



Neighborhood Christian Legal Clinic



NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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

Opinion

We have audited the accompanying financial statements of Neighborhood Christian Legal Clinic, Inc. (the Clinic), a nonprofit organization, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Clinic and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, on July 1, 2022 the Clinic adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). Our opinion is not modified with respect to this matter.

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.

REPORT OF INDEPENDENT AUDITORS
(Continued)

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 the Clinic's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 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 are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 the Clinic'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clinic'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.

Blue & Co., LLC

Carmel, Indiana
January 25, 2024

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2023 AND 2022

	ASSETS	
	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,559,096	\$ 1,952,776
Contributions receivable	326,675	704,196
Program service fees receivable	4,197	8,898
Prepaid expenses	62,521	75,377
Property and equipment, net	33,486	45,771
Right-of-use assets under operating leases, net	77,702	-0-
Other assets	10,880	10,880
Beneficial interest in assets held by others	<u>32,079</u>	<u>31,068</u>
	<u>\$ 2,106,636</u>	<u>\$ 2,828,966</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 16,921	\$ 15,954
Accrued expenses	46,133	58,019
Operating lease liabilities	<u>77,702</u>	<u>-0-</u>
Total liabilities	140,756	73,973
Net assets		
Without donor restrictions	1,301,728	1,714,773
With donor restrictions	<u>664,152</u>	<u>1,040,220</u>
Total net assets	<u>1,965,880</u>	<u>2,754,993</u>
	<u>\$ 2,106,636</u>	<u>\$ 2,828,966</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

(With Comparative Total for the Year Ended June 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 674,790	\$ 621,322	\$ 1,296,112	\$ 1,638,831
Program service fee revenue	77,463	-0-	77,463	22,499
Contributed services	99,955	-0-	99,955	95,074
Special events revenue	90,845	-0-	90,845	100,123
Other revenue	37,798	1,011	38,809	13,353
Gain on forgiveness of PPP loans	-0-	-0-	-0-	587,512
Net assets released from restrictions	998,401	(998,401)	-0-	-0-
Total support and revenue	1,979,252	(376,068)	1,603,184	2,457,392
Expenses				
Program services	1,628,816	-0-	1,628,816	1,686,253
Management and general	434,323	-0-	434,323	371,027
Fundraising	329,158	-0-	329,158	369,271
Total expenses	2,392,297	-0-	2,392,297	2,426,551
Change in net assets	(413,045)	(376,068)	(789,113)	30,841
Net assets, beginning of year	1,714,773	1,040,220	2,754,993	2,724,152
Net assets, end of year	\$ 1,301,728	\$ 664,152	\$ 1,965,880	\$ 2,754,993

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 891,948	\$ 746,883	\$ 1,638,831
Program service fee revenue	22,499	-0-	22,499
Contributed services	95,074	-0-	95,074
Special events revenue	100,123	-0-	100,123
Other revenue	13,750	(397)	13,353
Gain on forgiveness of PPP loans	587,512	-0-	587,512
Net assets released from restrictions	1,178,498	(1,178,498)	-0-
Total support and revenue	2,889,404	(432,012)	2,457,392
Expenses			
Program services	1,686,253	-0-	1,686,253
Management and general	371,027	-0-	371,027
Fundraising	369,271	-0-	369,271
Total expenses	2,426,551	-0-	2,426,551
Change in net assets	462,853	(432,012)	30,841
Net assets, beginning of year	1,251,920	1,472,232	2,724,152
Net assets, end of year	\$ 1,714,773	\$ 1,040,220	\$ 2,754,993

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

(With Comparative Total for the Year Ended June 30, 2022)

	2023			2022	
	Program Services	Management and General	Fund- raising	Total Expenses	Total Expenses
Salaries and employee benefits	\$ 1,268,631	\$ 274,535	\$ 194,292	\$ 1,737,458	\$ 1,845,581
Contributed services	99,675	-0-	280	99,955	95,074
Advertising and marketing	-0-	-0-	3,193	3,193	122
Appreciation	-0-	1,468	145	1,613	3,213
Bank charges and other fees	3,537	1,289	4,640	9,466	14,443
Communications	14,967	2,449	2,265	19,681	21,021
Conferences and meetings	5,730	-0-	30	5,760	13,519
Dues and subscriptions	3,334	360	1,045	4,739	2,304
Equipment - depreciation and maintenance	54,716	27,065	5,132	86,913	66,472
Event costs	-0-	-0-	50,840	50,840	34,055
Insurance	13,760	2,637	2,450	18,847	19,226
Occupancy	81,056	12,026	11,167	104,249	101,788
Postage	456	11,241	24	11,721	11,533
Printing	473	1,426	3,514	5,413	6,898
Professional fees	72,250	93,119	49,713	215,082	173,527
Supplies	6,020	6,218	53	12,291	8,188
Training and travel	4,211	490	375	5,076	9,587
Total expenses	\$ 1,628,816	\$ 434,323	\$ 329,158	\$ 2,392,297	\$ 2,426,551

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>Total Expenses</u>
Salaries and employee benefits	\$ 1,350,515	\$ 227,477	\$ 267,589	\$ 1,845,581
Contributed services	95,074	-0-	-0-	95,074
Advertising and marketing	-0-	-0-	122	122
Appreciation	-0-	1,805	1,408	3,213
Bank charges and other fees	6,173	1,347	6,923	14,443
Communications	15,648	2,642	2,731	21,021
Conferences and meetings	10,223	1,876	1,420	13,519
Dues and subscriptions	1,905	399	-0-	2,304
Equipment - depreciation and maintenance	38,243	20,376	7,853	66,472
Event costs	-0-	-0-	34,055	34,055
Insurance	14,035	2,499	2,692	19,226
Occupancy	72,581	17,158	12,049	101,788
Postage	1,310	7,717	2,506	11,533
Printing	1,709	1,737	3,452	6,898
Professional fees	67,231	81,678	24,618	173,527
Supplies	2,503	4,185	1,500	8,188
Training and travel	<u>9,103</u>	<u>131</u>	<u>353</u>	<u>9,587</u>
 Total expenses	 <u>\$ 1,686,253</u>	 <u>\$ 371,027</u>	 <u>\$ 369,271</u>	 <u>\$ 2,426,551</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Change in net assets	\$ (789,113)	\$ 30,841
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	12,285	12,685
Gain on forgiveness of PPP loans	-0-	(587,512)
Change in beneficial interest in assets held by others	(1,011)	397
Changes in operating assets and liabilities:		
Contributions receivable	377,521	285,863
Program service fees receivable	4,701	27,677
Prepaid expenses	12,856	(19,888)
Right-of-use assets under operating leases, net	(77,702)	-0-
Accounts payable	967	(6,445)
Accrued expenses	(11,886)	(69,376)
Operating lease liabilities	<u>77,702</u>	<u>-0-</u>
Net cash flows from operating activities	(393,680)	(325,758)
Cash and cash equivalents, beginning of year	<u>1,952,776</u>	<u>2,278,534</u>
Cash and cash equivalents, end of year	<u>\$ 1,559,096</u>	<u>\$ 1,952,776</u>
Supplemental disclosure of non-cash investing and financing activities		
Right-of-use asset acquired through operating lease liability	<u>\$ 4,871</u>	<u>\$ -0-</u>

See accompanying notes to financial statements.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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 has one office in Indianapolis but represents clients statewide and operates an online legal help site to provide legal advice and guidance to people around the state. The Clinic also offers in-person consult with a lawyer providing opportunities to seek legal advice on a wider variety of issues at partner organizations.

The Clinic provides legal representation to a variety of low-income clients in the following substantive legal areas: Eviction Prevention, Landlord/Tenant, Immigration, Tax Controversies, Expungement assistance 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. 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, and other matters related to our primary practice areas.

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

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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 bank sweep savings account and a financial institution money market savings account.

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, 2023 and 2022 and July 1, 2021 of \$4,197, \$8,898 and \$36,575, 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, 2023 and 2022.

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.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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, 2023, contributions approximating \$1,023,835 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 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 on 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.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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, 2023 and 2022, 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, 2022. 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).

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 25, 2024, which is the date the financial statements were available to be issued.

3. CHANGE IN ACCOUNTING PRINCIPLE

On July 1, 2022, the Clinic adopted the new lease accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in the Accounting Standards Codification (ASC) as Topic 842 (ASC 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the 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 ASC 842) of twelve months or less are not required to be reflected on an entity's Statement of Financial Position.

The Clinic applied the modified retrospective approach to all lease agreements when adopting ASC 842. ASC 842 was applied retrospectively to the beginning of the period of adoption through a cumulative-effect adjustment recognized as of July 1, 2022. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance in ASC 840. The adoption of ASC 842 had a material impact on the Statement of Financial Position but did not have a significant impact on the Statement of Activities and the Statement of Cash Flows. As of July 1, 2022, the Clinic's total assets and total liabilities increased by \$147,930 as a result of ASC 842. The most significant impact was the recognition of right-of-use (ROU) assets under operating leases and operating lease liabilities.

The Clinic elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

guidance, or (c) whether the unamortized initial direct costs, if any, before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. In addition, the Clinic elected the hindsight practical expedient to determine the lease term for existing leases.

4. CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Amounts due in		
Less than one year	\$ 274,191	\$ 704,196
One to five years	60,000	-0-
Total	<u>334,191</u>	<u>704,196</u>
Less present value discount	<u>(7,516)</u>	<u>-0-</u>
	<u>\$ 326,675</u>	<u>\$ 704,196</u>

Qualifying contributions receivable were discount at 4.4% during fiscal 2023.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Office equipment and computers	\$ 31,221	\$ 36,445
Leasehold improvements	272,773	272,773
Software development costs	<u>50,000</u>	<u>50,000</u>
	353,994	359,218
Accumulated depreciation	<u>(320,508)</u>	<u>(313,447)</u>
	<u>\$ 33,486</u>	<u>\$ 45,771</u>

Depreciation expense for the years ended June 30, 2023 and 2022 amounted to \$12,285 and \$12,685, 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 \$32,079 and \$31,068 at June 30, 2023 and 2022, 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, 2023 and 2022.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The change in the value of the beneficial interest in assets held by others of \$1,011 and (\$397) for the years ended June 30, 2023 and 2022, 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.

7. PAYCHECK PROTECTION PROGRAM

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 was unsecured, bore interest at 1% and funds advanced under the program were subject to forgiveness, if certain criteria were met, with the remaining balance repayable within two years. PPP loans are 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.

On June 1, 2021, the Clinic received a second round PPP loan in the amount of \$312,212. This PPP loan was also unsecured and bore interest at 1%. Funds advanced under the program were subject to forgiveness if certain criteria were met, with the remaining balance payable over five years.

On March 28, 2022, the Clinic was notified by their lender that the SBA had repaid the entire \$312,212 loan, and thus the Clinic's obligation to repay the loan was forgiven.

The Clinic elected to account for these loans as debt, and recognized gain on forgiveness of PPP loans of \$587,512 during fiscal 2022 when the loans were legally forgiven by the SBA. The SBA retains the right to audit the forgiveness of the loans for six years.

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

8. NET ASSETS

Net Assets with Donor Restrictions

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

	2023	2022
Subject to Expenditure for Specified Purpose:		
Immigrants Justice Program	\$ -0-	\$ 5,553
Project Grace	452,073	753,825
Specific operating costs	-0-	117,978
Survivors of Violent Crimes Law	-0-	71,579
Ft. Wayne operations	-0-	20,217
Subject to Passage of Time:		
For future periods	180,000	40,000
Endowment:		
General operations	32,079	31,068
	\$ 664,152	\$ 1,040,220

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:

	2023	2022
Subject to Expenditure for Specified Purpose:		
Helping Hoosier Homeowners	\$ -0-	\$ 91,000
Housing Justice Program	69,075	98,418
Immigrants Justice Program	41,422	162,452
Project Grace	308,404	274,185
Survivors of Violent Crimes Law	207,670	193,970
Ft. Wayne operations	20,407	54,578
Technology	18,898	281
Special Intake	40,684	25,000
Low Income Taxpayer Clinic	133,863	100,000
Specific operating costs	117,978	118,614
Subject to Passage of Time:		
For future periods	40,000	60,000
	\$ 998,401	\$ 1,178,498

NEIGHBORHOOD CHRISTIAN LEGAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

9. 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 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 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.

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

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 31,068	\$ 31,465
Change in value, net	<u>1,011</u>	<u>(397)</u>
Balance, end of year	<u>\$ 32,079</u>	<u>\$ 31,068</u>

10. 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 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

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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, 2023 and 2022.

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:

	2023		
	<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>19,246</u>	<u>19,246</u>
	<u>\$ -0-</u>	<u>\$ 32,079</u>	<u>\$ 32,079</u>

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	2022		
	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-	18,235	18,235
	\$ -0-	\$ 31,068	\$ 31,068

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ -0-	\$ 31,068	\$ 31,068
Change in value, net	-0-	1,011	1,011
Net assets, end of year	\$ -0-	\$ 32,079	\$ 32,079
		2022	
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ -0-	\$ 31,465	\$ 31,465
Change in value, net	-0-	(397)	(397)
Net assets, end of year	\$ -0-	\$ 31,068	\$ 31,068

11. 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 as expenses of the relevant program 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, 2023 and 2022, contributed services totaled \$99,955 and \$95,074, 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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12. LEASES

The Clinic recognizes right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Clinic has operating leases for their administrative and operating facility as well as office equipment. Leasing arrangements require fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The Clinic's lease agreements do not contain any material restrictive covenants. The leases have remaining terms of 1 year. The Clinic's facility lease may be terminated, 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's ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. The Clinic utilizes the risk-free rate commensurate to the lease term as the discount rate for its leases unless the Clinic can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The Clinic has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its ROU assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are expensed on a straight-line basis over the lease term. The Clinic's short-term lease relates to additional office space.

In evaluating contracts to determine if they qualify as a lease, the Clinic considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the Clinic can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, the Clinic assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgment.

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The components of the Clinic's lease cost for the year ended June 30, 2023 is as follows:

Operating lease cost	\$	78,488
Short-term lease cost		<u>1,626</u>
Total lease expense	\$	<u><u>80,114</u></u>

Total rent expense under operating leases aggregated \$90,463 for the year ended June 30, 2022.

The Clinic's right-of-use assets and lease liabilities as of June 30, 2023 are as follows:

Right-of-use assets		
Operating lease assets, net	\$	77,702
Lease liabilities		
Operating Lease Liabilities	\$	77,702

Additional information regarding cash payments under the Clinic's operating leases during fiscal 2023, as well as the inputs used in determining the ROU assets and liabilities at June 30, 2023, is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flow from operating leases	\$	78,488
Right-of-use asset obtained in exchange for new operating lease liability	\$	4,871
Weighted-average remaining lease term - operating leases		1.0 years
Weighted-average discount rate - operating leases		2.88%

Future payment of lease liabilities at June 30, 2023 are as follows:

Year Ending		
June 30,		
<u>2024</u>	\$	78,508
2025		<u>418</u>
Total lease payments		78,926
Less: interest		<u>(1,224)</u>
Present value of lease liabilities	\$	<u><u>77,702</u></u>

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Future minimum lease payments under operating leases having initial terms in excess of one year at June 30, 2022, under previous accounting guidance under ASC 840, are as follows:

Year Ending June 30,	
2023	\$ 83,177
2024	<u>76,000</u>
	<u>\$ 159,177</u>

13. RELATED PARTY TRANSACTIONS

The Clinic received contributions from its Board of Directors and related organizations totaling \$63,381 and \$39,794 during the years ended June 30, 2023 and 2022, respectively.

14. RETIREMENT PLAN

Beginning in fiscal 2022, the Clinic offers a 401(k) retirement plan covering substantially all employees who fulfill eligibility requirements. The Clinic matches 3% of employee compensation for those employees participating in a salary deferral. Salary deferrals and total contributions into an individual account are limited by the United States Internal Revenue Code. Plan expense was \$23,302 and \$2,867 for the year ended June 30, 2023 and 2022, respectively.

15. 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:

	2023	2022
Financial assets		
Cash and cash equivalents	\$ 1,559,096	\$ 1,952,776
Contributions receivable	326,675	704,196
Program service fees receivable	<u>4,197</u>	<u>8,898</u>
Total financial assets	1,889,968	2,665,870
Contributions receivable due beyond one year	(60,000)	-0-
Donor-imposed purpose restrictions	<u>(452,073)</u>	<u>(969,152)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,377,895</u>	<u>\$ 1,696,718</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

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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. 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.

16. CONCENTRATIONS

Concentration of Credit Risk

The Clinic maintains its cash and cash equivalents primarily in one financial institution with balances which generally exceed federally insured limits. In addition, at June 30, 2023 and 2022, the Clinic's money market savings account in the amount of \$708,756 and \$688,209, 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, 2023, two grantors accounted for approximately 34% of total support and revenue, less contributed services. Additionally, four grantors accounted for approximately 85% of contributions and program service fees receivable as of June 30, 2023. During the year ended June 30, 2022, one grantor accounted for approximately 23% of total support and revenue, less contributed services. Additionally, two grantors accounted for approximately 72% of contributions and program service fees receivable as of June 30, 2022.