

PUBLIC JUSTICE CENTER, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Public Justice Center, Inc.
Baltimore, MD

We have audited the accompanying statements of financial position of Public Justice Center, Inc. (a nonprofit organization) as of June 30, 2013 and 2012 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. 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 Justice Center, Inc., 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.

INDEPENDENT AUDITORS' REPORT (continued)

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 12 – 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cardoni Waddell LLC

Columbia, Maryland
August 22, 2013

PUBLIC JUSTICE CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 1,635,889	\$ 2,041,616
Grants Receivable	142,095	5,354
Prepaid Expenses and Deposits	13,770	16,471
Property and Equipment, net of Accumulated Depreciation	26,822	37,581
Total Assets	\$ 1,818,576	\$ 2,101,022
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accrued Expenses	\$ 29,692	\$ 53,369
Funds Held for Others	646	806
Capital Lease	20,968	27,016
Total Liabilities	51,306	81,191
Net Assets		
Unrestricted	1,244,447	1,312,593
Unrestricted Board Designated	122,212	-
Temporarily Restricted	400,611	707,238
Total Net Assets	1,767,270	2,019,831
Total Liabilities and Net Assets	\$ 1,818,576	\$ 2,101,022

See Independent Auditors' Report.

PUBLIC JUSTICE CENTER, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Gains, and Support					
Contributions	\$ 257,702	\$ -	\$ -	\$ 257,702	\$ 273,643
Contributed Professional Services	2,483,940	-	-	2,483,940	4,951,688
Cy Pres	87,112	-	-	87,112	442,379
Private Grants	-	1,163,426	-	1,163,426	1,519,640
Attorney Fees	38,195	-	-	38,195	417,752
Other Revenue	9,968	-	-	9,968	14,825
Net Assets Released From Donor Restrictions	1,470,053	(1,470,053)	-	-	-
 Total Revenues, Gains, and Support	 4,346,970	 (306,627)	 -	 4,040,343	 7,619,927
Operating Expenses					
Program Services	3,457,771	-	-	3,457,771	6,389,492
Management and General	289,634	-	-	289,634	155,987
Fund-Raising	545,499	-	-	545,499	232,970
 Total Operating Expenses	 4,292,904	 -	 -	 4,292,904	 6,778,449
 Change in Net Assets	 54,066	 (306,627)	 -	 (252,561)	 841,478
 Net Assets, Beginning	 1,312,593	 707,238	 -	 2,019,831	 1,178,353
 Net Assets, Ending	 <u>\$ 1,366,659</u>	 <u>\$ 400,611</u>	 <u>\$ -</u>	 <u>\$ 1,767,270</u>	 <u>\$ 2,019,831</u>

See Independent Auditors' Report.

PUBLIC JUSTICE CENTER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ (252,561)	\$ 841,478
Adjustments to Reconcile Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	10,759	12,624
Changes in Assets and Liabilities		
Grants Receivable	(136,741)	(483)
Advances, Employee	-	1,092
Prepaid Expenses and Deposits	2,701	2,132
Accounts Payable	-	(7,867)
Accrued Expenses	(23,677)	(31,552)
Funds Held for Others	(160)	806
	<u>(399,679)</u>	<u>818,230</u>
Net Cash Provided by (Used in) Operating Activities		
Cash Flows From Investing Activities		
Purchase of Property and Equipment	-	(3,908)
Cash Flows From Financing Activities		
Curtailment of Capital Lease	<u>(6,048)</u>	<u>(4,921)</u>
Net Increase in Cash and Cash Equivalents	(405,727)	809,401
Cash and Cash Equivalents, Beginning	<u>2,041,616</u>	<u>1,232,215</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,635,889</u>	<u>\$ 2,041,616</u>
Supplemental Cash Flow Information:		
Interest Paid	\$ 5,064	\$ 6,191

See Independent Auditors' Report.

PUBLIC JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Public Justice Center, Inc. (the Organization) is a non-profit legal organization, founded in Maryland in 1985. We give legal voice to people who are being excluded from full participation and respect in society by poverty or discrimination. We pursue projects and cases that have progressive, long-lasting and widespread impacts, not just for an individual, but for entire classes of people who are subjected to injustice. Current focus areas include Homeless Children's Right to Education, Tenants' Rights, Prisoners' Rights, Health Rights, Right to Counsel and Appellate Advocacy. More information can be found at our website: www.publicjustice.org.

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting.

Tax Status

The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue code and comparable State law. Accordingly, no provision for income taxes has been made.

The Organization's follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the evaluation of tax positions, which includes maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a "more-likely-than-not" threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold. The Organization's income tax returns for 2012, 2011, and 2010 are subject to possible federal examination, general for three years after they are filed.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of financial statement reporting, the Organization considers all unrestricted highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Contributions and Revenue

The Organization has adopted the accounting treatment prescribed by FASB ACS 605-10-15-3 Accounting for Contributions Received and Contributions Made, and FASB ACS 958-205-05 Financial Statements for Not-for-Profit Organizations. In accordance with FASB ACS 605-10-15-3, contributions received are recorded as unrestricted support depending on the existence and/or nature of grant restrictions. Amounts received by the Organization are treated as unrestricted funds unless restricted by the donor.

Grants Received

Support and revenue under grants with the respective agencies is recorded as government grants or private grants and donations in the appropriate program when the related direct costs are incurred. Grants receivable represent amounts due for expenditures incurred prior to year-end.

PUBLIC JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$413 and \$1,286 for the years ended June 30, 2013 and 2012, respectively.

Property and Equipment

All major expenditures for property and equipment are capitalized. Property and equipment are carried at cost and are depreciated over their estimated useful lives of 3 – 10 years using the straight-line method.

Financial Statement Presentation

The Organization's net assets and related revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. The Organization has variance power, that is, the ultimate discretion over the use of these funds lies with the Board of Directors.

Unrestricted Board Designated Net Assets – Certain funds, while unrestricted, have been designated by the Organization for a particular purpose or program. The Board of Directors has ultimate discretion over these funds but has designated them for the purpose of encouraging and funding litigation cases and projects by the Organization's staff and co-counsel.

Temporarily Restricted Net Assets – New assets that are subject to donor-imposed restrictions. Such restrictions expire either by the passage of time or by actions of the Organization. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – New assets that are subject to donor-imposed restrictions. Such restrictions require the historical dollar amount of gifts to be permanently retained. The Organization has no permanently restricted funds at June 30, 2013 or 2012.

Evaluation of Subsequent Events

Management has evaluated subsequent events through August 22, 2013, the day the financial statements were available to be issued.

NOTE 2: PROPERTY AND EQUIPMENT

The major classifications of property and equipment as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Property and Equipment	\$ 114,799	\$ 114,799
Less: Accumulated Depreciation	<u>(87,977)</u>	<u>(77,218)</u>
	<u>\$ 26,822</u>	<u>\$ 37,581</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$10,759 and \$12,624, respectively.

PUBLIC JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 3: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are funds received from donors which have been specified for use with program initiatives established by the organization.

Temporarily restricted net assets as of June 30, 2013 are summarized as follows:

Jacob and Hilda Blaustein Foundation	\$	30,125
Departement of Housing and Community Development		77,500
Medicaid Matters-Maryland - Open Society Institute		17,777
Medicaid Matters-Maryland, Fund		46
Maryland Public Interest Law Project		1,840
Francis D. Murnaghan, Jr. Appellate Advocacy Fellowship		14,436
Francis D. Murnaghan, Jr. - Open Society Institute		5,000
Francis D. Murnaghan, Jr. - Rosenberg		3,673
National Coalition for a Civil Right to Counsel - Website		7,969
Open Society Institute - Education		26,701
Open Society Institute - Just for Kids		38,738
Open Society Institute - Tenants in Foreclosure		29,806
Public Welfare Foundation		102,000
Public Welfare Foundation - Right to Counsel		25,000
United Way of Central Maryland - Children's Program Coordinator		20,000
		<u>20,000</u>
	<u>\$</u>	<u>400,611</u>

NOTE 4: COMMITMENTS AND CONTINGENCIES

The Organization has a lease for its office space through the October 2015. The lease expires in the fiscal year 2016. Rent expense for the years ended June 30, 2013 and 2012 was \$97,382 and \$89,718 respectively.

Future minimum lease payments under its lease at June 30, 2013 are as follows:

Fiscal Year:	2014	\$	102,996
	2015		106,092
	2016		<u>35,710</u>
		<u>\$</u>	<u>244,798</u>

The Organization leases its copiers under a capital lease. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Organization's assets and liabilities.

The following is an analysis of the leased asset included in property and equipment:

	<u>2013</u>	<u>2012</u>
Property and Equipment	\$ 34,024	\$ 34,024
Less: Accumulated Depreciation	<u>(18,713)</u>	<u>(11,908)</u>
	<u>\$ 15,311</u>	<u>\$ 22,116</u>

See Independent Auditors' Report

**PUBLIC JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012**

NOTE 4: COMMITMENTS AND CONTINGENCIES (continued)

Future minimum lease payments under capital lease at June 30, 2013 are as follows:

Fiscal Year:	2014	\$	7,433
	2015		9,136
	2016		4,399
		\$	20,968

NOTE 5: RETIREMENT PLAN

The Organization has in place a 403(b) Tax Deferred Annuity Plan. An employee is eligible to become a participant in the Plan on date of hire. Elective deferrals may equal the lesser of IRS prescribed amounts or 100% of the participant's compensation specified by certain limitations and catch up allowances for specific employees. The Organization did not make a contribution to the plan during the fiscal years ending June 30, 2013 and 2012.

NOTE 6: AGENCY FUNDS (FUNDS HELD IN CUSTODY FOR OTHERS)

During the year ended June 30, 2013 and 2012, the Organization collected a total of \$8,135 and \$10,800, respectively on behalf of other Foundations, individuals, and organizations. Funds collected on behalf of others that remained undisbursed were \$646 and \$806 as of June 30, 2013 and 2012, respectively.

NOTE 7: DONATED MATERIALS AND SERVICES

The Organization receives a significant amount of donated time and services from attorneys, paralegals, and other professionals/volunteers. The approximate value of donated services included in the financial statements for the years ending June 30, 2013 and 2012 is as follows:

	2013	2012
Attorneys/Paralegals/Other	\$ 2,483,934	\$ 4,950,866
Other	6	822
	\$ 2,483,940	\$ 4,951,688
Hours	7,863	14,700

NOTE 8: CONCENTRATION OF RISK

The Organization's cash balances in financial institutions at times, throughout the year, exceeded federally insured limits.

SUPPLEMENTARY INFORMATION

PUBLIC JUSTICE CENTER, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Program Services	Management and General	Fund-Raising	Total 2013	Total 2012
Advertising	\$ -	\$ 413	\$ -	\$ 413	\$ 1,286
Contributed Professional Services	1,999,323	167,914	316,702	2,483,940	4,951,688
Depreciation	8,660	727	1,372	10,759	12,624
Dues and Subscriptions	17,190	1,444	2,723	21,357	12,457
Employee Benefits and Payroll Taxes	129,901	10,910	20,577	161,388	261,784
Equipment Maintenance and Rental	10,778	905	1,707	13,390	17,904
Insurance	10,705	899	1,696	13,300	14,646
Interest Expense	4,076	342	646	5,064	6,191
Litigation Expenses	14,068	-	-	14,068	2,220
Miscellaneous	1,845	155	292	2,292	3,857
Occupancy	78,383	6,583	12,416	97,382	89,718
Office and Technology Supplies	4,256	357	674	5,287	8,248
Postage and Shipping	7,252	609	1,149	9,010	9,526
Printing and Publications	26,985	2,266	4,274	33,525	27,933
Professional Fees	125,149	10,511	19,824	155,484	119,159
Salaries	986,163	82,824	156,213	1,225,200	1,185,318
Staff Development	3,397	285	538	4,220	11,824
Telephone	9,967	837	1,579	12,383	11,778
Travel, Conferences, and Special Events	19,673	1,652	3,116	24,441	30,288
Total	<u>\$ 3,457,771</u>	<u>\$ 289,634</u>	<u>\$ 545,499</u>	<u>\$ 4,292,904</u>	<u>\$ 6,778,449</u>

See Independent Auditors' Report.

**AUDITORS' SPECIAL REPORT FOR
MARYLAND LEGAL SERVICES CORPORATION**

To the Board of Directors
Public Justice Center, Inc.
Baltimore, MD

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Public Justice Center, Inc. for the year ended June 30, 2013, and have issued our report thereon dated August 22, 2013.

In the course of our audit, we examined the revenue and expenses for the Maryland Legal Services grant for the year July 1, 2012 through June 30, 2013, under the terms of the Grant Agreement between the Maryland Legal Services Corporation and Public Justice Center, Inc. executed on May 25, 2012.

We have examined management's assertion that Public Justice Center, Inc. was in compliance with terms and conditions of the Grant Agreement, and with Maryland Code, Human Services Article 11, Sections 11-503, 11-505, 11-602, and 11-603 (i.e. services not allowed: financial maintenance and reporting; affidavit of eligibility requirement; and client eligibility determination, respectively). We also verified the number of clients served as reported in the year-end report submitted by Public Justice Center, Inc. Our audit included examining, on a test basis, evidence of Public Justice Center, Inc.'s compliance as well as performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the expenditure of grant revenues in conformity with the Grant Agreement dated May 25, 2012. In addition, we are of the opinion that Public Justice Center, Inc. complied, in all material aspects, with the aforementioned requirements and accurately reported the number of clients served for the period July 1, 2012 through June 30, 2013.



Columbia, Maryland
August 22, 2013

PUBLIC JUSTICE CENTER, INC.
SCHEDULE OF REVENUE AND EXPENSES - MARYLAND
LEGAL SERVICES COPORATION GRANT
FOR THE YEAR ENDED JUNE 30, 2013

	Actual Receipts and Expenditures	Approved Budget
Grants Revenue Received	\$ 227,050	\$ 227,050
Expenses		
Payroll Costs		
Attorneys	108,600	108,600
Paralegal	40,000	40,000
Others	20,000	20,000
Employee Benefits	10,000	10,000
	178,600	178,600
Occupancy	30,400	30,400
Equipment Rental	1,000	1,000
Supplies	1,000	1,000
Printing and Copying	1,000	1,000
Postage	1,000	1,000
Telephone	1,000	1,000
Travel	1,000	1,000
Training and Continuing Education	1,000	1,000
Insurance	4,000	4,000
Library and Dues	1,050	1,050
Audit	4,000	4,000
Contract Services	2,000	2,000
Total Expenses	227,050	227,050
Excess of Expenses Over Revenue	\$ -	\$ -

The accompanying notes are an integral part of this financial statement.
See Independent Auditors' Report