

## **Public Counsel**

Financial Statements  
and Other Audit Report

August 31, 2019



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Public Counsel  
Los Angeles, California

We have audited the accompanying financial statements of Public Counsel (the "Organization"), which comprise the statement of financial position as of August 31, 2019, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



An independent firm  
associated with Moore  
Global Network Limited

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Counsel as of August 31, 2019, 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.

## **Change in Accounting Principle**

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2020, 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 the effectiveness of the Organization's 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.



Armanino<sup>LLP</sup>  
Los Angeles, California

February 6, 2020

Public Counsel  
Statement of Financial Position  
August 31, 2019

ASSETS

Cash	\$ 2,071,669
Investments	7,543,646
Grants and contributions receivable, net	3,230,619
Accounts receivable	825,417
Prepaid expenses	144,456
Property and equipment, net	<u>5,125,193</u>
 Total assets	 <u><u>\$ 18,941,000</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 1,334,636
Deferred revenue	<u>9,825</u>
Total liabilities	<u>1,344,461</u>
 Commitments and contingencies (Note 10)	
 Net assets	
Without donor restrictions	
General	4,946,879
Board-designated capital improvements and future operations reserve	1,000,000
Board-designated quasi-endowment	664,555
Investment in land and building	<u>5,071,980</u>
Total without donor restrictions	11,683,414
With donor restrictions	<u>5,913,125</u>
Total net assets	<u>17,596,539</u>
 Total liabilities and net assets	 <u><u>\$ 18,941,000</u></u>

The accompanying notes are an integral part of these financial statements.

Public Counsel  
Statement of Activities  
For the Year Ended August 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and other support			
Various grants and other contributions	\$ 340,417	\$ 3,343,141	\$ 3,683,558
Program service fees	3,055,927	-	3,055,927
Proceeds from fundraising events, net of costs of direct benefits totaling \$84,800	2,178,038	-	2,178,038
Attorney fees	1,499,858	-	1,499,858
Attorney fees - pro bono donation	735,827	-	735,827
State bar legal services trust fund	-	1,118,630	1,118,630
Equal access fund	-	933,785	933,785
Cy pres awards	1,076,713	-	1,076,713
Miscellaneous	62,812	-	62,812
Net assets released from restriction	<u>5,770,752</u>	<u>(5,770,752)</u>	<u>-</u>
Total revenues, gains and other support	<u>14,720,344</u>	<u>(375,196)</u>	<u>14,345,148</u>
Functional expenses			
Program services	<u>11,425,961</u>	<u>-</u>	<u>11,425,961</u>
Support services			
Management and general	1,188,885	-	1,188,885
Fundraising	<u>1,567,137</u>	<u>-</u>	<u>1,567,137</u>
Total support services	<u>2,756,022</u>	<u>-</u>	<u>2,756,022</u>
Total functional expenses	<u>14,181,983</u>	<u>-</u>	<u>14,181,983</u>
Change in net assets from operations	<u>538,361</u>	<u>(375,196)</u>	<u>163,165</u>
Investment earnings			
Investment income, net	<u>126,859</u>	<u>-</u>	<u>126,859</u>
Total investment earnings	<u>126,859</u>	<u>-</u>	<u>126,859</u>
Change in net assets	665,220	(375,196)	290,024
Net assets, beginning of year	<u>11,018,194</u>	<u>6,288,321</u>	<u>17,306,515</u>
Net assets, end of year	<u>\$ 11,683,414</u>	<u>\$ 5,913,125</u>	<u>\$ 17,596,539</u>

The accompanying notes are an integral part of these financial statements.

Public Counsel  
Statement of Functional Expenses  
For the Year Ended August 31, 2019

	<u>Program services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries and wages	\$ 8,424,414	\$ 697,729	\$ 802,745	\$ 9,924,888
Employee benefits	1,153,107	93,572	107,170	1,353,849
Payroll taxes	<u>620,229</u>	<u>55,069</u>	<u>59,130</u>	<u>734,428</u>
Total personnel expenses	10,197,750	846,370	969,045	12,013,165
Bad debt	-	-	54,350	54,350
Board expenses	-	-	10,566	10,566
Continuing education	27,883	8,555	4,073	40,511
Contributed legal services	25,551	90,589	-	116,140
Depreciation and amortization	150,738	13,459	15,253	179,450
Dues and library	90,492	3,884	20,392	114,768
Fundraising	-	-	78,480	78,480
Insurance	52,080	4,650	18,573	75,303
Miscellaneous	7,137	15,226	34,603	56,966
Occupancy	300,067	27,451	36,284	363,802
Office	100,103	40,551	32,756	173,410
Professional fees	96,200	136,952	264,260	497,412
Program litigation	109,676	-	-	109,676
Public relations	11,937	-	-	11,937
Recruitment	50,742	-	21,489	72,231
Scholarships	17,500	-	-	17,500
Travel	<u>188,105</u>	<u>1,198</u>	<u>7,013</u>	<u>196,316</u>
	<u>\$ 11,425,961</u>	<u>\$ 1,188,885</u>	<u>\$ 1,567,137</u>	<u>\$ 14,181,983</u>

The accompanying notes are an integral part of these financial statements.

Public Counsel  
Statement of Cash Flows  
For the Year Ended August 31, 2019

Cash flows from operating activities	
Change in net assets	\$ 290,024
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	179,450
Donated investments	(38,515)
Realized gains/losses	(47,781)
Unrealized gains/losses	50,707
Changes in operating assets and liabilities	
Grants and contributions receivable	603,725
Accounts receivable	142,679
Prepaid expenses	(24,638)
Accounts payable and accrued expenses	147,605
Deferred revenue	<u>(47,275)</u>
Net cash provided by operating activities	<u>1,255,981</u>
Cash flows from investing activities	
Purchases of property and equipment	(201,351)
Proceeds from sales of investments	5,920,496
Purchases of investments	<u>(8,225,788)</u>
Net cash used in investing activities	<u>(2,506,643)</u>
Net decrease in cash	(1,250,662)
Cash, beginning of year	<u>3,322,331</u>
Cash, end of year	<u><u>\$ 2,071,669</u></u>

The accompanying notes are an integral part of these financial statements.



Public Counsel  
Notes to Financial Statements  
August 31, 2019

1. NATURE OF OPERATIONS

Public Counsel ("the Organization") is the largest pro bono public interest law firm in the U.S. Founded in 1970, it is dedicated to advancing equal justice under law and addressing economic, racial and other inequities by delivering free legal and social services to the most vulnerable members of our community. In the past year, Public Counsel staff and over 5,800 volunteers provided legal services to 16,000 individuals and more than 300 nonprofit organizations, and conducted impact litigation on behalf of over 12 million people. The value of free legal services provided during calendar year 2018 (including services to clients by volunteers as well as free legal services provided to clients by the Organization's paid staff) is conservatively estimated at approximately \$130 million.

Public Counsel's work includes direct legal services in eight different practice areas for children, veterans, families struggling with poverty, immigrants and local nonprofits and small businesses; impact litigation over civil rights and other broad issues affecting our clients; and policy and legislative advocacy on behalf of communities in need. Public Counsel's practice areas are Children's Rights, Community Development, Consumer Rights, Homelessness Prevention, Immigrants' Rights, Veterans' Rights, Women & Girls' Rights and our impact litigation project, Opportunity Under Law.

Public Counsel is funded primarily through contributions from foundations, law firms and lawyers, corporations, businesses, individuals, and the general public. Some of these contributions are restricted by the donor with respect to their use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
  - a. Amounts and purposes of governing Board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
  - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
  - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
  - e. Methods used to allocate costs among program and support functions.
  - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
  4. Use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2019.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. These include:

- *Net assets without donor restrictions* - Include contributions, fundraising, fees and other forms of revenue and expenditures without donor restrictions related to the general operations and fundraising efforts of the Organization.
- *Board-designated net assets without donor restrictions* - Include net assets without donor restrictions the Board of Directors has (1) segregated into a reserve fund to be used for capital improvements, purchases and future operations, and (2) designated another portion as quasi-endowments, with a portion of the earnings to be used for specified programs.
- *Investment in Land and Building* - Represents the investment in the land and building of its headquarters, net of accumulated depreciation.
- *Net assets with donor restrictions* - Includes grants and contributions received that are restricted with respect to use by the donor or grantor or time restricted to the extent they will be collected and expended in the future. When the restrictions expire, these net assets are reclassified to unrestricted net assets.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

Public Counsel is a nonprofit public benefit corporation organized under the laws of California thus is exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions.

The Organization's federal income tax and informational returns for tax years ended August 31, 2016 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended August 31, 2015 and subsequent.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and cash equivalents

The Organization considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents, except cash and money market balances included with investments.

Concentrations

The Organization's bank balances generally exceed FDIC-insured limits. The Organization has not experienced and does not anticipate any losses related to these balances.

For the year ended August 31, 2019, three contracts comprised 33%, 26%, and 11% of accounts receivable as of August 31, 2019.

For the year ended August 31, 2019, two contributions comprised 13%, and 11% of grants and contributions receivable through August 31, 2019.

Investments

Investments, managed by the Board of Directors' Investment Committee, are stated at fair value. Donated investments are recorded at fair value on the date donated. Unrealized gains and losses are recognized in the aggregate by investment. Realized gains and losses are computed and recognized using the first-in, first-out method. Money market balances held within brokerage accounts are included with investments in the statement of financial position.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions receivable

Grants and contributions receivable consist of unconditional promises to give to the Organization. Management has established an allowance for potentially uncollectible grants and contributions based on its history of collections (see Note 4).

Accounts receivable

Accounts receivable are unsecured and the Organization is at-risk to the extent that such amounts become uncollectible. Management anticipates it will collect 100% of its accounts receivable balance; thus, no allowance for doubtful accounts has been established.

Property and equipment

Purchases of property and equipment are stated at original cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight-line basis over the estimated useful lives, ranging from 3 to 40 years.

Normal repairs and maintenance are expensed as incurred, whereas significant charges which materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Impairment of long-lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Organization during the year.

Deferred revenue

Deferred revenue consists of funds received for programs and fellowships that had not yet been earned as of August 31, 2019.

Revenue and expense recognition

Grants and contributions consist of donations from foundations, law firms and lawyers, corporations, businesses, individuals, and the general public. Grants and contributions are generally recognized when pledged or paid to the Organization by the donor. Contributions are not recognized as revenue until all donor-imposed conditions have been substantially met.

Occasionally, the Organization receives program service fees in advance of performing the services. These amounts are recorded as deferred revenue on the statement of financial position until services have been performed and the revenue is then recognized.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and expense recognition (continued)

Expenses are recorded when the Organization has incurred a commitment to the supplier of goods or services once such goods or services have actually been received. Under nonprofit accounting standards, there may not always be a matching of expenses and grant revenues, particularly in the case of multi-year pledges. In accordance with donors' restrictions, the Organization will expend future efforts (and corresponding expenses) that will not be reported in the same accounting period as the recognized revenues.

Donated services

During the year, the Organization received donated legal-related outside services to be used on its own behalf totaling \$116,140. These are included in grants and other contributions in the accompanying statement of activities.

During calendar year 2018, the Organization provided total pro bono legal services (including services to clients by volunteers as well as free legal services provided to clients by the Organization's paid staff) with fair values estimated by management as follows:

Services of volunteer attorneys, law students, paralegals and others who provided approximately 137,000 hours to client	\$ 67,567,534
Services provided by paid staff at the Organization	<u>62,036,324</u>
	<u>\$ 129,603,858</u>

No amounts are included in the accompanying financial statements for the fair value of these legal services provided to clients of the Organization.

Functional expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated accordingly.

Endowments

Net assets associated with endowment funds, including funds designated by the Board of Directors to function as reserves and quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated events subsequent to August 31, 2019, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 6, 2020, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

3. INVESTMENTS

The Organization reports its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of August 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Domestic equity funds	\$ 1,771,465	\$ -	\$ -	\$ 1,771,465
California Community Foundation ("CCF")	-	2,179,233	-	2,179,233
Mutual funds	634,230	-	-	634,230
Fixed income funds	<u>2,958,718</u>	<u>-</u>	<u>-</u>	<u>2,958,718</u>
	<u>\$ 5,364,413</u>	<u>\$ 2,179,233</u>	<u>\$ -</u>	<u>\$ 7,543,646</u>

Public Counsel's Board of Directors has authorized an investment to be managed by the California Community Foundation ("CCF"), an IRC Section 501(c)(3) California mutual benefit corporation. Under an agreement with CCF, the investment principal and any accrued interest are payable to the Organization upon the request of the Executive Committee acting on behalf of the Board of Directors. The fair value of the investments managed by CCF deemed to be Level 2 has been determined using the net asset values reported on the valuation statements provided by the investment managers of CCF.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

3. INVESTMENTS (continued)

Activity in the investments in marketable securities during the year was as follows:

Balance, beginning of year	\$ 5,202,765
Purchases of investments	8,225,788
Sales of investments	(5,920,496)
Donated investments	38,515
Realized gains	47,781
Unrealized losses	<u>(50,707)</u>
	<u><u>\$ 7,543,646</u></u>

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consists of the following:

Due in less than one year	\$ 3,007,119
Due in one to five years	<u>238,500</u>
	3,245,619
Allowance for potentially uncollectible contributions	<u>(15,000)</u>
	<u><u>\$ 3,230,619</u></u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land and improvements	\$ 2,864,021
Building and improvements	3,587,449
Office equipment	<u>344,371</u>
	6,795,841
Accumulated depreciation and amortization	<u>(1,670,648)</u>
	<u><u>\$ 5,125,193</u></u>

6. LINE OF CREDIT

Public Counsel maintains a \$1,000,000 unsecured operating revolving line of credit with a bank through June 2020, at which time any outstanding principal and interest are due. Interest is payable monthly at the bank's prime rate (5.25% at August 31, 2019) plus 0.50%. There was no balance outstanding under this line as of August 31, 2019.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

7. NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD-DESIGNATED

The Organization's Board of Directors has (1) segregated a portion of its net assets without donor restrictions into a reserve fund to be used for capital improvements, purchases and future operations, and (2) designated another portion of its net assets without donor restrictions as quasi-endowments. Earnings from the Morgan and Helen Chu Scholarship Fund have been designated by the Board to be used for scholarships; earnings from the Irell & Manella Chair Fund have not been designated to be used for any specified programs but are available to be used for operations.

Board-designated net assets without donor restrictions consist of the following:

Capital Improvements and Future Operations Reserve	<u>\$ 1,000,000</u>
Quasi-Endowment	
Morgan and Helen Chu Scholarship Fund	254,562
Irell & Manella Chair Fund	<u>409,993</u>
	<u><u>664,555</u></u>
	<u><u>\$ 1,664,555</u></u>

Return objectives and risk parameters

The Organization has adopted investment and spending policies for quasi-endowment assets that attempt to provide a predictable stream of funding to programs supported by its quasi-endowments while seeking to maintain the purchasing power of the quasi-endowment assets. Under this policy, as approved by the Executive Committee of the Board of Directors, the quasi-endowment assets are invested in a manner that is intended to assume a moderate level of investment risk and to provide an annual rate of return of approximately 5% plus inflation. Actual returns in any given year may vary from this amount.

Spending policy and how investment objectives relate to spending policy

The Organization has a policy of appropriating for distribution each year up to 3 percent of its fair value, depending on the investment return for the year. In establishing this policy, the Organization considers the long-term expected return on its quasi-endowments. Accordingly, over the long-term, the Organization expects the current spending policy to allow its quasi-endowments to grow at an annual rate equal to or greater than inflation. This is consistent with the Organization's objective to maintain the purchasing power of the quasi-endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.



Public Counsel  
Notes to Financial Statements  
August 31, 2019

7. NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD-DESIGNATED (continued)

Quasi-endowment net asset composition

Quasi-endowment net asset composition by type of fund is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated quasi-endowment funds	\$ 664,555	\$ -	\$ 664,555

Changes in quasi-endowment net asset and reserve funds during the year is as follows:

	<u>Without Donor Restrictions: Chu Scholarship Fund</u>	<u>Without Donor Restrictions: Irell &amp; Manella Chair Fund</u>	<u>Total</u>
Balance, beginning of year	\$ 234,256	\$ 384,812	\$ 619,068
Contributions	32,500	30,325	62,825
Net investment earnings	<u>2,806</u>	<u>3,979</u>	<u>6,785</u>
Total investment return	35,306	34,304	69,610
Grants or scholarships	(15,000)	-	(15,000)
Other expenditures	<u>-</u>	<u>(9,123)</u>	<u>(9,123)</u>
	<u>20,306</u>	<u>25,181</u>	<u>45,487</u>
Balance, end of year	<u>\$ 254,562</u>	<u>\$ 409,993</u>	<u>\$ 664,555</u>

Public Counsel  
Notes to Financial Statements  
August 31, 2019

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions during the year are as follows:

	Balance at September 1, 2018	Donor Restricted Revenue	Net Assets Released from Restriction	Balance at August 31, 2019
Community Development	\$ 1,128,636	\$ 326,500	\$ (762,195)	\$ 692,941
Consumer Law	513,689	2,054,457	(1,320,947)	1,247,199
Childrens Rights Center for Veteran's Advancement	1,619,547	890,000	(1,324,647)	1,184,900
Homelessness Prevention	12,500	150,000	(75,000)	87,500
Immigrants' Rights	16,583	140,000	(32,139)	124,444
Opportunity Under Law	998,414	1,412,031	(1,444,535)	965,910
Statewide Education Project	124,430	75,000	(159,430)	40,000
Women and Girls' Rights	28,959	-	(20,000)	8,959
Pro Bono	706,206	5,000	(384,722)	326,484
Communications	-	4,068	-	4,068
Development	-	287,000	(12,000)	275,000
Fellowships/Scholarship Fund	268,811	51,500	(156,699)	163,612
	<u>870,546</u>	<u>-</u>	<u>(78,438)</u>	<u>792,108</u>
	<u>\$ 6,288,321</u>	<u>\$ 5,395,556</u>	<u>\$ (5,770,752)</u>	<u>\$ 5,913,125</u>

The Organization has recorded multi-year pledges [including contributions receivable balances totaling \$3,230,619 (see Note 4)] which have been grouped with the corresponding program service activities listed above in accordance with donors' purpose restrictions. In order for these restrictions to be released, there will be future efforts (and therefore expenses) that will not be reported in the same accounting period as the recognized revenues. As a result, Public Counsel anticipates it will incur program expenses in the years ending August 31, 2020 through 2021, for the related grant and contribution revenue which has been recognized during the year ended August 31, 2019.

9. RETIREMENT PLAN

The Organization has an IRC Section 403(b) plan (the "Plan") which covers all full time salaried employees. Employees may contribute up to \$19,000 (up to \$25,000 for individuals 50 or more years old) per year to the Plan and are fully vested in the employee contributions. The Plan also allows discretionary employer contributions. Discretionary employer contributions totaled \$400,000 for the year, of which \$400,000 was accrued as of August 31, 2019.

Public Counsel  
Notes to Financial Statements  
August 31, 2019

10. COMMITMENTS AND CONTINGENCIES

Grants and contributions not spent by the Organization in conformity with the terms of the grant or contribution are generally expected to be returned to the contributor. Management anticipates the likelihood of this occurring to be remote.

Operating leases

The Organization leases various copiers and office space for periods ranging through January 2021. Rent expense for the year ended August 31, 2019 was \$84,376.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending August 31,</u>	
2020	\$ 37,746
2021	<u>5,477</u>
	<u>\$ 43,223</u>

Collective bargaining election

On May 16, 2019, the administrative and non-supervisory employees of the Organization voted to be represented by the American Federation of State, County and Municipal Employees (AFSCME). As of January 23, 2020, no agreement has yet been consummated. The financial implications of any such agreement are unknown by management at this time.

11. LIQUIDITY AND AVAILABILITY OF FUNDS

Assets available to meet cash needs for general expenditures within one year, without contractual or donor restrictions as of August 31, 2019, consist of the following:

Cash	\$ 2,071,669
Investments	7,543,646
Grants and contributions receivable	3,230,619
Accounts receivable	<u>825,417</u>
	13,671,351
Net assets with donor restrictions (Note 8)	<u>(5,913,125)</u>
	<u>\$ 7,758,226</u>

The Organization also maintains a \$1,000,000 unsecured operating revolving line of credit of which there was no balance outstanding at August 31, 2019.

OTHER AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Public Counsel  
Los Angeles, California

We have audited, in accordance with the 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, the financial statements of Public Counsel (the "Organization"), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
Los Angeles, California

February 6, 2020