Open Door Legal

Consolidated Financial Statements December 31, 2017

Frank, Rimerman + Co. LLP

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Certified
Public
Accountants

Palo Alto
San Francisco
San Jose
St. Helena

Board of Directors
Open Door Legal
San Francisco, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Open Door Legal, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the 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.

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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 Open Door Legal as of December 31, 2017 and the change 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.

Frank, Rimerman & Co. LLP

San Francisco, California
April 30, 2018

Open Door Legal
Consolidated Statement of Financial Position
December 31, 2017

ASSETS

Current Assets		
Cash	$	107,349
Restricted cash		28,148
Accounts receivable		32,603
Contributions receivable		57,000
Investments		13,567
Prepaid expenses		3,963
Total current assets	$	242,630

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	$	22,623
Accrued expenses		37,043
Client escrow		28,184
Note payable		50,000
Total current liabilities		137,850
Contingencies (Note 5)		
Net Assets		
Unrestricted		20,263
Temporarily restricted		84,517
Total net assets		104,780
Total liabilities and net assets	$	242,630

Open Door Legal
Consolidated Statement of Activities and Change in Net Assets
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Grants and contributions	$ 657,731	$ 87,000	$ 744,731
Program income	156,358	-	156,358
In-kind support	190,352	-	190,352
Event tickets and auction sales	18,570	-	18,570
Net assets released from restriction	2,483	(2,483)	-
Total public support and revenue	1,025,494	84,517	1,110,011
Expenses			
Program services:			
Bayview legal services	899,000	-	899,000
Social venture legal services	80,850	-	80,850
Support services:			
General and administrative	40,186	-	40,186
Fundraising	182,399	-	182,399
Total expenses	1,202,435	-	1,202,435
Change in Net Assets	(176,941)	84,517	(92,424)
Net Assets, December 31, 2016	197,204	-	197,204
Net Assets, December 31, 2017	$ 20,263	$ 84,517	$ 104,780

See Notes to Consolidated Financial Statements

Open Door Legal
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

Cash Flows from Operating Activities	
Change in net assets	$ (92,424)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributed investments	(4,597)
Changes in operating assets and liabilities:	
Accounts receivable	(32,603)
Contributions receivable	(57,000)
Prepaid expenses	(296)
Accounts payable	7,906
Accrued expenses	23,906
Client escrow	1,882
Net cash used in operating activities	(153,226)
Cash Flows from Financing Activities	
Proceeds from issuance of note payable	50,000
Net cash provided by financing activities	50,000
Net Decrease in Cash and Restricted Cash	(103,226)
Cash and Restricted Cash, December 31, 2016	238,723
Cash and Restricted Cash, December 31, 2017	$ 135,497
Cash	$ 107,349
Restricted Cash	28,148
Total Cash and Restricted Cash	$ 135,497

1. Organization and Nature of Business

Open Door Legal (the Organization) is a not-for-profit organization working to pioneer universal access to civil legal representation and prove that when everyone has access to the law, poverty can be dramatically reduced. The Organization is headquartered in San Francisco, California.

The Organization currently operates two centers, Bayview Legal Services and Social Ventures Legal Services.

Bayview Legal Services ensures that everyone in District 10 of San Francisco who cannot afford an attorney, can access one in any area of civil law. The Organization custom-built a case management system to manage the logistical complexities involved in delivering universal access and ensure people who walk through the door can get timely services in over 35 areas of law.

Social Ventures Legal Services is an income-generating social enterprise that aims to provide quality, low-cost legal services to social entrepreneurs, not-for-profits and businesses located in certain high-need areas of San Francisco.

In 2015, the Organization established a wholly owned private foundation, Neighbor Capital. Neighbor Capital was developed as a platform to assist businesses in making security offerings as part of the Organization's Social Ventures Legal Services program. The activity of the Foundation has been included in the consolidated financial statements.

2. Significant Accounting Policies

Basis of Presentation:

The Organization presents its consolidated financial statements on the accrual basis of accounting. The Organization segregates its assets, liabilities and operations into three categories: unrestricted, temporarily restricted and permanently restricted. The Organization's net assets and changes therein are classified and reported as follows:

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

Unrestricted net assets consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous periods.

Temporarily restricted net assets consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets are released from restrictions. Donations in which restrictions are met in the period of contribution are recorded as unrestricted.

Permanently restricted net assets consist of all contributions receivable or received from donors that are subject to restrictions requiring the funds to be maintained permanently for the purpose of producing support for the Organization. The Organization has no permanently restricted net assets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of support, revenue and expenses in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition:

The Organization recognizes contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the conditions are met. The Organization distinguishes among contributions that increase any of the three categories of net assets, with recognition being made upon the expiration of donor-imposed restrictions in the period in which the restrictions expire.

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

Direct Public Support:
The Organization receives contributions from foundations, businesses and individuals. The Organization recognizes revenue when the donor makes an unconditional contribution or pledge.

Event Tickets and Auction Sales:
Event tickets and auction sales are generated at the Organization's annual Gala. Ticket revenue and auction sales are recognized as received in the year in which the event takes place.

Program Income:
The Organization's program income consists of fees from the Bayview Legal Services and Social Ventures Legal Services. Revenue from these programs is recognized as services are provided.

Reimbursement Grants:
The Organization recognizes financial support through an agreement whereby funding is based on the expenses incurred. Invoices are submitted to the grantor monthly for reimbursement and revenue from these invoices are recognized as the costs are incurred. The Organization recognized $61,061 relating to reimbursement grants in 2017. Revenue from these grants is included in program income on the Organization's Consolidated Statement of Activities.

In-Kind Support:

Donated services are recognized as contributions at their fair value when the services received either (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations. The Organization receives a significant amount of donated time from volunteers and interns that assist in the legal aid process, but do not meet the criteria for recognition as donated services. Accordingly, the value of this contributed time is not reflected in the accompanying consolidated financial statements.

The Organization also occupies a building, for which it has been charged below-market-rent. The Organization records the fair value of donated rent received on an annual basis (Note 3).

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents:

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents held in the Organization's brokerage account are considered investments.

Restricted Cash:

The Organization's restricted cash balance represents funds that are held on behalf of clients while their legal matter is pending. The Organization's policy is to recognize an offsetting liability in the client escrow account, concurrent with its recognition of cash or other financial assets received from the client. Once the funds are distributed to the ultimate beneficiary, the asset and liability are removed from the Organization's books.

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires restricted cash be included as components of total cash as presented on the Statement of Cash Flows. The standard is effective for the Organization as of January 1, 2019, with early adoption permitted. The Organization has early adopted ASU 2016-18 and has retroactively applied it to the 2017 Consolidated Statement of Cash Flows.

Investments and Investment Income:

Investments in equity securities and money market funds are reported at fair value based on quoted market prices. In-kind contributions of securities are recorded as revenue at fair value on the date of receipt. The Organization has a policy to liquidate contributed securities as soon as reasonably possible.

Functional Expense:

The costs of providing the various program and supporting services have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. The Organization charges directly identifiable expenses to the related program or service benefited.

2. Significant Accounting Policies (continued)

Concentration of Credit Risk:

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist primarily of cash, investments and accounts and contributions receivable. The Organization maintains its cash and investments with one financial institution and a major brokerage firm. From time to time, cash and cash equivalents held in financial institutions exceed amounts insured by the Federal Deposit Insurance Corporation; however, at December 31, 2017, the Organization had no uninsured cash balances. Investments held at the brokerage firm are insured up to $500,000 by the Securities Investor Protection Corporation. To date, the Organization has not experienced any losses on its cash deposits or investments. The Organization's investments are managed by an outside investment manager under an investment policy approved by the Organization.

The Organization provides an allowance for losses arising from uncollectible accounts and contributions receivable based upon the historical collection experience and management's evaluation of collectability of outstanding balances. There was no allowance for doubtful accounts deemed necessary at December 31, 2017.

Fair Value of Financial Instruments:

The Organization uses a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing assets and liabilities are not necessarily an indication of the risk associated with investing in those assets and liabilities.

The three-level hierarchy for fair value measurements is defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III: Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments: (continued)

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Organization's investments, consisting of contributed equity securities and mutual funds, are classified under Level I of the three-level hierarchy.

Income Taxes:

The Organization is exempt from federal and state income taxes under the Internal Revenue Code Section 501(c)(3) and State of California Section 23701(d), except on any net income derived from unrelated business activities. The Organization does not believe it has unrelated business income to be reported for tax purposes.

The Organization believes that it has appropriate support for any tax positions taken to date and, therefore, has no related income tax due for all years where the statute of limitations remains open, which is generally three years for Federal filings and four years for California filings.

Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The standard will impact the financial reporting for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restrictions" and "without donor restrictions"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU 2016-14 is effective for the Organization as of January 1, 2019 and requires a retrospective transition approach for its adoption. The Organization is currently evaluating the impact of ASU 2016-14 on its consolidated financial statements and related disclosures.

Revenue Recognition:

In May 2014, the FASB issued Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers to reflect the consideration to which the entity expects to be entitled to in exchange for those goods and services.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Revenue Recognition: (continued)

The standard will replace most existing revenue recognition guidance generally accepted in the U.S. Topic 606 is effective for the Company as of January 1, 2019, and permits the use of either a retrospective or cumulative effect transition method. The Organization has not selected a transition method and is currently evaluating the effect Topic 606 will have on its consolidated financial statements and related disclosures.

3. In-Kind Contributions

The value of donated goods and services included as contribution revenue in the consolidated financial statements and the corresponding expenses for the year ended December 31, 2017 are as follows:

Attorneys – Bayview Legal Services	$ 105,364
Fundraising and Events	44,298
Donated Rent	24,000
Information Technology	16,690
Total	$ 190,352

4. Note Payable

The Organization had a note payable outstanding to an individual in the amount of $50,000. The note was unsecured, did not bear interest and included a maturity date of April 2018. Imputed interest on the note was not significant to the Organization at December 31, 2017. In April 2018, the note was repaid in full.

5. Contingencies

In November 2017, the Organization was involved in a malpractice claim from a legal representation client. In April 2018, the claim was settled for $9,000, which is the amount management had accrued at December 31, 2017. In the opinion of management, any other potential liabilities resulting from such claims would not have a material adverse effect on the Organization’s financial position or results of operations.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes or future periods at December 31, 2017:

General programs	$ 27,517
Restricted to future periods	57,000
	$ 84,517

Net assets were released from donor restrictions by the passage of time or incurring expenses satisfying the restricted purposes. In 2017, the Organization released $2,483 of funds relating to program restrictions.

7. Related Party Transactions

In 2017, contributions received from the Board of Directors, or from companies with which members of the Board of Directors are affiliated were $70,000. The Organization also received services provided by a Board member at below market-rates. The Organization incurred $5,000 in consulting fees from the Board member and has determined the remaining contributed value of these services to be $24,000, which is included as in-kind support and expenses on the Consolidated Statement of Activities.

8. Subsequent Events

In March 2018, the Organization entered into a promissory note for $100,000. Payment on the note is dependent upon approval of an existing grant agreement with the City of San Francisco and has options for repayment beginning December 31, 2018 and extending through June 30, 2019. The note bears interest at 1% and is unsecured.

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the consolidated financial statements were approved by management and available for issuance. No items requiring disclosure in the consolidated financial statements have been identified other than those presented.