

PUBLIC LAW CENTER
FINANCIAL STATEMENTS
Year Ended December 31, 2017
(With Independent Auditors' Report Thereon)

PUBLIC LAW CENTER
FINANCIAL STATEMENTS

Year Ended December 31, 2017

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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, 2017, 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, 2017 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 the financial statements of Public Law Center for the year ended December 31, 2016, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 May 18, 2018 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 CP".

May 18, 2018
Irvine, California

PUBLIC LAW CENTER
STATEMENT OF FINANCIAL POSITION

December 31, 2017

(with comparative information as of December 31, 2016)

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (note 2)	\$ 592,605	339,634
Contributions receivable	40,965	47,760
Grants receivable (note 5)	175,323	62,137
Prepaid expenses	54,186	44,303
Other assets	25,000	25,000
TOTAL CURRENT ASSETS	888,079	518,834
 PROPERTY AND EQUIPMENT:		
Land	263,640	263,640
Buildings	336,360	336,360
Furniture and equipment	181,040	172,015
TOTAL PROPERTY AND EQUIPMENT	781,040	772,015
LESS ACCUMULATED DEPRECIATION	(287,538)	(281,333)
NET PROPERTY AND EQUIPMENT	493,502	490,682
TOTAL ASSETS	\$ 1,381,581	1,009,516
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities (note 2)	\$ 112,210	76,216
Deferred revenue	310,723	346,000
Deposits payable	11,161	2,011
Current portion of note payable (note 6)	8,262	7,900
TOTAL CURRENT LIABILITIES	442,356	432,127
 NON-CURRENT LIABILITIES:		
Note payable (note 6)	181,015	189,276
TOTAL LIABILITIES	623,371	621,403
 NET ASSETS (note 4):		
Unrestricted	716,495	309,373
Temporarily restricted	41,715	78,740
Permanently restricted	-	-
TOTAL NET ASSETS	758,210	388,113
TOTAL LIABILITIES AND NET ASSETS	\$ 1,381,581	1,009,516

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017
(with comparative information as of December 31, 2016)

SUPPORT AND REVENUES:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
Contributions:				
Contributed services (note 2)	\$ 11,202,323	-	11,202,323	13,502,931
Other contributions	<u>156,939</u>	<u>41,715</u>	<u>198,654</u>	<u>240,856</u>
Total contributions	<u>11,359,262</u>	<u>41,715</u>	<u>11,400,977</u>	<u>13,743,787</u>
Grant income (note 3)	2,571,152	-	2,571,152	2,160,829
Special events, net (note 11)	596,433	-	596,433	583,500
Interest	204	-	204	129
Miscellaneous	306,116	-	306,116	140,161
Net assets released from restrictions	<u>78,740</u>	<u>(78,740)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>14,911,907</u>	<u>(37,025)</u>	<u>14,874,882</u>	<u>16,628,406</u>
EXPENSES:				
Program services	<u>13,628,966</u>	<u>-</u>	<u>13,628,966</u>	<u>15,502,012</u>
Supporting services:				
Management and general	685,712	-	685,712	566,476
Fundraising	<u>190,107</u>	<u>-</u>	<u>190,107</u>	<u>210,988</u>
Total supporting services	<u>875,819</u>	<u>-</u>	<u>875,819</u>	<u>777,464</u>
TOTAL EXPENSES	<u>14,504,785</u>	<u>-</u>	<u>14,504,785</u>	<u>16,279,476</u>
INCREASE (DECREASE) IN NET ASSETS	407,122	(37,025)	370,097	348,930
NET ASSETS AT BEGINNING OF YEAR	<u>309,373</u>	<u>78,740</u>	<u>388,113</u>	<u>39,183</u>
NET ASSETS AT END OF YEAR	<u>\$ 716,495</u>	<u>41,715</u>	<u>758,210</u>	<u>388,113</u>

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017
(with comparative information as of December 31, 2016)

	PROGRAM SERVICES		SUPPORTING SERVICES			Totals	
	<u>Operations</u>	<u>Management and General</u>	<u>Fund - Raising</u>	<u>Supporting Services Total</u>	<u>2017</u>	<u>2016</u>	
Salaries and wages:							
Lawyers	\$ 1,084,808	182,980	39,209	222,189	1,306,997	1,059,871	
Paralegals	256,131	48,787	-	48,787	304,918	226,198	
Non-lawyers	92,663	226,097	51,891	277,988	370,651	366,840	
Contributed services:							
Lawyers	9,853,382	-	-	-	9,853,382	10,381,388	
Paralegals	193,860	-	-	-	193,860	64,520	
Non-lawyers	1,155,081	-	-	-	1,155,081	3,057,023	
Payroll taxes	105,400	33,675	6,706	40,381	145,781	124,395	
Fringe benefits	200,103	77,338	15,401	92,739	292,842	187,385	
Contracted services	336,252	39,687	58,750	98,437	434,689	398,784	
Office supplies and maintenance	46,478	14,850	2,957	17,807	64,285	60,764	
Dues and subscriptions	16,936	1,571	-	1,571	18,507	16,027	
Seminars and training	30,040	-	-	-	30,040	33,108	
Other	18,317	5,852	1,165	7,017	25,334	23,086	
Insurance	20,722	6,621	1,318	7,939	28,661	36,602	
Equipment maintenance	46,245	14,775	2,943	17,718	63,963	64,716	
Utilities	16,518	5,278	1,051	6,329	22,847	23,934	
Telephone	21,975	7,021	1,398	8,419	30,394	28,704	
Fundraising	-	-	5,159	5,159	5,159	1,427	
Litigation	12,914	-	-	-	12,914	3,101	
Interest expense	6,339	2,025	403	2,428	8,767	9,143	
Rent	51,640	3,926	516	4,442	56,082	52,744	
Bad debt	-	9,000	-	9,000	9,000	-	
Library	43,667	-	-	-	43,667	36,049	
Total expenses before depreciation	<u>13,609,471</u>	<u>679,483</u>	<u>188,867</u>	<u>868,350</u>	<u>14,477,821</u>	<u>16,255,809</u>	
Depreciation	<u>19,495</u>	<u>6,229</u>	<u>1,240</u>	<u>7,469</u>	<u>26,964</u>	<u>23,667</u>	
Total expenses	<u>\$13,628,966</u>	<u>685,712</u>	<u>190,107</u>	<u>875,819</u>	<u>14,504,785</u>	<u>16,279,476</u>	

See accompanying notes to the financial statements

PUBLIC LAW CENTER
STATEMENT OF CASH FLOWS
Year Ended December 31, 2017
(with comparative information as of December 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 370,097	348,930
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used for) operating activities:		
Depreciation expense	26,964	23,667
(Increase) decrease in contributions receivables	6,795	(6,368)
(Increase) decrease in grants receivable	(113,186)	7,965
(Increase) decrease in prepaid expenses	(9,883)	(9,225)
(Increase) decrease in other assets	-	(25,000)
Increase (decrease) in accounts payable and accrued liabilities	35,994	(59,697)
Increase (decrease) in deferred revenue	(35,277)	5,803
Increase (decrease) in deposits payable	9,150	-
Total adjustments	(79,443)	(62,855)
Net cash provided by (used for) operating activities	290,654	286,075
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(29,784)	(36,954)
Net cash provided by (used for) investing activities	(29,784)	(36,954)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on note payable	(7,899)	(7,524)
Net cash provided by (used for) financing activities	(7,899)	(7,524)
Net increase (decrease) in cash and cash equivalents	252,971	241,597
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	339,634	98,037
CASH AND CASH EQUIVALENTS AT END OF YEAR	592,605	339,634
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for:		
Interest	\$ 8,767	9,143

There were no significant noncash capital, investing, or financing activities in 2017 and 2016.

See accompanying notes to the financial statements

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2017

(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 Statement 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, 2017:

Demand Deposits	<u>\$ 592,605</u>
Total	<u>\$ 592,605</u>

These accounts may, at times, exceed federally insured limits. As of December 31, 2017, the Center had \$300,342 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 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, 2017 is \$94,049 for accrued vacation.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Restricted and Unrestricted Revenue and Support – The Center follows ASC 958-205, 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. Restricted contributions whose restrictions are met in the same year as the contribution was received are reported as unrestricted contributions. 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, 2017 the Center had 26,360 volunteer attorneys, law clerk and paralegal hours that have been included in the Statement of Activities in an amount aggregating \$11,202,323. 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 Statement 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), 170(b)(1)(A)(vi) of the Internal Revenue Code (the “Code”) and 23701(d) of the California Revenue and Taxation Code, accordingly, there is no provision for federal income taxes or California franchise tax. 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 2014, 2015 and 2016 are subject to IRS examination, generally for four years after filing. As of the date of this report, the Center’s fiscal year 2017 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 May 18, 2018, 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 immigrants. Grant income earned during the years ended December 31, 2017 is as follows:

<u>Grantor/Contributor</u>	
State Bar of California	\$ 782,067
California Department of Social Services	731,688
California Office of Emergency Services	247,281
U.S. District Court	142,500
County of Orange	92,776
Immigrant Legal Resource Center	82,684
Equal Justice Works	55,303
CHOC Children's	50,000
Hoag Memorial Hospital	50,000
Orange County Community Foundation	45,266
City of Santa Ana (Housing)	35,357
Community Service Programs	33,075
OCBA Charitable Fund	30,000
Mission Hospital	27,500
Institute for Healthcare Advancement	17,916
U.S. VETS - Los Angeles	16,250
Legal Aid Society of Orange County	14,496
Other	<u>116,993</u>
Total Grant Income	<u>\$ 2,571,152</u>

(4) Net Assets

Net assets consisted of the following at December 31, 2017:

Unrestricted net assets:	
Unrestricted, available for programs	\$ 412,270
Unrestricted, invested in property and equipment, net of related debt	304,225
Temporarily restricted net assets	<u>41,715</u>
Total Net Assets	<u>\$ 758,210</u>

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(5) Grants Receivable

Receivables from grant awards consisted of the following at December 31, 2017:

<u>Grantor / Contributor</u>	
California Office of Emergency Services	\$ 57,569
California Department of Social Services	50,605
CHOC Children's	25,000
Equal Justice Works	13,542
Legal Aid Society of Orange County	9,486
County of Orange	7,148
U.S. VETS - Los Angeles	5,000
Other	<u>6,973</u>
Total Grants Receivable	<u>\$ 175,323</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, 2017 the outstanding balance was \$189,277.

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, 2017 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2022	9,888	6,778	16,666
Thereafter	<u>143,992</u>	<u>39,478</u>	<u>183,470</u>
Note payable	<u>\$ 189,277</u>	<u>77,526</u>	<u>266,803</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, 2017, the Public Law Center contributed \$33,003 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 2017, the Center provided \$35,045 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 2017, the Center recorded \$56,082 in rental expenditures related to this lease.

(11) Commitments and Contingencies

Wells Fargo Bank extended a business line of credit to Public Law Center which may be drawn on at the discretion of the Center. As of December 31, 2017, the Center had not utilized this financial instrument and there was no amount outstanding.

PUBLIC LAW CENTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(12) Special Events

	<u>Volunteers for Justice Dinner</u>	<u>Halloween Bash</u>	<u>Other</u>	<u>Total</u>
Special event revenue	\$ 751,000	46,965	3,457	801,422
Less direct expenses	<u>(185,763)</u>	<u>(19,226)</u>	<u>-</u>	<u>(204,989)</u>
Net support from special events	<u>\$ 565,237</u>	<u>27,739</u>	<u>3,457</u>	<u>596,433</u>