Open Door Legal

Consolidated Financial Statements

December 31, 2018 and 2017

Frank, Rimerman + Co. LLP

Frank, Rimerman + Co. LLP

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 statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and change in net assets and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2018 and 2017 and the change 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.

Frank, Rimerman & Co. LLP

San Francisco, California
May 21, 2019

Open Door Legal
Consolidated Statements of Financial Position

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash	$ 475,968	$ 107,349
Restricted cash	6,079	28,148
Accounts receivable	142,636	32,603
Contributions receivable	235,000	57,000
Prepaid expenses	15,865	3,963
Investments	-	13,567
Total current assets	875,548	242,630
Property and Equipment, net	76,695	-
Security Deposits	2,100	-
Total assets	$ 954,343	$ 242,630
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 8,331	$ 22,623
Accrued expenses	46,977	37,043
Client escrow	6,079	28,184
Notes payable	100,825	50,000
Total current liabilities	162,212	137,850
Commitments and Contingencies (Notes 7 and 10)		
Net Assets		
Without Donor Restrictions	543,131	20,263
With Donor Restrictions	249,000	84,517
Total net assets	792,131	104,780
Total liabilities and net assets	$ 954,343	$ 242,630

Open Door Legal
Consolidated Statements of Activities and Change in Net Assets
Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Grants and contributions	$ 1,036,589	$ 249,000	$ 1,285,589	$ 657,731	$ 87,000	$ 744,731
Program income	336,731	-	336,731	156,358	-	156,358
In-kind contributions	728,880	-	728,880	190,352	-	190,352
Event tickets and auction sales	144,830	-	144,830	18,570	-	18,570
Net assets released from restriction	84,517	(84,517)	-	2,483	(2,483)	-
Total public support and revenue	2,331,547	164,483	2,496,030	1,025,494	84,517	1,110,011
Expenses						
Bayview Legal Services	1,362,187	-	1,362,187	899,000	-	899,000
Social Venture Legal Services	12,928	-	12,928	80,850	-	80,850
General and administrative	78,174	-	78,174	40,186	-	40,186
Fundraising	301,627	-	301,627	182,399	-	182,399
Indirect Costs	52,938	-	52,938	-	-	-
Interest expense	825	-	825	-	-	-
Total expenses	1,808,679	-	1,808,679	1,202,435	-	1,202,435
Change in Net Assets	522,868	164,483	687,351	(176,941)	84,517	(92,424)
Net Assets, beginning of year	20,263	84,517	104,780	197,204	-	197,204
Net Assets, end of year	$ 543,131	$ 249,000	$ 792,131	$ 20,263	$ 84,517	$ 104,780

Open Door Legal
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Bayview Legal Services	Social Venture Legal Services	Total Program Services	General and Administrative	Fundraising	Total Support Services	Total
Personnel Expenses	$ 673,134	$ 12,928	$ 686,062	$ 45,746	$ 104,443	$ 150,189	$ 836,251
Consultants and Professionals	585,793	-	585,793	45,045	-	45,045	630,838
Occupancy	38,672	-	38,672	-	-	-	38,672
Depreciation and Amortization	-	-	-	2,454	-	2,454	2,454
Advertising	-	-	-	-	119,752	119,752	119,752
Event Related Costs	-	-	-	-	73,836	73,836	73,836
Other Expenses	64,588	-	64,588	38,692	3,596	42,288	106,876
Total expenses	$ 1,362,187	$ 12,928	$ 1,375,115	$ 131,937	$ 301,627	$ 433,564	$ 1,808,679
Percent of Total Expenses	75%	1%	76%	7%	17%	24%	100%

Open Door Legal
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Bayview Legal Services	Social Venture Legal Services	Total Program Services	General and Administrative	Fundraising	Total Support Services	Total
Personnel Expenses	$ 619,286	$ 80,850	$ 700,136	$ 15,522	$ 100,513	$ 116,035	$ 816,171
Consultants and Professionals	43,393	-	43,393	3,974	-	3,974	47,367
Court and Litigation Fees	111,794	-	111,794	-	-	-	111,794
Occupancy	9,639	-	9,639	-	-	-	9,639
Advertising	-	-	-	-	32,709	32,709	32,709
Event Related Costs	-	-	-	-	26,389	26,389	26,389
Other Expenses	114,888	-	114,888	20,690	22,788	43,478	158,366
Total expenses	$ 899,000	$ 80,850	$ 979,850	$ 40,186	$ 182,399	$ 222,585	$ 1,202,435
Percent of Total Expenses	75%	7%	82%	3%	15%	18%	100%

Open Door Legal
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	Years Ended December 31, 2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 687,351	$ (92,424)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributed securities	(25,316)	(42,777)
Contributed property and equipment	(18,140)	-
Depreciation and amortization	2,454	-
Noncash interest expense	825	-
Changes in operating assets and liabilities:		
Accounts receivable	(110,033)	(32,603)
Contributions receivable	(178,000)	(57,000)
Prepaid expenses and current assets	(14,002)	(296)
Accounts payable	(14,292)	7,906
Accrued expenses	9,934	23,906
Client escrow	(22,105)	1,882
Net cash provided by (used in) operating activities	318,676	(191,406)
Cash Flows from Investing Activities		
Purchase of property and equipment	(61,009)	-
Proceeds from sale of investments	38,883	38,180
Net cash used in (provided by) investing activities	(22,126)	38,180
Cash Flows from Financing Activities		
Proceeds from issuance of note payable	100,000	50,000
Repayment of note payable	(50,000)	-
Net cash provided by financing activities	50,000	50,000
Net Increase (Decrease) in Cash and Restricted Cash	346,550	(103,226)
Cash and Restricted Cash, beginning of year	135,497	238,723
Cash and Restricted Cash, end of year	$ 482,047	$ 135,497
Cash	$ 475,968	$ 107,349
Restricted Cash	6,079	28,148
Total Cash and Restricted Cash	$ 482,047	$ 135,497

See Notes to Consolidated Financial Statements

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 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 February 2019, the program was discontinued.

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.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 was effective for the Organization as of January 1, 2018. The Organization has adopted the standard in 2018 using a retrospective transition approach and has adjusted the presentation of its consolidated financial statements accordingly. The new standard changes the following aspects of the Organization's consolidated financial statements:

- Unrestricted Net Assets have been renamed net assets without donor restrictions.
- Temporarily Restricted Net Assets have been renamed net assets with donor restrictions
- The Organization's expenses are reported by function and nature in the consolidated statement of activities.
- The consolidated financial statements include new disclosures about liquidity and availability of resources (Note 3).

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

The Organization segregates its assets, liabilities and operations into two categories: with donor restrictions and without donor restrictions. The Organization's net assets and changes therein are classified and reported as follows:

> Net assets without donor restrictions 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.
>
> Net assets with donor restriction consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. Some contributions received from donors are required to be maintained in perpetuity while others expire over time, or when the donor imposed restriction is satisfied. When a donor restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the consolidated statement of activities as net assets released from restriction.

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 between contributions that increase any of the two categories of net assets, with recognition being made upon the expiration of donor-imposed restrictions in the period in which the restrictions expire. Contributions restricted by the donor that expire in the current year are reported as increases in net assets without donor restrictions.

> *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.

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

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 occurs.

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 multiple grant agreements whereby funding is based on the expenses incurred. Invoices are submitted to the grantors monthly for reimbursement and revenue from these invoices are recognized as the costs are incurred. The Organization recognized $252,482 relating to reimbursement grants in 2018 ($61,061 in 2017) as program income.

In-Kind Support:

The Organization records various types of in-kind donations including professional services and tangible assets. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized when promised or received, whichever is earlier. In-kind contribution revenue is recorded at the fair value of the services or tangible assets received and are offset by like amounts of expenses or, in the case of tangible assets, over the period benefited. 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 is charged below-market-rent. The Organization records the fair value of donated rent received on an annual basis (Note 5).

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.

2. Significant Accounting Policies (continued)

Restricted Cash:

The Organization's restricted cash represents funds that are held on behalf of clients while their legal matters are 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 records.

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.

Property and Equipment:

The Organization capitalizes property and equipment acquisitions over $5,000. Property and equipment is recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the assets, generally seven years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related improvements.

Accounting for Impairment of Long-Lived Assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets less costs to sell. The Company did not record any expense related to asset impairment in 2018 or 2017.

Functional Expenses:

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of functional expenses. Directly identifiable expenses are charged to the related program or service benefited. Indirect expenses are allocated to programs and services based principally on the percentage of personnel time spent in each area or management's estimate of usage.

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 with one financial institution. Investments were held at a major brokerage firm. From time to time, cash and cash equivalents held in the financial institution exceed the amount insured by the Federal Deposit Insurance Corporation; and at December 31, 2018, cash in excess of federally insured limits totaled $220,610 (None at December 31, 2017). Investments held at the brokerage firm were 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 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, 2018 and 2017.

Fair Value Measurement:

The Organization uses a three-level hierarchy for fair value measurement 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 those assets and liabilities.

The three-level hierarchy for fair value measurement 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 Measurement: (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, which consisted of contributed equity securities and mutual funds, were classified under Level I of the three-level hierarchy at December 31, 2017.

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 income 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.

Reclassifications:

Certain prior year balances have been reclassified to conform to current year presentation.

Recent Accounting Pronouncements Not Yet Effective:

Contributions Received and Contributions Made**:**

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction, and provides guidance for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for the Organization as of January 1, 2019. ASU 2018-08 allows for retrospective or modified prospective transition approach for its adoption. The Organization believes ASU 2018-08 will have a minimal impact on its consolidated financial statements and related disclosures.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

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.

The standard will replace most existing revenue recognition guidance generally accepted in the United States. 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.

Leases:

In February 2016, the FASB issued ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the statement of financial position. The standard is effective for the Organization as of January 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. The Organization is currently evaluating the effect Topic 842 will have on its financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the lease discussed in Note 10 to the consolidated financial statements, will be capitalized together with the related lease obligations on the consolidated statement of financial position upon the adoption of Topic 842.

3. Liquidity and Availability of Resources

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position:

	2018	2017
Cash	$ 475,968	$ 120,542
Restricted cash	6,079	28,148
Accounts receivable	142,636	32,603
Contributions receivable	235,000	57,000
	859,683	238,293
Restricted cash	(6,079)	(28,148)
Financial assets available for general expenditure needs within one year	$ 853,604	$ 210,145

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures.

The Organization has donor-restricted assets of $249,000 as of December 31, 2018, $14,000 of which is restricted for programs and not available for general expenditures. Management has budgeted these restricted assets for use in 2019.

4. Property and Equipment

Property and equipment consists of the following at December 31, 2018:

Leasehold Improvements	$ 66,009
Furniture and Fixtures	13,140
	79,149
Less accumulated depreciation and amortization	(2.454)
	$ 76,695

5. In-Kind Contributions

The value of donated goods and services recorded as in-kind contribution revenue in the consolidated financial statements consist of the following during the year ended December 31:

	2018	2017
Attorneys – Bayview Legal Services	$ 536,660	$ 105,364
Fundraising and Events	140,529	44,298
Donated Rent	13,931	24,000
Information Technology	15,000	16,690
Donated Leasehold Improvements	18,140	-
Donated Equipment	4,620	-
Total	$ 728,880	$ 190,352

6. Notes Payable

At December 31, 2017, 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 was paid repaid in full in April 2018.

In March 2018, the Organization entered into a promissory note with a private company for $100,000. The note is unsecured, bears interest at 1% and has a maturity date of June 30, 2019.

Interest expense and imputed interest on the notes were not significant to the Organization at December 31, 2018 and 2017.

7. Contingencies

In November 2017, the Organization was involved in a malpractice claim from a client it had represented. 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 consolidated financial position or results of operations.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or future periods at December 31:

	2018	2017
Restricted to future periods	$ 235,000	$ 57,000
General programs	14,000	27,517
Total net assets with donor restrictions	$ 249,000	$ 84,517

Net assets were released from donor restrictions by the passage of time or incurring expenses satisfying the restricted purposes. In 2018, the Organization released $84,517 of funds relating to program restrictions and the passage of time ($2,483 relating to program restrictions in 2017).

9. Related Party Transactions

In 2018, contributions received from the Board of Directors, or from companies with which members of the Board of Directors are affiliated were $14,000 ($70,000 in 2017). During 2017, the Organization also received services provided by a member of the Board of Directors at below market-rates. The Organization incurred $5,000 in consulting fees from the member and determined the remaining contributed value of these services to be $24,000, which was recorded as in-kind contributions and expenses on the consolidated statement of activities.

10. Lease Commitments

The Organization leases its primary office facility in San Francisco, California, under a non-cancelable operating lease agreement that expires in August 2023. The Organization recognizes rent expense on a straight-line basis over the term of the operating lease. Any difference between cash payments required and rent expense is recorded as deferred rent. Rent expense was $16,300 in 2018 (none in 2017). Deferred rent was not material to the Organization at December 31, 2018. Future minimum lease payments under the non-cancelable operating lease are as follows:

2019	$	24,000
2020		25,000
2021		26,000
2022		26,000
2023		18,000
Total	$	119,000

11. Subsequent Events

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.