

NORTHWEST CONSUMER LAW CENTER

FINANCIAL REPORT

DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northwest Consumer Law Center
Seattle, Washington

We have audited the accompanying financial statements of the Northwest Consumer Law Center ("the Center") which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 the Center as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Going Concern

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note 4 to the financial statements, the Center's current funding level will only support operations through May 2015. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Peterson Sullivan LLP

April 17, 2015

NORTHWEST CONSUMER LAW CENTER

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 115,812	\$ 119,923
Pledges receivable	150,000	650,000
Accounts receivable, net	175,870	19,757
Prepaid expenses	5,364	65
Total current assets	<u>447,046</u>	<u>789,745</u>
Trust Asset	11,677	20,009
Property and Equipment, net	5,636	20,806
Total assets	<u>\$ 464,359</u>	<u>\$ 830,560</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 10,950	\$ 20,575
Accrued payroll	20,268	26,988
Total current liabilities	<u>31,218</u>	<u>47,563</u>
Trust Liability	11,677	20,009
Total liabilities	<u>42,895</u>	<u>67,572</u>
Net Assets		
Unrestricted	270,464	11,988
Temporarily restricted	151,000	751,000
Total net assets	<u>421,464</u>	<u>762,988</u>
Total liabilities and net assets	<u>\$ 464,359</u>	<u>\$ 830,560</u>

See Notes to Financial Statements

NORTHWEST CONSUMER LAW CENTER

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contributions and grants	\$ 79,451	\$ 151,000	\$ 230,451	\$ 3,150	\$ 650,000	\$ 653,150
In-kind services				70,000		70,000
Legal service fees	289,757		289,757	25,329		25,329
Net assets released from restrictions	751,000	(751,000)		551,000	(551,000)	
Total support and revenue	1,120,208	(600,000)	520,208	649,479	99,000	748,479
Operating Expenses						
Program	666,202		666,202	535,404		535,404
Management and general	75,711		75,711	106,495		106,495
Fund development	119,819		119,819	180		180
Total operating expenses	861,732		861,732	642,079		642,079
Change in net assets	258,476	(600,000)	(341,524)	7,400	99,000	106,400
Net assets, beginning of year	11,988	751,000	762,988	4,588	652,000	656,588
Net assets, end of year	\$ 270,464	\$ 151,000	\$ 421,464	\$ 11,988	\$ 751,000	\$ 762,988

See Notes to Financial Statements

NORTHWEST CONSUMER LAW CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

	Program			Supporting Services		
	Home Justice Program	Other Consumer Programs	Total	Management and General	Fundraising	Total
Salaries and benefits	\$ 321,265	\$ 49,425	\$ 370,690	\$ 44,483	\$ 79,081	\$ 494,254
Professional services	107,266	13,113	120,379	12,586	6,883	139,848
Bad debt expense	54,846	8,438	63,284	7,594	13,501	84,379
Occupancy	38,268	5,887	44,155	5,299	9,420	58,874
Printing, supplies, and equipment	9,781	1,505	11,286	1,354	2,408	15,048
Library and research	9,701	1,078	10,779			10,779
Outreach and advertising	9,154	377	9,531		717	10,248
Travel	4,860	1,122	5,982	897	1,595	8,474
Depreciation	4,800	738	5,538	665	1,181	7,384
Continuing legal education	4,507	693	5,200	624	1,110	6,934
Dues and subscriptions	4,333	667	5,000	600	1,067	6,667
Communications	3,885	598	4,483	538	956	5,977
Repairs and maintenance	2,793	430	3,223	387	687	4,297
Telephone	1,523	234	1,757	211	375	2,343
Postage	936	216	1,152	173	306	1,631
Bank fees	1,019	157	1,176	141	251	1,568
Insurance	1,266	151	1,417	35	62	1,514
Meals and entertainment	893	137	1,030	124	219	1,373
Business licenses	126	14	140			140
	<u>\$ 581,222</u>	<u>\$ 84,980</u>	<u>\$ 666,202</u>	<u>\$ 75,711</u>	<u>\$ 119,819</u>	<u>\$ 861,732</u>

See Notes to Financial Statements

NORTHWEST CONSUMER LAW CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program			Supporting Services		
	Home Justice	Pro Bono Bankruptcy	Total	Management and General	Fundraising	Total
Salaries and benefits	\$ 286,269	\$ 1,439	\$ 287,708	\$ 71,514	\$ -	\$ 359,222
Professional services	75,803	381	76,184			76,184
Bad debt expense	4,888	25	4,913			4,913
Occupancy	30,026	151	30,177	7,501		37,678
Printing, supplies, and equipment	21,717	109	21,826			21,826
Library and research	13,560	68	13,628			13,628
Advertising	7,484	38	7,522			7,522
Travel	7,750	39	7,789			7,789
Depreciation	793	32	825	5,784		6,609
Continuing legal education	1,034	43	1,077	7,542		8,619
Dues and subscriptions	746	31	777	5,444		6,221
Communications	2,392	12	2,404			2,404
Repairs and maintenance	6,347	32	6,379			6,379
Telephone	842	35	877	6,144		7,021
Postage	2,247	11	2,258			2,258
Bank fees	632	3	635			635
Insurance	181	58	239	1,266		1,505
Meals and entertainment	137	6	143	1,000		1,143
Business licenses	41	2	43	300		343
In-kind expense	70,000		70,000			70,000
Fundraising					180	180
	<u>\$ 532,889</u>	<u>\$ 2,515</u>	<u>\$ 535,404</u>	<u>\$ 106,495</u>	<u>\$ 180</u>	<u>\$ 642,079</u>

See Notes to Financial Statements

NORTHWEST CONSUMER LAW CENTER

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (341,524)	\$ 106,400
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	7,384	6,609
Loss on disposal of property and equipment	8,944	
Change in allowance for accounts receivable	30,416	419
Changes in operating assets and liabilities		
Pledges receivable	500,000	
Accounts receivable	(186,529)	(20,176)
Prepaid expenses	(5,299)	(65)
Accounts payable	(9,625)	20,575
Accrued payroll	(6,720)	26,988
Net cash flows from operating activities	(2,953)	140,750
Cash Flows from Investing Activity		
Purchase of property and equipment	(1,158)	(27,415)
Net change in cash	(4,111)	113,335
Cash, beginning of year	119,923	6,588
Cash, end of year	<u>\$ 115,812</u>	<u>\$ 119,923</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Northwest Consumer Law Center ("the Center") is a not-for-profit organization, incorporated in 2011 to provide premier representation and litigation services to low- and moderate-income consumers who have limited or no other access to justice. The Center aims to ensure that Washington State consumers can protect their rights and their families.

Financial Statement Presentation

The Center reports 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. Contributions that are received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Center has no permanently restricted net assets, so this asset class is not presented.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met.

Temporarily restricted net assets at December 31, 2014 and 2013, are restricted for consumer foreclosure remedies.

Cash

Cash includes cash in checking accounts. In the normal course of business, the Center may have cash in financial institutions in excess of federally insured limits.

Trust Account

The Center receives funds from clients that are held in trust and used to pay client fees and court costs.

Contribution Revenue / Pledges Receivable

Unconditional promises to give are recognized as revenue in the period promised as pledges receivable. Pledges receivable that are expected to be collected within one year are recorded at net realizable value.

Management reviews the collectibility of pledges receivable on a periodic basis and determines the appropriate amount of any allowance. The Center charges off receivables to the allowance when management determines that a receivable is not collectible. There was no allowance necessary at December 31, 2014 or 2013.

At December 31, 2014 and 2013, all pledges receivable were due from one donor. For the year ended December 31, 2014, 76% of contributions are from one donor and one governmental organization. For the year ended December 31, 2013, 99% of contributions are from one donor.

Legal Services Income and Accounts Receivable

Revenues for legal services are recognized as the services are performed. Amounts earned but uncollected at December 31, 2014, are recorded as accounts receivable. Management reviews the collectibility of accounts receivable on a periodic basis and determines the appropriate amount of any allowance. The Center charges off receivables to the allowance when management determines that a receivable is not collectible. At December 31, 2014 and 2013, an allowance of \$30,835 and \$419, respectively, is recorded.

Property and Equipment

Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. The Center capitalizes expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the assets' estimated useful lives.

Functional Allocation of Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Advertising Costs

The Center expenses its advertising costs as incurred.

Income Taxes

The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

The Center has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 14,573	\$ 27,415
Less: accumulated depreciation	<u>(8,937)</u>	<u>(6,609)</u>
	<u>\$ 5,636</u>	<u>\$ 20,806</u>

Note 3. Related Party Transactions

Leen & O'Sullivan, PLLC ("Leen & O'Sullivan") is a for-profit law office that provides private legal services in the Pacific Northwest. Certain members of the Center's Board of Directors and the Executive Director are also owners of Leen & O'Sullivan. Additionally, Leen & O'Sullivan provides certain in-kind legal services to the Center. The revenue and expense recorded in these financial statements for these services was \$70,000 in 2013. No such in-kind legal services were received in 2014.

The Center leases office space from Leen & O'Sullivan under a month-to-month lease. The Center's expense under this arrangement was \$58,874 and \$37,678 in 2014 and 2013, respectively.

Leen & O'Sullivan charges the Center for general office, supplies, and equipment sharing. The expense recognized in the financial statements for these services was \$17,897 and \$61,109 in 2014 and 2013, respectively.

Note 4. Going Concern

The majority of the Center's operations are currently funded by a grant from the Legal Foundation of Washington, which is expected to cover operating costs through May 2015. Additional grant funding is currently being requested from the State of Washington Attorney General's Office. The Center has requested funding for three years at a rate of \$675,000 per year. However, as of the date of these financial statements, it is not possible to determine if the Center will be awarded these funds and able to continue operations.