

NATIONAL CENTER FOR YOUTH LAW

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Center for Youth Law

Report on the Financial Statements

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, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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 of America; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT

continued

Opinion

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, 2016, 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.

Other Matter

Summarized Comparative Information

We have previously audited the National Center for Youth Law's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
April 24, 2017

NATIONAL CENTER FOR YOUTH LAW

STATEMENT OF FINANCIAL POSITION

December 31, 2016

With comparative totals at December 31, 2015

	Unrestricted	Temporarily Restricted	2016	Restated 2015
ASSETS				
Cash and cash equivalents	\$ 140,132	\$ 1,535,106	\$ 1,675,238	\$ 1,630,266
Accounts receivable	99,516		99,516	91,794
Grants receivable (Note 3)		2,515,243	2,515,243	1,506,394
Prepaid expenses	65,571		65,571	28,693
Deposits			-	8,327
Investments (Note 4)	1,645,210		1,645,210	1,928,519
Property and equipment (Note 5)	316,450		316,450	99,794
	\$ 2,266,879	\$ 4,050,349	\$ 6,317,228	\$ 5,293,787
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 128,937	\$ -	\$ 128,937	\$ 54,158
Accrued payroll	81,758		81,758	118,987
Accrued vacation	210,970		210,970	197,018
Accrued liabilities other	111,924		111,924	41,954
	533,589	-	533,589	412,117
NET ASSETS				
Unrestricted	1,733,110		1,733,110	2,193,504
Temporarily restricted (Note 6)		4,050,529	4,050,529	2,688,166
	1,733,110	4,050,529	5,783,639	4,881,670
	\$ 2,266,699	\$ 4,050,529	\$ 6,317,228	\$ 5,293,787

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, 2016

With comparative totals for the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	2016	Restated 2015
REVENUE AND SUPPORT				
Foundation grants and contracts	\$ 364,893	\$ 4,975,533	\$ 5,340,426	\$ 2,669,109
In-kind support (Note 9)	1,015,791	4,487	1,020,278	291,379
Government grants	329,408		329,408	209,728
Contributions	137,400	92,493	229,893	158,491
Attorneys fees	145,213		145,213	776,163
Gain (loss) on investments	80,145		80,145	(24,888)
Law firms and corporate giving	47,588		47,588	29,663
Interest and dividend income	30,118		30,118	34,527
Miscellaneous	105		105	15,635
Discount on grants and pledges			-	61,068
Net assets released from purpose restrictions	3,710,150	(3,710,150)	-	-
TOTAL REVENUE AND SUPPORT	5,860,811	1,362,363	7,223,174	4,220,875
EXPENSES				
Program	5,393,726		5,393,726	4,522,567
Management and general	695,845		695,845	481,939
Fundraising	231,634		231,634	281,379
TOTAL EXPENSES	6,321,205	-	6,321,205	5,285,885
CHANGE IN NET ASSETS	(460,394)	1,362,363	901,969	(1,065,010)
NET ASSETS, BEGINNING OF YEAR	2,193,504	2,688,166	4,881,670	5,946,680
NET ASSETS, END OF YEAR	\$ 1,733,110	\$ 4,050,529	\$ 5,783,639	\$ 4,881,670

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, 2016

With comparative totals for the year ended December 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>	
				<u>2016</u>	<u>2015</u>
Salaries	\$ 2,575,580	\$ 281,427	\$ 151,705	\$ 3,008,712	\$ 2,876,138
Employee benefits	345,148	45,643	18,171	408,962	318,729
Payroll taxes	243,932	25,996	13,986	283,914	239,231
Retirement	106,335	10,140	6,031	122,506	120,872
Total personnel costs	3,270,995	363,206	189,893	3,824,094	3,554,970
In-kind legal services (Note 9)	1,020,278			1,020,278	283,279
Fees for service	174,648	140,413	3,770	318,831	524,579
Travel	254,773	12,072	6,797	273,642	212,174
Grants	249,646			249,646	122,582
Occupancy	154,393	21,544	12,926	188,863	167,868
Information technology	84,108	15,062	6,350	105,520	54,684
Office expenses	67,540	26,939	8,764	103,243	83,831
Depreciation	86,369	1,013	659	88,041	12,273
Bad debt expense		63,144		63,144	-
Conferences and meetings	21,116	8,110	1,420	30,646	141,798
Dues, licenses, and service fees	9,774	8,609	1,055	19,438	24,119
Insurance		16,341		16,341	20,535
Accounting		9,730		9,730	20,413
Bank fees	10	6,335		6,345	1,232
Advertising and promotion	76	2,500		2,576	37,157
Legal		827		827	3,682
Lobbying				-	12,609
In-kind out of pocket expenses				-	8,100
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 5,393,726	\$ 695,845	\$ 231,634	\$ 6,321,205	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 4,522,567	\$ 481,939	\$ 281,379		\$ 5,285,885

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, 2016

With comparative totals for the year ended December 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 901,969	\$ (1,065,010)
Adjustments to reconcile change in net assets to net cash (used) by operating activities		
Depreciation	88,041	12,273
(Gain) loss on investments	(80,145)	24,888
Reinvested interest and dividends	(29,793)	(34,527)
Unamortized discount on grants and pledges	-	(61,068)
(Increase) decrease in operating assets:		
Accounts receivable	(7,722)	209,702
Grants receivable	(1,008,849)	750,733
Pledges receivable	-	20,522
Prepaid expenses	(36,878)	16,425
Deposits	8,327	-
Increase (decrease) in operating liabilities:		
Accounts payable	74,779	44,116
Accrued payroll	(37,229)	19,864
Accrued vacation	13,952	42,378
Accrued liabilities other	69,970	2,803
	(43,578)	(16,901)
NET CASH (USED) BY OPERATING ACTIVITIES		
CASH FLOW FROM INVESTING ACTIVITIES:		
Sales of investments	393,247	-
Purchase of investments	-	(987)
Purchase of property and equipment	(304,697)	(18,197)
	88,550	(19,184)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,972	(36,085)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,630,266	1,666,351
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,675,238	\$ 1,630,266

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

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

National Center for Youth Law (“NCYL”) is a nonprofit organization whose goal is to improve the lives of children in need. NCYL uses the law to ensure that low-income children have the resources, support, and opportunities they need for a fair start in life. Its work ensures that public agencies created to protect and care for children do so effectively. NCYL’s efforts are national in scope and create lasting change on behalf of tens of thousands of children in need each year.

For children who have been abused or neglected and live in foster care, NCYL works to improve foster care systems that fail to protect and promote the well-being of children placed in custody of the state. Increasingly, NCYL is collaborating with state and local partners to connect foster children to caring adults to improve their educational outcomes. NCYL strives to eliminate barriers to health care for low-income children, especially teenagers. This includes ensuring access to reproductive health, mental health, and other sensitive services. NCYL’s work addresses the widespread need for mental health care among abused, neglected, and troubled children to help them stay at home, in school, and on the right path. For children in trouble with the law, NCYL champions children’s fair and appropriate treatment, with particular attention to reducing racial disparities. NCYL also promotes approaches that serve and rehabilitate children in their communities, as an alternative to simply locking them up.

NCYL uses several methods to achieve results. NCYL engages in litigation that precipitates broad change; develops model programs to meet children’s needs effectively and sustainably; writes, sponsors, and champion’s laws designed to help low-income children; works with public agencies on policy reform; and promote media coverage of issues affecting low-income children to make their needs a public priority. NCYL also provides training, technical assistance, and published legal analyses to other child advocates and service providers nationwide to help them do their work more effectively and efficiently.

Since 1970, NCYL has successfully advocated for children whose needs are often ignored by our society, and provides them with a voice in the decisions that so dramatically affect their lives.

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.

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of NCYL are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. NCYL reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 program or capital restrictions. NCYL has temporarily restricted net assets of \$3,912,745 at December 31, 2016.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit NCYL to expend all of the income (or other economic benefits) derived from the donated assets. NCYL has no permanently restricted net assets at December 31, 2016.

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 and grants 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.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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. Short-term highly liquid money market deposits that are not used for operations are treated as 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.

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 two thousand dollars and the useful life is greater than one year.

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 9).

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2015, from which the summarized information was derived.

Reclassifications

For comparability, certain December 31, 2015 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2016.

Subsequent Events

Management has evaluated subsequent events through April 24, 2017, 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. 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, 2016. Discount on grants receivable is immaterial, accordingly unamortized discount on grants has not been receivable recorded. Total grants receivable at December 31, 2016 of \$2,515,243 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2017	\$1,965,243
2018	<u>550,000</u>
	<u>\$2,515,243</u>

4. Investments

Investments at December 31, 2016 consist of the following:

Equity funds	\$1,123,270
Bond funds	513,747
Money market funds	<u>8,193</u>
	<u>\$1,645,210</u>

5. Property and Equipment

Property and equipment at December 31, 2016 consist of the following:

Developed software	\$ 297,864
Furniture and equipment	79,217
Law library	57,873
Leasehold improvement	<u>9,350</u>
	444,304
Less: accumulated depreciation	<u>(127,854)</u>
	<u>\$ 316,450</u>

Depreciation expense during the year ended December 31, 2016 was \$88,041.

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2016 consist of the following:

Foster Youth Education – California	\$2,169,728
Health and Information	1,425,825
Foster Youth Education – New Mexico	259,809
Fiza Fellowship	80,793
Foster Youth Education – Arizona	82,251
Child Trafficking	22,459
Deep End	<u>9,664</u>
	<u>\$4,050,529</u>

For the year ended December 31, 2016, net assets released from purpose restrictions were \$3,710,150.

7. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds				
Large blend	\$1,123,270	\$ -	\$ -	\$1,123,270
Bond funds				
Government	<u>513,747</u>	<u>-</u>	<u>-</u>	<u>513,747</u>
	<u>\$1,637,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,637,017</u>

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

The table below presents transactions measured at fair value on a non-recurring basis during the year ended December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Grant commitments - new	\$ -	\$ -	\$2,515,243	\$2,515,243
Donated services	<u>-</u>	<u>1,020,278</u>	<u>-</u>	<u>1,020,278</u>
	<u>\$ -</u>	<u>\$1,020,278</u>	<u>\$2,515,243</u>	<u>\$3,535,521</u>

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

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 commitment and based on evaluating the credit worthiness of the grantor (Level 3 inputs).

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies

Grants 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.

Obligations Under Operating Leases

NCYL leases four offices and a copier under operating lease. The lease term for the main Oakland office extends to December 31, 2019. Future minimum payments, by year and in the aggregate, under this lease with initial or remaining terms of one year or more, consist of the following:

Year ended December 31,

2017	\$210,899
2018	198,740
2019	201,048
2020	6,408
2021	<u>4,806</u>
	<u>\$621,901</u>

Rent expense under the operating lease for the year ended December 31, 2016 was \$188,864.

9. 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. Additionally, NCYL had volunteer staff attorneys and law clerks. Total amount of in-kind support for the year ended December 31, 2016 were \$1,020,278.

Legal assistance	\$848,109
Volunteer staff attorneys	112,158
Law clerks	44,882
Other	<u>15,129</u>
	<u>\$1,020,278</u>

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

10. 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, 2016. Employer contributions under this plan for the year ended December 31, 2016 were \$122,506.

11. Restatement of Net Assets

Unrestricted net assets and temporarily restricted net assets at January 1, 2015 have been restated to correct certain misclassifications incurred in previous years. The comparative totals for December 31, 2015 presented in these financial statements have been restated to reflect the correct balances as follows:

	As previously Reported	As Adjusted	As Restated
<u>Statement of Financial Position:</u>			
Unrestricted net assets	\$3,353,669	\$(1,160,165)	\$2,193,504
Temporarily restricted net assets	\$1,528,001	\$1,160,165	\$2,688,166
<u>Statement of Activities:</u>			
Unrestricted net assets	\$3,353,669	\$(1,160,165)	\$2,193,504
Temporarily restricted net assets	\$1,528,001	\$1,160,165	\$2,688,166