

THE WATSONVILLE LAW CENTER
(A Nonprofit Public Benefits Corporation)

FINANCIAL STATEMENTS

June 30, 2009
With Summarized Comparative Totals for June 30, 2008

THE WATSONVILLE LAW CENTER
(A Nonprofit Public Benefits Corporation)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
NOTES TO FINANCIAL STATEMENTS.....	6-10

PATRICIA A. BECKWITH

CERTIFIED PUBLIC ACCOUNTANT



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Watsonville Law Center

I have audited the accompanying statement of financial position of The Watsonville Law Center (a Nonprofit Public Benefits Corporation) as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements and, in my report dated November 25, 2008, I expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Watsonville Law Center as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Patricia Beckwith

Aptos, CA
November 20, 2009

**THE WATSONVILLE LAW CENTER
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009**

With summarized comparative totals for the year ended June 30, 2008

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 319,768	\$ 288,779
Accounts receivable	13,898	12,244
Grants receivable	160,500	256,500
Prepaid expenses	2,307	3,061
Deposits	2,100	-
Restricted cash	16,273	291,397
Property and equipment, net	<u>11,974</u>	<u>1,167</u>
TOTAL ASSETS	<u>\$ 526,820</u>	<u>\$ 853,148</u>
LIABILITIES		
Accounts payable	\$ 44,934	\$ 5,885
Payroll liabilities	13,056	9,769
Accrued vacation	15,410	19,439
Unearned revenue	-	20,712
Pass through third party funds	<u>16,273</u>	<u>270,685</u>
TOTAL LIABILITIES	<u>89,673</u>	<u>326,490</u>
NET ASSETS		
Unrestricted	147,842	80,729
Temporarily restricted	<u>289,305</u>	<u>445,929</u>
TOTAL NET ASSETS	<u>437,147</u>	<u>526,658</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 526,820</u>	<u>\$ 853,148</u>

The notes are an integral part of these financial statements.

**THE WATSONVILLE LAW CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009**

With summarized comparative totals for the year ended June 30, 2008

	Unrestricted	Temporarily Restricted	Total	2008
REVENUES AND OTHER SUPPORT				
Support				
Foundation grants & contributions	\$ 168,815	\$ 160,000	\$ 328,815	\$ 838,476
Government grants	45,486	-	45,486	47,724
Reimbursed program income	40,148	-	40,148	24,466
Fundraising events, net	6,425	-	6,425	5,651
Other	309	-	309	9,275
Investment income, net	1,775	-	1,775	949
Net assets released from restrictions:				
Restrictions satisfied by payments	316,624	(316,624)	-	-
TOTAL REVENUES AND OTHER SUPPORT	579,582	(156,624)	422,958	926,541
Expenses				
Program Services				
Legal services	391,031		391,031	302,669
Supporting Services				
Management and general	85,684		85,684	64,967
Fundraising	35,754		35,754	36,054
TOTAL EXPENSES	512,469	-	512,469	403,690
CHANGE IN NET ASSETS	67,113	(156,624)	(89,511)	522,851
NET ASSETS, beginning of year	80,729	445,929	526,658	3,807
NET ASSETS, end of year	\$ 147,842	\$ 289,305	\$ 437,147	\$ 526,658

The notes are an integral part of these financial statements.

THE WATSONVILLE LAW CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

With summarized comparative totals for the year ended June 30, 2008

	Program Services		Supporting Services		Total	2008
	Legal Services	Management and General	Management and General	Fundraising		
Compensation and related expenses						
Compensation	\$ 182,404	\$ 47,282	\$ 47,282	\$ 24,921	\$ 254,607	\$ 230,342
Employee benefits	16,285	4,221	4,221	2,225	22,731	21,984
Payroll taxes	15,472	4,011	4,011	2,114	21,597	18,606
	<u>214,161</u>	<u>55,514</u>	<u>55,514</u>	<u>29,260</u>	<u>298,935</u>	<u>270,932</u>
Accounting	-	1,697	1,697	-	1,697	2,044
Bank charges	-	258	258	-	258	53
Books, subscriptions & memberships	8,110	1,850	1,850	-	9,960	7,990
Contract services						
Contract services - subcontractors	98,258	-	-	-	98,258	6,180
Contract services - other	4,476	1,021	1,021	-	5,497	835
Conference and meetings	-	2,682	2,682	-	2,682	292
Depreciation	7,284	1,661	1,661	-	8,945	9,506
Equipment, maintenance & repairs	2,703	616	616	-	3,319	1,753
Fundraising	-	-	-	2,692	2,692	-
Insurance						
Property and casualty/directors	4,434	1,011	1,011	-	5,445	5,725
Worker's compensation	1,204	312	312	165	1,681	1,757
Office expenses & supplies	3,746	971	971	512	5,229	6,534
Occupancy						
Rent	12,403	3,759	3,759	1,981	18,143	14,676
Utilities	969	251	251	132	1,352	1,841
Other	966	230	230	375	1,571	-
Postage & printing	2,745	711	711	-	3,456	2,780
Professional fees	9,392	8,392	8,392	637	18,421	53,725
Supplies	4,662	1,209	1,209	-	5,871	4,785
Telephone	3,608	823	823	-	4,431	3,854
Training	2,193	500	500	-	2,693	3,114
Travel	6,781	1,546	1,546	-	8,327	2,515
Volunteer stipends	2,936	670	670	-	3,606	2,800
Total expenses, year ended June 30, 2009	<u>\$ 391,031</u>	<u>\$ 85,684</u>	<u>\$ 85,684</u>	<u>\$ 35,754</u>	<u>\$ 512,469</u>	
Total expenses, year ended June 30, 2008	<u>\$ 302,669</u>	<u>\$ 64,967</u>	<u>\$ 64,967</u>	<u>\$ 36,054</u>		<u>\$ 403,691</u>

The notes are an integral part of these financial statements.

**THE WATSONVILLE LAW CENTER
STATEMENT OF CASH FLOWS
Year Ended June 30, 2009**

With summarized comparative totals for the year ended June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ (89,511)	\$ 522,851
Adjustments to reconcile increase (decrease) in net assets to to net cash provided by (used in) operating activities:		
Depreciation	2,682	292
(Increase) decrease in:		
Accounts receivable	(1,654)	(12,244)
Grants receivable	96,000	(256,500)
Prepaid expenses	755	(3,061)
Deposits	(2,100)	-
Increase (decrease) in:		
Accounts payable	39,049	5,885
Payroll liabilities	3,288	9,769
Accrued vacation	(4,029)	19,439
Unearned revenue	(20,712)	20,712
Pass through third party funds	(254,412)	270,685
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(230,644)	577,828
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(13,490)	(1,459)
NET CASH (USED) BY INVESTING ACTIVITIES	(13,490)	(1,459)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(244,134)	576,369
CASH AND CASH EQUIVALENTS, beginning of year	580,176	3,807
CASH AND CASH EQUIVALENTS, end of year	\$ 336,042	\$ 580,176
As presented on the statement of financial position:		
Cash and Cash Equivalents	\$ 319,768	\$ 288,779
Restricted Cash	16,273	291,397
	\$ 336,042	\$ 580,176

The notes are an integral part of these financial statements.

THE WATSONVILLE LAW CENTER
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

The Watsonville Law Center (WLC) is a non-for-profit organization established in 2002. Formerly a segment of Community Bridges, WLC became a stand alone 501 (c)(3) in 2007. WLC provides free legal services to low-income individuals. Serving a predominantly agricultural community, WLC focuses on addressing issues related to worker rights, consumer protection and barriers to employment.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total by net class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

THE WATSONVILLE LAW CENTER
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Tax Status

The Organization is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. However, income from certain activities not related directly to the Organization's tax-exempt status purpose is subject to taxation as unrelated business income.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 are capitalized while expenditures for repairs and maintenance that do not improve or extend the useful lives of respective assets are expensed currently. Property and equipment are carried at cost. Transferred property and equipment is carried at the approximate fair value at the date of transfer. Depreciation is computed using primarily the straight-line method.

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted and temporarily restricted net assets, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

THE WATSONVILLE LAW CENTER
NOTES TO FINANCIAL STATEMENTS

NOTE 2. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in two financial institutions. While accounts at most institution are insured by the Federal Deposit Insurance Corporation up to \$250,000; one of the banking institutions, Wells Fargo Bank, offers temporary unlimited coverage on deposits in excess of standard FDIC coverage until December 31, 2009. Therefore, the Organization's excess cash balance of \$28,791 is not at risk.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable are deemed to be fully collectible by management and are comprised of the following:

	<u>2009</u>	<u>2008</u>
County of Santa Cruz	\$ 3,315	\$ 12,244
City of Watsonville	1,308	--
State Bar of California	4,455	--
RHA	1,650	--
Client Trust Account	<u>3,171</u>	<u>--</u>
	<u>\$ 13,898</u>	<u>\$ 12,244</u>

NOTE 4. GRANTS RECEIVABLE

Grants receivable are deemed to be fully collectible by management and are comprised of the following:

	<u>2009</u>	<u>2008</u>
S.H Cowell Foundation	\$ 113,000	\$ 254,000
Rose Foundation	47,500	--
CA Consumer Protection Foundation	<u>--</u>	<u>2,500</u>
	<u>\$ 160,500</u>	<u>\$ 256,500</u>

NOTE 5. RESTRICTED CASH

WLC is required by the State Bar of California to establish and maintain a client trust bank account. These funds are held on behalf of third parties and except for a small percentage of unearned revenue to be recognized as program income in a future period, the funds are categorized as a liability on the statement of financial position.

THE WATSONVILLE LAW CENTER
NOTES TO FINANCIAL STATEMENTS

NOTE 6. FIXED ASSETS

As of June 30, 2009, and for 2008, fixed assets consist of:

	<u>2009</u>	<u>2008</u>
Donated/transferred assets	\$ 4,000	\$ 4,000
Furnishings	2,374	--
Equipment	<u>12,574</u>	<u>1,459</u>
	18,948	5,459
Less: accumulated depreciation	<u>(6,974)</u>	<u>(4,292)</u>
	<u>\$ 11,974</u>	<u>\$ 1,167</u>

NOTE 7. DEBT

The Organization has a revolving line of credit with Santa Cruz Community Credit Union at an interest rate of 8.00%. There was no outstanding balance at June 30, 2009, or during 2008.

NOTE 8. OPERATING LEASE COMMITMENTS

The Organization entered into a five year office lease during 2009. Rent expense for the year was \$17,159. The base rent is subject to 3% incremental annual increases through the life of the lease. The following is a schedule of future minimum payments under the lease at June 30, 2009:

June 30, 2010	\$ 25,263
June 30, 2011	26,021
June 30, 2012	26,802
June 30, 2013	27,606
June 30, 2012	<u>25,999</u>
Total	<u>\$ 131,691</u>

THE WATSONVILLE LAW CENTER
NOTES TO FINANCIAL STATEMENTS

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2009, activity in the temporarily restricted net assets was as follows:

	Balance 6/30/08	Additions	Satisfied	Balance 6/30/09
CA Wellness Foundation	\$ 154,082	\$ --	\$ 70,082	\$ 84,000
CA Consumer Protection	2,500	--	2,500	--
CA Bar Foundation	--	65,000	23,195	41,805
Rose Foundation	--	95,000	44,500	50,500
S.H. Cowell Foundation	<u>289,347</u>	<u>--</u>	<u>176,347</u>	<u>113,000</u>
	<u>\$ 445,929</u>	<u>\$ 160,000</u>	<u>\$ 316,624</u>	<u>\$ 289,305</u>