

NATIONAL HEALTH LAW PROGRAM, INC.

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

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beach, freeman, lim & cleland, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NATIONAL HEALTH LAW PROGRAM, INC.
Los Angeles, California

Opinion

We have audited the accompanying financial statements of National Health Law Program, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



El Segundo, California
March 23, 2023

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,050,107	\$ 16,465,155
Investments	9,577,387	4,640,535
Current portion of grants receivable	2,298,362	3,108,521
Accounts receivable	192,373	135,655
Prepaid expenses	<u>62,149</u>	<u>88,675</u>
	<u>25,180,378</u>	<u>24,438,541</u>
Property and Equipment, net	4,479	5,177
Right-of-Use Assets, net	<u>528,766</u>	<u>-</u>
	<u>533,245</u>	<u>5,177</u>
Non-current Assets		
Grants receivable, net of current portion	80,000	35,000
Deferred rent asset	10,071	29,228
Deposits	<u>27,835</u>	<u>37,335</u>
	<u>117,906</u>	<u>101,563</u>
	<u>\$ 25,831,529</u>	<u>\$ 24,545,281</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 909,850	\$ 620,108
Accrued expenses	260,607	229,906
Deferred revenue	9,569	9,344
Current portion of lease liabilities	<u>243,251</u>	<u>-</u>
	<u>1,423,277</u>	<u>859,358</u>
Long-term Liabilities		
Deferred rent	-	86,811
Lease liabilities, net of current portion	<u>327,926</u>	<u>-</u>
	<u>327,926</u>	<u>86,811</u>
Total Liabilities	<u>1,751,203</u>	<u>946,169</u>
Net Assets		
Without donor restrictions	15,030,719	16,008,894
With donor restrictions	<u>9,049,607</u>	<u>7,590,218</u>
	<u>24,080,326</u>	<u>23,599,112</u>
	<u>\$ 25,831,529</u>	<u>\$ 24,545,281</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2022

	Without donor restrictions	With donor restrictions	Total
Revenues			
Grants	\$ 688,436	\$ 9,155,300	\$ 9,843,736
Contributions and gifts	415,950	-	415,950
In-kind contributions	489,087	-	489,087
Service income	508,373	-	508,373
Investment income (losses)	(488,414)	-	(488,414)
Other income	102,545	-	102,545
Net assets released from restriction	7,695,911	(7,695,911)	-
	9,411,888	1,459,389	10,871,277
Expenses			
Program services	8,643,593	-	8,643,593
General and administrative	1,219,827	-	1,219,827
Fundraising	526,643	-	526,643
	10,390,063	-	10,390,063
Change in Net Assets	(978,175)	1,459,389	481,214
Net Assets, Beginning of Year	16,008,894	7,590,218	23,599,112
Net Assets, End of Year	\$ 15,030,719	\$ 9,049,607	\$ 24,080,326

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues			
Grants	\$ 1,670,441	\$ 8,798,422	\$ 10,468,863
Contributions and gifts	254,429	-	254,429
In-kind contributions	284,859	-	284,859
Service income	605,620	-	605,620
Investment income (losses)	562,432	-	562,432
Other income	112,042	-	112,042
Net assets released from restriction	<u>7,550,804</u>	<u>(7,550,804)</u>	<u>-</u>
	<u>11,040,627</u>	<u>1,247,618</u>	<u>12,288,245</u>
Expenses			
Program services	7,530,596	-	7,530,596
General and administrative	1,824,783	-	1,824,783
Fundraising	<u>118,256</u>	<u>-</u>	<u>118,256</u>
	<u>9,473,635</u>	<u>-</u>	<u>9,473,635</u>
Change in Net Assets	1,566,992	1,247,618	2,814,610
Net Assets, Beginning of Year	<u>14,441,902</u>	<u>6,342,600</u>	<u>20,784,502</u>
Net Assets, End of Year	<u>\$ 16,008,894</u>	<u>\$ 7,590,218</u>	<u>\$ 23,599,112</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 3,891,197	\$ 466,374	\$ 391,731	\$ 4,749,302
Fringe benefits	1,008,577	120,882	101,535	1,230,994
Sub-contractors	27,613	21,960	-	49,573
Sub-grants	2,429,380	-	-	2,429,380
Consultants	208,253	444,877	6,787	659,917
In-kind contributions	489,087	-	-	489,087
Supplies and materials	77,656	10,392	366	88,414
Mailing and production	5,036	3,649	73	8,758
Facility and equipment	427,531	93,645	636	521,812
Travel	4,603	16,752	607	21,962
Meetings and events	7,551	31,220	417	39,188
Licenses and fees	54,420	6,475	24,491	85,386
Insurance and other expenses	<u>12,689</u>	<u>3,601</u>	<u>-</u>	<u>16,290</u>
	<u>\$ 8,643,593</u>	<u>\$ 1,219,827</u>	<u>\$ 526,643</u>	<u>\$ 10,390,063</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 3,310,392	\$ 900,951	\$ 87,868	\$ 4,299,211
Fringe benefits	842,839	231,368	20,389	1,094,596
Sub-contractors	537,745	15,402	-	553,147
Sub-grants	1,756,607	-	-	1,756,607
Consultants	256,713	508,256	-	764,969
In-kind contributions	284,859	-	-	284,859
Supplies and materials	56,359	4,194	95	60,648
Mailing and production	8,197	3,346	82	11,625
Facility and equipment	428,764	127,763	310	556,837
Travel	73	1,604	-	1,677
Meetings and events	3,933	13,512	173	17,618
Licenses and fees	32,586	10,188	9,336	52,110
Insurance and other expenses	11,529	7,601	3	19,133
Other nonpersonnel expenses	<u>-</u>	<u>598</u>	<u>-</u>	<u>598</u>
	<u>\$ 7,530,596</u>	<u>\$ 1,824,783</u>	<u>\$ 118,256</u>	<u>\$ 9,473,635</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 481,214	\$ 2,814,610
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	698	8,396
Amortization of right-of-use-assets	315,629	-
Non-cash lease expense	16,165	-
Net realized and unrealized (gains) losses on investments	748,577	(500,858)
Contributed stock	(1,531,931)	(1,522,543)
(Increase) decrease in operating assets:		
Proceeds from sales of contributed stock	1,532,863	1,524,394
Grants receivable	765,159	(448,661)
Accounts receivable	(56,718)	(51,032)
Prepaid expenses	26,526	(28,497)
Deferred rent asset	19,157	16,535
Deposits	9,500	2,086
Increase (decrease) in operating liabilities:		
Accounts payable	289,742	(69,768)
Accrued expenses	30,701	(48,412)
Deferred revenue	225	(16,448)
Deferred rent	-	(51,061)
Lease liabilities	(376,194)	-
Net cash provided by operating activities	<u>2,271,313</u>	<u>1,628,741</u>
Cash Flows from Investing Activities		
Purchases of investments	<u>(5,686,361)</u>	<u>(58,917)</u>
Net cash used in investing activities	<u>(5,686,361)</u>	<u>(58,917)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,415,048)	1,569,824
Cash and Cash Equivalents, Beginning of Year	<u>16,465,155</u>	<u>14,895,331</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,050,107</u>	<u>\$ 16,465,155</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

SUPPLEMENTARY DISCLOSURES

	<u>2022</u>	<u>2021</u>
Noncash Investing and Financing Activities:		
Right-of-use assets obtained in exchange of operating lease liabilities	<u>\$ 933,330</u>	<u>\$ -</u>

See accompanying notes to financial statements.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - NATURE OF OPERATIONS

National Health Law Program, Inc. (the "Organization") was organized in March 1976 pursuant to the General Non-Profit Corporation Law of California. The Organization is a national public interest law firm, supported primarily through donor contributions and grants, that seeks to improve healthcare for America's working and unemployed poor, minorities, elderly and people with disabilities through concentrated efforts in key health policies such as Medicaid services, essential health benefits, reproductive and behavioral health, child and adolescent health, immigrant health, and disability rights. The Organization provides legal services to community-based organizations, the private bar, providers, and individuals who work to preserve a healthcare safety net for the millions of uninsured or underinsured low-income people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, ("ASU 2016-02"), effective for fiscal years beginning after December 15, 2021. The FASB also subsequently issued the following applicable additional ASU, which amends and clarifies Topic 842: ASU 2018-10, *Codification Improvements to Topic 842, Leases*. The most significant changes in the new leasing guidance are the requirement to recognize right-of-use ("ROU") assets and lease liabilities for operating leases on the balance sheet, and disclosing key information about leasing arrangements.

The Organization adopted the leasing standards effective January 1, 2022, using the modified retrospective method with the effective date as the date of initial application. This approach provides a method for recording existing leases at the date of adoption and does not require previously reported balances to be adjusted. In addition, the Organization elected the package of practical expedients permitted under the transition guidance, which among other things, allowed the Organization to not reassess whether any existing contracts contain a lease, to not reassess historical lease classification as operating or finance leases, and to not reassess initial direct costs. As a result of the adoption, there was no adjustment to net assets for a cumulative adjustment, and the Organization recorded \$773,240 in ROU assets, \$862,176 of lease liabilities, and reduced \$86,811 of deferred rent as of the adoption date. Lessor accounting was largely unchanged, and there was no material impact upon adoption.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts-in-Kind

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets ("ASU 2020-07")*, effective for fiscal years beginning after June 15, 2021. The Organization adopted ASU 2020-07 beginning January 1, 2022, on a retrospective basis. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. There was no material impact on the Organization's results of operations or financial position upon adoption of the new standard.

Basis of Accounting

The accounts of the Organization are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets limited in use based on donor-imposed stipulations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents.

Investments

Investments are stated at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Realized gains and losses are computed and recognized using the specific identification method.

The Organization's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments may occur in the near term and could materially affect the amounts reported in the financial statements.

Grants Receivable

Grants receivable in the accompanying statements of financial position consist of unconditional promises to give which are recorded at their net realizable value at the time the promises are received. Unconditional promises to give due in more than one year are recognized at fair value, using present value techniques and a discount rate based on Treasury yield curve rates corresponding to the period of the grant. As of December 31, 2022 and 2021, grants that were to be received in one to five years totaled \$80,000 and \$35,000 respectively, of which the discounts to present value were considered by management to be negligible and therefore the balances were not adjusted.

Management has determined that all grants receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at December 31, 2022 and 2021.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable arising from service contracts represent an unconditional right to payment, are unsecured, and the Organization is at risk to the extent such amounts become uncollectible. The allowance for doubtful accounts includes management's estimate of the amounts expected to be lost on specific accounts receivable and for losses on unidentified accounts included in accounts receivable. In estimating potential losses, management relies on payment history, stability of debtors, historical experience and industry trends. Receivables are written off when management determines the receivable is worthless. The amounts the Organization will ultimately realize could differ materially in the near term from the amounts assumed in arriving at the receivables reported in the financial statements.

Management has determined that all accounts receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary as of December 31, 2022 and 2021.

Property and Equipment

Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as assets with restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as assets without restrictions.

The Organization uses the straight-line method of depreciation over the estimated useful lives of the respective assets for financial reporting purposes. Leasehold improvements are amortized over the shorter of the estimated useful life of the improvement or the term of the lease. The estimated useful lives are as follows:

Office furniture and equipment	3-10 years
Leasehold improvements	10 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value.

During the years ended December 31, 2022 and 2021, management noted no indicators requiring review for impairment and no adjustments have been made to the carrying values of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Organization's services will continue which could result in impairment of long-lived assets in the future.

Intangible Asset

The intangible asset consisted of website development costs. This asset was deemed to have a definite life and was amortized on a straight-line basis over its useful life, which was over a three year period. Intangible assets were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount of the asset may not be recoverable. The intangible asset had a cost basis of \$26,000. Accumulated amortization was \$26,000 December 31, 2021, while amortization expense and \$7,222 for the year ended December 31, 2021. The asset was fully amortized as of December 31, 2022.

Deferred Rent

Rent expense is recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated by the lease, is reflected as deferred rent on the balance sheet. Upon the adoption of ASU 2016-02, deferred rent was included in the calculation of ROU assets.

Revenue Recognition

The Organization recognizes contribution revenue in accordance with Topic 958 *Not-for-Profit Entities*. As such, the Organization considers specific criteria when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction, and when determining whether a contribution is conditional or unconditional.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Grants

Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant. Any difference between expenses incurred and the total funds received (not to exceed the grant maximum) is recorded as a receivable or deferred revenue, whichever is applicable.

Contributions and Gifts

All contributions and gifts support are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as net assets with donor restrictions and increase that respective net asset class. 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 statement of activities as net assets released from restriction.

The Organization also recognizes revenue in accordance with Topic 606 *Revenue from Contracts with Customers*. As such, revenue is recognized when, or as, control of a promised product or service transfers to a customer, in an amount that is based on the consideration the Organization expects to receive in exchange for transferring those products or services.

Service Income

Service income consists of Service Contracts, Attorney Fees, and Conference Fees.

Service contracts are primarily comprised of professional services under fixed-price and cost-reimbursable contracts. Service contracts are considered a single performance obligation and revenue is recognized over time using an output method or costs incurred to date, because there is an enforceable right to payment and the goods and services do not create an asset with an alternative use. The output method is based on the right to invoice practical expedient, allowing the Organization to recognize revenue in the amount for which it has the right to invoice, which corresponds directly with the value of the entity's performance completed to date.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Service Income (Continued)

Attorney fees are for services provided on a contingent basis and are recognized as a single performance obligation upon settlement of the related legal case. The Organization is not able to estimate the variable consideration for current ongoing cases, as the future outcome is highly susceptible to factors outside of the Organization's control. When and if the Organization receives a favorable judgment, revenue is recognized to the extent of attorney fees received from the settlement once amounts are determinable. The Organization reviews and updates estimates of variable consideration at each reporting date until the uncertainty is resolved.

Conference fees are derived from an annual conference held by the Organization. Revenue is recognized on the date the event takes place.

Other Income Revenue

Rental income arising from an operating sublease totaled \$92,972 for each of the years ended December 31, 2022 and 2021, and is recognized in Other Income on a straight-line basis over the term of the lease, in accordance with Topic 842 *Leases* and Topic 840 *Leases*, respectively. The difference between rent income recognized and rental payments received, as stipulated in the lease, is reflected as deferred rent asset in the statements of financial position.

Leases

Upon adoption of ASU 2016-02, the determination of whether an arrangement is a lease is made at the lease's inception. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

ROU assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the Organization's obligation to make lease payments. ROU assets are initially measured at the present value of the lease payments, adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. Lease liabilities are recognized upon lease commencement based on the present value of lease payments over the lease term. For operating leases, the Organization elected the practical expedient to account for lease and non-lease components as a single component and account for it as a lease. Variable lease costs are recognized in the period the obligation is incurred based on charges for variable operating costs.

If the rate implicit in the lease cannot be readily determined, the Organization uses the risk-free rate at lease commencement date for operating leases in determining the imputed interest and present value of lease payments. The risk-free rates were determined using a lease-level approach based on the rates investors expect to earn from an investment that carries a zero risk over a similar term. The Organization recognizes the single lease cost on a straight-line basis over the remaining lease term for operating leases.

The Organization has elected not to recognize ROU assets or lease liabilities for leases with an initial term of 12 months or less; expenses for these leases are recognized on a straight-line basis over the lease term.

Contributed Services and Materials

Contributed services are reported at fair value based on current market rates at the date of donation in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would typically be purchased if not provided by donation. The contributed services are reflected as in-kind contributions in revenue and an equivalent amount as an expense in the statement of activities. In-kind contributions are considered without restriction unless specifically restricted by the donor.

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statement of activities totaled \$489,087 and \$284,859, respectively, for legal services. The contributed legal services are used in program services.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sub-grants

The Organization's sub-grant expenditures that are not subject to future donor-imposed conditions are considered unconditional and recognized in the period when the sub-grant is approved and countersigned. Conditional sub-grants are recognized as grant expense in the period in which the grantee meets the terms of the conditions.

Functional Expenses

Operating expenses directly identified with a functional area are charged to that area. Expenses affecting more than one area are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and related costs, and employee benefits, which are allocated on a basis of time and effort. Other expenses allocated include occupancy and other operating expenses, which are allocated based on wages and number of employees, respectively.

Income Taxes

The Organization is a nonprofit corporation that is exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). Accordingly, no provision has been made for income taxes.

The Organization evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if tax positions were more likely than not to be sustained upon examination. Management has evaluated the Organization's tax positions and believes there are no uncertain positions required to be recorded or disclosed for the years ended December 31, 2022 and 2021.

By statute, the Organization's federal and state income tax returns generally remain subject to examination by taxing authorities for three and four years, respectively, from the date the return is filed.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations and Risks

The Organization's cash and cash equivalents and investment balances held at financial institutions generally exceed federally insured limits or exceed amounts insured by Securities Investor Protection Corporation. The Organization has not experienced and does not anticipate any losses relating to these accounts.

As of December 31, 2022, four donors represented approximately 88% of grants receivable. As of December 31, 2021, four donors represented approximately 74% of grants receivable.

The Organization received grants from two donors in 2022 that constituted 59% of total grants and contributions. Both of those donors represented approximately 65% of total grants received in 2021.

Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2022	2021
Cash and cash equivalents	\$ 13,050,107	\$ 16,465,155
Investments	9,577,387	4,640,535
Current portion of grants receivable	2,298,362	3,108,521
Accounts receivable	192,373	135,655
	25,118,229	24,349,866
Less: Assets unavailable for general expenditures within one year due to:		
Grants receivable (with donor restrictions)	(2,298,362)	3,108,521
Total assets available for general expenditures	22,819,867	27,458,387
Add: Assets expected to be released from restriction within one year:		
Grants receivable (with donor restrictions)	2,298,362	(3,108,521)
Financial assets available to meet cash needs for program and general expenditures	\$ 25,118,229	\$ 24,349,866

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity and Availability of Financial Assets (Continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To accomplish this, the Organization invests cash above operating requirements in short-term highly liquid investments.

NOTE 3 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy under Financial Accounting Standards Board Accounting Standards Codification 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive 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 by correlation or other means.

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.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The asset or liability'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 observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at December 31, 2022 and 2021.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value:

**Assets at Fair Value as of
December 31, 2022**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash equivalents	\$ 130	\$ -	\$ -	\$ 130
Exchange traded funds	3,965,512	-	-	3,965,512
Fixed income	<u>-</u>	<u>5,611,745</u>	<u>-</u>	<u>5,611,745</u>
	<u>\$ 3,965,642</u>	<u>\$ 5,611,745</u>	<u>\$ -</u>	<u>\$ 9,577,387</u>

**Assets at Fair Value as of
December 31, 2021**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash equivalents	\$ 128	\$ -	\$ -	\$ 128
Exchange traded funds	<u>4,640,407</u>	<u>-</u>	<u>-</u>	<u>4,640,407</u>
	<u>\$ 4,640,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,640,535</u>

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Investment income (losses) consists of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 260,143	\$ 61,574
Net realized and unrealized gains (losses)	<u>(748,557)</u>	<u>500,858</u>
	<u>\$ (488,414)</u>	<u>\$ 562,432</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2022</u>	<u>2021</u>
Office furniture and equipment	\$ 29,183	\$ 29,183
Leasehold improvements	<u>6,980</u>	<u>12,690</u>
	36,163	41,873
Accumulated depreciation and amortization	<u>(31,684)</u>	<u>(36,696)</u>
	<u>\$ 4,479</u>	<u>\$ 5,177</u>

Depreciation and amortization expense totaled \$698 and \$1,174 for the years ended December 31, 2022 and 2021, respectively.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for program-specific expenditures and future operations. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or the passage of time.

Net assets with donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Program restricted	\$ 7,502,676	\$ 7,590,218
Operations - time restricted	<u>1,546,931</u>	<u>-</u>
	<u>\$ 9,049,607</u>	<u>\$ 7,590,218</u>

NOTE 6 - EMPLOYEE RETIREMENT PLAN

The Organization maintains a defined contribution 403(b) plan, which allows all eligible employees to defer a portion of their eligible pretax earnings up to the annual contribution limit allowed by the Internal Revenue Service. The Organization's matching contributions are discretionary, and totaled \$131,190 and \$101,140 for the years ended December 31, 2022 and 2021, respectively.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Organization has a conflict of interest policy that requires all board members and officers to sign the policy annually and disclose conflicts of interest, if any. During the years ended December 31, 2022 and 2021, the Organization issued grants to other organizations of which a board member of the Organization is a member of management. Grants to related parties totaled \$411,860 and \$252,550 for the years ended December 31, 2022 and 2021, respectively.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 8 - LEASES

The Organization leases its main office spaces under non-cancelable lease agreements that expire between June 2023 and June 2027. Payments are due monthly and the Organization is also obligated to pay their pro rata share of operating expenses, real estate taxes and is subject to periodic rent escalation under the leases.

As discussed in Note 1, the adoption of ASU 2016-02 resulted in recording ROU assets and corresponding lease liabilities in the Statement of Activities. One agreement has a five-year option to renew the lease, which was not considered when assessing the value of the ROU asset because the Organization is not reasonably certain that it will exercise its option to renew the lease.

Operating lease cost was composed of the following as of December 31, 2022:

Operating lease cost	\$ 331,794
Short-term lease cost	63,752
Variable lease cost	<u>17,043</u>
Operating lease expense	412,589
Sublease income, gross	<u>(92,972)</u>
	<u>\$ 319,617</u>

Additional information about the Organization's leases is as follows:

Cash paid for amounts included in measuring operating lease liabilities:

Operating leases	\$ 376,194
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Lease assets obtained in exchange for lease obligations:

Operating leases	\$ 933,330
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Weighted average remaining lease term 3.27 years

Weighted average discount rate 2%

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 8 - LEASES (CONTINUED)

Aggregate future maturities of lease liabilities for each of the remaining years are as follows:

Year Ending December 31,

2023	\$ 251,310
2024	107,817
2025	98,095
2026	88,092
2027	<u>44,697</u>
Total lease payments	590,011
Less: Interest	<u>(18,834)</u>
Present value of lease liabilities	571,177
Current portion	<u>(243,251)</u>
Noncurrent portion	<u>\$ 327,926</u>

Future minimum rental payments, as determined under Topic 840, for all non-cancelable leases are as follows as of December 31, 2021:

Year Ending December 31,

2023	\$ 227,239
2024	83,035
2025	85,526
2026	88,092
2027	<u>44,697</u>
	<u>\$ 528,589</u>

Rent expense totaled \$446,993 for the year ended December 31, 2021.

Sublease

The Organization has a sublease agreement for a portion of a leased office space, which expires in June 2023. Future minimum revenue from sublease to be received totaled \$54,094 for 2023.

NATIONAL HEALTH LAW PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 9 - SUBSEQUENT EVENTS

The Organization evaluated subsequent events through March 23, 2023, the date at which the financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date, but prior to March 23, 2023, that would have a material impact on its financial statements.