

# **California Rural Legal Assistance, Inc.**

Financial Statements

December 31, 2020 and 2019

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## INDEPENDENT AUDITORS' 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 statements of financial position as of December 31, 2020 and 2019, 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 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 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, 2020 and 2019, 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.

**BAKER TILLY US, LLP***Baker Tilly US, LLP*

San Francisco, California

April 30, 2021

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,370,559	\$ 5,362,369
Client trust funds	224,243	215,752
Grants receivable	788,848	839,579
Other receivables	108,068	189,892
Prepaid expenses	111,806	135,737
Total current assets	11,603,524	6,743,329
<b>Noncurrent Assets</b>		
Property and equipment - net	2,835,520	2,870,929
Pledges and grants receivable - long term	-	150,000
Deposits	35,191	34,723
Cash and cash equivalents held for endowment	126,261	-
Total assets	\$ 14,600,496	\$ 9,798,981
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 239,242	\$ 286,242
Current portion of notes payable	65,751	61,848
Paycheck Protection Program (PPP) loan	1,126,472	-
Accrued salaries	418,201	279,772
Accrued vacation	809,252	580,973
Other accrued liabilities	245,054	137,949
Client trust funds payable	224,243	215,752
Deferred rent	24,253	19,880
Total current liabilities	3,152,468	1,582,416
<b>Noncurrent Liabilities</b>		
Deferred rent - long term	97,785	97,785
Notes payable - net of current portion	1,013,032	1,078,671
PPP Loan - net of current portion	1,123,528	-
Total liabilities	5,386,813	2,758,872
<b>Net Assets</b>		
Without donor restrictions		
Available for operations	1,578,125	1,319,056
Board designated reserve	1,000,000	1,000,000
	2,578,125	2,319,056
With donor restrictions	6,635,558	4,721,053
Total net assets	9,213,683	7,040,109
Total liabilities and net assets	\$ 14,600,496	\$ 9,798,981

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended December 31, 2020 and 2019**

	<b>2020</b>			<b>2019</b>		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
Grant revenue	\$ 725,301	\$ 19,064,904	\$ 19,790,205	\$ 505,513	\$ 15,496,628	\$ 16,002,141
Contributions	487,973	-	487,973	685,802	-	685,802
Attorneys fees and cost recovery	399,252	-	399,252	671,647	-	671,647
In-kind contributions	-	-	-	1,936	-	1,936
Other revenue	116,249	-	116,249	256,944	-	256,944
Net assets released from restrictions	17,150,399	(17,150,399)	-	14,167,295	(14,167,295)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>18,879,174</b>	<b>1,914,505</b>	<b>20,793,679</b>	<b>16,289,137</b>	<b>1,329,333</b>	<b>17,618,470</b>
<b>FUNDRAISING EVENTS</b>						
Revenues from special events	137,545	-	137,545	156,474	-	156,474
Less: cost of direct benefits to attendees	(11,754)	-	(11,754)	(35,645)	-	(35,645)
<b>TOTAL FUNDRAISING EVENTS</b>	<b>125,791</b>	<b>-</b>	<b>125,791</b>	<b>120,829</b>	<b>-</b>	<b>120,829</b>
<b>TOTAL SUPPORT AND REVENUES AND FUNDRAISING EVENTS</b>	<b>19,004,965</b>	<b>1,914,505</b>	<b>20,919,470</b>	<b>16,409,966</b>	<b>1,329,333</b>	<b>17,739,299</b>
<b>EXPENSES</b>						
Program services	15,476,064	-	15,476,064	13,429,320	-	13,429,320
Management and general	2,523,288	-	2,523,288	2,714,107	-	2,714,107
Fundraising	746,544	-	746,544	631,816	-	631,816
<b>TOTAL EXPENSES</b>	<b>18,745,896</b>	<b>-</b>	<b>18,745,896</b>	<b>16,775,243</b>	<b>-</b>	<b>16,775,243</b>
<b>CHANGE IN NET ASSETS</b>	<b>259,069</b>	<b>1,914,505</b>	<b>2,173,574</b>	<b>(365,277)</b>	<b>1,329,333</b>	<b>964,056</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>2,319,056</b>	<b>4,721,053</b>	<b>7,040,109</b>	<b>2,684,333</b>	<b>3,391,720</b>	<b>6,076,053</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 2,578,125</b>	<b>\$ 6,635,558</b>	<b>\$ 9,213,683</b>	<b>\$ 2,319,056</b>	<b>\$ 4,721,053</b>	<b>\$ 7,040,109</b>

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Years Ended December 31, 2020 and 2019**

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 9,509,353	\$ 1,353,039	\$ 499,747	\$ 11,362,139	\$ 7,796,450	\$ 1,179,294	\$ 382,623	\$ 9,358,367
Payroll taxes and fringe benefits	2,493,717	294,981	108,952	2,897,650	2,423,385	302,559	98,576	2,824,520
Professional Fees	585,771	363,511	48,548	997,830	254,048	600,806	25,171	880,025
Occupancy	498,124	58,923	21,763	578,810	539,959	29,018	20,575	589,552
Telecommunication	357,317	48,249	15,193	420,759	332,230	50,113	12,492	394,835
Office supplies	308,287	45,098	883	354,268	317,334	70,983	14,980	403,297
Dues and subscriptions	259,057	73,644	5,197	337,898	195,702	15,364	1,244	212,310
Subgrant	290,000	23,437	-	313,437	168,482	22,643	6,903	198,028
Travel	217,724	82,757	3,347	303,828	358,982	203,007	13,632	575,621
Facilities	218,685	46,012	8,075	272,772	262,723	62,170	10,154	335,047
Program Expenses	175,788	130	-	175,918	99,260	31	-	99,291
Depreciation expense	136,218	3,072	1,799	141,089	85,184	11,449	3,490	100,123
Utilities	109,359	12,652	4,673	126,684	110,079	14,659	4,433	129,171
Insurance	92,632	9,451	3,491	105,574	123,601	16,604	5,071	145,276
Other expenses	27,299	48,755	-	76,054	6,340	45,032	10,000	61,372
Conferences, conventions, and meetings	56,562	6,984	2,879	66,425	156,001	18,194	6,037	180,232
Interest	55,420	6,556	2,421	64,397	57,922	7,781	2,376	68,079
Postage and delivery	24,785	12,161	4,588	41,534	23,861	12,728	937	37,526
Printing and publications	20,095	7,180	9,276	36,551	33,702	14,626	9,951	58,279
Advertising	29,326	3,469	1,281	34,076	63,739	8,563	2,615	74,917
Meals and entertainment	10,451	18,302	-	28,753	20,336	17,306	556	38,198
Special events	-	-	11,754	11,754	-	-	35,645	35,645
Finance charges	94	4,925	4,431	9,450	-	11,177	-	11,177
Special events - cost of direct benefits to attendees	-	-	(11,754)	(11,754)	-	-	(35,645)	(35,645)
	<u>\$ 15,476,064</u>	<u>\$ 2,523,288</u>	<u>\$ 746,544</u>	<u>\$ 18,745,896</u>	<u>\$ 13,429,320</u>	<u>\$ 2,714,107</u>	<u>\$ 631,816</u>	<u>\$ 16,775,243</u>

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,173,574	\$ 964,056
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	141,089	100,123
Changes in operating assets and liabilities:		
Grants receivable	200,731	(481,194)
Pledges receivable	-	(92,400)
Other receivables	81,824	268,439
Prepaid expenses and deposits	23,463	124,906
Accounts payable	(47,000)	(112,237)
Accrued liabilities	473,813	265,104
Deferred rent	4,373	4,055
Client trust funds payable	8,491	(26,258)
<b>Net cash provided by operating activities</b>	<b>3,060,358</b>	<b>1,014,594</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(105,680)	(41,851)
<b>Net cash used in investing activities</b>	<b>(105,680)</b>	<b>(41,851)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from PPP loan	2,250,000	-
Principal payments on notes payable	(61,736)	(58,176)
<b>Net cash provided by (used in) financing activities</b>	<b>2,188,264</b>	<b>(58,176)</b>
Increase in cash, cash equivalents, and restricted cash	5,142,942	914,567
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - beginning of year</b>	<b>5,578,121</b>	<b>4,663,554</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - end of year</b>	<b>\$ 10,721,063</b>	<b>\$ 5,578,121</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 64,467	\$ 68,079
Reconciliation of totals in the statements of cash flows to related captions in the statements of financial position		
Cash and cash equivalents	\$ 10,370,559	\$ 5,362,369
Client trust funds	224,243	215,752
Cash and cash equivalents held for endowment	126,261	-
<b>Total cash, cash equivalents, and restricted cash</b>	<b>\$ 10,721,063</b>	<b>\$ 5,578,121</b>



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**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**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 and held for endowment.

***Concentration of Credit Risk***

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

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**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**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, 2020 and 2019, 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, 2020 and 2019, CRLA did not have any pledges receivable.

At December 21, 2020 and 2019, grants and contributions amounting to \$1,378,342 and \$787,500, respectively, have not been recognized in the accompanying financial statements because the condition(s) they depend on have not been met.

***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.

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**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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

***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, 2020, CRLA did not receive any pro bono legal services. During the year ended December 31, 2019, CRLA received pro bono legal services of \$1,936 from volunteers who serve as attorneys and paralegals.

***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.

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**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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

***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 of purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions.

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

Revenue recognition from attorney’s fee awards is evaluated under 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.

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. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

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

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

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS** (continued)

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, 2020:

Financial assets at December 31, 2020:	
Cash and cash equivalents	\$ 10,370,559
Grants receivable	788,848
Other receivables	<u>108,068</u>
Total financial assets	<u>11,267,475</u>
Less amounts not available to be used within one year:	
Donor restricted net assets	6,635,558
Board designated net assets	<u>1,000,000</u>
	<u>7,635,558</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,631,917</u>

**3. PLEDGES AND GRANTS RECEIVABLE**

Grants receivable as December 31 consisted of the following:

	<u>2020</u>	<u>2019</u>
Receivable in one year or less	\$ 788,848	\$ 839,579
Receivable in one to five years	<u>-</u>	<u>150,000</u>
	<u>\$ 788,848</u>	<u>\$ 989,579</u>

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

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**4. PROPERTY AND EQUIPMENT**

At December 31, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Building	\$ 2,792,772	\$ 2,792,772
Building improvements	1,269,154	1,163,473
Law library	391,111	391,111
Office equipment	106,800	106,800
Furniture and equipment	204,329	204,329
Leasehold improvements	<u>84,579</u>	<u>84,579</u>
	4,848,745	4,743,064
Less: accumulated depreciation and amortization	<u>(2,971,215)</u>	<u>(2,830,125)</u>
	<u>1,877,530</u>	<u>1,912,939</u>
Land	<u>957,990</u>	<u>957,990</u>
	<u>\$ 2,835,520</u>	<u>\$ 2,870,929</u>

For the years ended December 31, 2020 and 2019, depreciation and amortization expense was \$141,089 and \$100,123, respectively.

**5. NOTES PAYABLE**

Notes payable consisted of the following:

	<u>2020</u>	<u>2019</u>
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.	\$ 1,029,781	\$ 1,085,109
Note payable to a bank, secured by a deed of trust. Interest at 8.25% and monthly payments of \$1,251 including principal and interest, due May 2024.	<u>49,002</u>	<u>55,410</u>
	1,078,783	1,140,519
Less: current portion	<u>(65,751)</u>	<u>(61,848)</u>
	<u>\$ 1,013,032</u>	<u>\$ 1,078,671</u>

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**5. NOTES PAYABLE** (continued)

Annual maturities of the notes payable are as follows:

<u>Year ending December 31,</u>		
2021	\$	65,751
2022		69,907
2023		74,333
2024		70,107
2025		67,708
Thereafter		<u>730,977</u>
	\$	<u><u>1,078,783</u></u>

**6. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions as of December 31, 2020 and 2019 were restricted for the following:

	<u>2020</u>	<u>2019</u>
<b>Subject to purpose restrictions:</b>		
Civil Legal Services	\$ 4,239,032	\$ 2,471,675
Civil Legal Services - Housing	823,059	1,379,150
COVID Response	511,143	-
Health Equity and Accessibility	350,931	-
LSC - Property	218,852	149,539
Civil Legal Services - LGBTQ+	179,255	162,095
Retention of Public Benefits	65,231	-
Organizing Infrastructure	45,000	-
Essential Workers Program	40,000	-
Fellowship	28,067	43,010
Leadership and Advocacy	8,727	19,169
Census	-	299,464
Health and Education Equity	-	146,733
Civil Legal Services - Health	-	50,218
	<u>6,509,297</u>	<u>4,721,053</u>
<b>Donor-restricted endowments:</b>		
Michael Muniz Fellowship Endowment	<u>126,261</u>	<u>-</u>
	<u><u>\$ 6,635,558</u></u>	<u><u>\$ 4,721,053</u></u>

**CALIFORNIA RURAL LEGAL ASSISTANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**6. NET ASSETS WITH DONOR RESTRICTIONS (continued)**

For the years ended December 31, 2020 and 2019, 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>2020</u>	<u>2019</u>
Civil Legal Services	\$ 13,213,640	\$ 12,077,407
Civil Legal Services - Housing	1,698,462	548,861
Census	791,336	136,743
Civil Legal Services - Health	463,495	383,666
COVID Response	302,524	-
Health Equity and Accessibility	206,792	-
Civil Legal Services - LGBTQ+	203,503	155,600
Fellowship	200,643	236,461
Leadership and Advocacy	46,204	269,298
Retention of Public Benefits	23,799	-
Health and Education Equity	-	359,259
	<u>\$ 17,150,399</u>	<u>\$ 14,167,295</u>

**7. ENDOWMENTS**

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

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

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



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**7. ENDOWMENTS** (continued)

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original corpus, or amounts required to be maintained by donors or by law (or become “underwater”). Management has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020 and 2019, CRLA did not have any underwater endowments.

CRLA’s endowment consists of one fund and includes only donor-restricted funds.

During the year ended December 31, 2020, endowment net asset activity was as follows:

	<u>Unappropriated Earnings</u>	<u>Perpetual in Nature</u>	<u>Total</u>
Endowments - beginning	\$ -	\$ -	\$ -
Contributions	-	125,000	125,000
Investment return, net	1,261	-	1,261
Endowments - end	<u>\$ 1,261</u>	<u>\$ 125,000</u>	<u>\$ 126,261</u>

During the year ended December 31, 2019, CRLA did not have any endowments.

**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, 2020 are as follows:

<u>Year ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2021	\$ 438,164	\$ 1,796	\$ 439,960
2022	368,964	-	368,964
2023	281,320	-	281,320
2024	182,824	-	182,824
2025	138,999	-	138,999
Thereafter	22,305	-	22,305
	<u>\$ 1,432,576</u>	<u>\$ 1,796</u>	<u>\$ 1,434,372</u>

For the years ended December 31, 2020 and 2019, office rent expense was \$578,810 and \$589,553, and equipment rent expense was \$69,221 and \$98,231, respectively.

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**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 \$237,039 and \$217,573, respectively, to the plan for the years ended December 31, 2020 and 2019.

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.

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**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, 2020 and 2019 are summarized below:

	<b>2020</b>	<b>2019</b>
Support		
LSC Basic Grant	\$ 5,027,725	\$ 4,750,556
LSC rate	12.50%	12.50%
PAI required threshold	\$ 628,466	\$ 593,820
Expenses		
Salaries and wages		
Lawyers	399,493	410,260
Community workers	34,686	27,779
Clerical and others	82,545	113,704
Payroll tax / Fringe benefits	131,765	93,622
Space and Occupancy	35,521	34,410
Equipment rent and related	2,664	3,221
Technology	2,960	-
Program travel	7,142	-
Printing and postage	209	-
Supplies and materials	19	16,259
Telephone	9,591	13,788
Training	(450)	14,850
Library	4,825	6,343
Contract service to clients	4,748	-
Insurance	3,345	406
Audit Fees	-	6,388
Other expense	5,595	505
Litigation Cost	-	7,829
Total Expenses	\$ 724,658	\$ 749,364
Total PAI expenses over the requirement threshold	\$ 96,192	\$ 155,545

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**11. PAYCHECK PROTECTION PROGRAM**

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

CRLA met the PPP’s loan forgiveness requirements, and therefore, applied for forgiveness during 2021. When legal release is received, CRLA will record the amount forgiven as forgiveness income within its statement of activities. If any portion of CRLA’S PPP loan is not forgiven, CRLA will be required to repay that portion, plus interest, over 2 years in equal installments with the repayment term beginning at the time that the SBA remits the amount forgiven to the CRLA’S lender.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

**12. RISKS AND UNCERTAINTIES**

During 2020, the COVID-19 outbreak 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 disruption is currently expected to be temporary, however there is uncertainty around the duration. While CRLA expects this matter may negatively impact its results of operations and financial position, the related impact including the amount of potential impairment of assets, cannot be reasonably estimated at this time.