

PUBLIC LAW CENTER
FINANCIAL STATEMENTS
Year Ended December 31, 2015
(With Independent Auditors' Report Thereon)

PUBLIC LAW CENTER
FINANCIAL STATEMENTS
Year Ended December 31, 2015

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Board of Directors
Public Law Center
Santa Ana, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Law Center (a nonprofit "Organization"), which comprise the statement of financial position as of December 31, 2015, and the related statements 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 controls 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Public Law Center as of December 31, 2015 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.

Emphasis of Matters

As described further in note 11 to the financial statements, the organization's net assets have decreased in each of the last two fiscal years. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The financial statements of Public Law Center for the year ended December 31, 2014 were audited by other auditors whose report dated June 29, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

June 30, 2016
Irvine, California

PUBLIC LAW CENTER
STATEMENT OF FINANCIAL POSITION

December 31, 2015

(with comparative information for the year ended December 31, 2014)

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (note 2)	\$ 98,037	284,483
Contributions receivable	41,392	28,589
Grants receivable (note 5)	70,102	125,381
Prepaid expenses	35,078	28,260
TOTAL CURRENT ASSETS	244,609	466,713
 PROPERTY AND EQUIPMENT:		
Land	263,640	263,640
Buildings	336,360	336,360
Furniture and equipment	141,804	141,804
TOTAL PROPERTY AND EQUIPMENT	741,804	741,804
LESS ACCUMULATED DEPRECIATION	(264,409)	(246,417)
NET PROPERTY AND EQUIPMENT	477,395	495,387
TOTAL ASSETS	\$ 722,004	962,100
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 135,913	121,431
Deferred revenue	340,197	282,417
Deposits payable	2,011	2,011
Current portion of note payable (note 6)	7,552	7,221
TOTAL CURRENT LIABILITIES	485,673	413,080
 NON-CURRENT LIABILITIES:		
Note payable (note 6)	197,148	204,126
TOTAL LIABILITIES	682,821	617,206
 NET ASSETS (note 4):		
Unrestricted	(41,347)	231,841
Temporarily restricted	80,530	113,053
Permanently restricted	-	-
TOTAL NET ASSETS	39,183	344,894
TOTAL LIABILITIES AND NET ASSETS	\$ 722,004	962,100

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

(with comparative information for the year ended December 31, 2014)

		Temporarily	Totals	
SUPPORT AND REVENUES:	Unrestricted	Restricted	2015	2014
Contributions:				
Contributed services (note 2)	\$ 7,500,962	-	7,500,962	9,575,792
Other contributions	<u>144,579</u>	<u>56,050</u>	<u>200,629</u>	<u>296,380</u>
Total contributions	<u>7,645,541</u>	<u>56,050</u>	<u>7,701,591</u>	<u>9,872,172</u>
Grant income (note 3)	1,432,736	-	1,432,736	1,707,811
Special events, net (note 12)	589,698	-	589,698	548,602
Interest	84	-	84	223
Miscellaneous	63,070	-	63,070	53,122
Net assets released from restrictions	<u>88,573</u>	<u>(88,573)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>9,819,702</u>	<u>(32,523)</u>	<u>9,787,179</u>	<u>12,181,930</u>
EXPENSES:				
Program services	<u>9,378,881</u>	<u>-</u>	<u>9,378,881</u>	<u>11,800,371</u>
Supporting services:				
Management and general	471,540	-	471,540	356,143
Fundraising	<u>242,469</u>	<u>-</u>	<u>242,469</u>	<u>183,739</u>
Total supporting services	<u>714,009</u>	<u>-</u>	<u>714,009</u>	<u>539,882</u>
TOTAL EXPENSES	<u>10,092,890</u>	<u>-</u>	<u>10,092,890</u>	<u>12,340,253</u>
INCREASE (DECREASE) IN NET ASSETS	(273,188)	(32,523)	(305,711)	(158,323)
NET ASSETS AT BEGINNING OF YEAR	<u>231,841</u>	<u>113,053</u>	<u>344,894</u>	<u>503,217</u>
NET ASSETS AT END OF YEAR	<u>\$ (41,347)</u>	<u>80,530</u>	<u>39,183</u>	<u>344,894</u>

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015
(with comparative information for the year ended December 31, 2014)

	PROGRAM SERVICES	SUPPORTING SERVICES			Totals	
	<u>Operations</u>	<u>Management and General</u>	<u>Fund - Raising</u>	<u>Supporting Services Total</u>	<u>2015</u>	<u>2014</u>
Salaries and wages:						
Lawyers	934,873	83,747	45,671	129,418	1,064,291	1,167,992
Paralegals	225,754	-	-	-	225,754	262,034
Non-lawyers	73,264	225,788	71,784	297,572	370,836	319,264
Contributed services:						
Lawyers	5,793,302	-	-	-	5,793,302	7,849,967
Paralegals	111,080	-	-	-	111,080	252,064
Non-lawyers	1,585,180	-	11,400	11,400	1,596,580	1,473,761
Payroll taxes	90,311	23,188	8,543	31,731	122,042	127,247
Fringe benefits	179,622	46,119	16,991	63,110	242,732	210,631
Contracted services	112,638	51,968	74,225	126,193	238,831	296,102
Office supplies and maintenance	45,494	11,681	4,303	15,984	61,478	63,308
Dues and subscriptions	16,300	-	-	-	16,300	14,070
Seminars and training	25,689	-	-	-	25,689	47,335
Other	10,663	2,738	1,009	3,747	14,410	33,856
Insurance	22,352	5,430	-	5,430	27,782	21,875
Equipment maintenance	23,844	6,122	2,256	8,378	32,222	36,612
Utilities	17,770	4,563	1,681	6,244	24,014	26,016
Telephone	16,056	4,122	1,519	5,641	21,697	22,649
Fundraising	-	-	1,224	1,224	1,224	2,976
Litigation	824	-	-	-	824	2,965
Interest expense	6,387	1,640	604	2,244	8,631	9,737
Rent	49,773	1,016	-	1,016	50,789	49,284
Library	24,390	-	-	-	24,390	25,684
Total expenses before depreciation	<u>9,365,566</u>	<u>468,122</u>	<u>241,210</u>	<u>709,332</u>	<u>10,074,898</u>	<u>12,315,429</u>
Depreciation	<u>13,315</u>	<u>3,418</u>	<u>1,259</u>	<u>4,677</u>	<u>17,992</u>	<u>24,824</u>
Total expenses	<u>\$ 9,378,881</u>	<u>471,540</u>	<u>242,469</u>	<u>714,009</u>	<u>10,092,890</u>	<u>12,340,253</u>

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

(with comparative information for the year ended December 31, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (305,711)	(158,323)
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used for) operating activities:		
Depreciation expense	17,992	24,824
(Increase) decrease in grants receivable	55,279	(36,448)
(Increase) decrease in other receivables	(12,803)	5,626
(Increase) decrease in prepaid expenses	(6,818)	(9,099)
Increase (decrease) in accounts payable and accrued liabilities	14,482	31,665
Increase (decrease) in deferred revenue	57,780	(83,497)
Total adjustments	125,912	(66,929)
Net cash provided by (used for) operating activities	(179,799)	(225,252)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on note payable	(6,647)	(11,703)
Net cash provided by (used for) capital and related financing activities	(6,647)	(11,703)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	-	(1,134)
Net cash provided by (used for) investing activities	-	(1,134)
Net increase (decrease) in cash and cash equivalents	(186,446)	(238,089)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	284,483	522,572
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 98,037	284,483

There were no significant noncash capital, investing, or financing activities in 2015 and 2014.

See accompanying notes to the financial statements

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2015

(1) Organization

On July 7, 1981, Public Law Center (the Center) began providing free civil legal assistance services to low income individuals who qualify for services. The Center also utilizes significant time donated by private attorneys and staff resources to provide services.

(2) Summary of Significant Accounting Policies

Basis of Accounting – The Center uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation – The Center has implemented the financial statement presentation recommended by the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the Statements of Cash Flows, the Center considers all unrestricted highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. The following items on the Statement of Financial Position were considered cash and cash equivalents for purposes of the Statement of Cash Flows as of December 31, 2015:

Demand Deposits	<u>\$ 98,037</u>
Total	<u>\$ 98,037</u>

These accounts may, at times exceed federally insured limits. The Center has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Property, Plant and Equipment – The Center capitalizes all furniture and equipment expenditures in excess of \$1,000. Fixed assets consist of furniture and equipment and are stated at cost and depreciated using the straight-line method with an estimated useful life of five years. The Center also has one building, with an estimated useful life of 30 years.

Accrued Vacation – Included in accounts payable and accrued liabilities at December 31, 2015 is \$87,599 for accrued vacation.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(2) **Summary of Significant Accounting Policies (continued)**

Restricted and Unrestricted Revenue and Support – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

All support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the “Statement of Activities” as net assets released from restrictions. Grant awards are classified as exchange transactions. Grant awards that are advanced are classified as a liability until expended for the purposes of the grant.

Contributions and Contributed Services – Cash contributions, pledges and interest income are recognized in the period received or earned. Contributed materials and other noncash contributions are reflected in the accompanying statements at their estimated market values at date of receipt. Contributed services are recognized if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by contribution. During the year ended December 31, 2015 the Center had 24,717 volunteer attorney, law clerk and paralegal hours that have been included in the Statements of Activities in an amount aggregating \$7,500,962. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Center’s principal program includes:

Operations: The Center provides free civil legal services to low-income Orange County residents and eligible non-profits, including counseling, individual representation, community education, and strategic litigation and advocacy to challenge societal injustices.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(2) **Summary of Significant Accounting Policies (continued)**

Income Tax Status – The Center qualifies as a tax-exempt organization under Section 501(c)(3) as described in Sections 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code (the “Code”) and, accordingly, there is no provision for income taxes. In addition, the Center qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. The Center evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

The Center’s federal Return of Organization Exempt from Income Tax (Form 990) for the fiscal years ended 2012, 2013 and 2014 are subject to IRS examination, generally for three years after filing. As of the date of this report, the Foundation’s fiscal year 2015 return had not yet been filed.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Data – Selected information regarding the prior year has been included in the accompanying financial statements. Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center’s prior year financial statements, from which this selected financial data was derived.

Subsequent Events – Subsequent events have been evaluated by management through June 30, 2016, which is the date the financial statements were available to be issued.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(3) Grant Income

The Center received grants and contributions from private sources, such as law firms and charitable organizations, and from public sources to provide general legal assistance to indigent clients, including undocumented aliens. Grant income earned during the years ended December 31, 2015 is as follows:

<u>Grantor/Contributor</u>	
State Bar Funding - EAF	\$ 319,818
State Bar Funding - IOLTA	182,054
California Department of Social Services	163,000
Attorney Admissions Fund - US District Court	142,500
The California Endowment	91,926
OC Bar Association	90,000
OC Health Care	73,030
Community Services Programs	58,745
Equal Justice Works	56,493
City of Santa Ana	36,829
Other	<u>218,341</u>
Total Grant Income	<u>\$ 1,432,736</u>

(4) Net Assets

Net assets consisted of the following at December 31, 2015:

Unrestricted net assets:	
Unrestricted, available for programs	(\$328,892)
Unrestricted, invested in property and equipment, net of related debt	272,695
Temporarily restricted net assets	<u>95,380</u>
Total Net Assets	<u>\$ 39,183</u>

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(5) Grants Receivable

Receivables from grant awards consisted of the following at December 31, 2015:

<u>Grantor / Contributor</u>	
City of Santa Ana	\$ 15,913
California Department of Social Services	15,000
Community Services Programs	13,700
Equal Justice Works	8,067
OC Health Care	6,130
Other	<u>11,292</u>
Total Grants Receivable	<u>\$ 70,102</u>

(6) Note Payable

On December 31, 2003, the Center entered into an agreement with the Orange County Bar Association (“OCBA”) to purchase the building and land where the Center is currently located. OCBA loaned the Center a 30-year non-interest bearing principal sum of \$500,000 due December 31, 2033. If the Center fails to pay any portion of the unpaid balance of principal when due, the balance will bear interest at a rate of 5%. Installments of \$1,389 are due on the 1st day of each month. The present value of this loan was calculated to be \$274,111 based on an interest rate of 4.5%. The difference of \$225,889 was accounted for as a contribution to the Center at December 31, 2003. As of December 31, 2015 the outstanding balance was \$204,700.

Pursuant to the terms of the note, all amounts of principal and interest reflected in the table below could be declared due and payable under certain circumstances, which include, without limitation, a default on the note by the Public Law Center or the sale of the building and land that secure the note. The OCBA voted to approve a moratorium on payments of the note in July 2009 which was subsequently lifted in October of 2010 creating a forbearance payable of \$20,835. The forbearance was paid in full as of December 2014.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(6) Note Payable (Continued)

The annual requirements to amortize outstanding liabilities of the Center as of December 31, 2015 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 7,552	9,115	16,667
2017	7,900	8,767	16,667
2018	8,262	8,404	16,666
2019	8,642	8,025	16,667
2020	9,039	7,628	16,667
Thereafter	<u>163,305</u>	<u>53,469</u>	<u>216,774</u>
Note payable	<u>\$ 204,700</u>	<u>95,408</u>	<u>300,108</u>

(7) Commitments and Contingencies

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Center for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

(8) Retirement Plans

In February 2008, the Public Law Center created a 403(b) salary deferral plan whereby employees may contribute up to \$18,000, as allowed under Internal Revenue Service regulations. The plan features an employer match of 3% for employees with six months to three years of tenure and 4% for those who have worked over three years of tenure. During the years ended December 31, 2015, the Public Law Center contributed \$35,909 to various employee retirement accounts.

(9) Supplemental Fringe Benefits

The Center provides a number of supplemental income benefits to their fellows through the Equal Justice Works (AmeriCorps) grant. These benefits are processed through the Center's payroll and are to cover student loans and housing. During 2015 the Center provided \$34,063 to fellows through this grant.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(10) Lease Commitments

In February 2012, the Public Law Center entered into a lease agreement for office space on a month-to-month basis. During 2015 the Center recorded \$50,789 in rental expenditures related to this lease.

(11) Decrease in Net Assets

For the years ended December 31, 2015 and 2014, the Organization reported decreases in net assets of \$305,711 and \$158,323 respectively. Additionally, for the year ended December 31, 2015 the Organization reported an unrestricted Net Asset deficit of \$41,347. The Board of Directors continues to be focused on the organization's fundraising efforts which resulted in an increase in Special Events revenue. The Board's Finance Committee meets quarterly reviewing monthly financial statements and projected cash needs. In addition to funding and philanthropy improvement, cost reductions were realized through staffing changes and operational efficiencies. These internal changes offered savings through 2015 and are expected by management to yield additional cost savings in 2016. The Organization believes that the contribution increases combined with the cost savings will allow the Organization meet its obligations for the upcoming fiscal year.

(12) Special Events

	Volunteers for Justice Dinner	Halloween Bash	Total
Special event revenue	\$ 726,401	37,000	763,401
Less direct expenses	<u>(156,404)</u>	<u>(17,299)</u>	<u>(173,703)</u>
Net support from special events	<u>\$ 569,997</u>	<u>19,701</u>	<u>589,698</u>