

New England Legal Foundation

Financial Statements December 31, 2020

**(With Comparative Totals for the
Year ended December 31, 2019)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New England Legal Foundation:

We have audited the accompanying financial statements of New England Legal Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 New England Legal Foundation as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the New England Legal Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "O'Brien Riley & Ryan, P.C." with a stylized flourish at the end.

Braintree, Massachusetts
September 15, 2021

New England Legal Foundation
Statement of Financial Position
December 31, 2020
(With Comparative Totals as of December 31, 2019)

ASSETS	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 179,379	\$ 213,871
Contributions receivable	20,600	45,217
Interest receivable	1,155	2,998
Investments	559,788	781,010
Prepaid expenses	12,672	13,731
Property and equipment-net	<u>567</u>	<u>1,357</u>
 TOTAL ASSETS	 <u>\$ 774,161</u>	 <u>\$ 1,058,184</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 36,103</u>	<u>\$ 35,850</u>
 NET ASSETS		
Without donor restrictions	<u>738,058</u>	<u>1,022,334</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 774,161</u>	 <u>\$ 1,058,184</u>

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

New England Legal Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)

	<u>2020</u>	<u>2019</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues and other support:		
Contributions	\$ 277,410	\$ 306,553
Gala	-	409,500
Interest and dividend income	15,802	24,727
Net investment gain	9,809	101,739
Other income	94,300	-
	<u>397,321</u>	<u>842,519</u>
Expenses:		
Litigation programs	324,604	332,248
Fundraising	218,643	362,192
Organizational support	138,350	140,529
	<u>681,597</u>	<u>834,969</u>
	<u>(284,276)</u>	<u>7,550</u>
NET ASSETS-Beginning of year	<u>1,022,334</u>	<u>1,014,784</u>
NET ASSETS-End of year	<u>\$ 738,058</u>	<u>\$ 1,022,334</u>

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

New England Legal Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)

	<u>Litigation Programs</u>	<u>Fund Raising</u>	<u>Organizational Support</u>	<u>2020 Total</u>	<u>2019 Total</u>
Expenses					
Salaries and wages	\$ 231,176	\$ 176,019	\$ 99,987	\$ 507,182	\$ 497,505
Employee benefits	16,797	12,789	7,265	36,851	37,357
Payroll taxes	17,602	13,402	7,613	38,617	36,070
Gala expense	-	-	-	-	134,588
Donated services	2,279	1,735	986	5,000	13,194
Professional fees	-	-	13,425	13,425	12,745
Office expenses	20,866	2,602	1,478	24,946	31,115
Contracted personnel	1,780	1,779	1,833	5,392	9,449
Meetings/conferences and travel/entertainment	750	173	-	923	2,699
Condo fees	7,092	5,399	3,067	15,558	13,944
Utilities	4,586	3,492	1,984	10,062	12,291
Insurance	8,296	979	556	9,831	9,765
Dues and subscriptions	8,020	-	-	8,020	7,736
Bad debt	5,000	-	-	5,000	-
Depreciation	360	274	156	790	16,511
Total Expenses	<u>\$ 324,604</u>	<u>\$ 218,643</u>	<u>\$ 138,350</u>	<u>\$ 681,597</u>	<u>\$ 834,969</u>

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

New England Legal Foundation
Statement of Cash Flows
For the Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (284,276)	\$ 7,550
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	790	16,511
Net investment gain	(9,809)	(101,739)
Change in assets and liabilities:		
Contributions receivable	24,617	28,682
Interest receivable	1,843	184
Prepaid expenses	1,059	546
Accounts payable and accrued expenses	<u>253</u>	<u>(8,817)</u>
Net cash used by operating activities	<u>(265,523)</u>	<u>(57,083)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	243,371	62,250
Purchases of investments	<u>(12,340)</u>	<u>(71,949)</u>
Net cash provided (used) by investing activities	<u>231,031</u>	<u>(9,699)</u>
 DECREASE IN CASH AND CASH EQUIVALENTS	 (34,492)	 (66,782)
 CASH AND CASH EQUIVALENTS-Beginning of year	 <u>213,871</u>	 <u>280,653</u>
 CASH AND CASH EQUIVALENTS-End of year	 <u><u>\$ 179,379</u></u>	 <u><u>\$ 213,871</u></u>
 NON-CASH OPERATING AND INVESTING ACTIVITIES		
In-kind contributions and expenses	<u><u>\$ 5,000</u></u>	<u><u>\$ 13,194</u></u>

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

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

1. DESCRIPTION OF THE ORGANIZATION

New England Legal Foundation (the Foundation) was organized on December 3, 1976, and commenced operations on January 27, 1977. The Foundation's mission is to protect the economic rights of persons and to use the legal system to advance free enterprise principles and regional economic development. Management believes that it is the only not-for-profit law firm in New England concentrating primarily on economic and property rights. The Foundation works to help create significant precedents at all levels of state and federal courts and agencies, either on behalf of a party or as a friend of the court. The Foundation also undertakes projects to improve judicial and administrative systems in New England when it can make a positive contribution to the economic well being of the region.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) in accordance with not-for-profit entities. The financial statements include certain prior-year summarized comparative information in total but not by functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2019, from which the summarized information was derived. GAAP requires the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Management considered the impact of the COVID-19 pandemic on the assumptions and estimates used and determined that there were no material adverse impacts on the financial statements for the year ended December 31, 2020

Cash and Cash Equivalents – Cash and cash equivalents include cash and money market accounts in financial institutions. All cash and cash equivalents are recorded at cost, which approximates market value. During the year the Foundation maintains balances in excess of FDIC insured limits at certain financial institutions which management believes are financially sound. The money market accounts at December 31, 2020 and 2019 totaled approximately \$149,000 and \$66,000, respectively.

Investments – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded on the ex-dividend date. Capital gain distributions are included in interest and dividend income. Net investment gain or loss is reported in the statement of activities and consists of realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and Equipment – Property and equipment are recorded at cost or, if received by gift or donation, at fair market value at the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line-method. Significant renewals and betterments are capitalized; the cost of normal repairs and maintenance is expensed as incurred. Depreciation expense was \$790 and \$16,511 for the years ended December 31, 2020 and 2019, respectively.

Impairment of Long-Lived Assets – Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a 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 as net assets released from restrictions.

When individuals or entities acquire tickets (Customers) to the gala or other events, revenue is recognized in the amount that reflects the consideration the Foundation expects to be entitled to in exchange for goods or services.

Sponsored support is considered contribution revenue in accordance with ASU 2018-08, *Contributions Received and Contributions Made*, which is recognized when any donor-imposed conditions (if any) have been met. There were no significant conditional contributions or advance payments from sponsored support at December 31, 2020 and 2019.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

In-kind contributions –Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statements of activities and statements of functional expenses.

Every now and then volunteers may contribute their time in furtherance of the Foundation's mission. These services are not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under GAAP.

Contributions Receivable – Contributions receivable are stated at the amount management expects to collect. Management considers all remaining contributions receivable to be fully collectible; accordingly, there is no allowance for doubtful accounts.

Functional Expenses – The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, employee benefits, payroll taxes, donated services, office expenses, contracted personnel, meetings and conferences, condo fees, utilities, insurance, and depreciation, which are allocated on the basis of estimates of time and effort.

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status – The Foundation is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code (the Code), and is classified by the Internal Revenue Service as other than a private foundation. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that the Foundation is not subject to unrelated business income tax and is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The Foundation has also determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements

Subsequent Events – Management has evaluated subsequent events through September 15, 2021, the date the financial statements were available to be issued.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 179,379	\$ 213,871
Contributions receivable	20,600	45,217
Interest receivable	1,155	2,998
Investments	<u>559,788</u>	<u>781,010</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 760,922</u>	<u>\$ 1,043,096</u>

As part of the organization’s liquidity management plan, it invests cash in excess of daily requirements in short-term investments and money market funds.

4. INVESTMENTS

Investments are stated at fair value and consisted of the following at December 31:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange Traded Funds	\$ 195,855	\$ 438,165	\$ 337,845	\$ 547,053
Corporate Bonds	121,447	121,623	241,408	233,957
Total investments	<u>\$ 317,302</u>	<u>\$ 559,788</u>	<u>\$ 579,253</u>	<u>\$ 781,010</u>

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Foundation groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs either directly or indirectly, including:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in non-active markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

Exchange Traded Fund (ETF): ETF's are investment companies that trade like stocks. Shares of ETF's may trade at prices above or below the value of their underlying portfolios. The price of an ETF is derived from and based upon the securities held by the ETF. The level of risk involved in the purchase or sale of an ETF is similar to the risk involved in the purchase or sale of a traditional common stock, except that the pricing mechanism for an ETF is based on a basket of securities. Thus, the risk of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile than the underlying securities. ETF's are subject to management fees and other fees that may increase their costs versus the costs of owning the underlying securities directly.

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Corporate Bonds: Are valued using proprietary methodology that is designed to reflect current market conditions, receiving quotes from as many sources as possible including trades and listed markets, or are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of December 31, 2020 and 2019:

Investments at Fair Value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Exchange Traded Funds	\$ 438,165	\$ -	\$ 438,165
Corporate Bonds	-	121,623	121,623
Total investments at fair value	\$ 438,165	\$ 121,623	\$ 559,788

Investments at Fair Value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Exchange Traded Funds	\$ 547,053	\$ -	\$ 547,053
Corporate Bonds	-	233,957	233,957
Total investments at fair value	\$ 547,053	\$ 233,957	\$ 781,010

Transfers Between Levels – The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based calculation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the years ended December 31, 2020 and 2019 there are no significant transfers in or out of levels 1, 2, or 3.

The Foundation did not have any investments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the years ended December 31, 2020 and 2019.

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

6. PROPERTY AND EQUIPMENT

Following is a summary of the Foundation's property and equipment at December 31:

	Estimated Life	<u>2020</u>	<u>2019</u>
Condominium	30 years	\$ 691,322	\$ 691,322
Condominium improvements	10 years	9,519	9,519
Equipment	5-10 years	37,963	37,963
		738,804	738,804
Less: Accumulated depreciation		(738,237)	(737,447)
Total		\$ 567	\$ 1,357

7. ALLOCATION OF JOINT COSTS

During 2020 and 2019, the Foundation conducted activities that included requests for contributions, as well as litigation and organizational support. Those activities include direct mail campaigns, special events and direct solicitation. During 2020 and 2019 the costs of conducting those activities include a total of approximately \$631,000 and \$644,000, respectively, of joint costs, which are not specifically attributable to particular components of the activities (joint costs). These joint costs were allocated as follows:

	<u>2020</u>	<u>2019</u>
Fundraising	\$ 219,000	\$ 225,000
Litigation programs	287,000	291,000
Organizational support	125,000	128,000
Total	\$ 631,000	\$ 644,000

8. IN-KIND DONATIONS

During 2020 and 2019, services in the amount of \$5,000 and \$13,194, respectively, were donated to the Foundation. Services were for certain professional skills including financial statement review (\$5,000 for 2020 and 2019), printing (zero and \$2,311 for 2020 and 2019, respectively), and legal internships (zero and \$5,883 for 2020 and 2019, respectively). The estimated fair market value of these services has been recorded in the accompanying financial statements as contribution revenue and corresponding expenses.

New England Legal Foundation
Notes to Financial Statements
December 31, 2020

9. RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities which may be exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of financial position and the statement of activities and changes in net assets.

The Foundation's condominium is part of a condominium association which has established a reserve fund. To the extent such reserve funds are not adequate to fund required improvements the Foundation may be subject to special assessments from the condominium association. The condominium association replaced the building's cooling tower in September 2020 and is planning to replace the building's elevator in 2021. The Foundation was assessed a \$65,880 special assessment and it can be paid in a lump sum or over a 10-year period. The Foundation selected the 10-year period repayment option and began monthly payments May 2021.

The COVID-19 pandemic has impacted and could further impact the Foundation's operations and the operations of the Foundation's donors as a result of quarantines, closures, and travel and logistics restrictions. The extent to which the COVID-19 pandemic impacts the Foundation's operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on the Foundation's donors and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume. Therefore, the Foundation cannot reasonably estimate the future impact of COVID-19 at this time.

10. PAYCHECK PROTECTION PROGRAM

In May 2020, the Foundation qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender, for an aggregate principal amount of \$94,300 (the PPP Loan). This loan was fully forgiven in November 2020 and reported as other income.