



**Judge David L. Bazelon
Center for Mental Health Law**

**Financial Statements
For the Years Ended September 30, 2020 and 2019**

Judge David L. Bazelon Center for Mental Health Law

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For the Years Ended September 30, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors
Judge David L. Bazelon
Center for Mental Health Law
1090 Vermont Avenue, N.W.
Washington, D.C. 20005

We have audited the accompanying financial statement of Judge David L. Bazelon Center for Mental Health Law (a non-profit organization) which comprise the statement of financial position as of September 30, 2020, and the related statement of activities, 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.

Auditor's 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 Judge David L. Bazelon Center for Mental Health Law as of September 30, 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.

Other Matter – Prior Period Financial Statements

The financial statements of Judge David L. Bazelon Center for Mental Health Law as of and for the year ended September 30, 2019 were audited by Hertzbach & Company, P.A. (“Hertzbach”), whose partners and professional staff joined BDO USA, LLP as of November 16, 2020. Hertzbach expressed an unmodified opinion on those statements in its report dated March 2, 2020.

Emphasis of Matter

As discussed in Note 1 of the financial statements, during the year ended September 30, 2020, the Judge David L. Bazelon Center for Mental Health Law adopted Financial Accounting Standards Board Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)* and No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BDO USA, LLP

Owings Mills, Maryland
February 10, 2021

Judge David L. Bazelon Center for Mental Health Law

Statements of Financial Position
As of September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 613,487	\$ 515,561
Accounts receivable	305,199	20,855
Grants and contributions receivable	410,000	100,000
Prepaid expenses	4,671	6,559
Total current assets	<u>1,333,357</u>	<u>642,975</u>
Property and equipment, net	<u>29,064</u>	<u>71,648</u>
Noncurrent assets		
Investments	3,787,593	3,226,678
Security deposit	24,003	24,003
Total noncurrent assets	<u>3,811,596</u>	<u>3,250,681</u>
Total assets	<u>\$ 5,174,017</u>	<u>\$ 3,965,304</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 11,418	\$ 18,097
Accrued expenses	30,652	30,716
Current portion of capital lease obligation	6,430	6,178
Notes payable	204,152	-
Current portion of deferred rent	7,906	35,433
Current portion of deferred renovations allowance	-	50,195
Total current liabilities	<u>260,558</u>	<u>140,619</u>
Noncurrent liabilities		
Capital lease obligation, net of current portion	14,249	20,679
Deferred rent, net of current portion	-	100,455
Deferred renovations allowance, net of current portion	-	100,391
Tenant security deposits	-	7,100
Total noncurrent liabilities	<u>14,249</u>	<u>228,625</u>
Total liabilities	<u>274,807</u>	<u>369,244</u>
Net assets		
Without donor restrictions	2,687,445	2,018,421
With donor restrictions (see Note 5)	2,211,765	1,577,639
Total net assets	<u>4,899,210</u>	<u>3,596,060</u>
Total liabilities and net assets	<u>\$ 5,174,017</u>	<u>\$ 3,965,304</u>

See independent auditor's report and notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Activities

For the Year Ended September 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Contributions	\$ 355,103	\$ -	\$ 355,103
Foundation grants	210,000	685,000	895,000
Contractual income	24,721	-	24,721
Attorney fees	757,058	-	757,058
Net interest, dividends, and realized gains	180,661	88,413	269,074
In-kind donations	10,448	-	10,448
Rental income	20,075	-	20,075
	<u>1,558,066</u>	<u>773,413</u>	<u>2,331,479</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	245,076	(245,076)	-
Total revenue and other support	<u>1,803,142</u>	<u>528,337</u>	<u>2,331,479</u>
Expenses			
Program services			
Ensuring Access to Opportunity	123,305	-	123,305
Promoting Self-Determination	178,107	-	178,107
Holding Public Institutions Accountable	561,723	-	561,723
Lobbying	13,702	-	13,702
Total program services	<u>876,837</u>	<u>-</u>	<u>876,837</u>
Supporting services			
Management and general	287,720	-	287,720
Fundraising	205,505	-	205,505
Total supporting services	<u>493,225</u>	<u>-</u>	<u>493,225</u>
Total expenses	<u>1,370,062</u>	<u>-</u>	<u>1,370,062</u>
Change in net assets from operations	<u>433,080</u>	<u>528,337</u>	<u>961,417</u>
Other income (expenses)			
Loss on disposal of property and equipment	(25,268)	-	(25,268)
Other income	265,067	-	265,067
Unrealized (loss) gain on investments	(3,855)	105,789	101,934
Total other income, net	<u>235,944</u>	<u>105,789</u>	<u>341,733</u>
Change in net assets	669,024	634,126	1,303,150
Net assets, beginning of year	<u>2,018,421</u>	<u>1,577,639</u>	<u>3,596,060</u>
Net assets, end of year	<u>\$ 2,687,445</u>	<u>\$ 2,211,765</u>	<u>\$ 4,899,210</u>

See independent auditor's report and notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Activities

For the Year Ended September 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Contributions	\$ 473,117	\$ 30,000	\$ 503,117
Foundation grants	49,250	-	49,250
Contractual income	28,855	-	28,855
Attorney fees	607,958	-	607,958
Net interest, dividends, and realized gains	284,699	30,479	315,178
In-kind donations	7,523	-	7,523
Rental income	64,333	-	64,333
	<u>1,515,735</u>	<u>60,479</u>	<u>1,576,214</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	367,923	(367,923)	-
Total revenue and other support	<u>1,883,658</u>	<u>(307,444)</u>	<u>1,576,214</u>
Expenses			
Program services			
Ensuring Access to Opportunity	82,411	-	82,411
Promoting Self-Determination	599,750	-	599,750
Holding Public Institutions Accountable	776,685	-	776,685
Lobbying	7,085	-	7,085
Total program services	<u>1,465,931</u>	<u>-</u>	<u>1,465,931</u>
Supporting services			
Management and general	510,653	-	510,653
Fundraising	231,583	-	231,583
Total supporting services	<u>742,236</u>	<u>-</u>	<u>742,236</u>
Total expenses	<u>2,208,167</u>	<u>-</u>	<u>2,208,167</u>
Change in net assets from operations	(324,509)	(307,444)	(631,953)
Unrealized loss on investments	(215,968)	(23,777)	(239,745)
Change in net assets	(540,477)	(331,221)	(871,698)
Net assets, beginning of year	<u>2,558,898</u>	<u>1,908,860</u>	<u>4,467,758</u>
Net assets, end of year	<u>\$ 2,018,421</u>	<u>\$ 1,577,639</u>	<u>\$ 3,596,060</u>

See independent auditor's report and notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Functional Expenses
For the Year Ended September 30, 2020

	Program Services				Supporting Services				Total
	Ensuring Access to Opportunity	Promoting Self-Determination	Holding Public Institutions Accountable	Lobbying	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
Personnel costs									
Salaries	\$ 64,676	\$ 93,421	\$ 294,635	\$ 7,186	\$ 459,918	\$ 150,911	\$ 107,793	\$ 258,704	\$ 718,622
Payroll taxes	4,867	7,030	22,171	541	34,609	11,355	8,111	19,466	54,075
Employee benefits	9,438	13,632	42,994	1,049	67,113	22,020	15,729	37,749	104,862
Total personnel costs	78,981	114,083	359,800	8,776	561,640	184,286	131,633	315,919	877,559
Accounting and audit fees	6,649	9,605	30,292	739	47,285	15,516	11,082	26,598	73,883
Attorney dues and insurance	1,357	1,961	6,183	151	9,652	3,168	2,262	5,430	15,082
Computer and technology	2,841	4,104	12,944	316	20,205	6,630	4,735	11,365	31,570
Depreciation and amortization	2,446	3,533	11,144	272	17,395	5,709	4,077	9,786	27,181
Dues, subscriptions, and fees	2,683	3,875	12,221	298	19,077	6,260	4,471	10,731	29,808
Event planning	2,859	4,129	13,024	318	20,330	6,670	4,765	11,435	31,765
In-kind donations	940	1,358	4,283	104	6,685	2,196	1,567	3,763	10,448
Interest	87	125	394	10	616	202	144	346	962
Meetings and conferences	36	51	162	4	253	84	59	143	396
Miscellaneous	2,416	3,490	11,008	268	17,182	5,640	4,027	9,667	26,849
Occupancy	14,581	21,062	66,426	1,620	103,689	34,024	24,302	58,326	162,015
Office supplies	304	439	1,385	34	2,162	710	507	1,217	3,379
Postage and delivery	122	176	555	14	867	285	203	488	1,355
Printing and production	1,075	1,553	4,898	119	7,645	2,508	1,792	4,300	11,945
Professional consulting fees	3,040	4,391	13,848	338	21,617	7,093	5,066	12,159	33,776
Telephone and communications	1,887	2,726	8,597	210	13,420	4,404	3,145	7,549	20,969
Travel and entertainment	1,001	1,446	4,559	111	7,117	2,335	1,668	4,003	11,120
Total expenses	\$ 123,305	\$ 178,107	\$ 561,723	\$ 13,702	\$ 876,837	\$ 287,720	\$ 205,505	\$ 493,225	\$ 1,370,062

See independent auditor's report and notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Functional Expenses
For the Year Ended September 30, 2019

	Program Services				Supporting Services				Total
	Ensuring Access to Opportunity	Promoting Self-Determination	Holding Public Institutions Accountable	Lobbying	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
Personnel costs									
Salaries	\$ 44,582	\$ 352,086	\$ 427,139	\$ 4,153	\$ 827,960	\$ 279,758	\$ 90,222	\$ 369,980	\$ 1,197,940
Payroll taxes	3,397	25,589	30,755	261	60,002	20,215	6,776	26,991	86,993
Employee benefits	6,128	43,782	52,767	418	103,095	36,117	11,941	48,058	151,153
Total personnel costs	54,107	421,457	510,661	4,832	991,057	336,090	108,939	445,029	1,436,086
Accounting and audit fees	2,301	18,383	22,258	219	43,161	14,413	4,697	19,110	62,271
Attorney dues and insurance	712	5,181	19,253	72	25,218	4,487	1,470	5,957	31,175
Computer and technology	1,012	8,300	26,283	109	35,704	6,695	2,061	8,756	44,460
Depreciation and amortization	2,656	20,637	25,018	244	48,555	16,569	5,356	21,925	70,480
Dues, subscriptions, and fees	775	7,157	8,901	125	16,958	5,763	1,699	7,462	24,420
Event planning	-	-	-	-	-	-	43,223	43,223	43,223
In-kind donations	-	-	-	-	-	7,523	-	7,523	7,523
Interest	44	317	394	-	755	251	88	339	1,094
Meetings and conferences	441	-	4	-	445	920	-	920	1,365
Miscellaneous	322	1,989	1,307	18	3,636	1,844	613	2,457	6,093
Occupancy	11,721	90,575	109,826	1,048	213,170	72,836	23,591	96,427	309,597
Office supplies	258	2,432	2,969	34	5,693	1,779	550	2,329	8,022
Postage and delivery	23	228	284	4	539	180	50	230	769
Printing and production	330	2,658	3,248	34	6,270	2,144	672	2,816	9,086
Professional consulting fees	2,766	15,763	28,223	281	47,033	13,567	37,365	50,932	97,965
Telephone and communications	607	4,673	5,658	51	10,989	3,739	1,209	4,948	15,937
Travel and entertainment	4,336	-	12,398	14	16,748	21,853	-	21,853	38,601
Total expenses	\$ 82,411	\$ 599,750	\$ 776,685	\$ 7,085	\$ 1,465,931	\$ 510,653	\$ 231,583	\$ 742,236	\$ 2,208,167

See independent auditor's report and notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statements of Cash Flows

For the Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,303,150	\$ (871,698)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	27,181	70,480
Net appreciation in fair value of investments	(333,556)	(32,201)
Loss on disposal of property and equipment	25,268	-
Decrease (increase) in operating assets:		
Accounts receivable	(284,344)	(20,855)
Grants and contributions receivable	(310,000)	225,000
Prepaid expenses	1,888	5,402
Increase (decrease) in operating liabilities:		
Accounts payable	(6,679)	(473)
Accrued expenses	(64)	(18,807)
Deferred rent	(127,982)	(24,035)
Deferred renovations allowance	(150,586)	(50,196)
Tenant security deposits	(7,100)	-
Net cash and cash equivalents provided by (used in) operating activities	<u>137,176</u>	<u>(717,383)</u>
Cash flows from investing activities		
Purchases of property and equipment	(9,865)	-
Purchases of investments and reinvested earnings	(855,542)	(206,796)
Sales and/or maturities of investments	628,183	1,019,667
Net cash and cash equivalents (used in) provided by investing activities	<u>(237,224)</u>	<u>812,871</u>
Cash flows from financing activities		
Proceeds from note payable	204,152	-
Principal payments on capital lease obligation	(6,178)	(5,451)
Net cash and cash equivalents provided by (used in) financing activities	<u>197,974</u>	<u>(5,451)</u>
Net increase in cash and cash equivalents	97,926	90,037
Cash and cash equivalents, beginning of year	515,561	425,524
Cash and cash equivalents, end of year	<u>\$ 613,487</u>	<u>\$ 515,561</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 962</u>	<u>\$ 1,094</u>

See independent auditor's report and notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements

For the Years Ended September 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Judge David L. Bazelon Center for Mental Health Law (the Bazelon Center) is a non-profit organization incorporated under the laws of the District of Columbia in 1972. The objectives of the Bazelon Center are to protect the legal rights of adults and children with mental disabilities and to improve their access to appropriate care, treatment, education, housing, employment, and other support.

Program Services

Ensuring Access to Opportunity

People with mental disabilities are entitled to exercise all the rights, benefits, and responsibilities of citizenship. Quality services and support in the community can enable them to participate equally with others and residents of neighborhoods and members of families, to contribute as part of the workforce, and to enjoy the social, recreational, political, educational, and cultural benefits of community life. Services in stable family or family-like settings allow children with mental health needs to realize their potential.

Promoting Self-Determination

People with mental disabilities must be able to exercise their choices in all aspects of daily life. This involves access to voting and other forms of civic participation, and an end to discrimination against them in housing and employment. It also means that individuals should have a voice in their treatment decisions and control over who has access to their treatment records.

Holding Public Institutions Accountable for the Safety and Welfare of the People They Serve

People with mental disabilities should not be separated from families, friends, and communities, nor should they be consigned to correctional facilities or other institutional settings because the mental health system has failed to help them. Children must not be deprived of educational services as punishment for behavior associated with mental or emotional disability, and families should not have to relinquish custody of children with emotional disorders in order to access needed treatment. The Bazelon Center is committed to the idea that people with mental disabilities should not be punished for the mental health system's failures to provide access to the resources they need for stable lives and meaningful participation in the community.

Lobbying

Advocating for the Bazelon Center's program objectives through federal policy and strategic policy development. The Bazelon Center also provides newsletters and email alerts in addition to sections of The Reporter that urge people to contact their congressional delegates.

Basis of Accounting

The Bazelon Center prepares its financial statements on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

See independent auditor's report.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Bazelon Center are classified in the following two classes:

Net assets with donor restrictions consist of contributions that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources maintained in perpetuity, but permit the Bazelon Center to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Net assets without donor restrictions represents funds that are available for support of the operations of the Bazelon Center, and that are not subject to donor stipulation.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Board-designated net assets are net assets without donor restrictions that are used only for the specific purpose by board resolution. There were no board-designated net assets as of September 30, 2020 and 2019.

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Board Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The five step model defined by ASU 2014-09 requires the Bazelon Center to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced disclosure of revenue arrangements. ASU 2014-09 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Bazelon Center's fiscal year beginning October 1, 2019, and the Bazelon Center adopted the new standard under the modified retrospective approach. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets. The Bazelon Center has determined that the adoption of ASU 2014-09 did not result in an adjustment to net assets as of October 1, 2019.

See independent auditor's report.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements Adopted (Continued)

In 2020, the Bazelon Center adopted ASU No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”). ASU 2018-08 provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The Bazelon Center has determined that the adoption of ASU 2018-08 did not result in a change in revenue from contributions received and expenses for contributions made as reported for the year ended September 30, 2019.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Bazelon Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable represents attorney fees from cases that have been settled where the proceeds have been determined. The Bazelon Center uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific accounts. Management has determined an allowance for doubtful accounts is not necessary as of September 30, 2020.

Grants Receivable

The Bazelon Center uses the allowance method to determine uncollectible grants receivable. The allowance is based on prior years' experience and management's analysis of specific grants. Management has determined an allowance for doubtful grants is not necessary as of September 30, 2020 and 2019.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Furniture and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the remaining years of the lease agreement or the useful life of the improvements. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred.

Investments

The Bazelon Center records investments at fair value. Fair value is 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. See Note 4 for discussion of fair value measurement. Donated securities are recorded at fair value on the date an unconditional promise is made.

See independent auditor's report.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Realized and unrealized gains and losses are recorded in the statement of activities as changes in net assets without donor restrictions unless a donor or law restricts their use. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date.

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in investment values in the near term would materially affect the amounts reported in the statements of financial position and the statements of activities.

Income Taxes

The Bazelon Center is a nonprofit organization and is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is required for the years ended September 30, 2020 and 2019, as the Bazelon Center had no significant unrelated business income.

Revenue Recognition

Contributions and Foundation Grants

Contributions and grants are recognized as revenues in the period received or an unconditional promise to give is made. Unconditional promises to give are recognized as revenue in the year made, not in the year in which the cash is received. Promises to give that are scheduled to be received after the statement of financial position date are reported at fair value as increases in net assets with donor restrictions and reclassified to net assets without donor restrictions when the purpose and time restrictions are met, except for promises to give subject to donor-imposed stipulations that the principal be maintained in perpetuity, which are recognized as increases in, and will remain as, net assets with donor restrictions. Conditional promises to give are not recognized until they become unconditional, which is when the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Contractual Income

The Bazelon Center receives funding under contracts from other non-profit organizations for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants and contracts are considered exchange transactions and are recorded as unrestricted income over time as performance obligations of the contract agreement are met.

Attorney Fees

The Bazelon Center participates as co-counsel in several pending cases across the United States and is awarded settlement proceeds when a case has been settled. The Bazelon Center determined that performance obligations of a specific case are not met, and settlement proceeds cannot be reasonably estimated until the case has been settled. Accordingly, attorney fees are reported as revenue when the case has been settled and the amount of proceeds has been determined.

See independent auditor's report.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Disaggregation of Revenue

The Bazelon Center's attorney fees and contractual income are recognized at a point in time based on the performance obligation of each contract. Various economic factors affect revenues and cash flows. Collection of revenue from each source varies depending on the length of a particular case.

In-Kind Contributions

Donated services are recognized as in-kind contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills that would otherwise be purchased by the Bazelon Center. Donated services are recorded at their fair value as of the date of the gift. During the years ended September 30, 2020 and 2019, the Bazelon Center recognized donated legal services of \$10,448 and \$7,523, respectively.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. The Bazelon Center allocates directly identifiable expenses based on which function is being pursued. Any costs relating to staff who serve in multiple functions are split by the average amount of time spent per function. Management and general expenses include those expenses that are not directly identifiable with any specific program function but provide overall support and direction of the Bazelon Center.

Compensated Absences

Employees of the Bazelon Center are entitled to compensated absences depending on job classification, length of service, and other factors. The Bazelon Center has accrued \$12,292 and \$11,573 for compensated absences as of September 30, 2020 and 2019, respectively, which are included in accrued expenses on the statements of financial position.

2) Property and Equipment

Property and equipment consisted of the following at September 30, 2020 and 2019:

	2020	2019
Office furniture and equipment	\$ 118,560	\$ 108,695
Law library	2,017	2,017
Leasehold improvements	-	320,710
	120,577	431,422
Less: accumulated depreciation	(91,513)	(359,774)
Property and equipment, net	\$ 29,064	\$ 71,648

Depreciation expense for the years ended September 30, 2020 and 2019 was \$27,181 and \$70,480, respectively. Property and equipment with a historical cost of \$320,710 and accumulated depreciation of \$295,442 was disposed of during the year ended September 30, 2020.

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Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

3) Investments

Investments consisted of the following at September 30, 2020 and 2019:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Stocks	\$ 2,169,145	\$ 1,016,025	\$ 2,194,453	\$ 1,082,347
Mutual funds	343,181	340,063	352,010	360,053
Exchange traded funds	1,275,267	1,243,971	680,215	673,725
	<u>\$ 3,787,593</u>	<u>\$ 2,600,059</u>	<u>\$ 3,226,678</u>	<u>\$ 2,116,125</u>

4) Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value for assets and liabilities subject to fair value measurement. The framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy 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 Bazelon Center has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

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

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 measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodology used for assets measured at fair value is noted below. There have been no changes in the methodology used at September 30, 2020.

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Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

4) Fair Value Measurements (Continued)

Mutual Funds, Stocks, and Exchange Traded Funds

Valued at the closing price reported in the active market in which the individual securities are traded.

The proceeding 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 Bazelon Center believes its valuation method is 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.

As of September 30, 2020, all investments are measured as Level 1 within the fair value hierarchy. The following tables set forth the Bazelon Center's investments at fair value as of September 30, 2020 and 2019:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 2,169,145	\$ -	\$ -	\$ 2,169,145
Mutual funds	343,181	-	-	343,181
Exchange traded funds	1,275,267	-	-	1,275,267
Total investments at fair value	<u>\$ 3,787,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,787,593</u>

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 2,194,453	\$ -	\$ -	\$ 2,194,453
Mutual funds	352,010	-	-	352,010
Exchange traded funds	680,215	-	-	680,215
Total investments at fair value	<u>\$ 3,226,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,226,678</u>

See independent auditor's report.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

4) Fair Value Measurements (Continued)

Net investment income consisted of the following for the years ended September 30:

	2020	2019
Interest and dividends	\$ 62,844	\$ 71,595
Realized gains	231,622	271,946
Less: investment fees	(25,392)	(28,363)
Investment income from operations, net	269,074	315,178
Unrealized gain (loss)	101,934	(239,745)
Investment income, net	<u>\$ 371,008</u>	<u>\$ 75,433</u>

5) Net Assets with Donor Restrictions

A summary of transactions in net assets with donor restrictions (NAWDR) for the year ended September 30, 2020 is as follows:

	NAWDR as of September 30, 2019	Contributions	Unrealized Gain	Net Assets Released	NAWDR as of September 30, 2020
Purpose restricted:					
Advocacy at reducing incarceration	\$ 100,000	\$ 260,000	\$ -	\$ 160,000	\$ 200,000
David and Mickey Bazelon Fellowship	1,477,639	88,413	105,789	85,076	1,586,765
Advocacy at reducing immigration	-	25,000	-	-	25,000
Total purpose restricted	1,577,639	373,413	105,789	245,076	1,811,765
Time restricted:					
Van Amerigen	-	200,000	-	-	200,000
Purpose and time restricted:					
MacArthur Foundation	-	200,000	-	-	200,000
	<u>\$ 1,577,639</u>	<u>\$ 773,413</u>	<u>\$ 105,789</u>	<u>\$ 245,076</u>	<u>\$ 2,211,765</u>

A summary of transactions in NAWDR for the year ended September 30, 2019 is as follows:

	NAWDR as of September 30, 2018	Contributions	Unrealized Loss	Net Assets Released	NAWDR as of September 30, 2019
Purpose restricted:					
Advocacy for students	\$ 100,000	\$ -	\$ -	\$ 100,000	\$ -
Advocacy at reducing incarceration	200,000	-	-	100,000	100,000
David and Mickey Bazelon Fellowship	1,548,860	30,479	(23,777)	77,923	1,477,639
Bazelon Fellows Fund	60,000	30,000	-	90,000	-
Total purpose restricted	<u>\$ 1,908,860</u>	<u>\$ 60,479</u>	<u>\$ (23,777)</u>	<u>\$ 367,923</u>	<u>\$ 1,577,639</u>

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Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

6) Endowment Fund

The Bazelon Center follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UMIFA.

The endowment fund for the David and Mickey Bazelon Fellowship in Mental Health Law provides an opportunity for a recent graduate of Georgetown University law center to work with the Bazelon Center. This public interest fellowship is a two-year paid position with benefits. The endowment fund was created to generate income in support of the fellowship position at the Bazelon Center.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Bazelon Center's endowment principal is donor-restricted and is to be held in perpetuity to generate returns to fund the fellowship position. The interest and dividends, less management fees, and the net appreciation (depreciation) in fair value of investments of the donor restricted endowment funds are classified as net assets with donor restrictions until disbursed for the stated purpose.

Return Objectives and Risk Parameters

The Bazelon Center has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets consist of donor-restricted funds that the Bazelon Center must hold in perpetuity. The assets are invested with the expectation to provide an average annual rate of return of approximately 5% over time. Actual returns in any given year may vary from this amount.

The Bazelon Center agreed not to use any endowment earnings until 2016 to allow the accumulated earnings to increase the fund. For the fiscal years ending September 30, 2020 and 2019, transfers and releases of endowment earnings totaled \$70,618 and \$77,923, respectively.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Bazelon Center has a policy of maintaining the full \$1,083,038 historical value of the principal of the endowment fund. Income earned on the principal of the endowment fund is to be spent in its entirety for the fellowship position. The objective of the endowment is to provide a Fellowship which offers a \$60,000 stipend plus up to \$18,000 for fringe benefits.

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Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

6) Endowment Fund (Continued)

Endowment assets composition by type of funds as of September 30, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents:		
Money market	\$ 3,502	\$ 131,355
In transit funds	-	7,077
Total cash and cash equivalents	<u>3,502</u>	<u>138,432</u>
Investments:		
Stocks	826,695	745,982
Mutual funds	343,181	352,010
Exchange traded funds	413,387	241,215
Total investments	<u>1,583,263</u>	<u>1,339,207</u>
Total endowment assets	<u>\$ 1,586,765</u>	<u>\$ 1,477,639</u>

Endowment net assets with donor restrictions activities during the years ended September 30, 2020 and 2019 were as follows:

	Purpose restricted	Endowment fund	Total
Endowment net assets, September 30, 2018	\$ 465,822	\$ 1,083,038	\$ 1,548,860
Interest and dividends, net of fees	20,121	-	20,121
Net depreciation in fair value of investments	(13,419)	-	(13,419)
Distributions	<u>(77,923)</u>	<u>-</u>	<u>(77,923)</u>
Endowment net assets, September 30, 2019	394,601	1,083,038	1,477,639
Interest and dividends, net of fees	17,708	-	17,708
Net appreciation in fair value of investments	176,494	-	176,494
Distributions	<u>(85,076)</u>	<u>-</u>	<u>(85,076)</u>
Endowment net assets, September 30, 2020	<u>\$ 503,727</u>	<u>\$ 1,083,038</u>	<u>\$ 1,586,765</u>

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Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

7) Note Payable

The passage of the CARES Act created the Paycheck Protection Program (PPP), a new loan package designed to provide funding to small businesses for use in paying employee wages and other critical expenses during the COVID-19 pandemic. Under the terms of the PPP loans, once a borrower receives the funds, the amount spent over the next 8 to 24 weeks on payroll, mortgage interest, rent, and utilities is eligible to be completely forgiven tax free. While the Bazelon Center intends to use the PPP loan proceeds exclusively for qualifying expenses, it is unclear and uncertain whether the conditions for forgiveness of the PPP loans will be met under the current guidelines of the CARES Act. Accordingly, we cannot make any assurance that the Bazelon Center will be eligible for forgiveness of the PPP loans, in whole or in part. Any portion of a PPP loan that is not forgiven must be repaid over two years after the earlier of the approval of the forgiven amount or ten months after the end of the covered period, at an interest rate of 1%.

During the year ended September 30, 2020, the Bazelon Center applied for and received a PPP loan in the amount of \$204,152. The PPP loan has been presented as a current liability on the statement of financial position as management believes the loan will be forgiven within the next year.

8) Operating Leases

The Bazelon Center leased an office space under a non-cancellable operating lease, which was set to expire on September 30, 2022. The lease required a monthly base rent of \$27,607 for office space and \$1,071 for storage space. The lease terms abated the first six months of the office lease portion. At the beginning of the second lease year and thereafter, the base rent increased by two and one half percent of the previous year's base rent, except for the beginning of the sixth lease year, which would have increased by three percent. The lease also required a security deposit of \$24,003 and the Bazelon Center paid for its pro rata share of operating expenses and real estate taxes. Effective December 12, 2019, the Bazelon Center terminated its existing lease agreement with a surrender date effective December 31, 2019.

The lease also provided for a "Renovation Allowance" totaling \$368,100 to reimburse the Bazelon Center for allowable renovation costs, of which 25% was used to pay for the costs of purchasing furniture, fixtures, equipment, and telephone installation costs incurred October 1, 2014 through September 30, 2015. Such amounts were amortized over the term of the lease agreement and the amortization was presented as an offset to the rent expense. As of September 30, 2019, the lease incentive for the Renovation Allowance of \$150,586, which is net of accumulated amortization of \$217,514, is reported in deferred renovation allowance on the accompanying statements of financial position.

Under accounting principles generally accepted in the United States of America, all lease incentives and fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent or deferred renovation allowance on the accompanying statements of financial position. During the year ended September 30, 2020, the Bazelon Center wrote off the remaining net deferred renovation allowance and deferred rent relating to the terminated lease agreement in the amount of \$138,037 and \$127,030, respectively, which is included in other income on the statement of activities and changes in net assets.

The Bazelon Center had two sublease agreements, which were renewable on a quarter-to-quarter basis. The sublease agreements were terminated on December 12, 2019.

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Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

8) Operating Leases (Continued)

Effective January 1, 2020, the Bazelon Center entered into a new operating lease agreement to occupy office space. The lease is for a period of 10 years, calls for base monthly rent of \$7,304 with a 2.5% annual escalation provision, and expires on December 31, 2029. The lease also requires a security deposit of \$24,003.

The future minimum lease commitments under the lease agreements are as follows:

Years Ending September 30,	Amount
2021	\$ 89,285
2022	91,513
2023	93,801
2024	96,142
2025	98,544
Thereafter	446,816
	<u>\$ 916,101</u>

Rent and storage expense for the years ended September 30, 2020 and 2019 totaled \$162,015 and \$309,597, respectively. Rental income for the years ended September 30, 2020 and 2019 totaled \$20,075 and \$64,333, respectively.

9) Capital Lease

On September 28, 2018, the Bazelon Center signed a lease agreement for a copier, which expires October 2023 and has a capitalized cost of \$32,308. The asset and liability for the capital lease are presented at the lower of the present value of the minimum lease payments or the fair value of the asset in the accompanying statements of financial position. The copier is depreciated over the life of the lease, starting November 1, 2018 when the copier was placed into service. Accumulated depreciation on the leased copier totaled \$11,629 and \$5,451 as of September 30, 2020 and 2019, respectively. As part of the lease agreement, the Bazelon Center pays \$595 per month for the copier and \$372 per month for monthly maintenance, including all supplies, consumables, and toner. Minimum future lease payments for the copier under the capital lease are as follows:

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Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

9) Capital Lease (Continued)

Years Ending September 30,	Amount
2021	\$ 7,140
2022	7,140
2023	7,140
2024	595
Net minimum lease payments	22,015
Less: amount representing interest	(1,336)
Present value of net minimum lease payments	20,679
Less: current portion	6,430
	<u>\$ 14,249</u>

10) Retirement Plan

The Bazelon Center maintains a defined contribution pension plan. The Bazelon Center contributes two percent of all full-time exempt employees' base salaries upon completion of one year of service during the plan year. Upon termination, death, or retirement, employees are entitled to the current value of contributions in their respective accounts. The pension contribution expense for the years ended September 30, 2020 and 2019 totaled \$21,392 and \$23,956, respectively, and is included in employee benefits on the statements of functional expenses.

11) Business Risk

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred domestically in the United States and globally, including mandates from federal, state, and local governments, leading to an overall decline in global economic activity. The Bazelon Center is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business. While it is difficult to estimate the length or severity of this outbreak and the related financial impact to the Bazelon Center, management is continuously developing appropriate strategies to respond to this uncertainty.

12) Concentrations

Concentration of Credit Risk

The Bazelon Center maintains cash balances at one financial institution. These balances may, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation. At September 30, 2020, cash balances exceeded federally insured limits by \$352,123.

Other Concentrations

During the year ended September 30, 2020, the Bazelon Center derived 21% of its revenue from one settlement and 26% of its revenue from two grants. During the year ended September 30, 2019, the Bazelon Center derived 32% of its revenue from one settlement.

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Notes to Financial Statements (Continued)
For the Years Ended September 30, 2020 and 2019

12) Concentrations (Continued)

Other Concentrations (Continued)

During the year ended September 30, 2020, 98% of grants and contributions receivable is derived from two donors. During the year ended September 30, 2019, 100% of grants and contributions receivable is derived from one donor. During the year ended September 30, 2020, 100% of accounts receivable is derived from one settlement.

13) Liquidity Analysis

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

Financial assets at year end:

Cash and cash equivalents	\$ 613,487
Accounts receivable	305,199
Grants and contributions receivable	410,000
Investments	<u>3,787,593</u>
Total financial assets at year end	5,116,279

Less donor-imposed restrictions:

Donor restricted	<u>2,211,765</u>
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Financial assets available to meet general expenditures within one year: \$ 2,904,514

The Bazelon Center has donor restricted assets limited to use, of which \$625,000 are available for expenditure within one year in the normal course of operations; however, \$503,000 must satisfy the purpose restriction.

As part of the Bazelon Center's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. Additionally, it has a goal to secure grants and donations without donor restrictions that can be used for general expenditures.

14) Subsequent Events

Management has evaluated events and transactions subsequent to the statement of financial position date for potential recognition or disclosure through February 10, 2021, the date the financial statements were available to be issued. There were no events that required recognition or disclosure in the financial statements.

See independent auditor's report.