

PUBLIC LAW CENTER
FINANCIAL STATEMENTS
Year Ended December 31, 2016
(With Independent Auditors' Report Thereon)

PUBLIC LAW CENTER
FINANCIAL STATEMENTS
Year Ended December 31, 2016

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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, 2016, 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, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Public Law Center's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 30, 2016. 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 28, 2017 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 "David Fan LLP". The signature is written in a cursive, flowing style.

June 30, 2017
Irvine, California

PUBLIC LAW CENTER
STATEMENT OF FINANCIAL POSITION

December 31, 2016

(with comparative information for the year ended December 31, 2015)

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (note 2)	\$ 339,634	98,037
Contributions receivable	47,760	41,392
Grants receivable (note 5)	62,137	70,102
Prepaid expenses	44,303	35,078
Other assets	25,000	-
TOTAL CURRENT ASSETS	518,834	244,609
PROPERTY AND EQUIPMENT:		
Land	263,640	263,640
Buildings	336,360	336,360
Furniture and equipment	172,015	141,804
TOTAL PROPERTY AND EQUIPMENT	772,015	741,804
LESS ACCUMULATED DEPRECIATION	(281,333)	(264,409)
NET PROPERTY AND EQUIPMENT	490,682	477,395
TOTAL ASSETS	\$ 1,009,516	722,004
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 76,216	135,913
Deferred revenue	346,000	340,197
Deposits payable	2,011	2,011
Current portion of note payable (note 6)	7,900	7,221
TOTAL CURRENT LIABILITIES	432,127	485,342
NON-CURRENT LIABILITIES:		
Note payable (note 6)	189,276	197,479
TOTAL LIABILITIES	621,403	682,821
NET ASSETS (note 4):		
Unrestricted	309,373	(41,347)
Temporarily restricted	78,740	80,530
Permanently restricted	-	-
TOTAL NET ASSETS	388,113	39,183
TOTAL LIABILITIES AND NET ASSETS	\$ 1,009,516	722,004

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016
(with comparative information for the year ended December 31, 2015)

SUPPORT AND REVENUES:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
Contributions:				
Contributed services (note 2)	\$ 13,502,931	-	13,502,931	7,500,962
Other contributions	<u>215,482</u>	<u>25,375</u>	<u>240,857</u>	<u>200,628</u>
Total contributions	<u>13,718,413</u>	<u>25,375</u>	<u>13,743,788</u>	<u>7,701,590</u>
Grant income (note 3)	2,160,828	-	2,160,828	1,432,737
Special events, net (note 11)	583,500	-	583,500	589,698
Interest	129	-	129	84
Miscellaneous	140,161	-	140,161	63,070
Net assets released from restrictions	<u>27,165</u>	<u>(27,165)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>16,630,196</u>	<u>(1,790)</u>	<u>16,628,406</u>	<u>9,787,179</u>
EXPENSES:				
Program services	<u>15,502,012</u>	<u>-</u>	<u>15,502,012</u>	<u>9,378,881</u>
Supporting services:				
Management and general	566,476	-	566,476	471,540
Fundraising	<u>210,988</u>	<u>-</u>	<u>210,988</u>	<u>242,469</u>
Total supporting services	<u>777,464</u>	<u>-</u>	<u>777,464</u>	<u>714,009</u>
TOTAL EXPENSES	<u>16,279,476</u>	<u>-</u>	<u>16,279,476</u>	<u>10,092,890</u>
INCREASE (DECREASE) IN NET ASSETS	350,720	(1,790)	348,930	(305,711)
NET ASSETS AT BEGINNING OF YEAR	<u>(41,347)</u>	<u>80,530</u>	<u>39,183</u>	<u>344,894</u>
NET ASSETS AT END OF YEAR	<u>\$ 309,373</u>	<u>78,740</u>	<u>388,113</u>	<u>39,183</u>

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016
(with comparative information for the year ended December 31, 2015)

	PROGRAM SERVICES	SUPPORTING SERVICES			Totals	
	<u>Operations</u>	<u>Management and General</u>	<u>Fund - Raising</u>	<u>Supporting Services Total</u>	<u>2016</u>	<u>2015</u>
Salaries and wages:						
Lawyers	\$ 869,200	150,608	40,063	190,671	1,059,871	1,064,291
Paralegals	199,054	27,144	-	27,144	226,198	225,754
Non-lawyers	84,740	225,973	56,127	282,100	366,840	370,836
Contributed services:						
Lawyers	10,381,388	-	-	-	10,381,388	5,793,302
Paralegals	64,520	-	-	-	64,520	111,080
Non-lawyers	3,029,423	-	27,600	27,600	3,057,023	1,596,580
Payroll taxes	87,077	29,855	7,463	37,318	124,395	122,042
Fringe benefits	131,170	44,972	11,243	56,215	187,385	242,732
Contracted services	322,818	23,966	52,000	75,966	398,784	238,831
Office supplies and maintenance	42,535	14,584	3,645	18,229	60,764	61,478
Dues and subscriptions	16,027	-	-	-	16,027	16,300
Seminars and training	33,108	-	-	-	33,108	25,689
Other	16,160	5,541	1,385	6,926	23,086	14,410
Insurance	34,112	1,992	498	2,490	36,602	27,782
Equipment maintenance	45,301	15,532	3,883	19,415	64,716	32,222
Utilities	16,754	5,744	1,436	7,180	23,934	24,014
Telephone	20,093	6,889	1,722	8,611	28,704	21,697
Fundraising	-	-	1,427	1,427	1,427	1,224
Litigation	3,101	-	-	-	3,101	824
Interest expense	6,400	2,194	549	2,743	9,143	8,631
Rent	46,415	5,802	527	6,329	52,744	50,789
Library	36,049	-	-	-	36,049	24,390
Total expenses before depreciation	<u>15,485,445</u>	<u>560,796</u>	<u>209,568</u>	<u>770,364</u>	<u>16,255,809</u>	<u>10,074,898</u>
Depreciation	<u>16,567</u>	<u>5,680</u>	<u>1,420</u>	<u>7,100</u>	<u>23,667</u>	<u>17,992</u>
Total expenses	<u>\$15,502,012</u>	<u>566,476</u>	<u>210,988</u>	<u>777,464</u>	<u>16,279,476</u>	<u>10,092,890</u>

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(with comparative information for the year ended December 31, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 348,930	(305,711)
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used for) operating activities:		
Depreciation expense	23,667	17,992
(Increase) decrease in grants receivable	7,965	55,279
(Increase) decrease in other receivables	(6,368)	(12,803)
(Increase) decrease in prepaid expenses	(9,225)	(6,818)
Increase (decrease) in accounts payable and accrued liabilities	(59,697)	14,482
Increase (decrease) in deferred revenue	5,803	57,780
Total adjustments	(37,855)	125,912
Net cash provided by (used for) operating activities	311,075	(179,799)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on note payable	(7,524)	(6,647)
Net cash provided by (used for) capital and related financing activities	(7,524)	(6,647)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(36,954)	-
Net cash provided by (used for) investing activities	(36,954)	-
Net increase (decrease) in cash and cash equivalents	266,597	(186,446)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	98,037	284,483
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 364,634	98,037

There were no significant noncash capital, investing, or financing activities in 2016 and 2015.

See accompanying notes to the financial statements

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

(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, 2016:

Demand Deposits	<u>\$ 339,634</u>
Total	<u>\$ 339,634</u>

These accounts may, at times exceed federally insured limits. As of December 31, 2016, the Center had \$106,562 in excess of Federal Deposit Insurance Corporation (FDIC) 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, 2016 is \$62,773 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, 2016 the Center had 37,708 volunteer attorneys, law clerk and paralegal hours that have been included in the Statements of Activities in an amount aggregating \$13,502,931. 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)(vi) 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 2013, 2014 and 2015 are subject to IRS examination, generally for four years after filing. As of the date of this report, the Foundation’s fiscal year 2016 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, 2017, 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, 2016 is as follows:

<u>Grantor/Contributor</u>	
The California Endowment	\$ 350,000
California Department of Social Services	314,092
State Bar Funding - IOLTA	230,100
State Bar Funding - EAF	228,443
Weingart Foundation	175,000
Attorney Admissions Fund - US District Court	142,500
State Bar Funding – Community Redevelopment	129,500
County of Orange HCA	98,373
Immigrant Legal Resource Center	65,910
City of Santa Ana	65,130
Orange County Commission	50,000
Equal Justice Works	40,260
Hoag Memorial Hospital	25,000
CHOC Children’s Hospital	25,000
US Veterans	15,000
Other	<u>206,520</u>
Total Grant Income	<u>\$ 2,160,828</u>

(4) Net Assets

Net assets consisted of the following at December 31, 2016:

Unrestricted net assets:	
Unrestricted, available for programs	\$ (21,532)
Unrestricted, invested in property and equipment, net of related debt	293,506
Temporarily restricted net assets	<u>78,740</u>
Total Net Assets	<u>\$ 350,714</u>

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(5) Grants Receivable

Receivables from grant awards consisted of the following at December 31, 2016:

<u>Grantor / Contributor</u>	
City of Santa Ana	\$ 16,043
California Department of Social Services	14,000
California Office of Emergency Services	12,310
Equal Justice Works	8,354
Community Services Programs	4,520
US Vets – Los Angeles	3,750
Other	<u>3,160</u>
Total Grants Receivable	<u>\$ 62,137</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, 2016 the outstanding balance was \$197,176.

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 annual requirements to amortize outstanding liabilities of the Center as of December 31, 2016 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2021	9,454	7,213	16,667
Thereafter	<u>153,879</u>	<u>46,257</u>	<u>200,136</u>
Note payable	<u>\$ 197,176</u>	<u>86,294</u>	<u>283,470</u>

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(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 year ended December 31, 2016, the Public Law Center contributed \$30,802 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 2016 the Center provided \$34,021 to fellows through this grant.

(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 2016 the Center recorded \$52,744 in rental expenditures related to this lease.

(11) Special Events

	<u>Volunteers for Justice Dinner</u>	<u>Halloween Bash</u>	<u>Total</u>
Special event revenue	\$ 738,053	43,425	781,478
Less direct expenses	<u>(178,776)</u>	<u>(19,202)</u>	<u>(197,978)</u>
Net support from special events	<u>\$ 559,277</u>	<u>24,223</u>	<u>583,500</u>