



**CALIFORNIA CHANGLAWYERS AND SUBSIDIARY**

---

**CONSOLIDATED FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2019**

**PASADENA**  
234 E Colorado Blvd  
Suite M150  
Pasadena, CA 91101  
p: 626.403.6801

**A Trusted Nonprofit Partner**

Main Fax: 626.403.6866

[www.npocpas.com](http://www.npocpas.com)

**OAKLAND**  
1901 Harrison Street  
Suite 1150  
Oakland, CA 94612  
p: 510.379.1182

## CONTENTS

---

|   |      |
|---|------|
| Independent Auditors' Report                  | 1-2  |
| Consolidated Statement of Financial Position  | 3    |
| Consolidated Statement of Activities          | 4    |
| Consolidated Statement of Functional Expenses | 5    |
| Consolidated Statement of Cash Flows          | 6    |
| Notes to Consolidated Financial Statements    | 7-15 |
| Supplementary Information:                    |      |
| Consolidating Statement of Financial Position | 16   |
| Consolidating Statement of Activities         | 17   |

## INDEPENDENT AUDITORS' REPORT

---

To the Board of Directors  
California ChangeLawyers and Subsidiary

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of California ChangeLawyers (a nonprofit organization), and Subsidiary, which comprise the Consolidated Statement of Financial Position as of December 31, 2019, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California ChangeLawyers and Subsidiary as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT

continued

---

### Other Matters

#### *Report on Summarized Comparative Information*

We have previously audited the California ChangeLawyers and Subsidiary's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

#### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statement of Financial Position and Consolidating Statement of Activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Harrington Group*

Oakland, California  
June 11, 2020

# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019

With comparative totals at December 31, 2018

|   | <u>2019</u>                | <u>2018</u>                |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>                                 |                            |                            |
| Cash and cash equivalents (Note 2)            | \$ 915,378                 | \$ 382,475                 |
| Grants receivable                             | 282,030                    | 246,672                    |
| Pledges receivable (Note 4)                   | 208,000                    | 163,100                    |
| Prepaid expense and deposits                  | 34,478                     | 20,121                     |
| Investments (Note 5)                          | <u>1,897,654</u>           | <u>1,692,281</u>           |
| <b>TOTAL ASSETS</b>                           | <u><u>\$ 3,337,540</u></u> | <u><u>\$ 2,504,649</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>             |                            |                            |
| <b>LIABILITIES</b>                            |                            |                            |
| Accounts payable                              | \$ 42,793                  | \$ 28,003                  |
| Accrued liabilities (Note 6)                  | <u>360,136</u>             | <u>242,523</u>             |
| <b>TOTAL LIABILITIES</b>                      | <u>402,929</u>             | <u>270,526</u>             |
| <b>NET ASSETS</b>                             |                            |                            |
| Without donor restrictions                    | 475,501                    | 50,166                     |
| Without donor restrictions - board designated | 1,897,654                  | 1,692,282                  |
| With donor restrictions (Note 9)              | <u>561,456</u>             | <u>491,675</u>             |
| <b>TOTAL NET ASSETS</b>                       | <u>2,934,611</u>           | <u>2,234,123</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>       | <u><u>\$ 3,337,540</u></u> | <u><u>\$ 2,504,649</u></u> |

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

**CALIFORNIA CHANGELAWYERS AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

|   | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>2019</u>         | <u>2018</u>         |
|---|---------------------------------------|------------------------------------|---------------------|---------------------|
| <b>REVENUE AND SUPPORT</b>                                      |                                       |                                    |                     |                     |
| Affinity program  | \$ 1,245,927                          | \$ -                               | \$ 1,245,927        | \$ 397,340          |
| Contributions   | 121,707                               | 682,032                            | 803,739             | 803,162             |
| State Bar licensee donations                                    | 318,558                               |                                    | 318,558             | 359,011             |
| Cy pres awards  | 216,960                               |                                    | 216,960             | 11,538              |
| Special events income, net of expenses of \$9,232               | 71,618                                |                                    | 71,618              | 64,693              |
| In-kind contributions (Note 10)                                 | 29,576                                |                                    | 29,576              | 40,000              |
| Other income  | 11,165                                |                                    | 11,165              | 618                 |
| Net assets released from restrictions (Note 9)                  | 612,251                               | (612,251)                          | -                   | -                   |
| <b>TOTAL REVENUE AND SUPPORT</b>                                | <u>2,627,762</u>                      | <u>69,781</u>                      | <u>2,697,543</u>    | <u>1,676,362</u>    |
| <b>EXPENSES</b>   |                                       |                                    |                     |                     |
| Program services  | 1,786,581                             |                                    | 1,786,581           | 1,505,477           |
| Management and general  | 242,897                               |                                    | 242,897             | 249,626             |
| Fundraising   | 256,718                               |                                    | 256,718             | 304,533             |
| <b>TOTAL EXPENSES</b>   | <u>2,286,196</u>                      | <u>-</u>                           | <u>2,286,196</u>    | <u>2,059,636</u>    |
| <b>CHANGE IN NET ASSETS BEFORE<br/>INVESTMENT INCOME (LOSS)</b> | 341,566                               | 69,781                             | 411,347             | (383,274)           |
| Investment income (loss)  | 289,141                               |                                    | 289,141             | (94,052)            |
| <b>CHANGE IN NET ASSETS</b>                                     | 630,707                               | 69,781                             | 700,488             | (477,326)           |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                            | <u>1,742,448</u>                      | <u>491,675</u>                     | <u>2,234,123</u>    | <u>2,711,449</u>    |
| <b>NET ASSETS, END OF YEAR</b>                                  | <u>\$ 2,373,155</u>                   | <u>\$ 561,456</u>                  | <u>\$ 2,934,611</u> | <u>\$ 2,234,123</u> |

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

**CALIFORNIA CHANGLAWYERS AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

|                                       | Program Services  |                   |                   |                  |                         | Total<br>Program<br>Services | Management<br>and General | Fundraising       | Total Expenses      |              |
|---------------------------------------|-------------------|-------------------|-------------------|------------------|-------------------------|------------------------------|---------------------------|-------------------|---------------------|--------------|
|                                       | Grants            | Scholarships      | Law<br>Fellows    | Leadership       | Affinity /<br>Insurance |                              |                           |                   | 2019                | 2018         |
| Salaries                              | \$ 86,254         | \$ 99,599         | \$ 168,047        | \$ 15,376        | \$ 121,000              | \$ 490,276                   | \$ 92,404                 | \$ 170,396        | \$ 753,076          | \$ 721,291   |
| Payroll taxes                         | 6,262             | 7,107             | 13,469            | 1,226            | 9,458                   | 37,522                       | 9,563                     | 12,726            | 59,811              | 62,100       |
| Employee benefits                     | 8,404             | 8,813             | 10,034            | 978              | 5,413                   | 33,642                       | 6,737                     | 5,219             | 45,598              | 40,465       |
| Total personnel costs                 | 100,920           | 115,519           | 191,550           | 17,580           | 135,871                 | 561,440                      | 108,704                   | 188,341           | 858,485             | 823,856      |
| Grants, scholarships and stipends     | 355,017           | 379,310           |                   | 125              |                         | 734,452                      |                           |                   | 734,452             | 748,578      |
| Income tax expense                    |                   |                   |                   |                  | 276,276                 | 276,276                      |                           |                   | 276,276             | 53,380       |
| Occupancy                             | 12,517            | 13,533            |                   | 1,520            | 12,420                  | 39,990                       | 13,206                    | 21,760            | 74,956              | 54,302       |
| Conference and meetings               | 3,604             |                   | 1,975             | 53,901           |                         | 59,480                       | 941                       | 2,545             | 62,966              | 2,227        |
| Accounting                            |                   |                   |                   |                  |                         | -                            | 50,857                    |                   | 50,857              | 64,405       |
| Professional services                 |                   |                   | 1,192             |                  | 34,640                  | 35,832                       | 1,588                     | 1,737             | 39,157              | 85,177       |
| Information technology                | 3,591             | 22,510            |                   |                  |                         | 26,101                       | 7,317                     | 4,664             | 38,082              | 26,596       |
| In-kind legal services                |                   |                   |                   |                  |                         | -                            | 29,576                    |                   | 29,576              | 40,000       |
| Travel and meals                      | 2,496             | 757               | 4,771             |                  | 8,654                   | 16,678                       | 10,721                    | 1,635             | 29,034              | 30,040       |
| Printing and publication              |                   | 1,091             | 269               |                  |                         | 1,360                        | 757                       | 18,146            | 20,263              | 25,259       |
| Insurance                             |                   |                   |                   |                  | 8,821                   | 8,821                        | 7,783                     |                   | 16,604              | 25,649       |
| Dues, license, and service fees       |                   |                   | 713               |                  | 4,976                   | 5,689                        | 5,241                     | 1,012             | 11,942              | 10,132       |
| Supplies                              | 2,245             | 2,675             | 303               | 9                |                         | 5,232                        | 2,337                     | 4,079             | 11,648              | 10,739       |
| Miscellaneous                         |                   |                   |                   | 26               | 5,625                   | 5,651                        | 2,001                     | 2,500             | 10,152              | 27,427       |
| Advertising                           |                   |                   |                   |                  | 5,235                   | 5,235                        |                           | 3,937             | 9,172               | 4,168        |
| Telephone                             | 991               | 1,132             | 1,162             |                  | 1,004                   | 4,289                        | 1,048                     | 1,804             | 7,141               | 5,121        |
| Postage                               |                   |                   |                   | 55               |                         | 55                           | 820                       | 4,558             | 5,433               | 17,029       |
| Equipment rental                      |                   |                   |                   |                  |                         | -                            |                           |                   | -                   | 5,551        |
| <b>TOTAL 2019 FUNCTIONAL EXPENSES</b> | <b>\$ 481,381</b> | <b>\$ 536,527</b> | <b>\$ 201,935</b> | <b>\$ 73,216</b> | <b>\$ 493,522</b>       | <b>\$ 1,786,581</b>          | <b>\$ 242,897</b>         | <b>\$ 256,718</b> | <b>\$ 2,286,196</b> |              |
| TOTAL 2018 FUNCTIONAL EXPENSES        | \$ 760,473        | \$ 542,758        | \$ -              | \$ -             | \$ 202,246              | \$ 1,505,477                 | \$ 249,626                | \$ 304,533        |                     | \$ 2,059,636 |

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

## CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

|  | 2019              | 2018              |
|--|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                   |                   |
| Change in net assets   | \$ 700,488        | \$ (477,326)      |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |                   |                   |
| Investment (income) loss, net  | (289,141)         | 94,052            |
| (Increase) decrease in operating assets:   |                   |                   |
| Grants receivable  | (35,358)          | (13,761)          |
| Pledges receivable   | (44,900)          | 91,963            |
| Prepaid expense and deposits   | (14,357)          | (3,352)           |
| Increase (decrease) in operating liabilities:  |                   |                   |
| Accounts payable   | 14,790            | (108,629)         |
| Accrued liabilities  | 117,613           | (27,794)          |
|  | <b>449,135</b>    | <b>(444,847)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                   |                   |
| Purchase of investments  | (500,000)         | (120,178)         |
| Sale of investments  | 583,768           | 204,291           |
|  | <b>83,768</b>     | <b>84,113</b>     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>532,903</b>    | <b>(360,734)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>  | <b>382,475</b>    | <b>743,209</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>  | <b>\$ 915,378</b> | <b>\$ 382,475</b> |

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



# CALIFORNIA CHANDELAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 1. **Organization**

California ChangeLawyers, is a California nonprofit public benefit corporation whose mission is to build a better justice system for all Californians. A state as diverse as California should have a justice system led by advocates of all races and ethnicities. However, only one-fifth of California lawyers are people of color and only two-fifths are women even though the state is majority people of color and women. California ChangeLawyers empowers the next generation of legal changemakers to build a more diverse profession, a fair justice system, and a better California. Righting historical wrongs in our classrooms, courtrooms, and beyond will allow us to truly deliver the original American value – justice for all. Every year, we create greater opportunities for diverse members of the legal community by distributing scholarships and fellowships as well as providing grants to non-profit organizations that are strengthening the pipeline to law.

### 2. **Summary of Significant Accounting Policies**

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

#### **Principles of Consolidation**

The consolidated financial statements of the organization include the accounts of California ChangeLawyers and its wholly owned subsidiary, Cal Bar Affinity Inc. and are collectively known and referred to as ChangeLawyers. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting which reflects revenue when earned and expenses as incurred.

#### **Net Assets**

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

**Without Donor Restrictions.** These net assets are available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

**Without Donor Restrictions – Board Designated.** The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve to support the longer-term financial health of the organization. Such funds are invested in a portfolio intended to preserve the value of such services with a secondary objective of providing supplemental operating funds to ChangeLawyers. The current spending policy is to appropriate for operational use 4.75% of the prior three-year average year-end balance of the related investment portfolio.

# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies, continued

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

#### Cash and Cash Equivalents

ChangeLawyers has defined cash as balances in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to interest rate variability is negligible. These are generally investments with maturity dates within three months of the acquisition date.

#### Investments

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

#### Concentration of Credit Risks

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

#### Fair Value Measurements

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

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

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

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

ChangeLawyers is required to measure certain investments and in-kind contributions at fair value. The specific techniques used to measure fair value for these consolidated financial statement elements are described in the notes below that relate to each element.

continued

# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies, continued

#### Property and Equipment

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

#### Contributed Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received (see Note 10).

#### Functional Allocation of Expenses

Costs of providing ChangeLawyers programs and other activities have been presented in the Consolidated Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based upon usage, employee ratios, and square footage of occupied space.

#### Income Taxes

ChangeLawyers is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d and is considered by the IRS to be an organization other than a private foundation.

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

Cal Bar Affinity Inc., a for-profit corporation, files separate income tax returns.

#### Use of Estimates

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

# CALIFORNIA CHANGELAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies, continued

#### Recently Adopted Accounting Pronouncement

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. ChangeLawyers has implemented ASC Topic 606 and has adjusted the presentation in these consolidated financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2018. Retrospective application is permitted. ChangeLawyers has implemented the provisions of ASU 2018-08 applicable to both contributions received to contributions made in the accompanying financial statements for the year ended December 31, 2019, under a modified prospective basis, as management believes the standard improves the usefulness and the understandability of the entity’s financial reporting. Accordingly, there is no effect on net assets in connection with ChangeLawyers’ implementation of ASU 2018-08.

#### Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ChangeLawyers’ consolidated financial statements for the year ended December 31, 2018, from which the summarized information was derived.

### 3. Liquidity and Availability of Resources

ChangeLawyers regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the effectiveness of its available funds. ChangeLawyers has several sources of liquidity at its disposal, including cash, certificates of deposit, and mutual funds.

For purposes of analyzing resources available to meet general expenditures over a twelve-month period, ChangeLawyers considers all expenditures related to its ongoing philanthropic and programmatic activities and the pattern of income from grants, contracts, donations and other support. In addition, ChangeLawyers strives to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. ChangeLawyers grants and scholarships typically represent approximately 50% of the expected annual cash needs.

continued

# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 3. Liquidity and Availability of Resources, continued

A Board designated reserve, or quasi-endowment, is maintained and as of December 31, 2019 the balance of the reserve of \$1,897,654 equaled more than ten-months of general expenditures. ChangeLawyers draws a payout of 4.75% of the average year-end reserve balance of the prior three years.

As of December 31, 2019 and 2018, the following financial assets could be made available within one year to meet general expenditures.

|   | <u>2019</u>        | <u>2018</u>        |
|---|--------------------|--------------------|
| Investments   | \$1,897,654        | \$1,692,281        |
| Cash and cash equivalents   | 915,378            | 382,475            |
| Grants receivable   | 282,030            | 246,672            |
| Pledges receivable  | <u>208,000</u>     | <u>163,100</u>     |
| Total financial assets at year-end  | 3,303,062          | 2,484,528          |
| Less: cash and pledges with donor restrictions  | <u>(561,456)</u>   | <u>(491,675)</u>   |
| Financial assets available to meet cash needs for<br>general expenditures within one year | <u>\$2,741,606</u> | <u>\$1,992,853</u> |

### 4. Pledges Receivable

Pledges receivable are recorded at estimated net realizable value in the period received. All pledges are deemed to be fully collectible; therefore, no allowance for doubtful accounts has been recorded. Pledges receivable at December 31, 2019 and 2018 of \$208,000 and \$163,100, respectively, are expected to be collected within one year.

### 5. Investments

Investments at December 31, 2019 and 2018 consist of the following:

|              | <u>2019</u>        | <u>2018</u>        |
|--------------|--------------------|--------------------|
| Cash         | \$ 106,694         | \$ 11,344          |
| Equities     | 1,151,650          | 886,692            |
| Fixed income | 629,074            | 794,245            |
| Alternatives | <u>10,236</u>      | <u>-</u>           |
|              | <u>\$1,897,654</u> | <u>\$1,692,281</u> |

Investment income/(loss) for the years ended December 31, 2019 and 2018 consist of the following:

|   | <u>2019</u>      | <u>2018</u>        |
|---|------------------|--------------------|
| Unrealized market gains (losses), net of fees | \$150,213        | \$(179,377)        |
| Realized gains                                | 76,207           | 50,111             |
| Dividends                                     | 57,574           | 31,073             |
| Interest                                      | <u>5,147</u>     | <u>4,141</u>       |
|   | <u>\$289,141</u> | <u>\$ (94,052)</u> |

continued

# CALIFORNIA CHANGE LAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 6. Accrued Liabilities

Accrued liabilities at December 31, 2019 and 2018 consist of the following:

|                  | <u>2019</u>      | <u>2018</u>      |
|------------------|------------------|------------------|
| Accrued grants   | \$350,000        | \$200,000        |
| Accrued vacation | 10,136           | 14,894           |
| Taxes payable    | <u>-</u>         | <u>27,629</u>    |
|                  | <u>\$360,136</u> | <u>\$242,523</u> |

### 7. Commitments

#### Obligations Under Operating Leases

ChangeLawyers leases an office space in San Francisco and entered into a five-year lease agreement that commenced in June 2019. Future minimum payments, by year and in the aggregate, under this lease consists of the following:

| <u>Year ending December 31,</u> |                  |
|---------------------------------|------------------|
| 2020                            | \$ 94,186        |
| 2021                            | 97,011           |
| 2022                            | 99,922           |
| 2023                            | 102,919          |
| 2024                            | <u>43,410</u>    |
|                                 | <u>\$437,448</u> |

Rent expense for the years ended December 31, 2019 and 2018 was \$62,536 and \$54,302, respectively.

### 8. Contingencies

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. ChangeLawyers deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of ChangeLawyers to the provisions of the grants. ChangeLawyers' management is of the opinion that ChangeLawyers has complied with the terms of all grants.

# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 9. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018 are restricted for the following:

|   | <u>2019</u>      | <u>2018</u>      |
|---|------------------|------------------|
| IOLTA—formula grants                              | \$277,400        | \$ -             |
| First Year Law School Diversity Scholarships(1L)  | 208,523          | 167,767          |
| Final Year Law School Diversity Scholarships (3L) | 72,390           | 95,642           |
| Civics Education                                  | 3,143            | 8,857            |
| Immigrant Integration Law Fellows                 | -                | 177,158          |
| Network for Justice Fellows                       | -                | 42,251           |
|   | <u>\$561,456</u> | <u>\$491,675</u> |

For the years ended December 31, 2019 and 2018, net assets with donor restrictions released from purpose restrictions were \$612,251 and \$754,138, respectively.

### 10. In-kind Contributions

ChangeLawyers received donated legal services for the years ended December 31, 2019 and 2018 that were valued at \$29,576 and \$40,000, respectively.

### 11. Partnership Activity

During the year ended December 31, 2019, ChangeLawyers received \$318,558 in pass through support from the State Bar of California licensees via a voluntary fee statement check-off program. In addition, ChangeLawyers maintains a relationship with the State Bar of California through its subsidiary, Cal Bar Affinity, which administers insurance programs whose contracts are held by the State Bar of California.

### 12. Retirement Plan

ChangeLawyers offers a 403(b) retirement plan to staff members working more than 20 hours per week. ChangeLawyers makes no matching or other employer contribution to the plan.

continued

# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2019 on a recurring basis:

|                                 | <u>Level 1</u>     | <u>Level 2</u>   | <u>Level 3</u> | <u>Total</u>       |
|---------------------------------|--------------------|------------------|----------------|--------------------|
| Equity funds                    |                    |                  |                |                    |
| Large blend                     | \$ 462,189         | \$ -             | \$ -           | \$ 462,189         |
| Foreign large growth            | 250,689            |                  |                | 250,689            |
| Diversified emerging markets    | 147,669            |                  |                | 147,669            |
| Large value                     | 143,145            |                  |                | 143,145            |
| Large growth                    | 87,036             |                  |                | 87,036             |
| Large core                      | 57,895             |                  |                | 57,895             |
| Mid core                        | <u>3,027</u>       |                  |                | <u>3,027</u>       |
| Total equity funds              | <u>1,151,650</u>   | <u>-</u>         | <u>-</u>       | <u>1,151,650</u>   |
| Fixed income                    |                    |                  |                |                    |
| Short term bond                 |                    | 247,300          |                | 247,300            |
| Intermediate core-plus bond     |                    | 208,267          |                | 208,267            |
| Certificates of deposits        | <u>173,507</u>     |                  |                | <u>173,507</u>     |
| Total fixed income              | <u>173,507</u>     | <u>455,567</u>   | <u>-</u>       | <u>629,074</u>     |
| Alternatives                    |                    |                  |                |                    |
| Large value                     | 5,515              |                  |                | 5,515              |
| Large growth                    | <u>4,721</u>       |                  |                | <u>4,721</u>       |
| Total alternatives              | <u>10,236</u>      | <u>-</u>         | <u>-</u>       | <u>10,236</u>      |
| Fair value at December 31, 2019 | <u>\$1,335,393</u> | <u>\$455,567</u> | <u>\$ -</u>    | <u>\$1,790,960</u> |

The fair value of investment components has been measured on a recurring basis using quoted prices in active markets for identical assets (Level 1 inputs) and quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

The table below presents the transactions measured at fair value on a non-recurring basis during the years ended December 31, 2019:

|                                 | <u>Level 1</u> | <u>Level 2</u>  | <u>Level 3</u>   | <u>Total</u>     |
|---------------------------------|----------------|-----------------|------------------|------------------|
| <b><u>December 31, 2019</u></b> |                |                 |                  |                  |
| In-kind contributions           | \$ -           | \$29,576        | \$ -             | \$ 29,576        |
| Pledged contributions – new     |                |                 | <u>307,146</u>   | <u>307,146</u>   |
| Fair value at December 31, 2019 | <u>\$ -</u>    | <u>\$29,576</u> | <u>\$307,146</u> | <u>\$336,722</u> |

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

The fair value of pledged contributions – new is measured on a non-recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).

continued



# CALIFORNIA CHANGLAWYERS AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 14. Subsequent Events

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time.

No adjustments have been made to these consolidated financial statements as a result of this uncertainty.

In May 2020, ChangeLawyers received a loan of \$99,800 from the Small Business Administration Paycheck Protection Program.

No adjustments related to the above transaction has been made to these consolidated financial statements for the year ended December 31, 2019.

Management has evaluated subsequent events through June 11, 2020, the date which the consolidated financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in the consolidated financial statements.

**SUPPLEMENTARY INFORMATION**

---

**CALIFORNIA CHANGLAWYERS AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2019

|  | <u>ChangeLawyers</u> | <u>Cal Bar<br/>Affinity, Inc.</u> | <u>Elimination</u>  | <u>Consolidated</u> |
|--|----------------------|-----------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                    |                      |                                   |                     |                     |
| Cash and cash equivalents (Note 2)               | \$ 651,365           | \$ 264,013                        | \$ -                | \$ 915,378          |
| Grants receivable                                | 247,671              | 156,875                           | (122,516)           | 282,030             |
| Pledges receivable (Note 4)                      | 208,000              |                                   |                     | 208,000             |
| Prepaid expense and deposits                     | 25,656               | 8,822                             |                     | 34,478              |
| Investments (Note 5)                             | 1,897,655            |                                   | (1)                 | 1,897,654           |
| <b>TOTAL ASSETS</b>                              | <u>\$ 3,030,347</u>  | <u>\$ 429,710</u>                 | <u>\$ (122,517)</u> | <u>\$ 3,337,540</u> |
| <b>LIABILITIES AND NET ASSETS</b>                |                      |                                   |                     |                     |
| <b>LIABILITIES</b>                               |                      |                                   |                     |                     |
| Accounts payable                                 | \$ 17,311            | \$ 147,998                        | \$ (122,516)        | \$ 42,793           |
| Accrued liabilities (Note 6)                     | 360,136              |                                   |                     | 360,136             |
| <b>TOTAL LIABILITIES</b>                         | <u>377,447</u>       | <u>147,998</u>                    | <u>(122,516)</u>    | <u>402,929</u>      |
| <b>NET ASSETS</b>                                |                      |                                   |                     |                     |
| Without donor restrictions                       | 193,789              |                                   |                     | 193,789             |
| Without donor restrictions - board designated    | 1,897,655            |                                   |                     | 1,897,655           |
| With donor restrictions                          | 561,456              |                                   |                     | 561,456             |
| Ordinary stock, 100 shares authorized and issued |                      | 1                                 | (1)                 | -                   |
| Retained surplus                                 |                      | 281,711                           |                     | 281,711             |
| <b>TOTAL NET ASSETS</b>                          | <u>2,652,900</u>     | <u>281,712</u>                    | <u>(1)</u>          | <u>2,934,611</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <u>\$ 3,030,347</u>  | <u>\$ 429,710</u>                 | <u>\$ (122,517)</u> | <u>\$ 3,337,540</u> |

See independent auditors' report.

**CALIFORNIA CHANGE LAWYERS AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF ACTIVITIES

For the year ended December 31, 2019

|  | <u>California Change Lawyers</u>      |                                    |                     |                                   |                     |                     |
|--|---------------------------------------|------------------------------------|---------------------|-----------------------------------|---------------------|---------------------|
|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>        | <u>Cal Bar<br/>Affinity, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| <b>REVENUE AND SUPPORT</b>                               |                                       |                                    |                     |                                   |                     |                     |
| Affinity program   | \$ 564,723                            | \$ -                               | \$ 564,723          | \$ 1,244,754                      | \$ (563,550)        | \$ 1,245,927        |
| Contributions  | 121,707                               | 682,032                            | 803,739             |                                   |                     | 803,739             |
| State Bar licensee donations                             | 318,558                               |                                    | 318,558             |                                   |                     | 318,558             |
| In-kind contributions                                    | 29,576                                |                                    | 29,576              |                                   |                     | 29,576              |
| Cy pres awards   | 216,960                               |                                    | 216,960             |                                   |                     | 216,960             |
| Special events income, net of expenses of \$9,232        | 71,618                                |                                    | 71,618              |                                   |                     | 71,618              |
| Other income   | 7,844                                 |                                    | 7,844               | 3,321                             |                     | 11,165              |
| Net assets released from restrictions                    | 612,251                               | (612,251)                          | -                   |                                   |                     | -                   |
|  | <u>1,943,237</u>                      | <u>69,781</u>                      | <u>2,013,018</u>    | <u>1,248,075</u>                  | <u>(563,550)</u>    | <u>2,697,543</u>    |
| <b>EXPENSES</b>  |                                       |                                    |                     |                                   |                     |                     |
| Program services   | 1,293,059                             |                                    | 1,293,059           | 1,057,072                         | (563,550)           | 1,786,581           |
| Management and general                                   | 242,897                               |                                    | 242,897             |                                   |                     | 242,897             |
| Fundraising  | 256,718                               |                                    | 256,718             |                                   |                     | 256,718             |
|  | <u>1,792,674</u>                      | <u>-</u>                           | <u>1,792,674</u>    | <u>1,057,072</u>                  | <u>(563,550)</u>    | <u>2,286,196</u>    |
| <b>CHANGE IN NET ASSETS BEFORE<br/>INVESTMENT INCOME</b> | 150,563                               | 69,781                             | 220,344             | 191,003                           | -                   | 411,347             |
| Investment income, net                                   | 289,141                               |                                    | 289,141             |                                   |                     | 289,141             |
| <b>CHANGE IN NET ASSETS</b>                              | 439,704                               | 69,781                             | 509,485             | 191,003                           | -                   | 700,488             |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                     | 1,651,740                             | 491,675                            | 2,143,415           | 90,708                            | -                   | 2,234,123           |
| <b>NET ASSETS, END OF YEAR</b>                           | <u>\$ 2,091,444</u>                   | <u>\$ 561,456</u>                  | <u>\$ 2,652,900</u> | <u>\$ 281,711</u>                 | <u>\$ -</u>         | <u>\$ 2,934,611</u> |

See independent auditors' report.