

LEGAL AID SOCIETY OF SAN MATEO COUNTY

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

MARCH 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Legal Aid Society of San Mateo County

Opinion

We have audited the accompanying financial statements of Legal Aid Society of San Mateo County (a nonprofit organization), which comprise the Statement of Financial Position as of March 31, 2023, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Legal Aid Society of San Mateo County as of March 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Legal Aid Society of San Mateo County and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Aid Society of San Mateo County's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT

continued

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legal Aid Society of San Mateo County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Aid Society of San Mateo County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Legal Aid Society of San Mateo County's 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2023, on our consideration of Legal Aid Society of San Mateo County'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 Legal Aid Society of San Mateo County'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 Legal Aid Society of San Mateo County's internal control over financial reporting and compliance.

Harrington Group

Oakland, California
September 20, 2023

LEGAL AID SOCIETY OF SAN MATEO COUNTY

STATEMENT OF FINANCIAL POSITION

March 31, 2023

With comparative totals at March 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023</u>	<u>2022</u>
ASSETS				
Cash	\$ 233,810	\$ -	\$ 233,810	\$ 420,836
Grants receivable (Note 2)	1,066,954	508,767	1,575,721	1,201,893
Prepaid expenses and deposits	53,988		53,988	79,443
Investments (Note 4)	1,884,982	2,092,464	3,977,446	4,574,249
Property and equipment (Note 5)	-		-	-
Right-of-use assets - operating lease (Note 8)	12,436		12,436	-
TOTAL ASSETS	<u>\$ 3,252,170</u>	<u>\$ 2,601,231</u>	<u>\$ 5,853,401</u>	<u>\$ 6,276,421</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 632,260	\$ -	\$ 632,260	\$ 366,282
Accrued liabilities (Note 6)	280,643		280,643	258,670
Deferred revenue (Note 7)	295,858		295,858	262,299
Lease liability - operating lease (Note 8)	12,436		12,436	-
TOTAL LIABILITIES	<u>1,221,197</u>	<u>-</u>	<u>1,221,197</u>	<u>887,251</u>
NET ASSETS				
Without donor restrictions	2,030,973		2,030,973	2,586,618
With donor restrictions				
Purpose restrictions (Note 10)		723,121	723,121	924,442
Perpetual in nature (Note 11)		1,878,110	1,878,110	1,878,110
TOTAL NET ASSETS	<u>2,030,973</u>	<u>2,601,231</u>	<u>4,632,204</u>	<u>5,389,170</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,252,170</u>	<u>\$ 2,601,231</u>	<u>\$ 5,853,401</u>	<u>\$ 6,276,421</u>

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

LEGAL AID SOCIETY OF SAN MATEO COUNTY

STATEMENT OF ACTIVITIES

For the year ended March 31, 2023

With comparative totals for the year ended March 31, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
REVENUE AND SUPPORT				
Contributions (Note 12)	\$ 3,327,523	\$ 856,523	\$ 4,184,046	\$ 5,021,428
In-kind donations (Note 13)	2,097,747		2,097,747	2,018,237
Special events	530,078		530,078	575,426
Other income	163,742		163,742	22,603
Net assets released from restrictions (Note 10)	960,738	(960,738)	-	-
TOTAL REVENUE AND SUPPORT	7,079,828	(104,215)	6,975,613	7,637,694
EXPENSES				
Program services	4,851,942		4,851,942	4,609,203
Program services - in-kind donations	2,051,240		2,051,240	1,934,141
Total program services expenses	6,903,182	-	6,903,182	6,543,344
General and administration	68,519		68,519	168,448
Total general and administration expenses	68,519	-	68,519	168,448
Fundraising	551,611		551,611	489,248
TOTAL EXPENSES	7,523,312	-	7,523,312	7,201,040
CHANGE IN NET ASSETS BEFORE INVESTMENT INCOME				
	(443,484)	(104,215)	(547,699)	436,654
Interest and dividends	29,106		29,106	350,279
(Loss) on investments	(141,267)	(97,106)	(238,373)	(248,261)
CHANGE IN NET ASSETS	(555,645)	(201,321)	(756,966)	538,672
NET ASSETS, BEGINNING OF YEAR	2,586,618	2,802,552	5,389,170	4,850,498
NET ASSETS, END OF YEAR	\$ 2,030,973	\$ 2,601,231	\$ 4,632,204	\$ 5,389,170

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

LEGAL AID SOCIETY OF SAN MATEO COUNTY

STATEMENT OF FUNCTIONAL EXPENSES
 For the year ended March 31, 2023
 With comparative totals for the year ended March 31, 2022

	Program Services				Total Program Services	General and Administration	Fundraising	Total Expenses	
	Immigration Expenses	HomeSavers Expenses	Health Consumer Expenses	Other Program Expenses				2023	2022
Salaries	\$ 618,103	\$ 626,233	\$ 447,545	\$ 804,787	\$ 2,496,668	\$ 31,339	\$ 341,218	\$ 2,869,225	\$ 2,680,775
Payroll taxes and benefits	175,999	140,869	130,027	226,648	673,543	8,003	51,211	732,757	662,314
Total personnel costs	794,102	767,102	577,572	1,031,435	3,170,211	39,342	392,429	3,601,982	3,343,089
Contract services	963,403	155,223	20,393	68,395	1,207,414		5,474	1,212,888	1,456,704
Client rental assistance		87,352			87,352			87,352	12,751
Contract adjustment	9,205	63,889		10,000	83,094			83,094	-
Technology	12,324	14,488	9,888	35,342	72,042		7,725	79,767	94,197
Fundraising - special events				410	410		75,812	76,222	27,744
Rent - Sobrato lease	10,478	16,819	17,396	11,378	56,071	4,657	4,010	64,738	16,064
Miscellaneous	15,173	10,374	6,798	15,845	48,190	1,414	4,340	53,944	54,286
Dues and memberships	5,069	4,953	3,311	6,485	19,818	3,355	2,147	25,320	12,059
Audit	5,164	4,955	3,621	6,328	20,068		2,932	23,000	25,250
Telephone	3,596	7,717	5,630	5,282	22,225		123	22,348	18,133
Investment fees					-	19,751		19,751	22,034
Court and filing costs	6,065	2,702	735	7,098	16,600		61	16,661	10,323
Insurance	3,544	3,197	2,295	5,157	14,193		1,404	15,597	16,936
Supplies and printing	1,430	1,181	1,053	2,121	5,785		8,059	13,844	14,070
Library supplements	5,625	2,129	2,201	2,818	12,773		58	12,831	11,394
Space costs	2,044	1,242	1,274	2,170	6,730		115	6,845	3,375
Client emergency assistance	895			2,558	3,453			3,453	7,513
Training	623	961	321	1,048	2,953		260	3,213	12,939
Travel	802	1,085	392	281	2,560		155	2,715	25
Depreciation					-			-	23,917
Total expenses before in-kind donations	1,839,542	1,145,369	652,880	1,214,151	4,851,942	68,519	505,104	5,425,565	5,182,803
In-kind donations - services	310,158	365,917	228,086	736,964	1,641,125			1,641,125	1,544,915
In-kind donations - office space	96,588	94,382	64,477	154,668	410,115		46,507	456,622	473,322
Total in-kind donations (Note 13)	406,746	460,299	292,563	891,632	2,051,240	-	46,507	2,097,747	2,018,237
TOTAL 2023 FUNCTIONAL EXPENSES	\$ 2,246,288	\$ 1,605,668	\$ 945,443	\$ 2,105,783	\$ 6,903,182	\$ 68,519	\$ 551,611	\$ 7,523,312	
TOTAL 2022 FUNCTIONAL EXPENSES	\$ 2,010,303	\$ 1,287,674	\$ 606,184	\$ 2,639,183	\$ 6,543,344	\$ 168,448	\$ 489,248		\$ 7,201,040

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

LEGAL AID SOCIETY OF SAN MATEO COUNTY

STATEMENT OF CASH FLOWS

For the year ended March 31, 2023

With comparative totals for the year ended March 31, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (756,966)	\$ 538,672
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	-	23,917
Loss on investments	238,373	248,261
Forgiveness of paycheck protection program loan	-	(403,276)
Amortization of right-of-use-assets - operating lease	257	-
(Increase) decrease in operating assets:		
Grants receivable	(373,828)	(331,273)
Prepaid expenses and deposits	25,455	(51,326)
Increase (decrease) in operating liabilities:		
Accounts payable	265,978	55,565
Accrued liabilities	21,973	995
Deferred revenue	33,559	(37,511)
Lease liability - operating lease	(257)	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(545,456)	44,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from sale of investments	1,358,789	1,085,446
Purchase of investments	(1,000,359)	(1,403,484)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	358,430	(318,038)
NET (DECREASE) IN CASH	(187,026)	(274,014)
CASH, BEGINNING OF YEAR	420,836	694,850
CASH, END OF YEAR	\$ 233,810	\$ 420,836
SUPPLEMENTAL DISCLOSURE:		
Non-cash operating activity:		
Right-of-use assets/lease liability - operating from adoption of ASC 842:	\$ 12,693	\$ -

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

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

The Legal Aid Society of San Mateo County (“Legal Aid SMC”) is a private non-profit law firm providing civil legal services since 1959 to low income residents of San Mateo County. Legal Aid SMC’s mission is to fight social injustice through civil legal advocacy for people living in poverty. Legal Aid SMC provides individual representation, community education, systemic advocacy, and strategic collaborative approaches to address legal issues and resolve problems in important areas of basic need including health, housing, immigration, income, education, and freedom from violence. Legal Aid SMC strives to empower people to overcome the causes and effects of poverty so they can participate in their community with dignity and respect.

Legal Aid SMC has received numerous awards for excellence in the delivery of legal services and has been recognized as an indispensable part of the safety net for low income residents in the community. Legal Aid SMC has also established successful pro bono programs involving over 160 private attorneys and trained volunteers in order to leverage our limited resources. Last year Legal Aid SMC opened 1,395 cases helping 1,266 families (some families came to Legal Aid SMC with more than one legal issue during the year). The median family income was \$27,600 per year.

2. **Summary of Significant Accounting Policies**

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

Basis of Presentation

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

Net Assets

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

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Grants Receivable

Grants receivable are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided.

Investments

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

Fair Value Measurements

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

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

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

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

Legal Aid SMC is required to measure certain investments and contributed services and office space at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

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

The primary receivable balance outstanding at March 31, 2023 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Legal Aid SMC's receivables consist of earned fees from contract programs granted by governmental agencies.

Legal Aid SMC holds investments in the form of mutual funds, certificates of deposits, and money market accounts. Fair market values of the Legal Aid SMC's investments are routinely reviewed by CAPTRUST.

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment

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

Donated Materials and Services

Legal Aid SMC received significant contributions for non-cash services. Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended March 31, 2023, Legal Aid SMC received \$1,641,125 in donated legal services and \$456,622 in donated office space that satisfy the criteria for recognition (see Note 13).

Income Taxes

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

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

Revenue and Revenue Recognition

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

A portion of Legal Aid SMC's revenue are derived from cost-reimbursable federal, state, county or local contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Legal Aid SMC has incurred expenditures in compliance with specific contract or grant provisions.

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

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

Recently Adopted Accounting Pronouncements

Legal Aid SMC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the Statement of Financial Position and disclose key information about leasing arrangements effective April 1, 2022. Legal Aid SMC elected not to restate the comparative period (2022). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, Legal Aid SMC recognized right-of-use assets of \$12,693 and lease liabilities totaling \$12,693 in its Statement of Financial Position as of April 1, 2022. The adoption did not result in an effect on amounts reported in the Statement of Activities for the year ended March 31, 2023.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU clarifies the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items, to increase transparency and comparability surrounding contributed nonfinancial assets through enhancements to presentation and disclosure. The ASU requires to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, include in disclosures a disaggregation of the amount of contributed nonfinancial assets by category, for each category, additional qualitative disclosures. The update does not change existing recognition and measurement requirements for contributed nonfinancial assets. The ASU is effective for fiscal years beginning after June 15, 2021. Legal Aid SMC's financial statements for the year ended March 31, 2023, are presented in accordance with ASU 2020-07.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Legal Aid SMC's financial statements for the year ended March 31, 2022, from which the summarized information was derived.

3. Liquidity and Availability of Resources

Legal Aid SMC manages its liquidity and reserves in three ways: operating within a prudent range of financial soundness and stability; maintaining adequate liquid assets to fund near-term operating needs; and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Legal Aid SMC has a policy to maintain current financial assets less current liabilities at a minimum of 30 days' operating expenses. To achieve this target, Legal Aid SMC forecasts its future cash flows and liquidity bi-monthly and monitors its reserves annually. During the 2023 fiscal year, the level of liquidity and reserves was managed within the policy requirements.

As of March 31, 2023, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

Cash	\$ 233,810
Grants receivable	1,575,721
Investments	<u>3,977,446</u>
Total financial assets	5,786,977
Less: Donor restricted funds – time and purpose	(723,121)
Donor restricted funds – perpetual in nature	<u>(1,878,110)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,185,746</u>

4. Investments

Investments at March 31, 2023 consist of the following:

Mutual funds and ETFs	\$3,885,973
Money market and certificates of deposits	<u>91,473</u>
	<u>\$3,977,446</u>

continued

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at March 31, 2023 consist of the following:

Building and improvements	\$ 172,998
Office equipment and furnishings	76,000
Law library	<u>8,771</u>
	257,769
Less: accumulated depreciation	<u>(257,769)</u>
	<u>\$ -</u>

Depreciation expense for the year ended March 31, 2023 was \$0.

6. Accrued Liabilities

Accrued liabilities at March 31, 2023 consist of the following:

Accrued vacation	\$206,349
Other accrued liabilities	<u>74,294</u>
	<u>\$280,643</u>

7. Deferred Revenue

Deferred revenue of \$295,858 at March 31, 2023 relates to deferred special events revenues.

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

8. Right-of-Use Assets - Operating Lease

Legal Aid SMC evaluated current contracts to determine which met the criteria of a lease. The right-of-use (“ROU”) asset represents Legal Aid SMC’s right to use underlying assets for the lease term, and the lease liability represents Legal Aid SMC’s obligation to make lease payments arising from this lease. The ROU asset and lease liability, which arises from an operating lease, were calculated based on the present value of future lease payments over the lease term.

Legal Aid SMC’s operating lease consists of an equipment lease which started on February 1, 2023. The discount rate applied to calculate the lease liability at the inception of the lease was 2.5%. The initial ROU asset and liability recorded were both \$12,436. The lease expense will be recognized on a straight-line basis over the lease terms. As of March 31, 2023, the remaining lease term for the operating lease was approximately 4 years.

Future maturities of the operating lease liability are as follows:

<u>Year ending March 31,</u>	
2024	\$ 3,444
2025	3,444
2026	3,444
2027	<u>2,870</u>
Total lease payments	13,202
Less: present value discount	<u>(766)</u>
	<u>\$12,436</u>

The underlying ROU asset related to the above liability is as follows:

ROU asset balance at April 1, 2022	\$12,693
Less: amortization of lease	<u>(257)</u>
ROU asset balance at March 31, 2023	<u>\$12,436</u>

Lease expense under the operating lease for the year ended March 31, 2023 was \$574.

9. Commitments and Contingencies

Contracts

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

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

10. Net Assets With Donor Restrictions – Purpose

Net assets with donor restrictions at March 31, 2023 consist of the following:

LIBRE/Immigration	\$429,195
Endowment income	191,031
General funds	82,062
FAP/KIC	<u>20,833</u>
	<u>\$723,121</u>

For the year ended March 31, 2023, net assets released from donor restrictions for time and program restrictions were \$960,738.

11. Net Assets With Donor Restrictions – Perpetual in Nature (Endowment)

Net assets with donor restrictions that are perpetual in nature represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends therefrom may be expended for purposes without any restrictions. At March 31, 2023, net assets with donor restrictions that are perpetual in nature were \$1,878,110.

Generally accepted accounting principles provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization and also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and Board-designated endowment funds).

Legal Aid SMC classifies as net assets with donor restrictions that are perpetual in nature, (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in perpetual in nature is classified as net assets with donor restrictions that are purpose restricted until those amounts are appropriated for expenditure by Legal Aid SMC.

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

11. Net Assets With Donor Restrictions – Perpetual in Nature (Endowment), continued

Investment Objectives, Asset Allocation, and the Disbursement Policy

Legal Aid SMC has adopted investment and spending policies approved by the Board of Directors for endowment assets to provide a predictable stream of revenues for operating activities and to preserve the purchasing power of the endowment assets. Under this policy as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an after-cost real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Legal Aid SMC relies on a total return strategy which allows the earnings objective to be achieved through both capital appreciation and current yield. This strategy involves a diversified asset allocation that provides a balance between equity and debt investments. Legal Aid SMC's spending policy is to appropriate up to 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar-year end preceding the fiscal year in which the distribution is planned. This spending policy was established considering the long-term expected return on assets and the long-term growth of the asset.

Endowment net assets composition by type of fund as of March 31, 2023:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Donor restricted endowment funds	<u>\$1,833,395</u>	<u>\$191,033</u>	<u>\$1,878,110</u>	<u>\$3,902,538</u>

Changes in endowment net assets for the year ended March 31, 2023:

	Designated Unrestricted	Board Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, beginning of year	\$ 2,128,179	\$ 298,139	\$1,878,110	\$ 4,304,428
Purchases	941,006			941,006
Sales	(1,110,944)			(1,110,944)
Withdrawals		(10,000)		(10,000)
Interest and dividends, net of fees	<u>(124,846)</u>	<u>(97,106)</u>	_____	<u>(221,952)</u>
Endowment net assets, end of year	<u>\$ 1,833,395</u>	<u>\$191,033</u>	<u>\$1,878,110</u>	<u>\$ 3,902,538</u>

continued

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

12. Contributions

Contributions revenues for the year ended March 31, 2023 consist of the following:

Government grants	\$2,742,565
Contributions from foundations, corporations and individuals	<u>1,441,481</u>
	<u>\$4,184,046</u>

Government grants for the year ended March 31, 2023 consist of the following:

San Mateo County – Removal Defense	\$ 813,235
Measure K	293,498
SMC Covid-19 Eviction Defense (CDBG)	234,954
HPSM	181,849
Aging and Adult Services	178,101
SMC EIF	164,972
State Bar - EAF	154,065
San Mateo County First 5	122,732
State Bar - IOLTA	118,773
CCI CalMedi Connect	72,351
SMC ARPA	71,520
State Bar HP III Formula 2021	57,859
CCHI	37,955
FCSP	33,996
CDSS Removal Defense	31,200
DMHC CAP	22,738
CDBG San Mateo County	22,563
DHCS MMOP	22,500
Cal OES Victim Legal Assistance	21,023
Daly City ARPA	19,701
CDBG – City of San Mateo	15,370
LMIHAF South San Francisco	14,458
Covered California	11,001
City of Menlo Park	10,000
RWC HSFA	10,000
CDBG Daly City	5,831
City of Burlingame	<u>320</u>
	<u>\$2,742,565</u>

Legal Aid SMC was not required to have an audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for the year ended March 31, 2023 since its federal expenditures were less than \$750,000.

continued

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

12. Contributions, continued

Federal dollars expended in the contracts above are as follows:

San Mateo County Covid-19 Eviction Defense (FAL #14.218)	\$234,954
San Mateo County Aging and Adult Services (FAL #93.044)	101,250
CCI CalMedi Connect (FAL #93.634)	72,351
SMC ARPA (FAL #21.027)	71,520
State Bar HP III Formula 2021	57,859
San Mateo County Family Caregiver Support (FAL #93.052)	24,411
County of San Mateo HomeSavers (FAL #14.218)	22,563
Daly City ARPA (FAL # 21.027)	19,701
City of San Mateo HomeSavers (FAL #14.218)	15,370
Covered California (FAL #93.525)	11,001
CDBG Daly City (FAL # 14.218)	<u>5,831</u>
	<u>\$636,811</u>

Reconciliation of federal dollars received from San Mateo County for the period April 1, 2022 through March 31, 2023 for the Legal Aid SMC's Services and the Family Caregiver Support programs are as follows:

FAL No. 93.044

Legal Aid SMC's Services:

April 1, 2022 – June 30, 2022	\$ 33,750
July 1, 2022 – March 31, 2023	<u>67,500</u>
	<u>\$101,250</u>

FAL No. 93.052

Family Caregiver Support:

April 1, 2022 – June 30, 2022	\$ 6,103
July 1, 2022 – March 31, 2023	<u>18,308</u>
	<u>\$24,411</u>

continued

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

13. In-kind Donations

In-kind donations for the year ended March 31, 2023 consists of the following:

	<u>Hours</u>	<u>Amount</u>
Donated services:		
Attorney time	4,463	\$1,562,085
Non-Attorney time	395	<u>79,040</u>
		1,641,125
Donated office space		<u>456,622</u>
		<u>\$2,097,747</u>

Legal Aid SMC received donated services from various individuals in the legal community who support the mission of the organization. The established fair value of donated services received for the year ended March 31, 2023 amounted to \$1,641,125 and was based upon the number of hours contributed at appropriate pro bono rates and has been recorded as an in-kind donation revenue and expense.

14. Fair Value Measurements

The table below presents the balances of assets or liabilities measured at fair value at March 31, 2023 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds				
Intermediate core bond	\$ 881,830	\$ -	\$ -	\$ 881,830
Multisector bond	<u>150,212</u>	<u>-</u>	<u>-</u>	<u>150,212</u>
Total bond funds	<u>1,032,042</u>	<u>-</u>	<u>-</u>	<u>1,032,042</u>
Equities				
Large blend	973,817			973,817
Large growth	309,963			309,963
Foreign mid/large value	201,030			201,030
Small growth	130,031			130,031
Small value	<u>84,949</u>	<u>-</u>	<u>-</u>	<u>84,949</u>
Total equities	<u>1,699,790</u>	<u>-</u>	<u>-</u>	<u>1,699,790</u>
Exchange traded products	<u>1,154,141</u>	<u>-</u>	<u>-</u>	<u>1,154,141</u>
Fair value at March 31, 2023	<u>\$3,885,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,885,973</u>

The fair value of bond funds and equities have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

continued

LEGAL AID SOCIETY OF SAN MATEO COUNTY

NOTES TO FINANCIAL STATEMENTS

14. Fair Value Measurements, continued

The table below presents transactions measured at fair value on a non-recurring basis during the year ended March 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
In-kind donations – services	\$ -	\$1,641,125	\$ -	\$1,641,125
In-kind donations – office space		<u>456,622</u>		<u>456,622</u>
Fair value at March 31, 2023	<u>\$ -</u>	<u>\$2,097,747</u>	<u>\$ -</u>	<u>\$2,097,747</u>

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

15. Employee Benefit Plan

Legal Aid SMC has a deferred compensation plan available to substantially all employees who have completed one year of service and are at least 21 years of age, as defined. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. Legal Aid SMC made matching contributions equal to three percent of each eligible participant's annual compensation. Employer contributions under this plan for the year ended March 31, 2023 was \$74,875.

16. Subsequent Events

On May 1, 2023, Legal Aid SMC entered into an agreement with a bank to have a revolving line of credit in the amount of \$500,000, with a variable interest rate of prime rate plus 0.5% with a minimum interest rate of 6%, due May 1, 2024.

Management has evaluated subsequent events through September 20, 2023, the date which the financial statements were available for issue. Except for the note above, no other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

ADDITIONAL INFORMATION

**Independent Auditors' 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
Legal Aid Society of San Mateo County

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 Legal Aid Society of San Mateo County (a nonprofit organization), which comprise the Statement of Financial Position as of March 31, 2023, 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 September 20, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Aid Society of San Mateo County's internal control over financial reporting (internal control) as a basis for designing 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 Legal Aid Society of San Mateo County's internal control. Accordingly, we do not express an opinion on the effectiveness of Legal Aid Society of San Mateo County'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Aid Society of San Mateo County's financial statements are free from material misstatement, 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 on the financial statements. However, providing an opinion on compliance with those provisions was not an objective 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*.

**Independent Auditors' 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***
continued

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Oakland, California
September 20, 2023