

PUBLIC INTEREST LAW INITIATIVE
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED AUGUST 31, 2011 AND 2010

PUBLIC INTEREST LAW INITIATIVE

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RUZICKA & ASSOCIATES, LTD.

Certified Public Accountants

Board of Directors
Public Interest Law Initiative

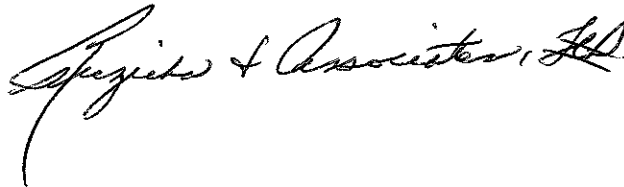
Independent Auditor's Report

We have audited the accompanying statements of financial position of Public Interest Law Initiative at August 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Public Interest Law Initiative'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 Public Interest Law Initiative at August 31, 2011 and 2010, and the changes 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.

September 21, 2011

A handwritten signature in cursive script that reads "Ruzicka & Associates, Ltd." with a stylized flourish at the end.

PUBLIC INTEREST LAW INITIATIVE
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and cash equivalents	\$ 350,663		8,704	359,367	\$ 312,826		3,704	316,530
Grants receivable	10,000	10,000		20,000	5,000	5,000		10,000
Investments		129,236	786,521	915,757		43,335	786,521	829,856
Prepaid expenses and deposits	4,417			4,417	5,201			5,201
Equipment, less accumulated depreciation of \$21,369 in 2011 and \$20,850 in 2010	616			616	1,135			1,135
Total assets	\$ 365,696	139,236	795,225	1,300,157	\$ 324,162	48,335	790,225	1,162,722
LIABILITIES AND NET ASSETS								
Accounts payable	\$ 445			445	\$ 119			119
Deferred revenue	39,150			39,150	30,000			30,000
Total liabilities	39,595			39,595	30,119			30,119
Net assets:	326,101	139,236	795,225	1,260,562	294,043	48,335	790,225	1,132,603
Total liabilities and net assets	\$ 365,696	139,236	795,225	1,300,157	\$ 324,162	48,335	790,225	1,162,722

See independent auditor's report and notes to financial statements.

PUBLIC INTEREST LAW INITIATIVE

STATEMENTS OF ACTIVITIES
AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue -								
Grants								
Foundations and corporations	\$ 115,900	10,000	5,000	130,900	\$ 109,950	5,000	5,000	119,950
Law firms	122,850			122,850	139,000			139,000
Board members	25,350			25,350	21,275			21,275
Individuals	7,305			7,305	8,392		3,704	12,096
Net assets released from restriction	20,000	(20,000)			23,125	(23,125)		
Special events								
Annual award luncheon								
Gross revenue	165,642			165,642	150,195			150,195
Direct expenses	(24,835)			(24,835)	(26,937)			(26,937)
Annual pro bono celebration								
Gross revenue	63,500			63,500	55,800			55,800
Direct expenses	(13,343)			(13,343)	(13,592)			(13,592)
Alumni reunion								
Gross revenue	2,715			2,715				
Direct expenses	(3,623)			(3,623)				
Investment income	509	100,901		101,410	(11,155)	2,138		(9,017)
Other	172			172				
In-kind support	44,000			44,000	44,000			44,000
Total support and revenue	526,142	90,901	5,000	622,043	500,053	(15,987)	8,704	492,770
Expenses -								
Program services	429,408			429,408	422,228			422,228
Management and general	28,514			28,514	43,705			43,705
Fundraising	36,162			36,162	49,835			49,835
Total expenses	494,084			494,084	515,768			515,768
Change in net assets	32,058	90,901	5,000	127,959	(15,715)	(15,987)	8,704	(22,998)
Net assets, beginning of year	294,043	48,335	790,225	1,132,603	309,758	64,322	781,521	1,155,601
Net assets, end of year	\$ 326,101	139,236	795,225	1,260,562	\$ 294,043	48,335	790,225	1,132,603

See independent auditor's report and notes to financial statements.

PUBLIC INTEREST LAW INITIATIVE
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

	2011				2010			
	Program Services	Management and general	Fundraising	Total	Program Services	Management and general	Fundraising	Total
Salaries	\$ 159,105	13,853	23,875	196,833	\$ 171,085	26,328	35,163	232,576
Payroll taxes	16,310	1,420	2,448	20,178	12,932	1,990	2,658	17,580
Employee benefits	16,582	1,445	2,488	20,515	15,133	2,329	3,111	20,573
Grants	175,000			175,000	167,038			167,038
Professional fees		5,858		5,858		5,329		5,329
Education	3,629			3,629	4,122			4,122
Postage and shipping	1,937	168	291	2,396	1,393	214	286	1,893
Occupancy	35,565	3,098	5,337	44,000	32,366	4,981	6,653	44,000
Printing and publications	3,172	276	476	3,924	2,082	321	428	2,831
Supplies	1,530	133	230	1,893	987	152	203	1,342
Equipment rental and small purchases	1,975	172	296	2,443	1,860	286	382	2,528
Conferences, meetings, and travel	7,204			7,204	4,964			4,964
Insurance	2,692	235	404	3,331	2,451	377	504	3,332
Telephone and internet	1,693	148	254	2,095	1,797	277	369	2,443
Dues and subscriptions	2,594			2,594	2,768			2,768
Depreciation	420	36	63	519	382	59	78	519
Other		1,672		1,672	868	1,062		1,930
Total	\$ 429,408	28,514	36,162	494,084	\$ 422,228	43,705	49,835	515,768

See independent auditor's report and notes to financial statements.

PUBLIC INTEREST LAW INITIATIVE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 127,959	\$ (22,998)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	519	519
Change in unrealized gains on investments held	(72,766)	13,567
Realized gain on investments sold	(3,619)	
Grants restricted for endowment	(5,000)	(8,704)
(Increase) decrease in grants receivable	(10,000)	5,312
Decrease (increase) in prepaid expenses and deposits	784	(2,191)
Increase (decrease) in accounts payable	326	(1,636)
Increase in deferred revenue	9,150	
Net cash provided (used) by operating activities	47,353	(16,131)
Cash flows from investing activities:		
Proceeds from sale of investments	52,659	139,000
Purchases of investments	(62,175)	(144,565)
Net cash (used) by investing activities	(9,516)	(5,565)
Cash flows from financing activities		
Grants restricted for endowment	5,000	8,704
Net cash provided by financing activities	5,000	8,704
Net (decrease) increase in cash	42,837	(12,992)
Cash at beginning of year	316,530	329,522
Cash at end of year	\$ 359,367	\$ 316,530

See independent auditor's report and notes to financial statements.

PUBLIC INTEREST LAW INITIATIVE

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

1. **Nature of Organization:**

Since its founding in 1977, the Public Interest Law Initiative (“PILI”) has cultivated a lifelong commitment to public interest law by creating opportunities for law students and lawyers to provide public interest and pro bono work in Illinois. At every stage in the life cycle of a legal career, PILI guides attorneys in actualizing their professional responsibilities and personal commitments to equal access to justice through a continuum of public interest law and pro bono opportunities. PILI’s programs first capture emerging lawyers when they are law students and new law school graduates, and then extend into legal practice to reach new associates, seasoned lawyers, and senior attorneys working in every sector of the legal community – private, academic, government, and nonprofit.

2. **Summary of significant accounting policies:**

Basis of accounting

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

Revenue and expense recognition

Revenue and expenses are recorded on the accrual basis of accounting. All contributions are considered to be available for unrestricted use unless otherwise specifically restricted by donors. Contributions are recorded and recognized as income when notice of award is received. Restricted contributions are recorded as revenue in temporarily restricted net assets if limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of PILI, or in permanently restricted net assets if such contributions are non-expendable. When a donor 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 as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same time period are classified as unrestricted.

Fixed assets

These assets are carried at cost or at estimated value on date of donation. Fixed asset additions in excess of \$500 are capitalized. Depreciation is provided by the straight-line method over the estimated useful lives of the assets (5 years).

Investments

Investments are carried at fair market value.

In-kind services and facilities

PILI receives donations of services from various volunteers. No amounts are reflected in the accounts for donated services, as no clearly measurable basis is available to measure such services. PILI shares and occupies office space at no charge in the offices of a major Chicago law firm. Such space is valued at the approximate fair rental value.

Functional expenses

Expenses, which are common to program and to support services, are allocated on bases determined by management.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Net assets:

PILI classifies its net assets into three categories:

Unrestricted net assets include all of the unrestricted support and revenue of PILI, all of the expenses of PILI, and transfers from temporarily restricted net assets for reimbursement of expenditures that meet the restrictions of the donors.

Temporarily restricted net assets include all the restricted support and revenue of PILI. Transfers are made from this fund to unrestricted net assets as expenditures are incurred which meet the restrictions of the donors.

Permanently restricted net assets include funds received from donors with the stipulation that they be permanently retained by PILI in perpetuity and that only the income and/or use of the assets are available to PILI.

4. Income taxes:

PILI is exempt from federal income taxes under section 501(c) (3) of the Internal Revenue Code.

5. Investments:

Investments at August 31, 2011 consist of the following:

Exchange traded equity funds	\$526,681
Fixed income funds	315,562
Commodity funds	46,489
Cash at Morgan Stanley	<u>27,025</u>
	<u>\$915,757</u>

Investments at August 31, 2010 consisted of the following:

Exchange traded equity funds	\$463,181
Fixed income funds	312,290
Commodity funds	37,336
Cash at Morgan Stanley	<u>17,049</u>
	<u>\$829,856</u>

Investment income is comprised of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$25,025	\$14,138
Realized gains on investment sold	3,619	
Change in market value of investments held	72,766	(13,567)
Partnership income		<u>(9,588)</u>
	<u>\$101,410</u>	<u>\$(9,017)</u>

6. **Concentration of risk:**

\$350,594 of cash is maintained in two accounts at a major Chicago bank.

7. **Fixed assets:**

Fixed assets at August 31, 2011 and 2010 are comprised of the following:

	<u>2011</u>	<u>210</u>
Equipment	\$ 21,985	\$21,985
Less: accumulated depreciation	<u>(21,369)</u>	<u>(20,850)</u>
	<u>\$ 616</u>	<u>\$ 1,135</u>

8. **In-kind support:**

PILI occupies office space at a major law firm at no charge. The space is valued at \$44,000 for 2011 and 2010 and is included in the accompanying statement of activities and changes in net assets.

9. **Pension:**

PILI has established a defined contribution retirement plan whereby it contributes five per cent of each eligible employee's salary into the plan. Pension expense totaled \$7,975 in 2011 and \$11,065 in 2010.

10. Temporarily restricted net assets:

Temporarily restricted net assets at August 31, 2011 consist of a \$10,000 grant commitment from the Illinois Bar Foundation for fiscal 2012 operations and \$129,236 of unspent investment income generated by Endowment Funds created by the estate of Florence E. Miller and the Alfred C. Tisdahl, Jr. Internship. Temporarily restricted net assets at August 31, 2010 included a \$5,000 grant commitment from the Illinois Bar Foundation for fiscal 2011 operations and \$43,335 of unspent investment income generated by the Florence E. Miller and Alfred C. Tisdahl endowment funds. The Illinois Bar Foundation amount and \$15,000 of the accumulated investment income were released from restriction in 2011.

11. Permanently restricted net assets:

Permanently restricted net assets consist of \$149,000 for the Alfred C. Tisdahl, Jr. Internship in Public Interest Law Endowment Fund and \$646,225 received from the estate of Florence E. Miller the income therefrom to be used to fund internships for female and male law students attending law school in the United States of America. The will of Florence E. Miller recognizes that the principal of the funds may be invested from time to time in manner that generates little or no "income" as defined in the Illinois Principal and Income Act. Accordingly, in the event that the annual income is less than five percent of the value of the principal fund, then principal may be used to the extent necessary to make-up the shortfall in income so that five percent of the fund is available each year for internships.

The Board of Directors of PILI has interpreted the State of Illinois Uniform Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PILI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the organization
- 7) The investment policies of the organization.

Endowment Net Asset Composition by Type of Fund is as follows:

August 31, 2011:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Alfred C. Tisdahl, Jr. Internship	\$	149,000	149,000
Florence E. Miller Internships	129,236	646,225	775,461
Total	<u>\$ 129,236</u>	<u>795,225</u>	<u>924,461</u>

August 31, 2010

Alfred C. Tisdahl, Jr. Internship	\$	144,000	144,000
Florence E. Miller Internships	43,335	646,225	689,560
Total	<u>\$ 43,335</u>	<u>790,225</u>	<u>833,560</u>

Changes in Endowment Net Assets are as follows:

August 31, 2011:

Alfred C. Tisdahl, Jr. Internship			
Endowment net assets, beginning of year	\$		144,000
Contributions		5,000	5,000
Endowment net assets, end of year	<u>\$</u>	<u>5,000</u>	<u>149,000</u>

Florence E. Miller Internships			
Endowment net assets, beginning of year	\$ 43,335	646,225	689,560
Contributions			
Investment return	85,901		85,901
Endowment net assets, end of year	<u>\$ 129,236</u>	<u>646,225</u>	<u>775,461</u>

August 31, 2010:

Alfred C. Tisdahl, Jr. Internship			
Endowment net assets, beginning of year	\$		139,000
Contributions		5,000	5,000
Endowment net assets, end of year	<u>\$</u>	<u>5,000</u>	<u>144,000</u>

Florence E. Miller Internships			
Endowment net assets, beginning of year	\$ 41,197	642,521	683,718
Contributions		3,704	3,704
Investment return	2,138		2,138
Endowment net assets, end of year	<u>\$ 43,335</u>	<u>646,225</u>	<u>689,560</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual donation. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of August 31, 2011 and 2010.

Return Objectives and Risk Parameters and Spending Guidelines

PILI is in the process of finalizing its investment policy and spending guidelines for its endowment funds. In 2011 and 2010, PILI dollar cost averaged into the financial market.

12. Subsequent events:

PILI has evaluated subsequent events for potential recognition and/or disclosure through September 21, 2011, the date the financial statements were available to be issued.