

Public Counsel

Financial Statements

August 31, 2023



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Public Counsel
Los Angeles, California

Opinion

We have audited the accompanying financial statements of Public Counsel (the "Organization"), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Public Counsel and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Counsel's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Public Counsel's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Counsel's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Armanino^{LLP}
Los Angeles, California

March 18, 2024

Public Counsel
Statement of Financial Position
August 31, 2023

ASSETS

Assets	
Cash and cash equivalents	\$ 4,106,667
Money market reserve funds	1,006,330
Investments	9,084,883
Grants and contributions receivable, net	3,341,209
Contracts receivable	1,645,083
Prepaid expenses	214,432
Investments - quasi-endowments	4,232,203
Property and equipment, net	<u>5,177,761</u>
 Total assets	 <u><u>\$ 28,808,568</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 1,680,091
Rental assistance advance	899,526
Deferred revenue	<u>2,847,150</u>
Total current liabilities	<u><u>5,426,767</u></u>
Net assets	
Without donor restrictions	
General	6,764,231
Board-designated capital improvements and future operations reserve	1,000,000
Unrestricted - board designated	4,467,703
Property and equipment, net	<u>5,177,761</u>
Total without donor restrictions	<u>17,409,695</u>
With donor restrictions	<u>5,972,106</u>
Total net assets	<u><u>23,381,801</u></u>
 Total liabilities and net assets	 <u><u>\$ 28,808,568</u></u>

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

Public Counsel
Statement of Activities
For the Year Ended August 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and other support			
Various grants and other contributions	\$ -	\$ 4,232,874	\$ 4,232,874
Program service fees	3,927,417	-	3,927,417
Proceeds from fundraising events	1,589,512	888,930	2,478,442
Attorney fees	1,444,257	-	1,444,257
Attorney fees - pro bono donation	405,977	-	405,977
Contributions - quasi-endowments	1,020,619	-	1,020,619
State bar legal services trust fund	-	1,723,000	1,723,000
Equal access fund	-	1,945,104	1,945,104
Cy pres awards	146,966	-	146,966
Miscellaneous	<u>36,246</u>	<u>-</u>	<u>36,246</u>
Total revenues, gains and other support	8,570,994	8,789,908	17,360,902
Net assets released from restriction	<u>7,731,819</u>	<u>(7,731,819)</u>	<u>-</u>
Total revenues, gains and other support	<u>16,302,813</u>	<u>1,058,089</u>	<u>17,360,902</u>
Functional expenses			
Program services	<u>14,882,121</u>	<u>-</u>	<u>14,882,121</u>
Support services			
Management and general	2,679,432	-	2,679,432
Fundraising	<u>1,515,587</u>	<u>-</u>	<u>1,515,587</u>
Total support services	<u>4,195,019</u>	<u>-</u>	<u>4,195,019</u>
Total functional expenses	<u>19,077,140</u>	<u>-</u>	<u>19,077,140</u>
Change in net assets from operations	<u>(2,774,327)</u>	<u>1,058,089</u>	<u>(1,716,238)</u>
Other income			
Investment earnings, net	<u>905,167</u>	<u>-</u>	<u>905,167</u>
Total other income	<u>905,167</u>	<u>-</u>	<u>905,167</u>
Change in net assets	(1,869,160)	1,058,089	(811,071)
Net assets, beginning of year	<u>19,278,855</u>	<u>4,914,017</u>	<u>24,192,872</u>
Net assets, end of year	<u>\$ 17,409,695</u>	<u>\$ 5,972,106</u>	<u>\$ 23,381,801</u>

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

Public Counsel
Statement of Functional Expenses
For the Year Ended August 31, 2023

	<u>Program services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries and wages	\$ 10,977,917	\$ 1,198,312	\$ 1,050,177	\$ 13,226,406
Employee benefits	1,259,940	137,531	120,529	1,518,000
Payroll taxes	<u>761,549</u>	<u>83,128</u>	<u>72,852</u>	<u>917,529</u>
Total personnel expenses	<u>12,999,406</u>	<u>1,418,971</u>	<u>1,243,558</u>	<u>15,661,935</u>
Operating expenses				
Bad debt	-	128,224	-	128,224
Board expenses	-	-	24,764	24,764
Continuing education	108,401	11,833	10,374	130,608
Depreciation	260,869	28,476	24,955	314,300
Dues and library	46,082	16,888	119	63,089
Fees/services	493,221	719,397	124,353	1,336,971
Cost of direct benefits to donors	-	-	359,203	359,203
Insurance	97,554	10,649	9,332	117,535
Miscellaneous	8,281	(19,834)	4,415	(7,138)
Occupancy	226,466	24,720	21,665	272,851
Office	306,314	33,436	29,305	369,055
Professional fees	4,402	294,343	-	298,745
Program litigation	165,795	-	-	165,795
Public relations	30,122	203	21,610	51,935
Recruitment	15,566	8,130	989	24,685
Scholarships	71,053	-	-	71,053
Travel	<u>48,589</u>	<u>3,996</u>	<u>148</u>	<u>52,733</u>
Total operating expenses	<u>1,882,715</u>	<u>1,260,461</u>	<u>631,232</u>	<u>3,774,408</u>
Total expenses	<u>14,882,121</u>	<u>2,679,432</u>	<u>1,874,790</u>	<u>19,436,343</u>
Cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>(359,203)</u>	<u>(359,203)</u>
	<u>\$ 14,882,121</u>	<u>\$ 2,679,432</u>	<u>\$ 1,515,587</u>	<u>\$ 19,077,140</u>

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

Public Counsel
Statement of Cash Flows
For the Year Ended August 31, 2023

Cash flows from operating activities	
Change in net assets	\$ (811,071)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	314,300
Realized gains/losses	(45,688)
Unrealized gains/losses	(608,245)
Changes in operating assets and liabilities	
Grants and contributions receivable, net	(316,658)
Contracts receivable	62,812
Prepaid expenses	117,311
Accounts payable and accrued expenses	(568,786)
Deferred revenue	(453,795)
Rental assistance liability	(62,544)
Net cash used in operating activities	<u>(2,372,364)</u>
Cash flows from investing activities	
Proceeds from sales of investments	3,721,071
Purchases of investments	(3,617,930)
Purchases of property and equipment	(55,892)
Net cash provided by investing activities	<u>47,249</u>
Net decrease in cash and cash equivalents	(2,325,115)
Cash and cash equivalents, beginning of year	<u>7,438,112</u>
Cash and cash equivalents, end of year	<u>\$ 5,112,997</u>
Cash and cash equivalents consisted of the following:	
Cash and cash equivalents	\$ 4,106,667
Money market reserve funds	<u>1,006,330</u>
	<u>\$ 5,112,997</u>

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

Public Counsel
Notes to Financial Statements
August 31, 2023

1. NATURE OF OPERATIONS

Public Counsel ("the Organization") is the nation's largest public interest law firm specializing in delivering pro bono legal services to low-income communities. 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 2022, Public Counsel staff of over 160 and 3,600 volunteers provided legal services to approximately 10,000 individuals and 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 2022 (including services to clients by volunteers as well as free legal services provided to clients by the Organization's paid staff) is estimated at approximately \$160 million. (See Note 2).

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 state and local governments. Some of these contributions are restricted by the donor with respect to their use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The Organization's financial statements are prepared on the basis of accounting for not-for-profit organizations and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), with separate accounting according to the existence or absence of donor-imposed restrictions. Accordingly, balances and transactions are presented in the following classes of net assets:

- *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 8).
- *Investment in land and building* - Represents the investment in the land and building of its headquarters, net of accumulated depreciation.

Public Counsel
Notes to Financial Statements
August 31, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

- *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.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those 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 the Federal Deposit Insurance Corporation ("FDIC") insured limits for one account. Therefore, the Organization has arranged with its bank to place its funds in cash sweep accounts, so that the bank balances are insured by the FDIC to a total of \$25,000,000. The Organization has not experienced and does not anticipate any losses related to these balances.

At August 31, 2023, three funders comprised approximately \$970,696 or 59% of the Organization's contracts receivable for the year and two donors comprised approximately \$850,000 or 31% of total grants and contributions receivable.

Public Counsel
Notes to Financial Statements
August 31, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

Contracts receivable

Contracts 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 contracts 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, 2023.

Public Counsel
Notes to Financial Statements
August 31, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rental assistance advance

In April 2021, the Organization received \$1,000,000 designated to help fund eligible households facing eviction. The Organization acts as an intermediary and up to \$75,000 may be used to cover administration expenses. As of August 31, 2023, the remaining amount designated for rental assistance totaled \$899,526 and is included in the accompanying statement of financial position as a liability.

Revenue and expense recognition

Grants and contributions consist of donations from foundations, law firms and lawyers, corporations, businesses, individuals, and state and local governments. 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. Revenue is recognized as performance obligations have been met, or when services have been performed.

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.

Cy pres awards

The Organization cannot control whether it receives cy pres awards or the amount of the awards. During the fiscal year ended August 31, 2023, the Organization received cy pres awards totaling \$146,966.

Donated services

During calendar year 2022, 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 74,000 hours to clients	\$ 42,000,000
Services provided by paid staff at the Organization	<u>118,000,000</u>
	<u>\$ 160,000,000</u>

Public Counsel
Notes to Financial Statements
August 31, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services (continued)

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 primarily using full-time equivalents as the allocation base.

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.

Change in accounting principle

In February 2016, the Financial Accounting Standards Board ("FASB") introduced Accounting Standards Codification ("ASC") 842, Leases, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Management has not presented operating lease assets and liabilities under FASB ASC 842, Leases, as the amounts are immaterial to the financial statements as presented.

Subsequent events

The Organization has evaluated events subsequent to August 31, 2023, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 18, 2024, 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.

Public Counsel
Notes to Financial Statements
August 31, 2023

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, 2023:

	Level 1	Level 2	Level 3	Fair Value
California Community Foundation ("CCF")	\$ -	\$ 5,774,658	\$ -	\$ 5,774,658
Fixed income mutual funds	4,663,851	-	-	4,663,851
Stocks	2,878,577	-	-	2,878,577
	\$ 7,542,428	\$ 5,774,658	\$ -	\$ 13,317,086

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	\$ 12,766,294
Purchases of investments	3,617,930
Sales of investments	(3,721,071)
Realized gains	45,688
Unrealized gain	608,245
	\$ 13,317,086

Investment earnings (losses) consisted of the following:

Dividends and interest income	\$ 286,827
Realized gains	45,688
Unrealized gain	608,245
Investment fees	(35,593)
	\$ 905,167

Public Counsel
Notes to Financial Statements
August 31, 2023

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consists of the following:

Due in less than one year	\$ 2,816,209
Due in one to five years	<u>575,000</u>
	3,391,209
Allowance for potentially uncollectible contributions	<u>(50,000)</u>
	<u><u>\$ 3,341,209</u></u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land and improvements	\$ 2,864,021
Building and improvements	4,101,632
Office equipment	<u>646,920</u>
	7,612,573
Accumulated depreciation and amortization	<u>(2,434,812)</u>
	<u><u>\$ 5,177,761</u></u>

6. LINE OF CREDIT

Public Counsel maintains a \$950,000 unsecured operating revolving line of credit with a bank through June 2024, at which time any outstanding principal and interest are due. Interest is payable monthly at the bank's prime rate plus 0.50% (9.0% at August 31, 2023). There was no balance outstanding under this line as of August 31, 2023.

7. QUASI-ENDOWMENTS

The Organization's Board of Directors has designated a portion of its net assets without donor restrictions as quasi-endowments. The Board established campaigns for quasi-endowments for which the Organization is soliciting funds from donors with the understanding that the Board retains the authority to utilize the corpus if needed. Accordingly, these are considered quasi-endowments without donor restrictions on the contributions. At the end of fiscal year 2020, the 50th Anniversary Campaign for the Future quasi-endowment was initiated to generate investment earnings to help sustain the Organization for another 50 years. By the end of fiscal year 2023, the Campaign for the Future quasi-endowment grew to \$2,209,425. As the Board is prioritizing the accumulation of the corpus, the earnings are being reinvested.

Public Counsel
Notes to Financial Statements
August 31, 2023

7. QUASI-ENDOWMENTS (continued)

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 and the Helen and Morgan Chu CEO Distinguished Chair Fund quasi-endowments 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:

Quasi-Endowment	
Morgan and Helen Chu Scholarship Fund	\$ 579,624
Irell & Manella Chair Fund	686,340
Campaign for the Future	2,209,425
Helen and Morgan Chu CEO Distinguished Chair Fund	992,314
	<u>4,467,703</u>
	<u>\$ 4,467,703</u>

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 Helen and Morgan Chu CEO Distinguished Chair Fund 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 Campaign for the Future and Morgan and Helen Chu Scholarship Fund quasi-endowments. The Organization uses no more than the earnings and contributions for each year. As indicated above, the policy for the Helen and Morgan Chu CEO Distinguished Chair Fund quasi-endowment 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.

Public Counsel
Notes to Financial Statements
August 31, 2023

7. QUASI-ENDOWMENTS (continued)

Quasi-endowment net asset composition

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment funds	\$ 4,467,703	\$ -	\$ 4,467,703

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

	Without Donor Restrictions: Chu Scholarship Fund	Without Donor Restrictions: Irell & Manella Chair Fund	Without Donor Restrictions: Campaign for the Future	Without Donor Restrictions: Helen and Morgan Chu CEO Distinguished Chair Fund	Total
Balance, beginning of year	\$ 423,444	\$ 604,699	\$ 1,918,727	\$ 935,121	\$ 3,881,991
Contributions	100,000	500	10,000	-	110,500
Time-restricted contributions collected	-	-	125,000	-	125,000
Net investment gains	56,180	81,141	155,698	57,193	350,212
Balance, end of year	\$ 579,624	\$ 686,340	\$ 2,209,425	\$ 992,314	\$ 4,467,703

Public Counsel
Notes to Financial Statements
August 31, 2023

8. NET ASSETS WITH DONOR RESTRICTIONS

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

	Balance at September 1, 2022	Donor Restricted Revenue	Net Assets Released from Restriction	Balance at August 31, 2023
Community Development	\$ 648,414	\$ 867,587	\$ (1,023,812)	\$ 492,189
Consumer Rights & Economic Justice	1,217,512	3,008,465	(2,438,901)	1,787,076
Children's Rights Center for Veterans' Advancement	1,240,868	1,499,866	(1,594,486)	1,146,248
Homelessness Prevention	46,666	90,000	(136,666)	-
Immigrants' Rights	-	348,967	(348,967)	-
Opportunity Under Law	376,354	624,218	(983,167)	17,405
Statewide Education Rights	-	796,900	(796,900)	-
Women & Girls Rights	247,082	-	(58,338)	188,744
Communication	-	570,000	(224,991)	345,009
Administration	10,175	5,000	-	5,000
Development	254,838	97,000	(25,416)	326,422
Fellowships/Scholarship Fund	522,108	-	(90,000)	432,108
	<u>4,564,017</u>	<u>7,908,003</u>	<u>(7,731,819)</u>	<u>4,740,201</u>
Time restricted	<u>350,000</u>	<u>881,905</u>	<u>-</u>	<u>1,231,905</u>
	<u>\$ 4,914,017</u>	<u>\$ 8,789,908</u>	<u>\$ (7,731,819)</u>	<u>\$ 5,972,106</u>

Grants and contributions receivable total \$3,341,209 (see Note 4) and, with the exception of \$1,231,905 that is unrestricted, 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, 2024 through 2025, for the related grant and contribution revenue which has been recognized during the year ended August 31, 2023. Donor-restricted net assets included in "Time Restricted" consist of pledges receivable for which no purpose restriction exists.

9. RETIREMENT PLAN

The Organization has an IRC Section 403(b) plan (the "Plan") which covers all eligible employees. During 2023, employees' voluntary contributions increased to \$22,500 (up to \$30,000 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. By the close of the fiscal year ending August 31, 2023, the Organization had not yet approved a discretionary employer contribution. In February 2024, the Organization fully funded the discretionary employer contribution for the year ending December 31, 2023, in the amount of \$480,932.

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10. COMMITMENTS AND CONTINGENCIES

The expenditure of grants and contributions received by the Organization are governed by terms in grant agreements or by donor-imposed terms. The Organization is required to spend the funds in conformity with the terms in those agreements, to request modification of the terms where necessary, or to request extensions on any deadlines to comply with those terms. Some grant agreements require that grants or contributions not spent by the Organization in conformity with the terms of the grant or contribution, or with any agreed-upon modification or extension, be returned to the contributor. In addition, governmental entities might disallow costs submitted for reimbursement. No provision has been made for any liabilities that may arise from review by governmental funders since the amounts, if any, cannot be determined at this date.

Operating leases

The Organization leases various office equipment and office space for periods ranging through November 2026. Rent expense for the year ended August 31, 2023 was \$71,814.

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

Year ending August 31,

2024	\$	68,714
2025		56,547
2026		3,895
2027		<u>974</u>
	\$	<u><u>130,130</u></u>

As described in Note 2, Management has not presented operating lease assets and liabilities as required under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 842, Leases, as the amounts are immaterial to the financial statements as presented.

Collective bargaining agreement

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). In June 2021, a collective bargaining agreement was signed for a three-year term from October 1, 2020 to September 30, 2023, resulting in increases to salaries and other benefits for employees. The Organization has agreed upon terms of a new collective bargaining agreement and it is pending final execution. This new agreement further increases employees' salaries and benefits, which are being offset by a major unrestricted gift received after the close of the fiscal year ending August 31, 2023.

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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, 2023, consist of the following:

Cash and cash equivalents	\$ 4,106,667
Money market reserve funds	1,006,330
Investments	13,317,086
Contracts receivable	<u>1,645,083</u>
	20,075,166
Net assets with donor restrictions less time restrictions (Note 8)	(4,740,201)
Capital improvements and future operations reserve	(1,000,000)
Quasi-endowments (Note 7)	<u>(4,467,703)</u>
	<u>\$ 9,867,262</u>

Net assets with donor restrictions totaling \$4,740,201 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 (see Note 6) of which there was no balance outstanding at August 31, 2023.