



THE COMMUNITY LAW CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

WITH INDEPENDENT AUDITORS' REPORT THEREON

COMMUNITY LAW CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Law Center, Inc.
Baltimore, Maryland

We have audited the accompanying statements of financial position of Community Law Center, Inc., as of December 31, 2011 and 2010, and the related statements of activities and change in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of America. Those standards require that we 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Law Center, Inc., as of December 31, 2011 and 2010, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "T.R. Klein & Company".

February 28, 2012

Members

American Institute of Certified Public Accountants

Maryland Association of Certified Public Accountants

COMMUNITY LAW CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 283,741	\$ 262,731
Grants, contributions, and accounts receivable	99,661	100,475
Prepaid expenses and deposits	18,433	19,527
Restricted cash	16,000	16,000
Furniture and equipment, net	<u>17,987</u>	<u>28,660</u>
Total assets	<u><u>435,822</u></u>	<u><u>427,393</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	27,702	28,235
Agency transaction payable	<u>25,000</u>	<u>50,000</u>
Total liabilities	<u>52,702</u>	<u>78,235</u>
Net assets:		
Unrestricted - available for general purposes	247,120	221,458
Temporarily restricted	120,000	111,700
Permanently restricted	<u>16,000</u>	<u>16,000</u>
Total net assets	<u>383,120</u>	<u>349,158</u>
Total liabilities and net assets	<u><u>\$ 435,822</u></u>	<u><u>\$ 427,393</u></u>

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

COMMUNITY LAW CENTER, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	YEAR ENDED DECEMBER 31, 2011				YEAR ENDED DECEMBER 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Public support:								
Contributions	\$ 345,554	\$ 120,000	\$ -	\$ 465,554	\$ 482,808	\$ 111,700	\$ -	\$ 594,508
Contributed professional fees	505,002	-	-	505,002	305,961	-	-	305,961
	<u>850,556</u>	<u>120,000</u>	<u>-</u>	<u>970,556</u>	<u>788,769</u>	<u>111,700</u>	<u>-</u>	<u>900,469</u>
Special events	37,154	-	-	37,154	21,450	-	-	21,450
Less direct costs	6,144	-	-	6,144	1,658	-	-	1,658
	<u>31,010</u>	<u>-</u>	<u>-</u>	<u>31,010</u>	<u>19,792</u>	<u>-</u>	<u>-</u>	<u>19,792</u>
Grants from governmental agencies	88,212	-	-	88,212	99,592	-	-	99,592
Other revenue:								
Fees	23,446	-	-	23,446	87,853	-	-	87,853
Miscellaneous	1,502	-	-	1,502	974	-	-	974
	<u>24,948</u>	<u>-</u>	<u>-</u>	<u>24,948</u>	<u>88,827</u>	<u>-</u>	<u>-</u>	<u>88,827</u>
Net assets released from restriction	111,700	(111,700)	-	-	-	-	-	-
Total revenues, gains and other support	<u>1,106,426</u>	<u>8,300</u>	<u>-</u>	<u>1,114,726</u>	<u>996,980</u>	<u>111,700</u>	<u>-</u>	<u>1,108,680</u>
Expenses:								
Program services -								
Community legal assistance	911,350	-	-	911,350	773,005	-	-	773,005
Supporting services:								
Management and general	113,975	-	-	113,975	101,836	-	-	101,836
Fund raising	55,439	-	-	55,439	80,760	-	-	80,760
Total supporting services	<u>169,414</u>	<u>-</u>	<u>-</u>	<u>169,414</u>	<u>182,596</u>	<u>-</u>	<u>-</u>	<u>182,596</u>
Total expenses	<u>1,080,764</u>	<u>-</u>	<u>-</u>	<u>1,080,764</u>	<u>955,601</u>	<u>-</u>	<u>-</u>	<u>955,601</u>
Change in net assets	25,662	8,300	-	33,962	41,379	111,700	-	153,079
Net assets - beginning of year	221,458	111,700	16,000	349,158	180,079	-	16,000	196,079
Net assets - end of year	<u>\$ 247,120</u>	<u>\$ 120,000</u>	<u>\$ 16,000</u>	<u>\$ 383,120</u>	<u>\$ 221,458</u>	<u>\$ 111,700</u>	<u>\$ 16,000</u>	<u>\$ 349,158</u>

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

COMMUNITY LAW CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 33,962	\$ 153,079
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,673	12,076
(Increase) decrease in:		
Grants, contributions, and accounts receivable	814	(55,671)
Prepaid expenses and deposits	1,094	(740)
Increase (decrease) in:		
Accounts payable and accrued expenses	(533)	(2,242)
Agency transaction payable	<u>(25,000)</u>	<u>50,000</u>
Net cash provided by operating activities	<u>21,010</u>	<u>156,502</u>
Net increase in cash	21,010	156,502
Cash - beginning of year	<u>262,731</u>	<u>106,229</u>
Cash - end of year	<u><u>\$ 283,741</u></u>	<u><u>\$ 262,731</u></u>

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

COMMUNITY LAW CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	YEAR ENDED DECEMBER 31, 2011			
	Program Services	Supporting Services		
	Community Legal Assistance	Management and General	Fund Raising	Total
	-	-	-	-
Payroll and payroll related expenses	\$ 321,771	\$ 67,440	\$ 44,209	\$ 433,420
Professional fees	-	28,411	-	28,411
Contributed professional fees	505,002	-	-	505,002
Supplies	2,856	599	392	3,847
Occupancy	46,973	9,845	6,454	63,272
Telephone	5,194	1,089	714	6,997
Postage, printing and promotion	9,484	1,988	1,303	12,775
Equipment maintenance	6,853	1,436	942	9,231
Dues, library and publications	2,817	-	-	2,817
Interest and other	2,476	1,506	337	4,319
Depreciation	7,924	1,661	1,088	10,673
Bad debt expense	-	-	-	-
	<u>\$ 911,350</u>	<u>\$ 113,975</u>	<u>\$ 55,439</u>	<u>\$ 1,080,764</u>

	YEAR ENDED DECEMBER 31, 2010			
	Program Services	Supporting Services		
	Community Legal Assistance	Management and General	Fund Raising	Total
	-	-	-	-
	\$ 358,961	\$ 56,235	\$ 62,590	\$ 477,786
	-	26,189	-	26,189
	305,961	-	-	305,961
	1,850	290	323	2,463
	69,694	10,918	12,152	92,764
	5,162	809	900	6,871
	6,850	1,073	1,194	9,117
	8,312	1,302	1,449	11,063
	3,613	-	-	3,613
	3,529	1,220	570	5,319
	9,073	1,421	1,582	12,076
	-	2,379	-	2,379
	<u>\$ 773,005</u>	<u>\$ 101,836</u>	<u>\$ 80,760</u>	<u>\$ 955,601</u>

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

COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Nature of Organization

Community Law Center, Inc., (Organization) a nonprofit law firm, provides legal services to community and nonprofit organizations throughout Maryland to promote stronger nonprofits and more vibrant neighborhoods. Located in Baltimore, Maryland, the Organization provides technical resources, direct legal services, and counsel by pro bono attorneys to nonprofit organizations. The clients served by the Organization range from small, unfunded neighborhood associations to more complex nonprofit housing developers. The clients typically work in low income neighborhoods and are seeking to provide solutions to problems found in their community.

The Organization provides direct legal representation for clients through the Community Legal Services Program as well as the infrastructure to recruit, train and match volunteer attorneys to clients through the Pro Bono Program. Staff attorneys from the Community Legal Services program represent clients in four focus areas: Neighborhood Revitalization, Environmental Justice, Equitable Development, and Real Estate Services. In cases where a staff attorney is not available or when other expertise is required, clients are matched with volunteer attorneys through the Pro Bono Program. The Pro Bono Program enhances and expands the amount of services provided by the Organization, allowing the Organization to efficiently offer high-quality legal services to many more clients than staff alone could accommodate. Pro Bono Program staff prepares clients and their cases to be ready for pro bono representation, and follow up with both the client and attorney throughout the course of the case.

Legal services are provided to clients for free following the cost of an application fee, which varies based on the size of the client's budget. Clients' cases include drafting organizational documents (incorporation, bylaws revisions, application for 501(c)(3) status), negotiating contracts and leases, litigating nuisance abatement complaints, zoning and liquor board appeals, and any other legal matter faced by a nonprofit organization in Maryland.

COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

1 - Summary of Significant Accounting Policies (continued)

Contributions and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions. Governmental grant awards are classified as refundable advances until expended for the purpose of the grants since they are conditional promises to give.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash equivalents to include time deposits, certificates of deposit, and all highly liquid debt instruments purchased with maturities of three (3) months or less.

Donated Services

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Property and Equipment

The Organization capitalizes substantial expenditures for property and equipment having a useful life of three (3) or more years. Expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful lives of three (3) - ten (10) years using the straight-line method. The Organization uses the direct expensing method to account for planned major maintenance activities.

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COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

1 - Summary of Significant Accounting Policies (continued)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Accounts Receivable

Receivables are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are believed to be uncollectible by the time the financial statements are issued. Accounting principles generally accepted in the United States of America (GAAP) requires the allowance method for accounting for bad debts, but the differences between the two methods are immaterial.

2 - Commitments

The Organization leases its office space under a lease ending January 31, 2014 with monthly payments in the amount of \$ 5,081 increasing three (3) percent every February. The Organization has two, five-year options to renew the lease. Rent expense was \$ 62,653 and \$ 60,976 for the years ended December 31, 2011 and 2010, respectively.

Future minimum lease rentals are as follows:

2012	\$	64,517
2013		66,419
2014	\$	5,548

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COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

3 - Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

The Internal Revenue Service has not examined (audited) any income tax returns of the Organization thus the previous three (3) years are subject to examination. The Organization has not taken any questionable tax positions with respect to unrelated business income tax or anything that would jeopardize its 501(c)(3) status.

4 - Donated Services

The Organization received donated legal services which benefited all aspects of the mission. Donated legal services recorded in the financial statements was \$ 505,002 and \$ 305,961 for approximately 1,800 and 750 hours for the years ended December 31, 2011 and 2010, respectively.

5 - Contributions Receivable

Contributions receivable consisted of unconditional promises to give to be received within one year. The balance of contributions receivable was \$ 60,000 and \$ 75,000 at December 31, 2011 and 2010, respectively.

6 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31,:

	<u>2011</u>	<u>2010</u>
Time	\$ 70,000	\$ 105,000
Website	-	1,700
Publications/promotional material	-	5,000
Technology and server upgrades	50,000	-
	<u>\$ 120,000</u>	<u>\$ 111,700</u>

(Continued)

COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

7 - Property and Equipment

Property and equipment consisted of the following at December 31,:

Furniture and equipment	\$ 72,662	\$ 72,662
Less accumulated depreciation	54,675	44,002
	17,987	28,660

8 - Line of Credit

The Organization has a line of credit with an interest rate of 3.25% and a limit of \$50,000 which is secured by all of the assets of the Organization. The balance was \$ 0 at December 31, 2011 and 2010, respectively.

9 - Restricted Cash/Permanently Restricted Net Assets

The Louis B. Thalheimer and Juliet Eurich Philanthropic Fund, Inc. granted the Organization \$ 16,000 to establish a reserve fund. The fund is to be used in emergency situations only, and all funds withdrawn from the reserve fund must be repaid within one (1) year from the date of withdrawal. The Organization is in compliance with these restrictions, which expire on December 31, 2012.

10 - Temporarily Restricted Net Assets Released From Restriction

Temporarily restricted net assets released from restriction consisted of the following at December 31,:

	2011	2010
Time	105,000	-
Website	1,700	-
Publications/promotional materials	5,000	-
	\$ 111,700	\$ -

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COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11 - Fair Value Measurements

The accounting codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets, liabilities, revenue or expenses (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets, liabilities, revenue or expenses fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset, liability, revenue or expense. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive
- Inputs other than quoted prices that are observable for the asset or liabilities
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset, liability, revenue or expense's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

11 - Fair Value Measurements (continued)

Fair value for the donated services is determined using the cost approach based on the cost to a buyer to acquire comparable services. The Organization recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels in the years ended December 31, 2011 and 2010.

<u>December 31, 2011</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Asset Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Donated Legal Services	\$ 505,002	\$ -	\$ 505,002	\$ -
 <u>December 31, 2010</u>				
Donated Legal Services	\$ 305,961	\$ -	305,961	\$ -

12 - Sublease

On January 1, 2011, the Organization started leasing part of its facilities under a sublease agreement. Monthly rental payments are \$ 1,095 beginning in January increasing 3% in February of each year. The sublease expires December 31, 2012. The sublease also requires the sub-tenant to pay part of the operating costs of the facility. Sublease revenue reduces occupancy costs on the statement of functional expenses. Future minimum rentals to be received are as follows for the year ending December 31,:

2012	\$ 13,910
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COMMUNITY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13 - Subsequent Events

GAAP requires organizations to evaluate events and transactions that occur after the statement of financial position date but before the date the financial statements are available to be issued. GAAP requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the statement of financial position date, including the estimates inherent in the financial preparation process. Subsequent events that provide evidence about conditions that arose after the statement of financial position date should be disclosed if the financial statements would otherwise be misleading. The Organization has evaluated subsequent events through the date the financial statements were available to be issued on February 28, 2012 and determined that there are no events that require disclosure.

14 - Use of Estimates in Financial Statements

The preparation of financial statements in conformity with 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.