		

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

11. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the COVID-19 outbreak in 2020 has led to severe disruptions and uncertainty in the global supply chain, capital markets and economies, and those disruptions have since intensified 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 duration is currently expected to be temporary, however there is uncertainty around the duration. While CRLA expects this matter to 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.

CRLA applied for and received a loan in the amount of \$2,250,000, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act Paycheck Protection Program. This loan may be forgiven partially or in total based on meeting eligibility requirements.

SUPPLEMENTAL INFORMATION

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SCHEDULE OF SUPPORT, REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR LEGAL SERVICES CORPORATION FUNDS
For the Year Ended December 31, 2019

	Basic	Migrant	Pro Bono Innovation Grant	2017 LSC Waiver	2018 LSC Waiver	Total	Property	Total
Revenue and support								
Grant revenue	\$ 4,750,556	\$ 3,086,473	\$ 93,010	\$ -	\$ -	\$ 7,930,039	\$ -	\$ 7,930,039
Attorney fees and costs recovery	163,091	421,570	-	-	-	584,661	-	584,661
Total revenue and support	<u>4,913,647</u>	<u>3,508,043</u>	<u>93,010</u>	<u>-</u>	<u>-</u>	<u>8,514,700</u>	<u>-</u>	<u>8,514,700</u>
Expenses:								
Salaries and wages	3,057,503	1,470,438	49,725	601,261	-	5,178,927	-	5,178,927
Employee benefits	886,775	274,454	10,072	-	-	1,171,301	-	1,171,301
Payroll taxes	268,357	101,140	4,494	-	-	373,991	-	373,991
Total personnel costs	<u>4,212,635</u>	<u>1,846,032</u>	<u>64,291</u>	<u>601,261</u>	<u>-</u>	<u>6,724,219</u>	<u>-</u>	<u>6,724,219</u>
Space and occupancy	226,826	117,711	-	3,815	-	348,352	-	348,352
Facilities	78,568	53,135	345	1,700	-	133,748	-	133,748
Professional fees	118,435	33,876	1,983	27,102	-	181,396	-	181,396
Travel	144,070	81,787	15,467	3,919	-	245,243	-	245,243
Supplies and materials	120,653	76,582	1,628	596	-	199,459	-	199,459
Library	44,644	25,077	-	21,000	-	90,721	-	90,721
Miscellaneous	122,463	52,484	-	52,382	-	227,329	(41,851)	185,478
Telecommunications	156,804	74,759	1,827	-	-	233,390	-	233,390
Insurance	53,809	24,479	745	-	-	79,033	-	79,033
Equipment rent and related	38,966	14,487	628	3,450	-	57,531	-	57,531
Memberships	13,836	21,918	296	-	-	36,050	-	36,050
Training	49,674	9,084	233	70,190	-	129,181	-	129,181
Interest	8,455	2,596	-	-	-	11,051	-	11,051
Depreciation	-	-	-	-	-	-	19,258	19,258
Litigation	60,647	28,841	203	300	-	89,991	-	89,991
Total	<u>5,450,485</u>	<u>2,462,848</u>	<u>87,646</u>	<u>785,715</u>	<u>-</u>	<u>8,786,694</u>	<u>(22,593)</u>	<u>8,764,101</u>
Interfund transfers	-	912,011	-	-	(912,011)	-	-	-
Total expenses	<u>5,450,485</u>	<u>3,374,859</u>	<u>87,646</u>	<u>785,715</u>	<u>(912,011)</u>	<u>8,786,694</u>	<u>(22,593)</u>	<u>8,764,101</u>
Change in net assets	<u>(536,838)</u>	<u>133,184</u>	<u>5,364</u>	<u>(785,715)</u>	<u>912,011</u>	<u>(271,994)</u>	<u>22,593</u>	<u>(249,401)</u>
Net assets, beginning of year	<u>552,409</u>	<u>1,218,734</u>	<u>20,635</u>	<u>785,715</u>	<u>-</u>	<u>2,577,493</u>	<u>126,947</u>	<u>2,704,440</u>
Net assets, end of year	<u>\$ 15,571</u>	<u>\$ 1,351,918</u>	<u>\$ 25,999</u>	<u>\$ -</u>	<u>\$ 912,011</u>	<u>\$ 2,305,499</u>	<u>\$ 149,540</u>	<u>\$ 2,455,039</u>

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
December 31, 2019

	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
Building	\$ 2,242,873	\$ 549,899	\$ 2,792,772
Land	791,250	166,740	957,990
Building improvements	814,335	349,138	1,163,473
Law library	-	391,111	391,111
Office equipment	207,176	46,178	253,354
Furniture and equipment	57,775	-	57,775
Leasehold improvements	84,579	-	84,579
	<u>4,197,988</u>	<u>1,503,066</u>	<u>5,701,054</u>
Less: accumulated depreciation	<u>(1,641,451)</u>	<u>(1,188,674)</u>	<u>(2,830,125)</u>
	<u>\$ 2,556,537</u>	<u>\$ 314,392</u>	<u>\$ 2,870,929</u>

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Pass-through Entity Identifying Number</u>	<u>Award Identifier Number</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
Direct Awards:				
Legal Services Corporation:				
Direct Legal Services for Low Income - Basic	N/A	805260	09.80526	\$ 5,450,486
Direct Legal Services for Low Income - Migrant	N/A	805260	09.80526	2,462,848
Pro Bono Innovation Fund	N/A	805260	09.80526	87,646
2017 Waiver	N/A	805260	09.80526	785,715
Total Legal Services Corporation				<u>8,786,695</u>
U.S. Department of Labor - Occupational Safety & Health				
Susan Harwood Training Grant - Heat Stress Prevention	N/A	SH05007SH8	17.502	106,876
Total U.S. Department of Labor				<u>106,876</u>
U.S. Department of housing & Urban Development				
Fair Housing Enforcement Program	N/A	FPEI9005	14.416	242,349
Education Outreach Program	N/A	FEOI19004	14.418	97,161
Total U.S. Department of Housing & Urban Development				<u>339,510</u>
Pass Through Awards:				
U.S. Department of Justice				
<i>Passed through the California Governor's Office of Emergency Services</i>				
Victims of Crime Act	001-90018-00	KL17011211	16.575	37,244
Total Department of Justice				<u>37,244</u>
Total Expenditures of Federal Awards				<u>\$ 9,270,325</u>

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of California Rural Legal Assistance, Inc. (CRLA) under the programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CRLA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of CRLA.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

CRLA did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
California Rural Legal Assistance, Inc.

We have audited, in accordance with the 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, the financial statements of California Rural Legal Assistance, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Rural Legal Assistance, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of California Rural Legal Assistance, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of California Rural Legal Assistance, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as *Item 2019-001* that we consider to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Rural Legal Assistance's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objection of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CRLA'S Response to the Findings

CRLA's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CRLA's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CRLA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CRLA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SQUAR MILNER LLP

San Francisco, California
May 28, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
California Rural Legal Assistance, Inc.

Report on Compliance for Each Major Federal Program

We have audited California Rural Legal Assistance, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *LSC Audit Guide* and the *Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on each of California Rural Legal Assistance, Inc.'s major federal programs for the year ended December 31, 2019. California Rural Legal Assistance, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of California Rural Legal Assistance, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); the *LSC Audit Guide*; and the *Compliance Supplement For Audits of LSC Recipients*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal program occurred. An audit includes examining, on a test basis, evidence about California Rural Legal Assistance, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of California Rural Legal Assistance, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, California Rural Legal Assistance, Inc. complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.



Report on Internal Control Over Compliance

Management of California Rural Legal Assistance, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered California Rural Legal Assistance, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of California Rural Legal Assistance, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and the LSC Audit Guide. Accordingly, this report is not suitable for any other purpose.

SQUAR MILNER LLP

San Francisco, California
May 28, 2020

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of California Rural Legal Assistance, Inc. (CRLA) were prepared in accordance with GAAP.
2. No material weaknesses relating to the audit of the financial statements are reported. However, deficiencies in internal control over financial reporting were identified that are considered to be a significant deficiency at finding 2019-001.
3. No instances of noncompliance material to the financial statement of CRLA, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies were identified during the audit of the major federal award program.
5. The auditor's report on compliance for the major federal award program for California Rural Legal Assistance, Inc. expresses an unmodified opinion.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The programs tested as major programs were:

CFDA Number	09.80526
<u>Name of Federal Program</u>	Direct Legal Services for Low Income
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. California Rural Legal Assistance, Inc. did not qualify as a low-risk auditee.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS

2019-001 – Account Reconciliations and Functional Allocation of Expenses:

Condition: During the audit, we noted that certain accounts, including restricted net assets, contribution revenue, grant revenue, and payroll expense were not reconciled, nor adjusted to the correct balances until after the audit commenced. We also noted that expenses were not allocated by function or funding source until after year end.

Criteria: All material account balances should be reconciled in a timely manner each month and expenses should be allocated to funding sources, administration and fundraising at a minimum on a quarterly basis.

Effect: We experienced delays in the completion of the audit.

Cause: While CRLA was able to reconcile all of its accounts during an extended year-end close process, they did not have processes in place to maintain the books in accordance with generally accepted accounting principles and to ensure that the accounts were reconciled each month.

Recommendation: CRLA should adopt a policy requiring monthly reconciliation of all accounts by personnel with adequate accounting experience and knowledge to ensure the accuracy of the monthly financial statements. Timely reconciliations can help quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed.

Views of Responsible Officials and Planned Correction Action: Management agrees with the finding presented by the auditors. Management has taken the following actions already to meet this standard:

- Migration the organization to all cloud-based such as *Intacct* (Accounting and Financial Reporting System), *Expensify* (Employee Reimbursement and Credit Card Expense Management System), *Bill.com* (Accounts Payable Management) and *AssetEdge* (Fixed Asset Management System).
- Reorganization of the Finance & Accounting department in order to move towards meeting monthly accounting close practices and quarterly allocation frequencies for 2020 while maintaining all audit schedules to improve the quality and timeliness of the close process in preparation for closing the 2020 year and avoiding delays with the audit firm in the future.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS

None

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS

2018-001 – Account Reconciliations:

Finding: During the audit, we noted that certain accounts, including grants receivable, notes payable, fixed assets, deferred revenue, and deferred rent were not reconciled on a monthly basis nor adjusted to the correct balances at year end.

Recommendation: CRLA should adopt a policy requiring monthly reconciliation of all balance sheet accounts by personnel with adequate accounting experience and knowledge to ensure the accuracy of the monthly financial statements. Balance sheet reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed.

Current Status: A similar finding was noted in the current year audit. See finding 2019-001.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD

2018-002 – Lack of Sufficient Timekeeping:

Condition: During the audit, we noted that accurate time sheets were not maintained for attorney and community workers and that approvals were not consistently documented. Additionally, timesheets often did not properly allocate time to the appropriate funding codes. As a result, we could not identify adequate timesheet support for payroll allocations across all funding sources.

Recommendation: CRLA should train employees on appropriate time keeping, inactivate old projects from the time system, ensure that everyone submits their time each month, and ensure that all time entered is approved. The resulting time entry should be used as the basis for allocating payroll costs.

Current Status: During the current year audit we noted that accurate time records for attorney and community workers were maintained, and that approvals were consistently documented. Furthermore, we observed that time records properly allocated time to the appropriate funding code. We consider this matter closed.

2018-003 – Allocation of personnel and non-personnel costs:

Condition: During the audit, we noted that personnel and non-personnel costs were not allocated on a timely basis among programs and supporting services, including the major federal program. We also noted that payroll allocated to programs was not sufficiently supported by approved time sheets.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2019

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD (continued)

2018-003 – Allocation of personnel and non-personnel costs (continued)

Recommendation: CRLA should hire as necessary to ensure that the books and records are maintained in accordance with generally accepted accounting principles and are reconciled monthly. Duties should include allocating expenses to funding sources, administration and fundraising.

CRLA should also train employees on appropriate time keeping, inactivate old projects from the time system, ensure that everyone submits their time each month, and ensure that all time entered is approved. The resulting time entry should be used as the basis for allocating payroll costs.

Current Status: During the current year audit, we noted that personnel and non-personnel costs were allocated on a timely basis among programs and supporting services, including the major federal program. We also noted that payroll allocated to programs was sufficiently supported by approved timesheets. We consider this matter closed.