

NATIONAL CENTER FOR YOUTH LAW

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Center for Youth Law

Opinion

We have audited the accompanying financial statements of National Center for Youth Law (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2022, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Center for Youth Law as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Center for Youth Law and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Center for Youth Law's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT

continued

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Center for Youth Law's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Center for Youth Law's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited the National Center for Youth Law's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2023, on our consideration of National Center for Youth Law's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of National Center for Youth Law's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Center for Youth Law's internal control over financial reporting and compliance.

Harrington Group

Oakland, California
May 24, 2023

NATIONAL CENTER FOR YOUTH LAW

STATEMENT OF FINANCIAL POSITION

December 31, 2022

With comparative totals at December 31, 2021

| | 2022 | 2021 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 2) | \$ 7,739,282 | \$ 4,739,014 |
| Accounts receivable | 1,634,326 | 1,240,083 |
| Grants receivable (Note 4) | 9,000,868 | 7,012,577 |
| Prepaid expenses | 336,085 | 259,890 |
| Deposits | 75,257 | 62,223 |
| Investments (Note 5) | 10,731,028 | 9,234,338 |
| Property and equipment (Note 6) | 124,108 | 174,274 |
| Right of use-asset operating leases (Note 7) | 1,683,013 | - |
| | \$ 31,323,967 | \$ 22,722,399 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 552,048 | \$ 272,284 |
| Accrued payroll | 290,371 | 224,681 |
| Accrued vacation | 768,602 | 686,683 |
| Accrued liabilities other | 279,004 | 218,197 |
| Operating leases liability (Note 7) | 1,691,209 | - |
| | 3,581,234 | 1,401,845 |
| NET ASSETS | | |
| Without donor restrictions | 11,878,318 | 9,847,913 |
| With donor restrictions (Note 8) | 15,864,415 | 11,472,641 |
| | 27,742,733 | 21,320,554 |
| | \$ 31,323,967 | \$ 22,722,399 |

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

NATIONAL CENTER FOR YOUTH LAW

STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

With comparative totals for the year ended December 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | 2022 | 2021 |
|--|---------------------------------------|------------------------------------|----------------------|----------------------|
| REVENUE AND SUPPORT | | | | |
| Foundation grants and contracts | \$ 1,193,359 | \$ 15,396,411 | \$ 16,589,770 | \$ 13,531,001 |
| Government grants and contracts | | 4,655,369 | 4,655,369 | 3,929,602 |
| In-kind support (Note 11) | 2,561,605 | | 2,561,605 | 2,489,272 |
| Attorneys fees | 2,212,825 | | 2,212,825 | 879,598 |
| Law firms and corporate giving | 288,095 | | 288,095 | 293,459 |
| Contributions | 182,437 | | 182,437 | 329,369 |
| Miscellaneous | 101 | | 101 | 47,888 |
| Restitution/Cy Pres settlements | | | - | - |
| Net assets released from restrictions (Note 8) | 15,660,006 | (15,660,006) | - | - |
| | 22,098,428 | 4,391,774 | 26,490,202 | 21,500,189 |
| EXPENSES | | | | |
| Program services | 16,844,465 | | 16,844,465 | 14,513,651 |
| Management and general | 2,267,974 | | 2,267,974 | 2,019,757 |
| Fundraising | 962,833 | | 962,833 | 886,403 |
| | 20,075,272 | - | 20,075,272 | 17,419,811 |
| CHANGE IN NET ASSETS BEFORE OTHER CHANGES | 2,023,156 | 4,391,774 | 6,414,930 | 4,080,378 |
| OTHER CHANGES | | | | |
| Paycheck protection program loan forgiveness | | | - | 2,980,000 |
| Interest and dividend income | 48,021 | | 48,021 | 32,843 |
| (Loss) on investments | (40,772) | | (40,772) | (41,907) |
| | 7,249 | - | 7,249 | 2,970,936 |
| CHANGE IN NET ASSETS | 2,030,405 | 4,391,774 | 6,422,179 | 7,051,314 |
| NET ASSETS, BEGINNING OF YEAR | 9,847,913 | 11,472,641 | 21,320,554 | 14,269,240 |
| NET ASSETS, END OF YEAR | \$ 11,878,318 | \$ 15,864,415 | \$ 27,742,733 | \$ 21,320,554 |

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

NATIONAL CENTER FOR YOUTH LAW

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022

With comparative totals for the year ended December 31, 2021

| | Program Services | | | | | | | | | Total Program Services | Management and General | Fundraising | Total Expenses | |
|---------------------------------------|---------------------|-------------------|---------------------------|---------------------------------------|---------------------|---------------------|-------------------------------------|--|-------------------|------------------------------|---------------------------|-------------------|----------------------|--------------|
| | Juvenile Justice | Child Welfare | Health and Information | Education Civil Rights Alliance | Legal Strategies | Immigration | Compassionate Systems Arizona | Compassionate Systems California | Other Program | | | | 2022 | 2021 |
| Salaries | \$ 1,597,550 | \$ 417,544 | \$ 1,299,852 | \$ 920,182 | \$ 768,388 | \$ 826,926 | \$ 890,325 | \$ 1,238,774 | \$ - | \$ 7,959,541 | \$ 1,300,741 | \$ 688,539 | \$ 9,948,821 | \$ 8,549,696 |
| Employee benefits | 258,500 | 68,600 | 228,341 | 152,684 | 118,856 | 141,111 | 192,736 | 228,775 | - | 1,389,603 | 208,121 | 93,407 | 1,691,131 | 1,465,860 |
| Payroll taxes | 117,573 | 31,733 | 94,100 | 67,332 | 59,192 | 59,786 | 65,286 | 91,982 | - | 586,984 | 96,770 | 46,247 | 730,001 | 592,859 |
| Total personnel costs | 1,973,623 | 517,877 | 1,622,293 | 1,140,198 | 946,436 | 1,027,823 | 1,148,347 | 1,559,531 | - | 9,936,128 | 1,605,632 | 828,193 | 12,369,953 | 10,608,415 |
| In-kind legal services (Note 11) | 949,472 | - | - | - | 811,471 | 568,261 | 10,918 | 8,518 | 212,965 | 2,561,605 | - | - | 2,561,605 | 2,489,272 |
| Fees for service | 129,312 | 16,626 | 659,314 | 45,626 | 32,607 | 64,409 | 133,238 | 156,441 | 31,221 | 1,268,794 | 192,628 | 38,513 | 1,499,935 | 1,390,858 |
| Grants | 40,000 | - | 878,801 | 317,000 | - | - | - | 120,000 | 900 | 1,356,701 | - | - | 1,356,701 | 1,049,226 |
| Occupancy | 113,509 | 35,161 | 143,736 | 49,936 | 48,897 | 74,308 | 77,628 | 37,170 | - | 580,345 | 105,504 | 48,230 | 734,079 | 714,506 |
| Office expenses | 46,910 | 19,165 | 56,483 | 42,088 | 42,104 | 31,278 | 57,583 | 51,773 | 625 | 348,009 | 157,254 | 14,216 | 519,479 | 382,433 |
| Information technology | 48,026 | 11,765 | 52,255 | 27,190 | 23,790 | 19,056 | 84,198 | 59,619 | - | 325,899 | 98,948 | 25,849 | 450,696 | 371,098 |
| Travel | 120,363 | 5,027 | 34,142 | 11,869 | 46,187 | 25,737 | 13,199 | 11,781 | - | 268,305 | 19,758 | 522 | 288,585 | 107,577 |
| Conferences and meetings | 34,425 | 1,451 | 20,264 | 3,989 | 11,043 | 7,863 | 5,491 | 10,326 | 402 | 95,254 | 11,943 | 237 | 107,434 | 73,200 |
| Dues, licenses, and service fees | 10,609 | 1,200 | 3,859 | 1,186 | 8,487 | 3,082 | 667 | 1,474 | - | 30,564 | 31,183 | 782 | 62,529 | 50,438 |
| Depreciation | 10,632 | 3,858 | 9,848 | 3,247 | 4,529 | 6,835 | 3,393 | 3,586 | - | 45,928 | 10,645 | 4,760 | 61,333 | 64,375 |
| Insurance | 4,185 | 1,002 | 3,669 | 2,040 | 2,140 | 2,130 | 3,505 | 3,839 | - | 22,510 | 29,753 | 1,531 | 53,794 | 57,308 |
| Bank fees | 10 | - | 10 | - | - | 17 | - | - | - | 37 | 4,704 | - | 4,741 | 7,541 |
| Advertising and promotion | - | - | 386 | - | - | - | - | - | - | 386 | - | - | 386 | 6,279 |
| Bad debt expense | - | - | - | - | - | - | - | - | - | - | 22 | - | 22 | 265 |
| Other expense | - | - | - | - | - | - | - | - | - | - | - | - | - | 25,690 |
| Accounting | - | - | 4,000 | - | - | - | - | - | - | 4,000 | - | - | 4,000 | 21,330 |
| TOTAL 2022 FUNCTIONAL EXPENSES | \$ 3,481,076 | \$ 613,132 | \$ 3,489,060 | \$ 1,644,369 | \$ 1,977,691 | \$ 1,830,799 | \$ 1,538,167 | \$ 2,024,058 | \$ 246,113 | \$ 16,844,465 | \$ 2,267,974 | \$ 962,833 | \$ 20,075,272 | |
| TOTAL 2021 FUNCTIONAL EXPENSES | \$ 2,788,225 | \$ 47,781 | \$ 3,173,379 | \$ 667,061 | \$ 2,112,387 | \$ 2,228,743 | \$ 1,523,283 | \$ 1,930,910 | \$ 41,882 | \$ 14,513,651 | \$ 2,019,757 | \$ 886,403 | \$ 17,419,811 | |

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

NATIONAL CENTER FOR YOUTH LAW

STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

With comparative totals for the year ended December 31, 2021

| | 2022 | 2021 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 6,422,179 | \$ 7,051,314 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Paycheck protection program loan forgiveness | - | (2,980,000) |
| Depreciation | 61,333 | 64,375 |
| Loss on investments | 40,772 | 41,907 |
| Reinvested interest and dividends | (48,021) | (30,091) |
| Amortization of right-of-use asset - operating | 628,000 | - |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (394,243) | (604,557) |
| Grants receivable | (1,988,291) | (1,269,007) |
| Prepaid expenses | (76,195) | (2,135) |
| Deposits | (13,034) | 24,586 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 279,764 | (14,822) |
| Accrued payroll | 65,690 | 21,513 |
| Accrued vacation | 81,919 | 58,156 |
| Accrued liabilities other | 60,807 | 68,563 |
| Lease liability - operating | (619,804) | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 4,500,876 | 2,429,802 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale of investments | 22,766,035 | 12,912,740 |
| Purchase of investments | (24,255,476) | (15,428,812) |
| Purchase of property and equipment | (11,167) | (328) |
| NET CASH (USED) BY INVESTING ACTIVITIES | (1,500,608) | (2,516,400) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from paycheck protection program loan | - | 1,580,200 |
| NET CASH PROVIDED FROM FINANCING ACTIVITIES | - | 1,580,200 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,000,268 | 1,493,602 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 4,739,014 | 3,245,412 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 7,739,282 | \$ 4,739,014 |
| NON-CASH OPERATING ACTIVITIES: | | |
| Right-of-use asset liability - operating upon adoption of ASC 842 | \$ 2,329,263 | \$ - |

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

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Founded in 1971, National Center for Youth Law (“NCYL”) amplifies youth power, dismantles racism and other structural inequities, and builds just policies, practices, and culture that center youth. The organization advances justice through impact litigation, policy advocacy, demonstration sites, collaboration and research that fundamentally transforms our nation's approach to education, health, immigration, foster care, and youth justice.

What NCYL Does

- **Center Youth:** NCYL strives to center youth experiences and recognize their agency, insight, and wisdom in developing and implementing NCYL’s work.
- **Impact litigation:** NCYL impact litigation accelerates large-scale systemic change. NCYL work strategically and collaboratively with co-counsel partners, community organizations, and named plaintiffs to bring litigation that impacts broad classes of children and youth across multiple public systems.
- **Policy Advocacy:** NCYL implements policy advocacy at the federal, state, and local levels. NCYL work includes policy development, lobbying, coalition building, and community organizing.
- **Collaborations:** NCYL engages in strategic collaborations and partnerships with municipalities, government agencies and school districts to drive meaningful policy and practice changes. NCYL work leads to new, replicable models of service that set new standards for support and care.
- **Research:** NCYL conducts research to illuminate hidden inequities, identify opportunities for improved policies and procedures, and demonstrate the impacts of best practices. NCYL most common work in this area includes data collection and analysis and policy research analysis.

Where NCYL Focuses

- **Youth Justice:** NCYL works to transform the youth justice system, so that it better embodies true justice and equity for children. NCYL advances community-based, health-centered alternatives to harmful system practices and builds towards a culture in which the system treats children as children. The work NCYL does prioritizes evidence-based solutions that are proven to decrease recidivism and meet children with empathy and care.
- **Immigration:** NCYL works to ensure that immigrant children are able to live in communities rather than in government custody and have access to the resources and opportunities they need to heal and thrive. NCYL uses a combination of federal litigation, state and federal policy advocacy, stakeholder education, and coalition building to uphold and expand the rights of detained immigrant youth as well as immigrant children in the community.
- **Education:** NCYL’s education work aims to create an education ecosystem that centers youth. NCYL works to ensure equitable education opportunities to all children and youth - especially those who experience barriers due to disability, racism, socioeconomic status and more. NCYL also works to ensure safe and positive school environments where students can learn and thrive.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

- **Health:** NCYL works to ensure that all children have equitable access to whole-health care and support that meets their physical, emotional, and psycho-social needs. NCYL aims to dismantle the barriers to care that children and youth experience, including involvement in foster care or juvenile justice systems, implicit bias in the health system, and housing or economic instability.
- **Collaborative Responses to Commercial Sexual Exploitation:** NCYL seeks to end the commercial sexual exploitation (CSE) of children and youth - also referred to as child sex trafficking - and support children, youth, families and caregivers affected by CSE experience safety and healing so that they may achieve their goals. NCYL works to research, identify, develop and implement policies and practices that achieve collective systems change.
- **Foster Care:** NCYL works to ensure children and youth in foster care benefit from a positive and stable home-like environment. NCYL dismantles practices that harm children in foster care, ensures youth in foster care have access to health care and education, and promotes youth-, community-, and family-centered policies that preserve families and reduce reliance on the foster care system.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions. Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

NCYL has defined cash and cash equivalents as cash in banks and money market accounts in securities institutions.

Accounts Receivable

Accounts receivable includes outstanding contracts receivable. No allowance for doubtful accounts has been provided as they are all deemed fully collectible.

Grants Receivable

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 fair value, which is measured as the present value of their future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received.

Concentration of Credit Risks

NCYL maintains cash and cash equivalents at high-credit quality financial institutions. At times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limit. NCYL has not incurred losses related to these deposits.

Investments

NCYL values its investments at fair value. Unrealized gains or losses (including investments bought, sold and held during the year) are reflected in the Statement of Activities as gain or (loss) on investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

NCYL is required to measure certain investments, non-cash contributions, and revenues at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than two years.

Donated Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial 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, are recorded at fair value in the period received (see Note 11).

Functional Allocation of Expenses

Costs of providing NCYL's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. NCYL uses the proportion of time spent on each program to allocate indirect costs.

Income Taxes

NCYL is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by NCYL in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. NCYL's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Revenue and Revenue Recognition

NCYL recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of NCYL's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when NCYL has incurred expenditures in compliance with specific contract or grant provisions.

Recent Accounting Pronouncement

NCYL adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of lease transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. NCYL elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

Use of 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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with NCYL's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through May 24, 2023, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources

NCYL regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. NCYL has various sources of liquidity at its disposal, including cash and cash equivalents, and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, NCYL considers all expenditures related to its ongoing activities and the pattern of income from grants, contracts, fundraising, and investments. The Finance Committee of the Board of Trustees meets three times a year to review all financial aspects of the organization and reviews investment results, assesses risk, and makes recommendations for changes as needed.

In addition to financial assets available to meet general expenditures over the next 12 months, NCYL operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of December 31, 2022, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

| | |
|------------------------------|----------------------|
| Cash and cash equivalents | \$ 7,739,282 |
| Accounts receivable, net | 1,634,326 |
| Grants receivable | 5,984,171 |
| Investments | <u>10,731,029</u> |
| | 26,088,808 |
| Less: donor restricted funds | <u>(15,864,415)</u> |
| Financial assets available | <u>\$ 10,224,393</u> |

4. Grants Receivable

Grants receivable are recorded as support when committed unless designated otherwise. All grants are valued at their estimated fair value and are deemed fully collectible. Accordingly, no allowance for uncollectible receivables has been recorded as of December 31, 2022. Unamortized discount on multi-year grants receivable is immaterial and has not been recorded. Total grants receivable at December 31, 2022 of \$9,000,868 is expected to be collected as follows:

| | |
|---------------------------------|--------------------|
| <u>Year ending December 31,</u> | |
| 2023 | \$5,984,171 |
| 2024 | <u>3,016,697</u> |
| | <u>\$9,000,868</u> |

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments at December 31, 2022 consist of the following:

| | |
|-----------------------|---------------------|
| Bonds | \$ 9,486,037 |
| Exchange traded funds | <u>1,244,991</u> |
| | <u>\$10,731,028</u> |

6. Property and Equipment

Property and equipment at December 31, 2022 consist of the following:

| | |
|--------------------------------|-------------------|
| Developed software | \$ 394,259 |
| Furniture and equipment | 199,262 |
| Leasehold improvement | <u>141,639</u> |
| | 735,160 |
| Less: accumulated depreciation | <u>(611,052)</u> |
| | <u>\$ 124,108</u> |

Depreciation expense during the year ended December 31, 2022 was \$61,333.

7. Right of Use and Operating Leases Liability

NCYL evaluated current office and equipment contracts to determine which met the criteria of a lease. The right-of-use (“ROU”) assets represents NCYL’s right to use underlying assets for the lease term, and lease liabilities represent NCYL’s obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. NCYL has made an election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The discount rate applied to calculate lease liabilities as of December 31, 2022, was 3.85%. The lease payments will be recognized as lease expense on a straight-line basis over the lease term.

Future maturities of the lease liabilities as of December 31, 2022, is as follows:

| | |
|---------------------------------|--------------------|
| <u>Year ending December 31,</u> | |
| 2023 | \$ 715,516 |
| 2024 | 735,178 |
| 2025 | 221,314 |
| 2026 | <u>108,542</u> |
| Total lease payments | 1,780,550 |
| Less: present value discount | <u>(89,341)</u> |
| | <u>\$1,691,209</u> |

Lease expense under operating leases for the year ended December 31, 2022 was \$717,953.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

8. Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 consist of the following:

| | |
|----------------------------|---------------------|
| Other Projects | \$ 3,378,958 |
| Reproductive Health | 3,037,065 |
| FosterEd CA | 2,572,329 |
| Immigration | 1,756,124 |
| Eliminating Fines and Fees | 1,658,333 |
| ECRA | 1,124,375 |
| Child Trafficking | 757,500 |
| CA Youth Justice | 541,058 |
| Child Welfare | 405,976 |
| Adolescent Health | 299,978 |
| Legal Advocacy | 170,833 |
| FosterED AZ | 99,386 |
| Youth Justice – CO | 62,500 |
| | <u>\$15,864,415</u> |

For the year ended December 31, 2022, net assets with donor restrictions released from purpose restrictions were \$15,660,006.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2022 on a recurring basis:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------|---------------------|----------------|----------------|---------------------|
| Bonds | | | | |
| Government | \$ 8,799,983 | \$ - | \$ - | \$ 8,799,983 |
| Short-term bond | 246,963 | | | 246,963 |
| Intermediate-term bond | 439,091 | | | 439,091 |
| Total bond funds | <u>9,486,037</u> | <u>-</u> | <u>-</u> | <u>9,486,037</u> |
| Exchange traded funds | 1,244,991 | | | 1,244,991 |
| | <u>\$10,731,028</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$10,731,028</u> |

The fair value of bonds and exchange traded funds are measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

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NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurements, continued

The table below presents transactions measured at fair value on a non-recurring basis during the year ended December 31, 2022:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------|----------------|--------------------|---------------------|----------------------------|
| Grants commitments – new | \$ - | \$ | \$11,609,000 | \$11,609,000 |
| Donated services | | <u>2,561,605</u> | | <u>2,561,605</u> |
| | <u>\$ -</u> | <u>\$2,561,605</u> | <u>\$11,609,000</u> | <u>\$14,170,605</u> |

The fair value of grant commitments – new has been measured on a non-recurring basis using the value provided by the grantor at the date of commitment and based on evaluating the credit worthiness of the grantor (Level 3 inputs).

The fair value of donated services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

10. Commitments and Contingencies

Grant Awards

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. NCYL deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of NCYL to the provisions of the grants. NCYL's management is of the opinion that NCYL has complied with the terms of all grants.

11. In-kind Support

NCYL partners with outside attorneys and law firms to litigate cases on behalf of its clients. The pro bono firms donate the time of their attorneys and staff in addition to paying for out-of-pocket expenses associated with investigations and litigation. Total amount of in-kind support for the year ended December 31, 2022 was \$2,561,605.

| | |
|------------|--------------------|
| Legal fees | <u>\$2,561,605</u> |
|------------|--------------------|

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NOTES TO FINANCIAL STATEMENTS

12. Employee Benefit Plan

NCYL has a 403(b) employee benefit plan available to all eligible employees. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. NCYL made a non-matching contribution of 4% of employee's earnings during the year ended December 31, 2022. Employer contributions under this plan for the year ended December 31, 2022 were \$400,782.