



Neighborhood Christian Legal Clinic



NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

CPAs / ADVISORS



NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Neighborhood Christian Legal Clinic, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Neighborhood Christian Legal Clinic, Inc. (the Clinic), which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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. 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.

REPORT OF INDEPENDENT AUDITORS
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clinic as of June 30, 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.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, effective July 1, 2018, the Clinic adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blue & Co., LLC

Carmel, Indiana
January 15, 2020

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

ASSETS

	2019	2018 (As Restated)
Cash and cash equivalents	\$ 588,114	\$ 231,582
Investments	522,729	758,977
Contributions receivable	261,192	104,230
Program service fees receivable	116,059	73,828
Prepaid expenses	17,708	29,623
Property and equipment, net	4,230	10,990
Other assets	10,880	10,880
Beneficial interest in assets held by others	23,552	22,624
	<u>\$ 1,544,464</u>	<u>\$ 1,242,734</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 7,307	\$ 14,456
Accrued expenses	64,587	60,091
Total liabilities	71,894	74,547
Net assets		
Without donor restrictions	1,127,841	1,027,921
With donor restrictions	344,729	140,266
Total net assets	1,472,570	1,168,187
	<u>\$ 1,544,464</u>	<u>\$ 1,242,734</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

(With Comparative Total for the Year Ended June 30, 2018)

	2019			2018 (Restated)
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 813,214	\$ 553,192	\$ 1,366,406	\$ 863,334
Program service fee revenue	802,531	-0-	802,531	611,951
Contributed services	274,016	-0-	274,016	435,043
Special events revenue	123,640	-0-	123,640	163,088
Other revenue	41,999	928	42,927	14,614
Net assets released from restrictions	<u>349,657</u>	<u>(349,657)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenue	2,405,057	204,463	2,609,520	2,088,030
Expenses				
Program services	1,882,114	-0-	1,882,114	2,165,263
Management and general	180,995	-0-	180,995	200,292
Fundraising	<u>242,028</u>	<u>-0-</u>	<u>242,028</u>	<u>142,602</u>
Total expenses	<u>2,305,137</u>	<u>-0-</u>	<u>2,305,137</u>	<u>2,508,157</u>
Change in net assets	99,920	204,463	304,383	(420,127)
Net assets, beginning of period	<u>1,027,921</u>	<u>140,266</u>	<u>1,168,187</u>	<u>1,588,314</u>
Net assets, end of period	<u>\$ 1,127,841</u>	<u>\$ 344,729</u>	<u>\$ 1,472,570</u>	<u>\$ 1,168,187</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018 (As Restated)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 634,104	\$ 229,230	\$ 863,334
Program service fee revenue	611,951	-0-	611,951
Donated services	435,043	-0-	435,043
Special events revenue	163,088	-0-	163,088
Other revenue	13,468	1,146	14,614
Net assets released from restrictions	<u>406,434</u>	<u>(406,434)</u>	<u>-0-</u>
Total support and revenue	2,264,088	(176,058)	2,088,030
Expenses			
Program services	2,165,263	-0-	2,165,263
Management and general	200,292	-0-	200,292
Fundraising	<u>142,602</u>	<u>-0-</u>	<u>142,602</u>
Total expenses	<u>2,508,157</u>	<u>-0-</u>	<u>2,508,157</u>
Change in net assets	(244,069)	(176,058)	(420,127)
Net assets, beginning of period	<u>1,271,990</u>	<u>316,324</u>	<u>1,588,314</u>
Net assets, end of period	<u>\$ 1,027,921</u>	<u>\$ 140,266</u>	<u>\$ 1,168,187</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

(With Comparative Total for the Year Ended June 30, 2018)

	2019			2018	
	Program Services	Management and General	Fund-raising	Total Expenses	Total Expenses
Salaries and employee benefits	\$ 1,405,795	\$ 114,685	\$ 172,318	\$ 1,692,798	\$ 1,697,643
Subgrantee expense	-0-	-0-	-0-	-0-	32,655
Contributed services	274,016	-0-	-0-	274,016	435,043
Advertising and marketing	4,903	513	285	5,701	3,905
Appreciation	3,941	225	338	4,504	9,146
Bank charges and other fees	7,406	4,846	-0-	12,252	13,152
Communications	14,020	1,144	1,718	16,882	16,847
Conferences and meetings	3,737	305	458	4,500	11,797
Dues and subscriptions	4,786	391	587	5,764	8,449
Equipment - depreciation and maintenance	21,904	1,787	2,685	26,376	22,222
Fundraising	-0-	-0-	45,789	45,789	25,576
Insurance	13,687	1,117	1,678	16,482	15,877
Miscellaneous	467	42	64	573	1,306
Occupancy	59,182	4,828	7,254	71,264	98,200
Postage	10,143	827	1,243	12,213	17,901
Printing	8,989	733	1,102	10,824	8,360
Professional fees	24,747	47,671	3,683	76,101	59,077
Supplies	10,407	740	1,112	12,259	12,024
Training and travel	13,984	1,141	1,714	16,839	18,977
Total expenses	<u>\$ 1,882,114</u>	<u>\$ 180,995</u>	<u>\$ 242,028</u>	<u>\$ 2,305,137</u>	<u>\$ 2,508,157</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>Total Expenses</u>
Salaries and employee benefits	\$ 1,454,197	\$ 142,917	\$ 100,529	\$ 1,697,643
Subgrantee expense	32,655	-0-	-0-	32,655
Contributed services	435,043	-0-	-0-	435,043
Advertising and marketing	3,359	351	195	3,905
Appreciation	8,200	205	741	9,146
Bank charges and other fees	6,596	6,556	-0-	13,152
Communications	14,431	1,418	998	16,847
Conferences and meetings	10,105	993	699	11,797
Dues and subscriptions	7,238	711	500	8,449
Equipment - depreciation and maintenance	19,035	1,871	1,316	22,222
Fundraising	-0-	-0-	25,576	25,576
Insurance	13,600	1,337	940	15,877
Miscellaneous	1,119	110	77	1,306
Occupancy	84,118	8,267	5,815	98,200
Postage	15,334	1,507	1,060	17,901
Printing	7,161	704	495	8,360
Professional fees	26,501	30,744	1,832	59,077
Supplies	10,316	1,003	705	12,024
Training and travel	16,255	1,598	1,124	18,977
Total expenses	<u>\$ 2,165,263</u>	<u>\$ 200,292</u>	<u>\$ 142,602</u>	<u>\$ 2,508,157</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	\$ 304,383	\$ (420,127)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized and unrealized (gain) loss on investments, net	(7,145)	3,389
Depreciation	6,760	-0-
Change in beneficial interest in assets held by others	(928)	(1,146)
Changes in operating assets and liabilities:		
Contributions receivable	(156,962)	106,456
Program service fees receivable	(42,231)	87,185
Prepaid expenses	11,915	(3,206)
Other assets	-0-	1,159
Accounts payable	(7,149)	6,172
Accrued expenses	4,496	(29,571)
Net cash flows from operating activities	113,139	(249,689)
Investing activities		
Purchases of investments	(7,782)	(209,492)
Proceeds from the sale of investments	251,175	201,530
Purchases of property and equipment	-0-	(1,999)
Net cash flows from investing activities	243,393	(9,961)
Net change in cash and cash equivalents	356,532	(259,650)
Cash and cash equivalents, beginning of period	231,582	491,232
Cash and cash equivalents, end of period	\$ 588,114	\$ 231,582

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. NATURE OF ACTIVITIES

Neighborhood Christian Legal Clinic, Inc. (the Clinic) offers pro bono legal representation and education to low-income, primarily inner city and immigrant clients. The Clinic accepts clients whose income is at or below 125 percent of the federal poverty guidelines. The Clinic has two offices, one in Indianapolis, Indiana and the other in Fort Wayne, Indiana. Further, the Clinic operates a civil legal advice line that gives legal advice and guidance to people around the state.

The Clinic provides legal representation to a variety of low income clients in the following substantive legal areas: Foreclosure Prevention, Landlord/Tenant, Guardianship, Immigration, Bankruptcy, Wills/Estates, Debt, Tax Controversies, and other civil areas. The Clinic does not work with criminal or divorce cases. The Clinic partners with a variety of nonprofit service providers to provide holistic services to clients who are wrestling with poverty. Its programs, which are centered around client demographics rather than discrete legal issues, are attuned to the various legal issues that each client faces and are built to serve the clients' holistic needs. Further, the Clinic provides Preventative Legal Education Workshops (PLEWs) at various locations on a monthly basis throughout the year. These workshops feature legal topics including healthy relationships, immigration, predatory lending, landlord/tenant law, housing and job discrimination, debt, and bankruptcy.

The Clinic is an Internal Revenue Service designated Low-Income Tax clinic and a Housing and Urban Development designated Housing Counseling Agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Net assets, support, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Clinic are classified and reported as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of such net assets are the broad limits resulting from the nature of the Clinic, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets to be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

reported in the Statement of Activities by reclassifying the net assets with donor restrictions to net assets without donor restrictions.

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 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 support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Clinic considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents consist of a financial institution money market savings account.

Investments and Investment Return

Investments consist of cash equivalents and certificates of deposit. Certificates of deposit are carried at fair value. Interest income is recorded when earned (included in other revenue in the Statement of Activities). At June 30, 2019, certificates of deposit bear interest at rates ranging from 1.05% to 1.9% and have maturity dates ranging from July 2019 to August 2020.

Contributions and Program Service Fees Receivable

Contributions receivable consist of amounts unconditionally promised to the Clinic that are expected to be received in the future. Contributions receivable are recognized in the period the promise is made and are recorded at their net realizable value. Contributions receivable are all due within one year.

Program service fees receivable consist of amounts due under cost reimbursement grants and performance based service contracts where allowable costs have been incurred or the services have been performed.

Management estimates an allowance for doubtful receivables based on an evaluation of historical losses, current economic conditions, and other factors unique to its funding sources. Management believes that contributions and program service fees receivable are fully collectible at June 30, 2019 and 2018.

Property and Equipment

The Clinic capitalizes all significant purchases of property and equipment at cost, including expenditures that substantially increase the useful lives of existing assets. Costs of ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to fourteen years.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Gifts of property and equipment are recorded as support at their estimated fair value. Such gifts are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose or stipulated how long those long-lived assets must be used. Absent donor restrictions on use and how long those donated assets must be maintained, the Clinic reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Support Recognition

Contributions, including unconditional promises to give, are recognized when received. Contributions are reported as increases in net assets without donor restrictions unless use of the contributed asset is specifically restricted by the donor. All other contributions received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions, consistent with the nature of the restriction.

Program Service Fee and Other Revenue Recognition

Revenue from cost reimbursement arrangements is recognized in the period the related expense is incurred. Revenue from performance based service contracts are recognized in the period in which the related services are performed. Service levels and expenditures attributed to these arrangements are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

All other revenues are recorded when earned.

Contributed Services

Contributed services are recognized as support at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

Functional Allocation of Expenses

The costs of providing the programs and services of the Clinic have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the various programs and supporting activities benefited based on the actual direct expenditures. Other categories of expenses that are attributable to one or more programs or supporting functions of the Clinic have been allocated based time and usage by personnel and programs. Expenses allocated include payroll and related costs, occupancy and equipment and other costs. Although the method used was appropriate, other methods could produce different results.

Advertising Costs

The Clinic expenses advertising costs as they are incurred. Advertising costs for years ended June 30, 2019 and 2018 were \$5,701 and \$3,905, respectively.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Income Taxes

The Clinic is organized as a not-for-profit corporation and is exempt from income tax under Section 501(c)(3) of the United States Internal Revenue Code and similar state law. As such, the Clinic is generally exempt from income taxes. However, the Clinic is required to file Federal Form 990 – Return of Organization Exempt from Income Tax and a corresponding state return, which are informational returns only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Clinic and recognize a tax liability if the Clinic has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Clinic, and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Clinic is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Clinic has filed its federal and state income tax returns for periods through June 30, 2018. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Recently Issued Accounting Standards

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The Clinic will be required to adopt this new standard in its year ending June 30, 2020.

The Clinic is presently evaluating the effects this ASU will have on its future financial statements, including related disclosures.

Subsequent Events

The Clinic evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through January 15, 2020, which is the date the financial statements were available to be issued.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

3. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2018, the Clinic adopted the FASB's ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The Clinic has adjusted the presentation of its fiscal 2019 financial statements herein and retrospectively restated the prior year financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 13), and disclosures related to the functional allocation of expenses were expanded (Note 2).

The impact of the adoption of ASU No. 2016-14 on the Clinic's net assets is as follows:

	As Previously Stated	Adjustment	As Restated
Statement of Financial Position			
at June 30, 2018			
Unrestricted net assets	\$ 1,027,921	\$ (1,027,921)	\$ -0-
Temporarily restricted net assets	127,433	(127,433)	-0-
Permanently restricted net assets	12,833	(12,833)	-0-
Net assets without donor restrictions	-0-	1,027,921	1,027,921
Net assets with donor restrictions	-0-	140,266	140,266
Total net assets	\$ 1,168,187	\$ -0-	\$ 1,168,187
Statement of Activities for the year			
ended June 30, 2018			
Change in unrestricted net assets	\$ (244,069)	\$ 244,069	\$ -0-
Change in temporarily restricted net assets	(176,058)	176,058	-0-
Change in net assets without donor restrictions	-0-	(244,069)	(244,069)
Change in net assets with donor restrictions	-0-	(176,058)	(176,058)
Total change in net assets	\$ (420,127)	\$ -0-	\$ (420,127)

There was no significant impact to the Statement of Cash Flows as a result of adopting the ASU.

4. INVESTMENTS

Investments consist of the following at June 30:

	2019	2018
Cash equivalents	\$ 13,794	\$ 6,151
Certificates of deposit	508,935	752,826
	\$ 522,729	\$ 758,977

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Office equipment and computers	\$ 91,207	\$ 91,207
Leasehold improvements	272,773	272,773
Software development costs	<u>27,446</u>	<u>27,446</u>
	391,426	391,426
Accumulated depreciation	<u>(387,196)</u>	<u>(380,436)</u>
	<u>\$ 4,230</u>	<u>\$ 10,990</u>

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$6,760 and \$-0- respectively.

6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Clinic has transferred assets to the Central Indiana Community Foundation, Inc. (CICF) and is the beneficiary of the funds holding those assets. The fair value of this asset (beneficial interest in assets held by others) is included in the Statement of Financial Position at \$23,552 and \$22,624 at June 30, 2019 and 2018, respectively. The Clinic receives an annual return on these assets in accordance with CICF's policy and undistributed earnings are retained by CICF. There were no distributions from this fund during the years ended June 30, 2019 and 2018.

The change in the value of the beneficial interest in assets held by others of \$928 and \$1,146 for the years ended June 30, 2019 and 2018, respectively, (included in other revenue in the Statement of Activities) includes realized and unrealized gains and losses, interest and dividends, and administration and investment fees.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

7. NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for following purposes or periods at June 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Helping Hoosier Homeowners	\$ -0-	\$ 13,411
Immigrants Justice Program	120,000	-0-
Project Grace	28,610	-0-
Consumer Justice Program	12,000	35,000
Ft. Wayne	56,374	10,000
Subject to Passage of Time:		
For future periods	104,193	59,231
Endowment:		
General operations	23,552	22,624
	<u>\$ 344,729</u>	<u>\$ 140,266</u>

Net Assets Released from Restrictions

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the years ended June 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Helping Hoosier Homeowners	\$ 13,411	\$ 91,924
Immigrants Justice Program	126,000	119,207
Homeless Youth Justice Program	-0-	31,917
Project Grace	57,390	67,500
Consumer Justice Program	35,000	-0-
Ft. Wayne	53,626	10,000
Special events	-0-	7,700
Subject to Passage of Time:		
For future periods	64,230	78,186
	<u>\$ 349,657</u>	<u>\$ 406,434</u>

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

8. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Clinic has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuations methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodology used for the beneficial interest in assets held by others includes valuing at the fair value as reported by CICF, which represents the Clinic's pro rata interest in the pooled investments held by CICF, substantially all of which are valued on a mark-to-market basis. The beneficial interest in assets held by others is considered to be valued using Level 3 inputs in the fair value hierarchy.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Clinic believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The change in assets with significant unobservable (Level 3) inputs is as follows for the years ended June 30:

	2019	2018
Balance, beginning of year	\$ 22,624	\$ 21,478
Change in value, net	928	1,146
Balance, end of year	<u>\$ 23,552</u>	<u>\$ 22,624</u>

9. ENDOWMENT

The Clinic's endowment consists of funds held by CICF (Note 6). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Clinic is subject to the State Prudent Management of Institutional Funds Act (SPMIFA), and, thus, classifies amounts in its donor-restricted endowment funds as net asset with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. The Board of Directors of the Clinic has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Clinic considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the funds and (b) an accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Clinic has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measure required under the law. Additionally, in accordance with SPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Clinic and the donor-restricted 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 the Clinic
- (7) The investment policies of the Clinic

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Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Clinic to retain as a fund of perpetual duration. There are no funds with deficiencies as of June 30, 2019 and 2018.

Return Objectives and Risk Parameters

The Board of Directors of the Clinic has adopted CICF's investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Clinic relies on the total return strategy of CICF, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

CICF's current spending policy provides for 5% of the December 31 fund balance as the portion available for distribution, in addition to any unspent distributable amounts from prior years.

The composition of endowment net assets is as follows at June 30:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds			
Original donor-restricted gift amounts	\$ -0-	\$ 12,833	\$ 12,833
Accumulated investment gains	<u>-0-</u>	<u>10,719</u>	<u>10,719</u>
	<u>\$ -0-</u>	<u>\$ 23,552</u>	<u>\$ 23,552</u>

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	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Original donor-restricted gift amounts	\$ -0-	\$ 12,833	\$ 12,833
Accumulated investment gains	-0-	9,791	9,791
	<u>\$ -0-</u>	<u>\$ 22,624</u>	<u>\$ 22,624</u>

Changes in endowment net assets are as follows for the years ended June 30:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ -0-	\$ 22,624	\$ 22,624
Change in value, net	-0-	928	928
Net assets, end of year	<u>\$ -0-</u>	<u>\$ 23,552</u>	<u>\$ 23,552</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ -0-	\$ 21,478	\$ 21,478
Change in value, net	-0-	1,146	1,146
Net assets, end of year	<u>\$ -0-</u>	<u>\$ 22,624</u>	<u>\$ 22,624</u>

10. CONTRIBUTED SERVICES

In addition to receiving cash contributions, the Clinic receives contributed services from attorneys, law students, and other professionals. Contributed services for pro bono work are reported at the completion of the particular service provided. The value of the contributed services is recognized in the Statement of Activities as both support and expense and does not affect the Clinic's change in net assets.

For the years ended June 30, 2019 and 2018, contributed services totaled \$274,016 and \$435,043, respectively. These amounts represent the number of hours worked by pro bono attorneys and other skilled professionals multiplied by the hourly rate that the Clinic would have paid if the services had been purchased.

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11. LEASES

During fiscal 2019, the Clinic leased office space under a lease that expired June 30, 2019. The lease required monthly payments of \$4,908. Effective July 1, 2019 the Clinic entered into a five-year operating lease arrangement for its office space that expires on June 30, 2024. The lease requires escalating monthly payments ranging from \$5,542 to \$6,333 per month. The Clinic may terminate the lease, with applicable notice and with no early termination fee, if the Clinic loses funding that in the aggregate amounts to 15% or more of its annual operating budget or if the Clinic requires additional space in the building which is not available.

The Clinic also leases a satellite office with monthly payments of \$650 and certain office equipment with monthly payments aggregating \$398. The satellite office lease and office equipment lease are classified as operating leases and have expiration dates at various times through August 2022.

Annual rental expense under all of the Clinic's leases was \$73,931 and \$96,651 for the years ended June 30, 2019 and 2018, respectively. The minimum future rentals due under term of the above lease arrangements at June 30, 2019 are as follows:

Year Ending June 30,	
2020	\$ 77,126
2021	76,976
2022	80,776
2023	76,796
2024	76,000
	<u>\$ 387,674</u>

12. RELATED PARTY TRANSACTIONS

The Clinic received contributions from its Board of Directors and related organizations totaling \$70,326 and \$86,332 years ended June 30, 2019 and 2018, respectively.

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13. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects the Clinic's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the Statement of Financial Position date; that is, amounts that are without donor restrictions limiting their use.

Financial assets	
Cash and cash equivalents	\$ 588,114
Investments	522,729
Contributions receivable	261,192
Program service fees receivable	116,059
Total financial assets	<u>1,488,094</u>
Donor-imposed purpose and time restrictions	<u>(321,177)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,166,917</u>

The Clinic has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet between 90 and 180 days of normal operating expenses, which are, on average \$500,000 to \$1,000,000. The Clinic maintains an operating cash account to fulfill its normal monthly obligations, most of which is its payroll expense for employees, and invests any excess cash into short-term investments, including certificates of deposit. In addition to typical not-for-profit fundraising, the Clinic pursues and obtains a significant number of government and non-government grants on a regular basis to support its work to provide legal services to low-income families.

14. CONCENTRATIONS

Concentration of Credit Risk

The Clinic maintains its cash and cash equivalents primarily in one financial institution with balances which, at times, may exceed federally insured limits. In addition, at June 30, 2019 and 2018, the Clinic's money market savings account in the amount of \$424,089 and \$103,747, respectively, is maintained with a financial institution that is not federally insured. The Clinic has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Funding Concentration

The Clinic receives substantial funding under grants and contracts awarded directly and indirectly by federal and state governments. The majority of the agreements contain provisions that permit the arrangements to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels.

During the year ended June 30, 2019, two grantors accounted for approximately 26% of total support and revenue, less contributed services. Additionally, four grantors accounted for 73%

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of contributions and program service fees receivable as of June 30, 2019. During the year ended June 30, 2018, one grantor accounted for approximately 20% of total support and revenue, less contributed services. Additionally, three grantors accounted for approximately 73% of contributions and program service fees receivable as of June 30, 2018.