



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

**Financial Statements
Years Ended September 30, 2021 and 2020**

Judge David L. Bazelon Center for Mental Health Law

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For the Years Ended September 30, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Judge David L. Bazelon
Center for Mental Health Law
Washington, D.C.

Opinion

We have audited the accompanying financial statements of Judge David L. Bazelon Center for Mental Health Law (the Bazelon Center) which comprise the statements of financial position as of September 30, 2021 and 2020, 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 accompanying financial statements present fairly, in all material respects, the financial position of Judge David L. Bazelon Center for Mental Health Law as of September 30, 2021 and 2020, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bazelon Center 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 about the Bazelon Center's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



Auditor's Responsibilities 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 auditor's 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 GAAS 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 GAAS, 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 Bazelon Center'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 Bazelon Center'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.

BDO USA, LLP

April 4, 2022

Judge David L. Bazelon Center for Mental Health Law

Statements of Financial Position

<u>September 30,</u>		<u>2021</u>	<u>2020</u>
	Assets		
	Current assets		
	Cash and cash equivalents	\$ 967,268	\$ 613,487
	Accounts receivable	212,391	305,199
	Grants and contributions receivable	-	410,000
	Prepaid expenses	1,639	4,671
	Total current assets	<u>1,181,298</u>	<u>1,333,357</u>
	Property and equipment, net	<u>21,978</u>	<u>29,064</u>
	Noncurrent assets		
	Investments	4,262,431	3,787,593
	Security deposit	24,003	24,003
	Total noncurrent assets	<u>4,286,434</u>	<u>3,811,596</u>
	Total assets	<u>\$ 5,489,710</u>	<u>\$ 5,174,017</u>
	Liabilities and Net Assets		
	Current liabilities		
	Accounts payable	\$ 28,753	\$ 11,418
	Accrued expenses	39,448	30,652
	Current portion of capital lease obligation	6,692	6,430
	Notes payable	140,727	204,152
	Current portion of deferred rent	16,804	7,906
	Total current liabilities	<u>232,424</u>	<u>260,558</u>
	Noncurrent liability		
	Capital lease obligation, net of current portion	<u>7,558</u>	<u>14,249</u>
	Total liabilities	<u>239,982</u>	<u>274,807</u>
	Net assets		
	Without donor restrictions	3,487,206	2,687,445
	With donor restrictions (see Note 5)	<u>1,762,522</u>	<u>2,211,765</u>
	Total net assets	<u>5,249,728</u>	<u>4,899,210</u>
	Total liabilities and net assets	<u>\$ 5,489,710</u>	<u>\$ 5,174,017</u>

See accompanying notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Activities
Year Ended September 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Contributions	\$ 428,698	\$ -	\$ 428,698
Foundation grants	185,000	-	185,000
Contractual income	74,843	-	74,843
Attorney fees	182,335	-	182,335
Investment income	223,676	60,189	283,865
	<u>1,094,552</u>	<u>60,189</u>	<u>1,154,741</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>703,000</u>	<u>(703,000)</u>	<u>-</u>
Total revenue and other support	<u>1,797,552</u>	<u>(642,811)</u>	<u>1,154,741</u>
Expenses			
Program services			
Ensuring Access to Opportunity	66,839	-	66,839
Promoting Self-Determination	160,417	-	160,417
Holding Public Institutions Accountable	521,354	-	521,354
Lobbying	13,368	-	13,368
Total program services	<u>761,978</u>	<u>-</u>	<u>761,978</u>
Supporting services			
Management and general	347,567	-	347,567
Fundraising	227,257	-	227,257
Total supporting services	<u>574,824</u>	<u>-</u>	<u>574,824</u>
Total expenses	<u>1,336,802</u>	<u>-</u>	<u>1,336,802</u>
Change in net assets from operations	<u>460,750</u>	<u>(642,811)</u>	<u>(182,061)</u>
Other income			
Paycheck Protection Program loan forgiveness	198,097	-	198,097
Unrealized gain on investments	140,914	193,568	334,482
Total other income	<u>339,011</u>	<u>193,568</u>	<u>532,579</u>
Change in net assets	<u>799,761</u>	<u>(449,243)</u>	<u>350,518</u>
Net assets, beginning of year	<u>2,687,445</u>	<u>2,211,765</u>	<u>4,899,210</u>
Net assets, end of year	<u>\$ 3,487,206</u>	<u>\$ 1,762,522</u>	<u>\$ 5,249,728</u>

See accompanying notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Activities
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
Investment income	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 accompanying notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Functional Expenses Year Ended September 30, 2021

	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	\$ 39,430	\$ 94,632	\$ 307,554	\$ 7,886	\$ 449,502	\$ 205,036	\$ 134,062	\$ 339,098	\$ 788,600
Payroll taxes	2,856	6,854	22,275	571	32,556	14,850	9,710	24,560	57,116
Employee benefits	6,590	15,819	51,413	1,318	75,140	34,275	22,411	56,686	131,826
Total personnel costs	48,876	117,305	381,242	9,775	557,198	254,161	166,183	420,344	977,542
Accounting and audit fees	3,723	8,936	29,043	745	42,447	19,362	12,660	32,022	74,469
Attorney dues and insurance	221	532	1,727	44	2,524	1,152	753	1,905	4,429
Computer and technology	924	2,216	7,203	185	10,528	4,802	3,140	7,942	18,470
Depreciation and amortization	430	1,033	3,356	86	4,905	2,238	1,463	3,701	8,606
Dues, subscriptions, and fees	1,158	2,778	9,030	231	13,197	6,019	3,936	9,955	23,152
Event planning	3,537	8,490	27,592	708	40,327	18,395	12,027	30,422	70,749
Insurance	382	916	2,976	76	4,350	1,984	1,297	3,281	7,631
Interest	36	85	277	7	405	185	120	305	710
Occupancy	5,427	13,024	42,328	1,085	61,864	28,218	18,451	46,669	108,533
Office supplies	7	18	57	2	84	38	25	63	147
Postage and delivery	48	116	377	10	551	251	164	415	966
Printing and production	358	860	2,796	72	4,086	1,864	1,219	3,083	7,169
Professional consulting fees	1,261	3,027	9,836	252	14,376	6,558	4,288	10,846	25,222
Telephone and communications	257	616	2,003	51	2,927	1,336	873	2,209	5,136
Travel and entertainment	110	264	859	22	1,255	572	374	946	2,201
Miscellaneous	84	201	652	17	954	432	284	716	1,670
Total expenses	\$ 66,839	\$ 160,417	\$ 521,354	\$ 13,368	\$ 761,978	\$ 347,567	\$ 227,257	\$ 574,824	\$ 1,336,802

See accompanying notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statement of Functional Expenses
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
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
Miscellaneous	2,416	3,490	11,008	268	17,182	5,640	4,027	9,667	26,849
Total expenses	\$ 123,305	\$ 178,107	\$ 561,723	\$ 13,702	\$ 876,837	\$ 287,720	\$ 205,505	\$ 493,225	\$ 1,370,062

See accompanying notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Statements of Cash Flows

<u>Years Ended September 30,</u>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 350,518	\$ 1,303,150
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	8,606	27,181
Net appreciation in fair value of investments	(601,579)	(333,556)
Contributions of capital stock	(102,136)	-
Loss on disposal of property and equipment	-	25,268
Paycheck Protection Program loan forgiveness	(198,097)	-
(Increase) decrease in operating assets:		
Accounts receivable	92,808	(284,344)
Grants and contributions receivable	410,000	(310,000)
Prepaid expenses	3,032	1,888
Increase (decrease) in operating liabilities:		
Accounts payable	17,335	(6,679)
Accrued expenses	8,796	(64)
Deferred rent	8,898	(127,982)
Deferred renovations allowance	-	(150,586)
Tenant security deposits	-	(7,100)
Net cash (used in) provided by operating activities	<u>(1,819)</u>	<u>137,176</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,520)	(9,865)
Purchases of investments and reinvested earnings	(1,500,366)	(855,542)
Contributions of capital stock	102,136	-
Sales and/or maturities of investments	<u>1,627,107</u>	<u>628,183</u>
Net cash provided by (used in) investing activities	<u>227,357</u>	<u>(237,224)</u>
Cash flows from financing activities		
Net proceeds from note payable	134,672	204,152
Principal payments on capital lease obligation	<u>(6,429)</u>	<u>(6,178)</u>
Net cash provided by financing activities	<u>128,243</u>	<u>197,974</u>
Increase in cash and cash equivalents	353,781	97,926
Cash and cash equivalents, beginning of year	<u>613,487</u>	<u>515,561</u>
Cash and cash equivalents, end of year	<u>\$ 967,268</u>	<u>\$ 613,487</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 710</u>	<u>\$ 962</u>

See accompanying notes to financial statements.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements

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

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 in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements

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, 2021 and 2020.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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, 2021 and 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, 2021 and 2020.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements

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, typically 3 years for office furniture and equipment and 5 years for the law library. 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.

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, 2021 and 2020, as the Bazelon Center had no significant unrelated business income.

The Bazelon Center recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Management has evaluated the Bazelon Center's tax positions and has concluded that the Bazelon Center has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

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.

Judge David L. Bazelon Center for Mental Health Law

Notes to Financial Statements

There were no conditional promises for the years ended September 30, 2021 and 2020. 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 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.

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, 2021 and 2020, the Bazelon Center recognized donated legal services of \$0 and \$10,448, 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 \$13,438 and \$12,292 for compensated absences as of September 30, 2021 and 2020, respectively, which are included in accrued expenses on the statements of financial position.

Reclassifications

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation. The reclassifications had no effect on the 2020 net assets and changes in net assets.

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Notes to Financial Statements

Recent Accounting Pronouncements to be Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This update, along with related ASU's, establishes a comprehensive leasing standard. These updates require the recognition of lease assets and lease liabilities on the statement of financial position and disclosure of key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The guidance also expands the required quantitative and qualitative lease disclosures as well as provides entities with an additional (and optional) transition method to adopt the new standard. The ASU is effective for the Bazelon Center's fiscal year 2023. Management is currently evaluating the impact of these ASUs on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and requires additional disclosures related to contributed nonfinancial assets. This ASU must be applied on a retrospective basis and is effective for the Bazelon Center's fiscal year 2022. Management does not anticipate a material impact of this ASU on the financial statements.

2) Property and Equipment

Property and equipment consisted of the following at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Office furniture and equipment	\$ 120,080	\$ 118,560
Law library	<u>2,017</u>	<u>2,017</u>
	122,097	120,577
Less: accumulated depreciation	<u>(100,119)</u>	<u>(91,513)</u>
Property and equipment, net	<u><u>\$ 21,978</u></u>	<u><u>\$ 29,064</u></u>

Depreciation expense for the years ended September 30, 2021 and 2020 was \$8,606 and \$27,181, respectively.

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3) Investments

Investments consisted of the following at September 30, 2021 and 2020:

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Stocks	\$ 3,513,486	\$ 1,858,372	\$ 2,169,145	\$ 1,016,025
Mutual funds	265,356	264,707	343,181	340,063
Exchange traded funds	483,589	479,681	1,275,267	1,243,971
	<u>\$ 4,262,431</u>	<u>\$ 2,602,760</u>	<u>\$ 3,787,593</u>	<u>\$ 2,600,059</u>

4) Fair Value Measurements

FASB Accounting Standards Codification (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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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.

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, 2021			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 3,513,486	\$ -	\$ -	\$ 3,513,486
Mutual funds	265,356	-	-	265,356
Exchange traded funds	483,589	-	-	483,589
Total investments at fair value	<u>\$ 4,262,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,262,431</u>

	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>

Net investment income consisted of the following for the years ended September 30, 2021 and 2020:

	2021	2020
Interest and dividends	\$ 48,138	\$ 62,844
Realized gains	267,097	231,622
Less: investment fees	<u>(31,370)</u>	<u>(25,392)</u>
Investment income from operations, net	283,865	269,074
Unrealized gains	<u>334,482</u>	<u>101,934</u>
Investment income, net	<u>\$ 618,347</u>	<u>\$ 371,008</u>

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Notes to Financial Statements

5) Net Assets with Donor Restrictions

A summary of transactions in net assets with donor restrictions (NAWDR) for the year ended September 30, 2021 is as follows:

	NAWDR as of September 30, 2020	Contributions	Investment Income	Unrealized Gain	Net Assets Released	NAWDR as of September 30, 2021
Purpose restricted:						
Advocacy at reducing incarceration	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000	\$ -
David and Mickey Bazelon Fellowship	1,586,765	-	60,189	193,568	78,000	1,762,522
Advocacy at reducing immigration	25,000	-	-	-	25,000	-
Total purpose restricted	1,811,765	-	60,189	193,568	303,000	1,762,522
Time restricted:						
Van Amerigen	200,000	-	-	-	200,000	-
Purpose and time restricted:						
MacArthur Foundation	200,000	-	-	-	200,000	-
	<u>\$ 2,211,765</u>	<u>\$ -</u>	<u>\$ 60,189</u>	<u>\$ 193,568</u>	<u>\$ 703,000</u>	<u>\$ 1,762,522</u>

A summary of transactions in NAWDR for the year ended September 30, 2020 is as follows:

	NAWDR as of September 30, 2019	Contributions	Investment Income	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	285,000	88,413	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>\$ 685,000</u>	<u>\$ 88,413</u>	<u>\$ 105,789</u>	<u>\$ 245,076</u>	<u>\$ 2,211,765</u>

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.

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As required by U.S. GAAP, 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, 2021 and 2020, transfers and releases of endowment earnings totaled \$78,000 and \$85,076, 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.

Endowment net asset composition by type of fund as of September 30, 2021:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,762,522	\$ 1,762,522

Endowment net asset composition by type of fund as of September 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,586,765	\$ 1,586,765

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Endowment assets composition by type of funds as of September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents:		
Money market	\$ 137,489	\$ 3,502
Investments:		
Stocks	1,359,676	826,695
Mutual funds	265,357	343,181
Exchange traded funds	-	413,387
Total investments	<u>1,625,033</u>	<u>1,583,263</u>
Total endowment assets	<u>\$ 1,762,522</u>	<u>\$ 1,586,765</u>

Endowment net assets with donor restrictions activities during the years ended September 30, 2021 and 2020 were as follows:

	<u>Purpose restricted</u>	<u>Endowment fund</u>	<u>Total</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	503,727	1,083,038	1,586,765
Interest and dividends, net of fees	19,278	-	19,278
Net appreciation in fair value of investments	234,479	-	234,479
Distributions	<u>(78,000)</u>	<u>-</u>	<u>(78,000)</u>
Endowment net assets, September 30, 2021	<u>\$ 679,484</u>	<u>\$ 1,083,038</u>	<u>\$ 1,762,522</u>

7) Note Payable

During the year ended September 30, 2020, the Bazelon Center received loan proceeds in the amount of \$204,152 under the Paycheck Protection Program (the “PPP”) of the CARES Act, which was enacted March 27, 2020. The PPP loan was evidenced by a promissory note in favor of the lender, which bore interest at the rate of 1.00% per annum. No payments of principal or interest were due under the note until 10 months after the end of the related note’s covered period (which is defined as up to 24 weeks after the date of the loan) (the “Deferral period”). The note may have been prepaid at any time prior to maturity with no prepayment penalties.

Funds from the PPP loan may be used only for payroll and related costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations that were incurred prior to February 15, 2020 (the “Qualifying expenses”). Under the terms of the PPP loan, certain amounts thereunder may be forgiven if they are used for Qualifying expenses as described in and in compliance with the CARES Act.

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In June 2021, the SBA notified the Bazelon Center that the PPP loan had been partially forgiven. As a result, in accordance with U.S. GAAP, the Bazelon Center wrote off the forgiven portion of the PPP loan and recognized other income in the amount of \$198,097 during the year ended September 30, 2021.

The remaining \$6,055 of the PPP loan is to be repaid in monthly installments of principal and interest through May 2022. The Bazelon Center accounts for the unforgiven portion of the loan as a current liability on the statements of financial position.

The passage of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the Economic Aid Act) created the Second Draw Paycheck Protection Program (PPP2), a new loan package designed to provide funding to small businesses that have suffered from the disruptions and shutdowns related to the COVID-19 pandemic for use in paying employee wages and other critical expenses during the COVID-19 pandemic. Under the terms of the PPP2 loan, once a borrower receives the funds, the amount spent during the Covered period on payroll, mortgage interest, rent, utilities and covered operations, property damage, and supplier and worker protection costs is eligible to be completely forgiven tax free. Any portion of a PPP2 loan that is not forgiven must be repaid over the five-year loan term; however, payments are deferred until the earlier of ten months following the Covered period or the date the amount of forgiveness is determined, at an annual interest rate of 1.00%.

During the year ended September 30, 2021, the Bazelon Center applied for and received a PPP2 loan in the amount of \$134,672. The Bazelon Center has elected to treat the PPP2 loan as a current liability on the statements of financial position as of September 30, 2021. The Bazelon Center applied for PPP2 loan forgiveness and in October 2021, the SBA notified the Bazelon Center that the PPP2 loan had been fully forgiven. The Company will recognize the PPP2 loan as income during the year ended September 30, 2022.

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. Effective December 12, 2019, the Bazelon Center terminated its then existing lease agreement with a surrender date effective December 31, 2019. 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.

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 required a security deposit of \$24,003.

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

<u>Years Ending September 30,</u>	<u>Amount</u>
2022	\$ 91,513
2023	93,801
2024	96,142
2025	98,544
2026	101,012
Thereafter	345,805
	<u>\$ 826,817</u>

Rent and storage expense for the years ended September 30, 2021 and 2020, was \$108,533 and \$162,015, respectively. Rental income for the years ended September 30, 2021 and 2020, totaled \$0 and \$20,075, 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 \$18,059 and \$11,629 as of September 30, 2021 and 2020, 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:

<u>Years Ending September 30,</u>	<u>Amount</u>
2022	\$ 7,140
2023	7,140
2024	595
Net minimum lease payments	14,875
Less: amount representing interest	<u>(625)</u>
Present value of net minimum lease payments	14,250
Less: current portion	<u>(6,692)</u>
	<u>\$ 7,558</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, 2021 and

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2020 totaled \$25,571 and \$21,392, 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. COVID-19 presents a potential material uncertainty with respect to the Bazelon Center, its performance, and its financial results.

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, 2021, cash balances exceeded federally insured limits by \$527,175.

Other Concentration

During the year ended September 30, 2021, 47% of accounts receivable was derived from one grant.

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 September 30,	2021	2020
Cash and cash equivalents	\$ 967,268	\$ 613,487
Accounts receivable	212,391	305,199
Grants and contributions receivable	-	410,000
Investments	4,262,431	3,787,593
Total financial assets at year end	5,442,090	5,116,279
Less donor-imposed restrictions:		
Donor restricted	(1,762,522)	(2,211,765)
Financial assets available to meet general expenditures within one year:	<u>\$ 3,679,568</u>	<u>\$ 2,904,514</u>

The Bazelon Center has donor restricted assets limited to use, of which \$679,000 are available for expenditure within one year in the normal course of operations; however, this entire amount must satisfy the purpose restriction.

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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) Pending Litigation

The Bazelon Center is subject to various legal proceedings and claims, including patent infringement and antitrust violations, in the ordinary course of its business affairs. The Bazelon Center cannot reasonably estimate the outcomes of these proceedings, and the Bazelon Center intends to continue to vigorously defend its position in these matters. In the opinion of management, the potential adverse impact of these legal proceedings and claims is insignificant to the financial statements of the Bazelon Center.

15) Subsequent Events

In October 2021, the SBA forgave the Bazelon Center's PPP2 loan of \$134,672 (see Note 7).

Management has evaluated events and transactions subsequent to the statement of financial position date for potential recognition or disclosure through April 4, 2022, the date the financial statements were available to be issued. Except as noted above, there were no events that required recognition or disclosure in the financial statements.