

Public Counsel

Financial Statements
and Other Audit Report

August 31, 2020



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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, 2020, 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.

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, 2020, 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 the Financial Accounting Standards Board Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 12 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. 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 4, 2021, 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^{LLP}
Los Angeles, California

February 4, 2021

Public Counsel
Statement of Financial Position
August 31, 2020

ASSETS

| | | |
|--|--------|------------------------------|
| Cash and cash equivalents | \$ | 6,936,170 |
| Money market reserve funds | | 1,000,626 |
| Investments | | 6,835,468 |
| Grants and contributions receivable, net | | 3,046,230 |
| Accounts receivable | | 855,761 |
| Prepaid expenses | | 176,751 |
| Property and equipment, net | | <u>4,962,308</u> |
| Total assets | \$ | <u><u>23,813,314</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|---|--------|------------------------------|
| Liabilities | | |
| Accounts payable and accrued expenses | \$ | 2,297,707 |
| Deferred revenue | | 2,670,633 |
| Note payable (Paycheck Protection Program) | | <u>2,146,540</u> |
| Total liabilities | | <u><u>7,114,880</u></u> |
| Net assets | | |
| Without donor restrictions | | |
| General | | 4,820,218 |
| Board-designated capital improvements and future operations reserve | | 1,000,000 |
| Board-designated quasi-endowment | | 914,927 |
| Investment in land and building | | <u>4,923,335</u> |
| Total without donor restrictions | | 11,658,480 |
| With donor restrictions | | <u>5,039,954</u> |
| Total net assets | | <u><u>16,698,434</u></u> |
| Total liabilities and net assets | \$ | <u><u>23,813,314</u></u> |

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

Public Counsel
Statement of Activities
For the Year Ended August 31, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|----------------------|
| Revenues, gains and other support | | | |
| Various grants and other contributions | \$ 1,053,565 | \$ 3,533,916 | \$ 4,587,481 |
| Program service fees | 2,756,642 | - | 2,756,642 |
| Proceeds from fundraising events | 2,109,996 | - | 2,109,996 |
| Attorney fees | 1,182,634 | - | 1,182,634 |
| Attorney fees - pro bono donation | 251,411 | - | 251,411 |
| State bar legal services trust fund | 1,265,727 | - | 1,265,727 |
| Equal access fund | 1,069,618 | - | 1,069,618 |
| Cy pres awards | 589,395 | - | 589,395 |
| Miscellaneous | 19,924 | - | 19,924 |
| Net assets released from restriction | <u>3,722,948</u> | <u>(3,722,948)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>14,021,860</u> | <u>(189,032)</u> | <u>13,832,828</u> |
| Functional expenses | | | |
| Program services | <u>11,373,546</u> | <u>-</u> | <u>11,373,546</u> |
| Support services | | | |
| Management and general | 1,294,609 | - | 1,294,609 |
| Fundraising | <u>1,697,998</u> | <u>-</u> | <u>1,697,998</u> |
| Total support services | <u>2,992,607</u> | <u>-</u> | <u>2,992,607</u> |
| Total functional expenses | <u>14,366,153</u> | <u>-</u> | <u>14,366,153</u> |
| Change in net assets from operations | <u>(344,293)</u> | <u>(189,032)</u> | <u>(533,325)</u> |
| Investment earnings | | | |
| Investment income, net | <u>319,359</u> | <u>-</u> | <u>319,359</u> |
| Total investment earnings | <u>319,359</u> | <u>-</u> | <u>319,359</u> |
| Change in net assets | (24,934) | (189,032) | (213,966) |
| Net assets, beginning of year, as restated | <u>11,683,414</u> | <u>5,228,986</u> | <u>16,912,400</u> |
| Net assets, end of year | <u>\$ 11,658,480</u> | <u>\$ 5,039,954</u> | <u>\$ 16,698,434</u> |

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

Public Counsel
Statement of Functional Expenses
For the Year Ended August 31, 2020

| | <u>Program services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|--------------------------|-----------------------------|-----------------------------------|---------------------|----------------------|
| Personnel expenses | | | | |
| Salaries and wages | \$ 8,588,117 | \$ 862,801 | \$ 923,340 | \$ 10,374,258 |
| Employee benefits | 1,036,555 | 104,137 | 111,445 | 1,252,137 |
| Payroll taxes | <u>628,315</u> | <u>63,123</u> | <u>67,553</u> | <u>758,991</u> |
| Total personnel expenses | 10,252,987 | 1,030,061 | 1,102,338 | 12,385,386 |
| Bad debt | - | - | 1,509 | 1,509 |
| Board expenses | - | - | 8,857 | 8,857 |
| Continuing education | 19,848 | 3,312 | 189 | 23,349 |
| Depreciation | 134,841 | 13,547 | 14,497 | 162,885 |
| Dues and library | 96,581 | 18,399 | 13,823 | 128,803 |
| Fundraising | - | - | 286,563 | 286,563 |
| Fees/services | 55,000 | - | - | 55,000 |
| Insurance | 58,289 | 5,856 | 6,268 | 70,413 |
| Miscellaneous | 8,285 | 16,089 | 29,560 | 53,934 |
| Occupancy | 297,006 | 29,839 | 31,931 | 358,776 |
| Office | 173,414 | 17,422 | 18,645 | 209,481 |
| Professional fees | 50,001 | 155,974 | 183,000 | 388,975 |
| Program litigation | 104,172 | - | - | 104,172 |
| Public relations | 507 | - | - | 507 |
| Recruitment | - | 2,475 | - | 2,475 |
| Scholarships | 15,000 | - | - | 15,000 |
| Travel | <u>107,615</u> | <u>1,635</u> | <u>818</u> | <u>110,068</u> |
| | <u>\$ 11,373,546</u> | <u>\$ 1,294,609</u> | <u>\$ 1,697,998</u> | <u>\$ 14,366,153</u> |

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

Public Counsel
Statement of Cash Flows
For the Year Ended August 31, 2020

| | |
|--|----------------------------|
| Cash flows from operating activities | |
| Change in net assets | \$ (213,966) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation and amortization | 162,885 |
| Donated investments | (120,476) |
| Realized gains/losses | (339,316) |
| Unrealized gains/losses | 106,462 |
| Changes in operating assets and liabilities | |
| Grants and contributions receivable | 184,389 |
| Accounts receivable | (30,344) |
| Prepaid expenses | (32,295) |
| Accounts payable and accrued expenses | 963,071 |
| Deferred revenue | <u>1,976,669</u> |
| Net cash provided by operating activities | <u>2,657,079</u> |
| Cash flows from investing activities | |
| Proceeds from sales of investments | 9,819,005 |
| Purchases of investments | <u>(8,757,497)</u> |
| Net cash provided by investing activities | <u>1,061,508</u> |
| Cash flows from financing activities | |
| Proceeds from note payable (Paycheck Protection Program) | <u>2,146,540</u> |
| Net cash provided by financing activities | <u>2,146,540</u> |
| Net increase in cash and cash equivalents | 5,865,127 |
| Cash and cash equivalents, beginning of year | <u>2,071,669</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 7,936,796</u></u> |
| Cash and cash equivalents consisted of the following: | |
| Cash and cash equivalents | \$ 6,936,170 |
| Money market reserve funds | <u>1,000,626</u> |
| | <u><u>\$ 7,936,796</u></u> |

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

Public Counsel
Notes to Financial Statements
August 31, 2020

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 2019, Public Counsel staff and over 5,100 volunteers provided legal services to 15,000 individuals and more than 300 nonprofit organizations and benefited millions of people through the Organization's class action lawsuits. The value of free legal services provided during calendar year 2019 (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 \$140 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

The Organization has adopted the Financial Accounting Standards Board Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. This standard clarifies that when both a barrier to be overcome and a right of return exist, a donor-imposed condition exists and contribution revenue should not be recognized until the condition has been met. A probability assessment about whether the recipient is likely to meet the stipulation is not a factor when determining whether an agreement contains a barrier. The Organization has adopted the standard on a full retrospective basis, meaning that it has been applied to all new arrangements and any revenue that had not been recognized from arrangements that existed as of September 1, 2019. The impact of the implementation of ASU 2018-08 has been summarized in Note 14.

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:

Public Counsel
Notes to Financial Statements
August 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

- *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. Also includes board restricted reserves to be used for capital improvements, purchases and future operations.
- *Board-designated quasi-endowments* - Includes funds designated by the Board of Directors to be used for scholarships and operations (Note 13).
- *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.

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, 2017 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, 2016 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.

Public Counsel
Notes to Financial Statements
August 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020, four contracts comprised 29%, 29%, 15%, and 10%, respectively, of accounts receivable as of August 31, 2020.

For the year ended August 31, 2020, four contributions comprised 14%, 14%, 12% and 10%, respectively, of grants and contributions receivable as of August 31, 2020.

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.

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.

Public Counsel
Notes to Financial Statements
August 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020.

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.

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 calendar year 2019, 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 134,000 hours to client | \$ 72,218,289 |
| Services provided by paid staff at the Organization | <u>68,119,177</u> |
| | <u>\$ 140,337,466</u> |

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

Public Counsel
Notes to Financial Statements
August 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Subsequent events

The Organization has evaluated events subsequent to August 31, 2020, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 4, 2021, 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, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
|--|---------------------|---------------------|----------------|---------------------|
| Domestic equity funds | \$ 702,186 | \$ - | \$ - | \$ 702,186 |
| California Community Foundation ("CCF") | - | 2,282,703 | - | 2,282,703 |
| Mutual funds | 813,407 | - | - | 813,407 |
| Fixed income funds | 737,414 | - | - | 737,414 |
| Certificate of deposits | 500,052 | - | - | 500,052 |
| Treasury bills | <u>1,799,706</u> | <u>-</u> | <u>-</u> | <u>1,799,706</u> |
| | <u>\$ 4,552,765</u> | <u>\$ 2,282,703</u> | <u>\$ -</u> | <u>\$ 6,835,468</u> |

Public Counsel
Notes to Financial Statements
August 31, 2020

3. INVESTMENTS (continued)

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.

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

| | |
|----------------------------|---------------------|
| Balance, beginning of year | \$ 7,543,646 |
| Purchases of investments | 8,757,497 |
| Sales of investments | (9,819,005) |
| Donated investments | 120,476 |
| Realized gains | 339,316 |
| Unrealized losses | <u>(106,462)</u> |
| | <u>\$ 6,835,468</u> |

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consists of the following:

| | |
|---|---------------------|
| Due in less than one year | \$ 1,520,449 |
| Due in one to five years | <u>1,540,781</u> |
| | 3,061,230 |
| Allowance for potentially uncollectible contributions | <u>(15,000)</u> |
| | <u>\$ 3,046,230</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>(1,833,533)</u> |
| | <u>\$ 4,962,308</u> |

Public Counsel
Notes to Financial Statements
August 31, 2020

6. LINE OF CREDIT

Public Counsel maintains a \$950,000 unsecured operating revolving line of credit with a bank through June 2021, at which time any outstanding principal and interest are due. Interest is payable monthly at the bank's prime rate (3.25% at August 31, 2020) plus 0.50%. There was no balance outstanding under this line as of August 31, 2020.

7. NOTE PAYABLE (PAYCHECK PROTECTION PROGRAM)

On April 21, 2020, the Organization received loan proceeds of \$2,146,540 from a promissory note issued by a bank, under the Paycheck Protection Program ("PPP") which was established under the CARES Act and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first ten months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization believes that it will likely qualify for forgiveness, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Organization will obtain forgiveness in whole or in part.

8. QUASI-ENDOWMENTS

The Organization's Board of Directors has designated a 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; earnings from the Campaign for the Future quasi-endowment have not been designated to be used for any specified programs but are available to be used for operations.

Quasi-endowments consist of the following:

| | |
|---------------------------------------|--------------------------|
| Morgan and Helen Chu Scholarship Fund | \$ 321,584 |
| Irell & Manella Chair Fund | 491,823 |
| Campaign for the Future | <u>101,520</u> |
| | <u><u>\$ 914,927</u></u> |

Public Counsel
Notes to Financial Statements
August 31, 2020

8. QUASI-ENDOWMENTS (continued)

Return objectives and risk parameters

The Organization has adopted investment and spending policies for some quasi-endowment assets that attempt to provide a predictable stream of funding 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. As the Campaign for the Future quasi-endowment is new, a policy is being developed for adoption.

Spending policy and how investment objectives relate to spending policy

The Organization's various quasi-endowment funds have differing spending policies. With regard to the Irell & Manella Chair Fund quasi-endowment, the Organization appropriates for distribution each year up to 3 percent of its fair value, depending on the investment return for the year. There is no established spending rate for the Morgan and Helen Chu Scholarship Fund. The Organization uses no more than the earnings and contributions for each year. As indicated above, the policy for the Campaign for the Future is currently in development and no spending will occur until the policy is adopted. In establishing its policies, the Organization considers the long-term expected return on its quasi-endowments. Accordingly, over the long-term, the Organization expects the current spending policies 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.

Quasi-endowment net asset composition

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

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|--------------|
| Board-designated quasi-endowment funds | \$ 914,927 | \$ - | \$ 914,927 |

Public Counsel
Notes to Financial Statements
August 31, 2020

8. QUASI-ENDOWMENTS (continued)

Quasi-endowment net asset composition (continued)

Changes in quasi-endowment net assets during the year is as follows:

| | <u>Without Donor Restrictions: Chu Scholarship Fund</u> | <u>Without Donor Restrictions: Irell & Manella Chair Fund</u> | <u>Without Donor Restrictions: Campaign for the Future</u> | <u>Total</u> |
|----------------------------|---|---|--|-------------------|
| Balance, beginning of year | \$ 254,562 | \$ 409,993 | \$ - | \$ 664,555 |
| Contributions | 25,000 | 20,300 | 100,451 | 145,751 |
| Net investment earnings | <u>49,522</u> | <u>80,898</u> | <u>1,112</u> | <u>131,532</u> |
| Total investment return | 74,522 | 101,198 | 101,563 | 277,283 |
| Other expenditures | - | (19,368) | (43) | (19,411) |
| Scholarship | <u>(7,500)</u> | <u>-</u> | <u>-</u> | <u>(7,500)</u> |
| | <u>67,022</u> | <u>81,830</u> | <u>101,520</u> | <u>250,372</u> |
| Balance, end of year | <u>\$ 321,584</u> | <u>\$ 491,823</u> | <u>\$ 101,520</u> | <u>\$ 914,927</u> |

9. NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>Balance at September 1, 2019</u> | <u>Donor Restricted Revenue</u> | <u>Net Assets Released from Restriction</u> | <u>Balance at August 31, 2020</u> |
|---|---|---|---|---|
| Community Development | \$ 537,323 | \$ 633,500 | \$ (628,803) | \$ 542,020 |
| Consumer Rights and Economic Justice | 1,091,555 | 641,008 | (557,659) | 1,174,904 |
| Childrens Rights | 1,184,900 | 660,500 | (834,600) | 1,010,800 |
| Center for Veteran's Advancement | 87,500 | 100,000 | (166,667) | 20,833 |
| Homelessness Prevention | 124,444 | 225,559 | (209,564) | 140,439 |
| Immigrants' Rights | 593,033 | 318,000 | (437,144) | 473,889 |
| Opportunity Under Law | 40,000 | - | (34,292) | 5,708 |
| Statewide Education Project | 8,959 | 250,000 | (55,556) | 203,403 |
| Women and Girls' Rights | 326,484 | - | (276,696) | 49,788 |
| Pro Bono | 4,068 | - | (4,068) | - |
| Communications | 275,000 | - | (184,201) | 90,799 |
| Development | 163,612 | 305,800 | (243,698) | 225,714 |
| Fellowships/Scholarship Fund | <u>792,108</u> | <u>-</u> | <u>(90,000)</u> | <u>702,108</u> |
| | 5,228,986 | 3,134,367 | (3,722,948) | 4,640,405 |
| Time restricted | <u>-</u> | <u>399,549</u> | <u>-</u> | <u>399,549</u> |
| | <u>\$ 5,228,986</u> | <u>\$ 3,533,916</u> | <u>\$ (3,722,948)</u> | <u>\$ 5,039,954</u> |

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9. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Grants and contributions receivable total \$3,046,230 (see Note 4) and, with the exception of \$399,549, the amounts 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, 2021 through 2022, for the related grant and contribution revenue which has been recognized during the year ended August 31, 2020. Donor-restricted net assets included in "Time Restricted" consist of pledges receivable for which no purpose restriction exists.

10. 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 \$19,500 (up to \$26,000 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 \$205,058 for the year, of which \$200,000 was accrued as of August 31, 2020.

11. 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 office equipment and office space for periods ranging through November 2021. Rent expense for the year ended August 31, 2020 was \$82,174.

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

Year ending August 31,

| | | |
|------|-----------|---------------|
| 2021 | \$ | 58,941 |
| 2022 | | <u>13,947</u> |
| | <u>\$</u> | <u>72,888</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 February 4, 2021, no agreement has yet been consummated. The financial implications of any such agreement are unknown by management at this time.

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Notes to Financial Statements
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12. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter-in-place orders. The Organization's funders and donors are likely impacted by these events. The Organization has adjusted certain aspects of the operations to protect its employees and clients. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter-in-place orders and the short-term market volatility. It is at least reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration of this disruption cannot be reasonably estimated at this time.

13. 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, 2020, consist of the following:

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 6,936,170 |
| Money market reserve funds | 1,000,626 |
| Investments | 6,835,468 |
| Grants and contributions receivable | 1,520,449 |
| Accounts receivable | <u>855,761</u> |
| | 17,148,474 |
| Net assets with donor restrictions (Note 9) | (5,039,954) |
| Capital improvements and future operations reserve | (1,000,000) |
| Quasi-endowments (Note 8) | <u>(914,927)</u> |
| | <u>\$ 10,193,593</u> |

Net assets with donor restrictions totaling \$5,039,954 are reserved for specific purposes and are not available for general expenditures within one year. 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. These board designations could be drawn upon if the board approves that action. The Organization also maintains a \$950,000 unsecured operating revolving line of credit of which there was no balance outstanding at August 31, 2020.

14. IMPACT OF ADOPTION OF NEW ACCOUNTING STANDARD

As described in Note 2, the Organization implemented ASU 2018-08 effective September 1, 2019 using the full retrospective approach. As a result, certain previously reported amounts at August 31, 2019 have been restated.

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14. IMPACT OF ADOPTION OF NEW ACCOUNTING STANDARD (continued)

The following table shows the effects of the implementation of ASU 2018-08 as of August 31, 2019:

| | <u>Deferred Revenue</u> | <u>Net Assets without Donor Restrictions</u> | <u>Net Assets with Donor Restrictions</u> |
|---|-----------------------------|--|---|
| As previously reported, August 31, 2019 | \$ 9,825 | \$ 11,683,414 | \$ 5,913,125 |
| Impact of implementation of ASU-2018-08 | <u>684,139</u> | <u>-</u> | <u>(684,139)</u> |
| As restated August 31, 2019 | <u>\$ 693,964</u> | <u>\$ 11,683,414</u> | <u>\$ 5,228,986</u> |

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, 2020, 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 4, 2021.

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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
Los Angeles, California

February 4, 2021