
Massachusetts
Legal
Assistance
Corporation

**FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Contents
June 30, 2020 and 2019

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**Unmodified Opinion on Financial Statements Accompanied by Other
Information – Not-For-Profit Entity**

Independent Auditor's Report

To the Board of Directors of
Massachusetts Legal Assistance Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts Legal Assistance Corporation (a Massachusetts corporation, not for profit) (MLAC) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Legal Assistance Corporation as of June 30, 2020 and 2019, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental statements of activities and changes in net assets without donor restrictions (supplemental schedules) (pages 15 through 17) for the years ended June 30, 2020 and 2019, are presented for purposes of additional analysis and are not required as part of the basic financial statements. These supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2020, on our consideration of MLAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MLAC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MLAC's internal control over financial reporting and compliance.

AAFCPAs, Inc.

Boston, Massachusetts
September 16, 2020

MASSACHUSETTS LEGAL ASSISTANCE CORPORATIONStatements of Financial Position
June 30, 2020 and 2019

Assets	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 6,828,526	\$ 3,492,541
Funds held for others	-	141,938
Accounts and loans receivable, net	602,850	887,332
Grants and pledges receivable	1,772,629	846,486
Prepaid expenses and other	1,131	2,935
Total current assets	9,205,136	5,371,232
Property and Equipment, net	48,931	62,788
Total assets	<u>\$ 9,254,067</u>	<u>\$ 5,434,020</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 165,944	\$ 143,254
Grants and contracts payable	1,906,821	1,311,563
Accrued expenses	211,232	134,427
Deferred rent	105,501	50,457
Current portion of note payable	310,000	-
Funds held for others	-	141,938
Total current liabilities	2,699,498	1,781,639
Note Payable, net of current portion	390,416	-
Total liabilities	<u>3,089,914</u>	<u>1,781,639</u>
Net Assets:		
Without donor restrictions:		
Operating	3,796,912	2,346,631
Board designated - administrative reserve	716,883	736,903
Legal server	429,893	-
Property and equipment	48,931	62,788
Total without donor restrictions	4,992,619	3,146,322
With donor restrictions	1,171,534	506,059
Total net assets	<u>6,164,153</u>	<u>3,652,381</u>
Total liabilities and net assets	<u>\$ 9,254,067</u>	<u>\$ 5,434,020</u>

The accompanying notes are an integral part of these statements.

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MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net Assets Without Donor Restrictions:		
Revenue:		
Commonwealth of Massachusetts contract	\$ 24,000,000	\$ 21,040,000
Interest on Lawyers' Trust Accounts	7,394,417	6,619,294
Massachusetts Office of Victim Assistance (MOVA) grant	4,202,773	3,937,226
Opt-out bar registration fee award	800,860	881,329
Cy pres award	356,793	241,850
Pro hac vice fee award	187,010	169,676
Interest and other income	148,373	183,038
Management fees	91,267	101,707
Donated legal services	4,500	50,594
Net assets released from purpose restrictions	<u>1,605,000</u>	<u>1,015,000</u>
Total revenue	<u>38,790,993</u>	<u>34,239,714</u>
Expenses:		
Program services	35,180,457	31,298,087
General and administrative	<u>1,764,239</u>	<u>1,645,400</u>
Total expenses	<u>36,944,696</u>	<u>32,943,487</u>
Changes in net assets without donor restrictions	<u>1,846,297</u>	<u>1,296,227</u>
Net Assets With Donor Restrictions:		
Grants	2,270,475	325,000
Net assets released from purpose restrictions	<u>(1,605,000)</u>	<u>(1,015,000)</u>
Changes in net assets with donor restrictions	<u>665,475</u>	<u>(690,000)</u>
Changes in net assets	2,511,772	606,227
Net Assets:		
Beginning of year	<u>3,652,381</u>	<u>3,046,154</u>
End of year	<u>\$ 6,164,153</u>	<u>\$ 3,652,381</u>

MASSACHUSETTS LEGAL ASSISTANCE CORPORATIONStatements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,511,772	\$ 606,227
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Bad debt	-	96,642
Depreciation	13,857	17,647
Changes in operating assets and liabilities:		
Accounts and loans receivable	284,482	(320,235)
Grants and pledges receivable	(926,143)	1,584,008
Prepaid expenses and other	1,804	31,760
Interest receivable	-	(2,755)
Accounts payable	22,690	(122,473)
Grants and contracts payable	595,258	(1,548,373)
Accrued expenses	76,805	(2,065)
Deferred rent	55,044	50,457
	<u>2,635,569</u>	<u>390,840</u>
Net cash provided by operating activities	2,635,569	390,840
Cash Flows from Investing Activities:		
Acquisition of property and equipment	-	(48,196)
Cash Flows from Financing Activities:		
Proceeds from note payable	700,416	-
Net Change in Cash and Cash Equivalents	3,335,985	342,644
Cash and Cash Equivalents:		
Beginning of year	<u>3,492,541</u>	<u>3,149,897</u>
End of year	<u>\$ 6,828,526</u>	<u>\$ 3,492,541</u>

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Statements of Functional Expenses
For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Program Services	General and Administrative	Total	Program Services	General and Administrative	Total
Personnel and Related Costs:						
Salaries	\$ 855,225	\$ 863,185	\$ 1,718,410	\$ 730,658	\$ 678,497	\$ 1,409,155
Payroll taxes and fringe benefits	244,554	192,455	437,009	188,706	139,497	328,203
Total personnel and related costs	<u>1,099,779</u>	<u>1,055,640</u>	<u>2,155,419</u>	<u>919,364</u>	<u>817,994</u>	<u>1,737,358</u>
Grants and Contracts Awarded:						
General support	22,450,329	-	22,450,329	19,745,897	-	19,745,897
Massachusetts Office of Victim Assistance (MOVA) funding	4,116,140	-	4,116,140	3,843,743	-	3,843,743
Domestic Violence Legal Assistance project	2,437,264	-	2,437,264	2,437,268	-	2,437,268
Immigration grant funding	1,540,000	-	1,540,000	950,000	-	950,000
Disability Benefits project	1,178,892	-	1,178,892	1,178,892	-	1,178,892
Medicare Advocacy project	446,980	-	446,980	446,980	-	446,980
Total grants and contracts awarded	<u>32,169,605</u>	<u>-</u>	<u>32,169,605</u>	<u>28,602,780</u>	<u>-</u>	<u>28,602,780</u>
Other:						
Professional services	740,100	198,025	938,125	594,861	342,197	937,058
Other support services	550,091	57,977	608,068	494,503	38,076	532,579
Occupancy	109,510	379,329	488,839	115,549	355,727	471,276
Fellowships	376,000	-	376,000	297,817	-	297,817
Office and other	11,805	44,800	56,605	12,787	52,879	65,666
Travel	9,023	14,611	23,634	8,632	20,880	29,512
Depreciation	-	13,857	13,857	-	17,647	17,647
Bad debt	-	-	-	96,642	-	96,642
Total other	<u>1,796,529</u>	<u>708,599</u>	<u>2,505,128</u>	<u>1,620,791</u>	<u>827,406</u>	<u>2,448,197</u>
Forgivable Loan Disbursements	<u>114,544</u>	<u>-</u>	<u>114,544</u>	<u>155,152</u>	<u>-</u>	<u>155,152</u>
Total expenses	<u>\$ 35,180,457</u>	<u>\$ 1,764,239</u>	<u>\$ 36,944,696</u>	<u>\$ 31,298,087</u>	<u>\$ 1,645,400</u>	<u>\$ 32,943,487</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

1. OPERATION AND NONPROFIT STATUS

Massachusetts Legal Assistance Corporation (MLAC) is a nonprofit corporation established by the Massachusetts legislature through Chapter 221A of the General Laws. MLAC provides financial support for legal assistance programs which represent persons financially unable to afford such assistance in matters involving non-criminal proceedings. MLAC awards contracts and grants for this purpose to nonprofit corporations which have established such programs.

MLAC is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). MLAC is also exempt from state income taxes. Contributions to MLAC are deductible by donors within the requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

MLAC prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Recently Adopted Accounting Pronouncements

During fiscal year 2020, MLAC adopted ASC Topic 606, *Revenue from Contracts with Customers*, with respect to its revenue recognition policies. The core principal of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard did not have a significant impact on the MLAC's financial statements as the MLAC's primary source of revenue is grants and contributions, which is not subject to this accounting standard.

During fiscal year 2020, MLAC also adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. MLAC adopted ASU 2018-08 using a modified prospective method effective July 1, 2019. The adoption of this standard did not have any impact on MLAC's financial statements as the recognition of grants and contributions revenue did not change as a result of the new standard.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts and a money market account with the Massachusetts Municipal Depository Trust.

Funds Held for Others

MLAC serves as a fiscal agent for another nonprofit organization. Cash received on behalf of this organization but not yet distributed is recorded as funds held for others in the accompanying statements of financial position as of June 30, 2019. MLAC served as a fiscal agent through December 2019 and disbursed all remaining funds, as such there were no funds held for others as of June 30, 2020.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserve for Uncollectible Accounts and Loans

Reserve for uncollectible accounts and loans is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible. Accounts and loans are written off against the allowance when they are determined to be uncollectible. The reserve for uncollectible accounts and loans (Loan Forgiveness Program) as of June 30, 2020 and 2019, was \$132,115 and \$114,980, respectively.

Grants and Pledges Receivable

Unconditional promises to give are recorded at fair value at the date the promise is received. Unconditional promises to give that are expected to be received after one year are discounted at a risk-free interest rate and amortization of the discount, if any, is included in contribution revenue in the accompanying statements of activities and changes in net assets. Conditional promises to give are reported at fair value at the date the condition is met. MLAC evaluates its receivables and establishes an allowance for doubtful accounts based on collection experience and current credit conditions. There was no allowance for doubtful accounts recorded as of June 30, 2020 and 2019.

Property and Equipment and Depreciation

Property and equipment over \$2,000 are recorded at cost, if purchased, or at fair value at the time of donation. Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of three to five years or the life of the lease. Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Case management system	\$ 468,833	\$ 468,833
Computer equipment	290,979	290,979
Office furniture and fixtures	69,010	69,010
Leasehold improvement	<u>13,755</u>	<u>13,755</u>
	842,577	842,577
Less - accumulated depreciation	<u>793,646</u>	<u>779,789</u>
	<u>\$ 48,931</u>	<u>\$ 62,788</u>

Net Assets

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by MLAC. MLAC has grouped its net assets without donor restrictions into the following categories:

Operating - Operating represents amounts available for operations.

Board Designated - Administrative Reserve - The Board of Directors set aside portions of operating net assets to provide a level of working capital necessary to maintain operations in light of fiscal uncertainties with funders and for other specified purposes. Funds appropriated annually to the reserve equals approximately three months of administrative expenses based on the next fiscal year's budget. Any expenditure from these funds must be approved by the Board of Directors.

Legal Server - represents operating funds that MLAC has earmarked for a new case management system for their various legal aid grant recipients that is expected to be purchased in fiscal year 2021.

Property and Equipment - Property and equipment represent the net book value of MLAC's property and equipment.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net assets with donor restrictions result from contributions and other inflows of assets whose use is limited by donor-imposed restrictions that expire either with the passage of time or the fulfillment of a specific programmatic purpose.

Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Purpose restricted:		
Immigration legal services	\$ 1,014,900	\$ 363,500
Innovation fund	<u>156,634</u>	<u>142,559</u>
	<u>\$ 1,171,534</u>	<u>\$ 506,059</u>

Net assets released from donor restrictions pertain entirely to the satisfaction of immigration legal services purpose restrictions during the fiscal years ended June 30, 2020 and 2019.

Revenue Recognition

MLAC is primarily funded by the Commonwealth of Massachusetts (the Commonwealth) through annual state appropriations and by Interest on Lawyers' Trust Accounts (IOLTA) funds under an order of the Supreme Judicial Court. MLAC recognizes revenue from the Commonwealth upon funding of the appropriations. MLAC recognizes IOLTA funds upon notification by the Massachusetts IOLTA Committee (the Committee) (see page 9) of MLAC's share of the monthly IOLTA receipts (IOLTA funding includes; interest on Lawyer's Trust Accounts, opt-out bar registration fee award, cy pres award, pro hac vice fee award, and management fees). Amounts received from the Massachusetts Office of Victim Assistance (MOVA) grant and IOLTA noted above have been recorded in accordance with ASU Topic 958 (see below).

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, MLAC must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier such as qualifying expenses that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that MLAC should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. See Note 12 for disclosure of MLAC's conditional awards at June 30, 2020.

Contributions without donor restrictions are recognized as revenue when received or unconditionally committed. Contributions and grants with donor restrictions are recorded as net assets with donor restrictions, if they are received with donor stipulations that limit the use of the donated assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions (see above).

Interest and other income are recognized when earned.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts

MLAC records grants and contracts awarded as an obligation and expense when awarded and the grantees meet all significant conditions. Amounts not yet paid are reflected a grants and contracts payable in the accompanying statements of financial position.

Expense Allocations and Classification

The financial statements report certain categories of expenses that attributable to more than one function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include personnel and related costs, which are allocated based on estimates of time and effort spent on each function. Expenses related directly to a function are distributed directly to that function.

Funding and Concentrations

IOLTA funds are distributed to MLAC, the Massachusetts Bar Foundation, and the Boston Bar Foundation through the Committee. By order of the Supreme Judicial Court, MLAC receives 67% of all IOLTA receipts remitted to the Committee reduced by 67% of the Committee's administrative expenses. The net amount is reflected as Interest on Lawyers' Trust Accounts revenue in the accompanying statements of activities and changes in net assets. IOLTA funds are generated from interest earned on certain client funds held by attorneys in a pooled account pending the attorney's distribution of the funds on behalf of the clients. The interest earned and accumulated and ultimately distributed to the Committee and MLAC can vary significantly based upon the amount of legal business transacted through the IOLTA accounts and the interest rates paid by the banks.

The Massachusetts Supreme Judicial Court has established three additional sources of funding for civil legal aid through MLAC:

1. A pro hac vice fee to be paid to the Board of Bar Overseers (BBO) by attorneys admitted to practice in another jurisdiction who appear in a particular matter in Massachusetts.
2. An opt-out increase in annual attorney bar registration fees.
3. Authorizing judges who are deciding on the appropriate use of unclaimed residual funds from a class action judgment or settlement (cy pres) to distribute some or all of the funds to the IOLTA Committee.

Funds from all three sources are forwarded by BBO or the court as appropriate to the Committee to be distributed to MLAC and other organizations using the same allocation method as the IOLTA funds. MLAC recognizes these fees or funds upon notification by the Committee of MLAC's share of the funds collected.

During fiscal year 2019, MLAC received a two-year grant award totaling \$8,200,000 from the Massachusetts Office for Victim Assistance (MOVA) to provide free civil legal aids to crime victims through the Commonwealth. This was an amendment to the contract with MOVA, which increased the contract maximum obligation to \$16,418,517 and extended the contract end date from June 30, 2019 to June 30, 2021. During fiscal year 2020, MLAC received an additional award of approximately \$500,000. MLAC passes the majority of these funds through grant awards to various Massachusetts legal aid organizations. MLAC recognizes revenue from this cost reimbursable grant as related costs are incurred, up to the total amount awarded.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funding and Concentrations (Continued)

The following table represents concentrations of total revenue, grants and pledges receivable, and accounts and loans receivable as of and for the years ended June 30:

<u>Donor</u>	<u>2020</u>			<u>2019</u>		
	<u>Total Revenue</u>	<u>Grants and Pledges Receivable</u>	<u>Accounts and Loans Receivable</u>	<u>Total Revenue</u>	<u>Grants and Pledges Receivable</u>	<u>Accounts and Loans Receivable</u>
A	73%	48%	- %	73%	76%	- %
B	23%	- %	100%	23%	- %	100%
C	3%	43%	- %	2%	- %	- %
D	- %	- %	- %	1%	12%	- %
E	1%	- %	- %	1%	12%	- %

Fair Value Measurements

MLAC follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that MLAC would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

MLAC uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of MLAC. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

MLAC accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. MLAC has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2020 and 2019. MLAC's information returns are subject to examination by Federal and state jurisdictions.

Donated Legal Services

MLAC receives donated professional services from a legal firm. These services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donor. During fiscal years 2020 and 2019, the value of the donated legal services was \$4,500 and \$50,594, respectively, and is shown as donated legal services in the accompanying statements of activities and changes in net assets.

Subsequent Events

Subsequent events have been evaluated through September 16, 2020, which is the date the financial statements were available to be issued. No events met the criteria for recognition or disclosure.

3. FORGIVABLE LOANS RECEIVABLE AND RESERVE

MLAC has entered into agreements with qualified legal assistance programs in Massachusetts to provide loans to pay down student loans for attorneys and paralegals. The purpose of the Loan Forgiveness Program is to encourage the recruitment and retention of attorneys and paralegals by legal assistance programs in Massachusetts. The payments are disbursed quarterly, mature one year from the initial disbursement, and are unsecured.

Principal payments on these loans range from \$450 to \$14,700 annually. Under the agreements, MLAC reimburses the attorney or paralegal for payments made on their loans for each borrower who is employed by a qualified legal assistance program for at least one year following the first disbursement as long as they continue to be employed by the qualified legal assistance program.

Loans outstanding were \$132,115 and \$114,980 at June 30, 2020 and 2019, respectively. MLAC expects to forgive these loans, consistent with the intent of the program; therefore, all loans are fully reserved when disbursed and are reflected as general support to legal service programs in the accompanying statements of activities and changes in net assets. MLAC does not record interest on these loans since collection is not expected.

During fiscal years 2020 and 2019, MLAC disbursed \$114,544 and \$155,152, respectively, in loans. During fiscal years 2020 and 2019, MLAC forgave and adjusted loans totaling \$97,409 and \$121,195, respectively.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

4. LEASES

MLAC occupied its program and office space under a ten-year sublease agreement that expired in September 2018. Annual rent was \$241,774 for the first five years and \$266,662 for the remaining five years, plus MLAC's proportional share of certain operating expenses and real estate taxes.

MLAC occupies its program and office space under a fifteen-year lease agreement expiring in July 2033, with a one-time right to terminate on the eighth anniversary of the inception of the lease, with a requirement to provide written notice to the lessor no later than eighteen months prior to the date of termination. Early termination would result in a termination fee equal to six months' rent plus various other fees, as described in the agreement, payable 50% upon notice of termination and the remaining 50% on the termination date. Annual rent is \$412,830 for the first three years (through July 2021) and increases every three years thereafter with maximum annual rent totaling \$522,918, plus MLAC's proportional share of certain operating expenses and real estate taxes. In accordance with ASC Topic 840, *Leases*, MLAC records rent on a straight-line basis over the term of this lease regardless of actual cash payments. As a result, MLAC has deferred rent payable of \$105,501 and \$50,457 under this agreement as of June 30, 2020 and 2019, respectively, which is reflected as deferred rent in the accompanying statements of financial position.

Rent expense, including maintenance and operating expenses under the above agreement, totaled \$482,067 and \$461,371 for the years ended June 30, 2020 and 2019, respectively, and is included in occupancy in the accompanying statements of functional expenses.

In accordance with the lease agreement, MLAC entered into a letter of credit agreement for \$116,969 with a bank in order to fund the security deposit required as part of this new lease agreement. The letter of credit has a commission rate of 2% and maturity date of September 2033, which coincides with the expiration of the lease agreement.

MLAC also leases office equipment under various operating leases expiring at various dates through September 2023. These leases require MLAC to make aggregate monthly payments totaling \$811. The total lease expense for this equipment was \$10,522 and \$19,157 for the years ended June 30, 2020 and 2019, respectively, and is included in office and other in the accompanying statements of functional expenses.

Future minimum lease payments are as follows for the years ended June 30:

	<u>Equipment</u>	<u>Facility</u>	<u>Total</u>
2021	\$ 9,737	\$ 412,830	\$ 422,567
2022	9,588	440,352	449,940
2023	8,844	440,352	449,196
2024	2,211	440,352	442,563
2025	-	467,874	467,874
Thereafter	<u>-</u>	<u>3,990,690</u>	<u>3,990,690</u>
Total	<u>\$ 30,380</u>	<u>\$ 6,192,450</u>	<u>\$ 6,222,830</u>

5. CONTINGENT ASSET

In consideration of funding provided to a nonprofit legal services corporation in August 2002, MLAC received a 25% interest in the equity of certain real estate owned by the nonprofit. The interest, which is secured by a mortgage, is to be satisfied by the receipt of net sales proceeds, if any, after the payment of all indebtedness, upon the sale of the real estate. The amount, if any, to be received by MLAC is undeterminable and no value has been recorded in the accompanying statements of financial position for this interest.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

6. CONCENTRATION OF CREDIT RISK

MLAC maintains its cash balances in a bank in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. MLAC has not experienced any losses in such accounts. MLAC believes it is not exposed to any significant credit risk on cash and cash equivalents.

7. LINE OF CREDIT

MLAC has an agreement to borrow up to \$500,000 under a revolving line of credit facility with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the *Wall Street Journal's* prime rate, with a minimum rate of 5% (5.00% and 5.50% at June 30, 2020 and 2019, respectively). The note is secured by MLAC's deposits and other sums held at the bank. As of June 30, 2020 and 2019, MLAC had no outstanding balance under this agreement. MLAC incurred no interest expense on the line of credit in fiscal years 2020 and 2019.

8. NOTE PAYABLE

MLAC applied for and was awarded a forgivable loan of \$700,416 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The funds will be used to pay certain payroll costs, including benefits as well as rent and utilities during a twenty-four-week period ending in October 2020 (the covered period) as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred until November 16, 2020, when the note, plus interest, will be due in eighteen equal monthly payments of \$39,221 through April 16, 2022. There are no covenants with which to comply and the note is not secured by any collateral as of June 30, 2020. There was no accrued interest on the note payable as of June 30, 2020, as it would be immaterial to the overall financial statements.

Subsequent to fiscal year 2020, MLAC will begin the process of submitting the application for forgiveness of the loan. Based on preliminary calculations in accordance with the current guidance, the loan is expected to be forgiven in full during fiscal year 2021.

9. RETIREMENT PLAN

MLAC maintains a qualified salary reduction plan (the Plan) under the IRC Section 403(b), which covers all eligible employees. Employees are eligible to participate on the first day of employment. Employees may make contributions to the Plan up to the maximum allowed by law. During fiscal year 2019, MLAC contributed 7.5% of each employee's salary to the Plan. During fiscal year 2020, MLAC increased their contribution to 9.5% of each employee's salary to the Plan. Employees are immediately vested in their contributions and MLAC's contributions. During fiscal years 2020 and 2019, MLAC contributions to the Plan were \$152,361 and \$101,004, respectively, and are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Notes to Financial Statements
June 30, 2020 and 2019

10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

MLAC's financial assets available within one year from the statements of financial position date for general operating expenses are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,828,526	\$ 3,492,541
Accounts and loans receivable, net	602,850	887,332
Grants and pledges receivable	<u>1,772,629</u>	<u>846,486</u>
Total financial assets	9,204,005	5,226,359
Less - net assets with donor restrictions:		
Immigration legal services	(1,014,900)	(363,500)
Innovation fund	<u>(156,634)</u>	<u>(142,559)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,032,471</u>	<u>\$ 4,720,300</u>

MLAC's financial assets are available for use to cover its obligations as they become due. As of June 30, 2020 and 2019, MLAC has financial assets equal to approximately nineteen and fourteen months, respectively, of operating expenses (excluding donated legal services, grants and contracts awarded, bad debt, forgivable loan disbursements, and depreciation). In addition, MLAC has an available line of credit agreement (see Note 7) which allows for borrowings up to \$500,000.

11. CONTINGENCY

During fiscal year 2020, COVID-19 was recognized as a global pandemic. The impact of COVID-19 on MLAC's future operations will depend upon, among other things, the duration, spread and intensity of the pandemic, related government responses such as required physical distancing, restrictions on business operations and travel, the pace of recovery of economic activity and the impact to its constituents, all of which are uncertain and impossible to predict. The financial impact to MLAC, if any, cannot be reasonably estimated at this time.

Due to the COVID-19 pandemic, MLAC and the Commonwealth has a signed a contract containing appropriations funding for fiscal year 2021's activities and programs which is subject to amendment once the fiscal year 2021 state budget is finalized. Subsequent to year-end, the Commonwealth has been providing appropriation funding on a monthly basis based on the fiscal year 2020 amount awarded. As of the report date, MLAC has received first quarter funding of approximately \$6,000,000 at fiscal year 2020 levels. In addition to providing general support to programs, MLAC is required, by language in the appropriation, to fund three named projects: Disability Benefits, Domestic Violence Legal Assistance and Medicare Advocacy. The amount of funds to be allocated to each project is left to the discretion of MLAC.

12. CONDITIONAL GRANT

MLAC received grant awards from MOVA (see page 9) that contain conditions that represent a barrier that must be overcome as well as a right of return of assets or release from obligations. MLAC recognizes this grant income when conditions are met. During the year ended June 30, 2020, MLAC recognized \$4,202,773 of this grant as income in the accompanying financial statements and the total amount recognized by MLAC under the contract as of June 30, 2020 is \$10,918,289. Conditional promises to give at June 30, 2020, consist of the MOVA grant totaling \$6,002,228.

13. RECLASSIFICATIONS

Certain amounts in the fiscal year 2019 financial statements have been reclassified to conform with the fiscal year 2020 presentation.

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Supplemental Statement of Activities
 For the Year Ended June 30, 2020
 (With Summarized Comparative Totals for the Year Ended June 30, 2019)

	2020							2019	
	General Support Funds							Total	Total
	Program Support Initiatives	General Support to Legal Service Programs			Other Grants	MOVA	IOLTA Administrative Services		
General Support Appropriation		MLAC IOLTA							
Net Assets Without Donor Restrictions:									
Revenue:									
Commonwealth of Massachusetts contract	\$ -	\$ 24,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,000,000	\$ 21,040,000
Interest on Lawyers' Trust Accounts	-	-	7,394,417	-	-	-	-	7,394,417	6,619,294
Massachusetts Office of Victim Assistance (MOVA) grant	-	-	-	-	4,202,773	-	-	4,202,773	3,937,226
Opt-out bar registration fee award	-	-	800,860	-	-	-	-	800,860	881,329
Cy pres award	-	-	356,793	-	-	-	-	356,793	241,850
Pro hac vice fee award	-	-	187,010	-	-	-	-	187,010	169,676
Interest and other income	-	-	-	-	-	-	148,373	148,373	183,038
Management fees	-	-	-	6,000	-	85,267	-	91,267	101,707
Donated legal services	-	-	-	-	-	-	4,500	4,500	50,594
Net assets released from purpose restrictions	-	-	-	1,605,000	-	-	-	1,605,000	1,015,000
Total revenue	-	24,000,000	8,739,080	1,611,000	4,202,773	85,267	152,873	38,790,993	34,239,714
Expenses:									
Salaries	741,997	-	-	43,875	54,183	15,170	863,185	1,718,410	1,409,155
Professional services	736,100	-	-	-	4,000	-	198,025	938,125	937,058
Other support services	548,242	-	-	-	1,849	-	57,977	608,068	532,579
Occupancy	44,507	-	-	-	-	65,003	379,329	488,839	471,276
Payroll taxes and fringe benefits	212,630	-	-	14,625	12,704	4,595	192,455	437,009	328,203
Fellowships	376,000	-	-	-	-	-	-	376,000	297,817
Office and other	9,840	-	-	-	1,466	499	44,800	56,605	65,666
Travel	8,902	-	-	-	121	-	14,611	23,634	29,512
Depreciation	-	-	-	-	-	-	13,857	13,857	17,647
Bad debt	-	-	-	-	-	-	-	-	96,642
Total expenses before grants and contracts awarded, forgivable loan disbursements and allocation of administrative expense	2,678,218	-	-	58,500	74,323	85,267	1,764,239	4,660,547	4,185,555
Grants and contracts awarded:									
General support	-	19,455,930	2,994,399	-	-	-	-	22,450,329	19,745,897
Massachusetts Office of Victim Assistance (MOVA) funding	-	-	-	-	4,116,140	-	-	4,116,140	3,843,743
Domestic Violence Legal Assistance project	-	2,437,264	-	-	-	-	-	2,437,264	2,437,268
Immigration grant funding	-	-	-	1,540,000	-	-	-	1,540,000	950,000
Disability Benefits project	-	1,178,892	-	-	-	-	-	1,178,892	1,178,892
Medicare Advocacy project	-	446,980	-	-	-	-	-	446,980	446,980
Total grants and contracts awarded	-	23,519,066	2,994,399	1,540,000	4,116,140	-	-	32,169,605	28,602,780
Forgivable loan disbursements	-	105,931	8,613	-	-	-	-	114,544	155,152
Allocation of administrative expense	-	1,273,885	466,044	6,500	12,310	-	(1,758,739)	-	-
Total expenses	2,678,218	24,898,882	3,469,056	1,605,000	4,202,773	85,267	5,500	36,944,696	32,943,487
Changes in net assets without donor restrictions	(2,678,218)	(898,882)	5,270,024	6,000	-	-	147,373	1,846,297	1,296,227
Net Assets With Donor Restrictions:									
Grants	-	-	-	2,270,475	-	-	-	2,270,475	325,000
Net assets released from purpose restrictions	-	-	-	(1,605,000)	-	-	-	(1,605,000)	(1,015,000)
Changes in net assets with donor restrictions	-	-	-	665,475	-	-	-	665,475	(690,000)
Changes in net assets	\$ (2,678,218)	\$ (898,882)	\$ 5,270,024	\$ 671,475	\$ -	\$ -	\$ 147,373	\$ 2,511,772	\$ 606,227

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Supplemental Statement of Activities
For the Year Ended June 30, 2019

	General Support Funds							Total
	Program Support Initiatives	General Support to Legal Service Programs				IOLTA Administrative Services	Administrative	
		General Support Appropriation	MLAC IOLTA	Other Grants	MOVA			
Net Assets Without Donor Restrictions:								
Revenue:								
Commonwealth of Massachusetts contract	\$ -	\$ 21,040,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,040,000
Interest on Lawyers' Trust Accounts	-	-	6,619,294	-	-	-	-	6,619,294
Massachusetts Office of Victim Assistance (MOVA) grant	-	-	-	-	3,937,226	-	-	3,937,226
Opt-out bar registration fee award	-	-	881,329	-	-	-	-	881,329
Cy pres award	-	-	241,850	-	-	-	-	241,850
Pro hac vice fee award	-	-	169,676	-	-	-	-	169,676
Interest and other income	-	-	-	-	-	-	183,038	183,038
Management fees	-	-	-	3,000	-	98,707	-	101,707
Donated legal services	-	-	-	-	-	-	50,594	50,594
Net assets released from purpose restrictions	-	-	-	1,015,000	-	-	-	1,015,000
Total revenue	-	21,040,000	7,912,149	1,018,000	3,937,226	98,707	233,632	34,239,714
Expenses:								
Salaries	635,328	-	-	43,875	36,988	14,467	678,497	1,409,155
Professional services	566,726	-	-	-	28,135	-	342,197	937,058
Other support services	480,222	-	-	-	14,281	-	38,076	532,579
Occupancy	44,861	-	-	-	-	70,688	355,727	471,276
Payroll taxes and fringe benefits	161,148	-	-	14,625	8,765	4,168	139,497	328,203
Fellowships	297,817	-	-	-	-	-	-	297,817
Office and other	1,958	-	-	-	1,445	9,384	52,879	65,666
Travel	8,511	-	-	-	121	-	20,880	29,512
Depreciation	-	-	-	-	-	-	17,647	17,647
Bad debt	96,642	-	-	-	-	-	-	96,642
Total expenses before grants and contracts awarded, forgivable loan disbursements and allocation of administrative expense	2,293,213	-	-	58,500	89,735	98,707	1,645,400	4,185,555
Grants and contracts awarded:								
General support	-	16,827,914	2,917,983	-	-	-	-	19,745,897
Massachusetts Office of Victim Assistance (MOVA) funding	-	-	-	-	3,843,743	-	-	3,843,743
Domestic Violence Legal Assistance project	-	2,437,268	-	-	-	-	-	2,437,268
Immigration grant funding	-	-	-	950,000	-	-	-	950,000
Disability Benefits project	-	1,178,892	-	-	-	-	-	1,178,892
Medicare Advocacy project	-	446,980	-	-	-	-	-	446,980
Total grants and contracts awarded	-	20,891,054	2,917,983	950,000	3,843,743	-	-	28,602,780
Forgivable loan disbursements	-	148,946	6,206	-	-	-	-	155,152
Allocation of administrative expense	-	1,151,676	432,882	6,500	3,748	-	(1,594,806)	-
Total expenses	2,293,213	22,191,676	3,357,071	1,015,000	3,937,226	98,707	50,594	32,943,487
Changes in net assets without donor restrictions	(2,293,213)	(1,151,676)	4,555,078	3,000	-	-	183,038	1,296,227
Net Assets With Donor Restrictions:								
Grants	-	-	-	325,000	-	-	-	325,000
Net assets released from purpose restrictions	-	-	-	(1,015,000)	-	-	-	(1,015,000)
Changes in net assets with donor restrictions	-	-	-	(690,000)	-	-	-	(690,000)
Changes in net assets	\$ (2,293,213)	\$ (1,151,676)	\$ 4,555,078	\$ (687,000)	\$ -	\$ -	\$ 183,038	\$ 606,227

MASSACHUSETTS LEGAL ASSISTANCE CORPORATION

Supplemental Statements of Changes in Net Assets Without Donor Restrictions
For the Years Ended June 30, 2020 and 2019

	General Support Funds					Total
	Program Support Initiatives	General Support to Legal Service Programs			Adminis- trative	
		General Support Appropriation	MLAC IOLTA	Other Grants		
Net Assets Without Donor Restrictions, June 30, 2018	\$ -	\$ -	\$ 1,817,856	\$ -	\$ 32,239	\$ 1,850,095
Changes in net assets without donor restrictions	(2,293,213)	(1,151,676)	4,555,078	3,000	183,038	1,296,227
Transfers (to) from other funds	2,293,213	1,151,676	(3,289,400)	(3,000)	(152,489)	-
Net Assets Without Donor Restrictions, June 30, 2019	-	-	3,083,534	-	62,788	3,146,322
Changes in net assets without donor restrictions	(2,678,218)	(898,882)	5,270,024	6,000	147,373	1,846,297
Transfers (to) from other funds	2,678,218	898,882	(3,409,870)	(6,000)	(161,230)	-
Net Assets Without Donor Restrictions, June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,943,688</u>	<u>\$ -</u>	<u>\$ 48,931</u>	<u>\$ 4,992,619</u>



**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors of
Massachusetts Legal Assistance Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Massachusetts Legal Assistance Corporation (MLAC), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MLAC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MLAC's internal control. Accordingly, we do not express an opinion on the effectiveness of MLAC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MLAC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AAFCPAs, Inc.

Boston, Massachusetts
September 16, 2020