



Neighborhood Christian Legal Clinic



NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

CPAs / ADVISORS



NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

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JUNE 30, 2021 AND 2020

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Blue & Co., LLC / 12800 N. Meridian Street, Suite 400 / Carmel, IN 46032
main 317.848.8920 fax 317.573.2458 email blue@blueandco.com

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, 2021 and 2020 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, 2021 and 2020, 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.

Blue & Co., LLC

Carmel, Indiana
January 26, 2022

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

| | ASSETS | |
|--|---------------------|---------------------|
| | <u>2021</u> | <u>2020</u> |
| Cash and cash equivalents | \$ 2,278,534 | \$ 1,341,799 |
| Investments | -0- | 278,218 |
| Contributions receivable | 990,059 | 268,410 |
| Program service fees receivable | 36,575 | 14,750 |
| Prepaid expenses | 55,489 | 17,029 |
| Property and equipment, net | 58,456 | 1,224 |
| Other assets | 10,880 | 10,880 |
| Beneficial interest in assets held by others | <u>31,465</u> | <u>23,552</u> |
| | <u>\$ 3,461,458</u> | <u>\$ 1,955,862</u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------|---------------------|---------------------|
| Liabilities | | |
| Accounts payable | \$ 22,399 | \$ 9,848 |
| Accrued expenses | 127,395 | 68,581 |
| Notes payable (PPP loans) | <u>587,512</u> | <u>275,300</u> |
| Total liabilities | 737,306 | 353,729 |
| Net assets | | |
| Without donor restrictions | 1,251,920 | 1,169,505 |
| With donor restrictions | <u>1,472,232</u> | <u>432,628</u> |
| Total net assets | <u>2,724,152</u> | <u>1,602,133</u> |
| | <u>\$ 3,461,458</u> | <u>\$ 1,955,862</u> |

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

(With Comparative Total for the Year Ended June 30, 2020)

| | 2021 | | | 2020 |
|---------------------------------------|-------------------------------|----------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| Support and revenue | | | | |
| Contributions | \$ 745,549 | \$ 2,130,176 | \$ 2,875,725 | \$ 1,713,246 |
| Program service fee revenue | 151,325 | -0- | 151,325 | 239,115 |
| Contributed services | 124,710 | -0- | 124,710 | 202,499 |
| Special events revenue | 98,440 | -0- | 98,440 | 175,018 |
| Other revenue | 53,031 | 7,913 | 60,944 | 63,939 |
| Net assets released from restrictions | <u>1,098,485</u> | <u>(1,098,485)</u> | <u>-0-</u> | <u>-0-</u> |
| Total support and revenue | 2,271,540 | 1,039,604 | 3,311,144 | 2,393,817 |
| Expenses | | | | |
| Program services | 1,547,565 | -0- | 1,547,565 | 1,733,878 |
| Management and general | 443,852 | -0- | 443,852 | 232,510 |
| Fundraising | <u>197,708</u> | <u>-0-</u> | <u>197,708</u> | <u>297,866</u> |
| Total expenses | <u>2,189,125</u> | <u>-0-</u> | <u>2,189,125</u> | <u>2,264,254</u> |
| Change in net assets | 82,415 | 1,039,604 | 1,122,019 | 129,563 |
| Net assets, beginning of year | <u>1,169,505</u> | <u>432,628</u> | <u>1,602,133</u> | <u>1,472,570</u> |
| Net assets, end of year | <u>\$ 1,251,920</u> | <u>\$ 1,472,232</u> | <u>\$ 2,724,152</u> | <u>\$ 1,602,133</u> |

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|--------------|
| Support and revenue | | | |
| Contributions | \$ 711,872 | \$ 1,001,374 | \$ 1,713,246 |
| Program service fee revenue | 239,115 | -0- | 239,115 |
| Contributed services | 202,499 | -0- | 202,499 |
| Special events revenue | 175,018 | -0- | 175,018 |
| Other revenue | 63,939 | -0- | 63,939 |
| Net assets released from restrictions | 913,475 | (913,475) | -0- |
| Total support and revenue | 2,305,918 | 87,899 | 2,393,817 |
| Expenses | | | |
| Program services | 1,733,878 | -0- | 1,733,878 |
| Management and general | 232,510 | -0- | 232,510 |
| Fundraising | 297,866 | -0- | 297,866 |
| Total expenses | 2,264,254 | -0- | 2,264,254 |
| Change in net assets | 41,664 | 87,899 | 129,563 |
| Net assets, beginning of year | 1,127,841 | 344,729 | 1,472,570 |
| Net assets, end of year | \$ 1,169,505 | \$ 432,628 | \$ 1,602,133 |

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

(With Comparative Total for the Year Ended June 30, 2020)

| | 2021 | | | 2020 | |
|--|---------------------|------------------------|-------------------|---------------------|---------------------|
| | Program Services | Management and General | Fund-raising | Total Expenses | Total Expenses |
| Salaries and employee benefits | \$ 1,208,940 | \$ 283,551 | \$ 122,081 | \$ 1,614,572 | \$ 1,628,414 |
| Subgrantee expense | 15,000 | -0- | -0- | 15,000 | -0- |
| Contributed services | 124,710 | -0- | -0- | 124,710 | 202,499 |
| Advertising and marketing | 190 | -0- | 7,155 | 7,345 | 388 |
| Appreciation | -0- | 1,911 | 137 | 2,048 | 3,642 |
| Bank charges and other fees | 3,870 | 3,536 | 3,004 | 10,410 | 12,690 |
| Communications | 21,233 | 2,782 | 2,168 | 26,183 | 15,715 |
| Conferences and meetings | 1,726 | 1,403 | 123 | 3,252 | 4,327 |
| Dues and subscriptions | 1,382 | 2,109 | -0- | 3,491 | 2,914 |
| Equipment - depreciation and maintenance | 52,175 | 34,181 | 1,409 | 87,765 | 68,695 |
| Event costs | -0- | -0- | 32,171 | 32,171 | 73,444 |
| Insurance | 12,752 | 1,776 | 1,614 | 16,142 | 17,177 |
| Miscellaneous | -0- | 5,885 | -0- | 5,885 | (2,948) |
| Occupancy | 56,728 | 36,979 | 7,517 | 101,224 | 78,818 |
| Postage | 1,223 | 11,071 | 1,894 | 14,188 | 11,569 |
| Printing | 2,076 | 1,952 | 1,748 | 5,776 | 7,352 |
| Professional fees | 40,836 | 48,829 | 16,183 | 105,848 | 117,351 |
| Supplies | 3,807 | 7,880 | 504 | 12,191 | 13,961 |
| Training and travel | 917 | 7 | -0- | 924 | 8,246 |
| Total expenses | \$ 1,547,565 | \$ 443,852 | \$ 197,708 | \$ 2,189,125 | \$ 2,264,254 |

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fund- raising</u> | <u>Total Expenses</u> |
|---|-----------------------------|-----------------------------------|--------------------------|---------------------------|
| Salaries and employee benefits | \$ 1,286,330 | \$ 155,267 | \$ 186,817 | \$ 1,628,414 |
| Contributed services | 202,499 | -0- | -0- | 202,499 |
| Advertising and marketing | 334 | 35 | 19 | 388 |
| Appreciation | 3,191 | 205 | 246 | 3,642 |
| Bank charges and other fees | 6,328 | 6,362 | -0- | 12,690 |
| Communications | 12,460 | 1,477 | 1,778 | 15,715 |
| Conferences and meetings | 3,431 | 407 | 489 | 4,327 |
| Dues and subscriptions | 2,310 | 274 | 330 | 2,914 |
| Equipment - depreciation and maintenance | 54,466 | 6,458 | 7,771 | 68,695 |
| Event costs | -0- | -0- | 73,444 | 73,444 |
| Insurance | 13,619 | 1,615 | 1,943 | 17,177 |
| Miscellaneous | (2,338) | (277) | (333) | (2,948) |
| Occupancy | 62,492 | 7,410 | 8,916 | 78,818 |
| Postage | 9,172 | 1,088 | 1,309 | 11,569 |
| Printing | 5,829 | 691 | 832 | 7,352 |
| Professional fees | 55,823 | 49,558 | 11,970 | 117,351 |
| Supplies | 11,394 | 1,165 | 1,402 | 13,961 |
| Training and travel | <u>6,538</u> | <u>775</u> | <u>933</u> | <u>8,246</u> |
| Total expenses | <u>\$ 1,733,878</u> | <u>\$ 232,510</u> | <u>\$ 297,866</u> | <u>\$ 2,264,254</u> |

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|--------------|--------------|
| Operating activities | | |
| Change in net assets | \$ 1,122,019 | \$ 129,563 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Realized and unrealized (gain) loss on investments, net | 105 | (937) |
| Depreciation | 4,194 | 3,006 |
| Change in beneficial interest in assets held by others | (7,913) | -0- |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | (721,649) | 77,761 |
| Program service fees receivable | (21,825) | 16,330 |
| Prepaid expenses | (38,460) | 679 |
| Accounts payable | 12,551 | 2,541 |
| Accrued expenses | 58,814 | 3,994 |
| Net cash flows from operating activities | 407,836 | 232,937 |
| Investing activities | | |
| Purchases of investments | -0- | (55,290) |
| Proceeds from the sale of investments | 278,113 | 300,738 |
| Purchases of property and equipment | (61,426) | -0- |
| Net cash flows from investing activities | 216,687 | 245,448 |
| Financing activities | | |
| Borrowings under notes payable (PPP loans) | 312,212 | 275,300 |
| Net cash flow from financing activities | 312,212 | 275,300 |
| Net change in cash and cash equivalents | 936,735 | 753,685 |
| Cash and cash equivalents, beginning of year | 1,341,799 | 588,114 |
| Cash and cash equivalents, end of year | \$ 2,278,534 | \$ 1,341,799 |

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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 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 consisted of a money market mutual fund and certificates of deposit as of June 30, 2020. Certificates of deposit were carried at fair value. Interest income is recorded when earned (included in other revenue in the Statement of Activities). At June 30, 2020, the Clinic had one certificate of deposit which bore interest at a rate of 1.9% and matured during fiscal 2021.

Contributions and Program Service Fees Receivable

Contributions receivable consist of amounts unconditionally promised to the Clinic by donors and amounts due to the Clinic under cost reimbursement grants determined to be conditional contributions where conditions have been met. Contributions receivable are all due within one year.

Program service fees receivable (contract receivables) consist of amounts due to the Clinic under performance-based service contracts where allowable costs have been incurred or the services have been performed. All amounts are due within one year. Program service fees receivable had a balance at June 30, 2021 and 2020 and July 1, 2019 of \$36,575, \$14,750 and \$31,080, respectively.

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, 2021 and 2020.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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.

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 and Revenue Recognition

The Clinic recognizes contributions when cash, securities or other assets or an unconditional promise to give 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.

Consequently, at June 30, 2021, contributions approximating \$968,454 have not been recognized in the accompanying Statement of Activities because the conditions on which they depend have not yet been met.

Program service fees (contract fees) are recognized over time in the period the service is provided. Revenue funded by grants and contracts (contract fees) considered to be exchange transactions are recognized over time as the Clinic performs the contracted services or incurs eligible expenses under the grant agreements, at the stated price per contract. Activities and expenses allocated to grants and contracts are subject to audit and acceptance by the awarding 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

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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 salaries and employee benefits, occupancy, equipment, and other costs. Although the method used was appropriate, other methods could produce different results.

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, 2021 and 2020, 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, 2020. 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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which the Clinic is not required to adopt until its year ending June 30, 2023, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

In September 2020, the FASB issued ASU No. 2020-07 *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This new standard is intended to increase transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit (NFP) organizations, including information on how those assets are used and how they are valued. This new standard requires that an NFP

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition, there are expanded disclosure requirements. The Clinic will be required to adopt this new standard in the year ending June 30, 2022.

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

Reclassifications

Certain amounts in the fiscal 2020 financial statements have been reclassified herein in order to conform to the fiscal 2021 presentation.

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 26, 2022, which is the date the financial statements were available to be issued.

3. INVESTMENTS

Investments consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--------------------------|---------------|-------------------|
| Money market mutual fund | \$ -0- | \$ 69,266 |
| Certificates of deposit | -0- | 208,952 |
| | <u>\$ -0-</u> | <u>\$ 278,218</u> |

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|------------------|-----------------|
| Office equipment and computers | \$ 36,445 | \$ 91,207 |
| Leasehold improvements | 272,773 | 272,773 |
| Software development costs | 50,000 | 27,446 |
| | 359,218 | 391,426 |
| Accumulated depreciation | (300,762) | (390,202) |
| | <u>\$ 58,456</u> | <u>\$ 1,224</u> |

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

Depreciation expense for the years ended June 30, 2021 and 2020 amounted to \$4,194 and \$3,006, respectively.

5. 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 \$31,465 and \$23,552 at June 30, 2021 and 2020, 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, 2021 and 2020.

The change in the value of the beneficial interest in assets held by others of \$7,913 and \$0 for the years ended June 30, 2021 and 2020, 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.

6. NOTES PAYABLE (PPP LOANS)

Effective April 14, 2020, the Clinic received a low interest loan in the amount of \$275,300 under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria are met, with the remaining balance repayable within two years. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period as defined by the PPP guidance. In addition, employers must maintain specified employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.

On August 24, 2021, the Clinic was notified by their lender that the SBA had repaid the entire \$275,300 loan, and thus the Clinic's obligation to repay the loan was forgiven. The SBA retains the right to audit the forgiveness of the loan for six years.

On June 1, 2021, the Clinic received a second round PPP loan in the amount of \$312,212. This PPP loan is also unsecured and bears interest at 1%. Funds advanced under the program are subject to forgiveness if certain criteria are met, with the remaining balance payable over five years. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period as defined by the PPP guidance. In addition, employers must maintain specified employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness. If the loan is not forgiven, monthly principal and interest payments of \$6,431 are estimated to begin in May 1, 2022, with a maturity date of June 1, 2026.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

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JUNE 30, 2021 AND 2020

The Clinic has elected to account for these loans as debt, and will recognize any forgiveness when it has been legally forgiven by the SBA. The Clinic has worked to comply with all relevant requirements of the PPP program and is optimistic that the loans will be forgiven. Annual principal maturities of the second round PPP loan, if not forgiven, are estimated to be as follows as of June 30, 2021:

| Year Ending June 30, | |
|-------------------------|-------------------|
| 2022 | \$ 9,731 |
| 2023 | 74,491 |
| 2024 | 75,238 |
| 2025 | 75,994 |
| 2026 | 76,758 |
| | <u>\$ 312,212</u> |

7. NET ASSETS

Net Assets with Donor Restrictions

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

| | 2021 | 2020 |
|---|---------------------|-------------------|
| Subject to Expenditure for Specified Purpose: | | |
| Housing Justice Program | \$ -0- | \$ 86,700 |
| Immigrants Justice Program | 8,638 | 93,544 |
| Project Grace | 1,023,899 | 12,695 |
| Specific operating costs | 236,375 | -0- |
| Survivors of Violent Crimes Law | 74,355 | 70,000 |
| Ft. Wayne operations | 37,500 | 15,110 |
| Technology | -0- | 68,527 |
| Subject to Passage of Time: | | |
| For future periods | 60,000 | 62,500 |
| Endowment: | | |
| General operations | 31,465 | 23,552 |
| | <u>\$ 1,472,232</u> | <u>\$ 432,628</u> |

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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>2021</u> | <u>2020</u> |
|---|---------------------|-------------------|
| Subject to Expenditure for Specified Purpose: | | |
| Helping Hoosier Homeowners | \$ 69,200 | \$ 102,000 |
| Housing Justice Program | 91,928 | 38,300 |
| Immigrants Justice Program | 94,906 | 66,456 |
| Project Grace | 118,082 | 75,915 |
| Consumer Justice Program | -0- | 12,000 |
| Survivors of Violent Crimes Law | 290,321 | 289,299 |
| Ft. Wayne operations | 17,072 | 41,264 |
| Technology | 68,527 | 15,000 |
| Special Intake | 53,650 | 28,750 |
| Low Income Taxpayer Clinic | 100,000 | 100,000 |
| Specific operating costs | 132,299 | 27,799 |
| Subject to Passage of Time: | | |
| For future periods | 62,500 | 116,692 |
| | <u>\$ 1,098,485</u> | <u>\$ 913,475</u> |

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.

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- Level 3 – Inputs to the valuation 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 money market mutual fund included in investments is valued using Level 2 inputs in the fair value hierarchy. Money market mutual funds generally transact subscription and redemption activity at a \$1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

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.

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

| | <u>2021</u> | <u>2020</u> |
|----------------------------|------------------|------------------|
| Balance, beginning of year | \$ 23,552 | \$ 23,552 |
| Change in value, net | <u>7,913</u> | <u>-0-</u> |
| Balance, end of year | <u>\$ 31,465</u> | <u>\$ 23,552</u> |

9. ENDOWMENT

The Clinic's endowment consists of funds held by CICF (Note 5). 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.

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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 Directors 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) 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

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, 2021 and 2020.

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.

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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:

| | 2021 | | |
|--|-------------------------------|----------------------------|-----------|
| | 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- | 18,632 | 18,632 |
| | \$ -0- | \$ 31,465 | \$ 31,465 |

| | 2020 | | |
|--|-------------------------------|----------------------------|-----------|
| | 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- | 10,719 | 10,719 |
| | \$ -0- | \$ 23,552 | \$ 23,552 |

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

| | 2021 | | |
|-------------------------------|-------------------------------|----------------------------|-----------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Net assets, beginning of year | \$ -0- | \$ 23,552 | \$ 23,552 |
| Change in value, net | -0- | 7,913 | 7,913 |
| Net assets, end of year | \$ -0- | \$ 31,465 | \$ 31,465 |

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

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| | 2020 | | |
|-------------------------------|-------------------------------|----------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Net assets, beginning of year | \$ -0- | \$ 23,552 | \$ 23,552 |
| Change in value, net | -0- | -0- | -0- |
| Net assets, end of year | <u>\$ -0-</u> | <u>\$ 23,552</u> | <u>\$ 23,552</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, 2021 and 2020, contributed services totaled \$124,710 and \$202,499, 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.

11. LEASES

The Clinic leases space under 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 \$709 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.

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Annual rental expense under all of the Clinic's leases was \$85,600 and \$80,749 for the years ended June 30, 2021 and 2020, respectively. The minimum future rentals due under term of the above lease arrangements at June 30, 2021 are as follows:

| Year Ending June 30, | |
|-------------------------|-------------------|
| 2022 | \$ 87,153 |
| 2023 | 76,796 |
| 2024 | 76,000 |
| | <u>\$ 239,949</u> |

12. RELATED PARTY TRANSACTIONS

The Clinic received contributions from its Board of Directors and related organizations totaling \$63,365 and \$46,603 during the years ended June 30, 2021 and 2020, respectively.

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects the Clinic's financial assets, 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 at June 30:

| | 2021 | 2020 |
|---|---------------------|---------------------|
| Financial assets | | |
| Cash and cash equivalents | \$ 2,278,534 | \$ 1,341,799 |
| Investments | -0- | 278,218 |
| Contributions receivable | 990,059 | 268,410 |
| Program service fees receivable | 36,575 | 14,750 |
| Total financial assets | <u>3,305,168</u> | <u>1,903,177</u> |
| Donor-imposed purpose restrictions | <u>(1,380,767)</u> | <u>(346,576)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,924,401</u> | <u>\$ 1,556,601</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 cash equivalents or 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.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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, 2021 and 2020, the Clinic's money market savings account in the amount of \$678,001 and \$666,277, 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, 2021, two grantors accounted for approximately 52% of total support and revenue, less contributed services. Additionally, two grantors accounted for 79% of contributions and program service fees receivable as of June 30, 2021. During the year ended June 30, 2020, two grantors accounted for approximately 27% of total support and revenue, less contributed services. Additionally, four grantors accounted for approximately 76% of contributions and program service fees receivable as of June 30, 2020.

15. CONTINGENCY

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Clinic's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of personnel, shortages of supplies, delays, loss of, or reduction to revenues, contributions and funding, and investment portfolio declines. Management believes the Clinic is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.