

**NATIONAL CENTER FOR YOUTH LAW**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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## **INDEPENDENT AUDITORS' REPORT**

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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, 2015, 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

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### 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harrington Group*

San Francisco, California

March 15, 2016

**NATIONAL CENTER FOR YOUTH LAW**

STATEMENT OF FINANCIAL POSITION

December 31, 2015

With comparative totals at December 31, 2014

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,608,659	\$ 21,607	\$ 1,630,266	\$ 1,666,351
Accounts receivable	91,794		91,794	301,496
Grants receivable (Note 3)		1,506,394	1,506,394	2,257,127
Pledges receivable (Note 3)			-	20,522
Unamortized discount on grants and pledges (Note 3)			-	(61,068)
Prepaid expenses	28,693		28,693	45,118
Deposits	8,327		8,327	8,327
Investments (Note 5)	1,928,519		1,928,519	1,917,893
Property and equipment (Note 4)	99,794		99,794	93,870
<b>TOTAL ASSETS</b>	<b>\$ 3,765,786</b>	<b>\$ 1,528,001</b>	<b>\$ 5,293,787</b>	<b>\$ 6,249,636</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 54,158	\$ -	\$ 54,158	\$ 10,042
Accrued payroll	118,987		118,987	99,123
Accrued vacation	197,018		197,018	154,640
Accrued liabilities other	41,954		41,954	39,151
<b>TOTAL LIABILITIES</b>	<b>412,117</b>	<b>-</b>	<b>412,117</b>	<b>302,956</b>
<b>NET ASSETS</b>				
Unrestricted	3,353,669		3,353,669	3,750,621
Temporarily restricted (Note 6)		1,528,001	1,528,001	2,196,059
<b>TOTAL NET ASSETS</b>	<b>3,353,669</b>	<b>1,528,001</b>	<b>4,881,670</b>	<b>5,946,680</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,765,786</b>	<b>\$ 1,528,001</b>	<b>\$ 5,293,787</b>	<b>\$ 6,249,636</b>

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, 2015

With comparative totals for the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	2015	2014
<b>SUPPORT AND REVENUE</b>				
<b>SUPPORT</b>				
Foundations	\$ 777,000	\$ 1,517,965	\$ 2,294,965	\$ 5,095,500
In-kind support (Note 9)	291,379		291,379	4,055,601
Grants/state funding	209,728		209,728	177,947
Contributions	158,491		158,491	152,135
Discount on grants and pledges (Note 3)		61,068	61,068	(61,068)
Law firms and corporate giving	29,663		29,663	47,183
Government grants			-	244,375
<b>TOTAL SUPPORT</b>	<b>1,466,261</b>	<b>1,579,033</b>	<b>3,045,294</b>	<b>9,711,673</b>
<b>REVENUE</b>				
Attorneys fees	776,163		776,163	430,025
Contracts	374,144		374,144	160,288
Interest/dividend income	34,527		34,527	20,963
Miscellaneous	15,635		15,635	24,727
Gain on investments	(24,888)		(24,888)	111,421
<b>TOTAL REVENUE</b>	<b>1,175,581</b>	<b>-</b>	<b>1,175,581</b>	<b>747,424</b>
Net assets released from purpose restrictions	2,247,091	(2,247,091)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>4,888,933</b>	<b>(668,058)</b>	<b>4,220,875</b>	<b>10,459,097</b>
<b>EXPENSES</b>				
Program	4,522,567		4,522,567	7,317,535
Management and general	481,939		481,939	336,718
Fundraising	281,379		281,379	340,033
<b>TOTAL EXPENSES</b>	<b>5,285,885</b>	<b>-</b>	<b>5,285,885</b>	<b>7,994,286</b>
<b>CHANGE IN NET ASSETS</b>	<b>(396,952)</b>	<b>(668,058)</b>	<b>(1,065,010)</b>	<b>2,464,811</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,750,621</b>	<b>2,196,059</b>	<b>5,946,680</b>	<b>3,481,869</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 3,353,669</b>	<b>\$ 1,528,001</b>	<b>\$ 4,881,670</b>	<b>\$ 5,946,680</b>

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, 2015

With comparative totals for the year ended December 31, 2014

				Total Expenses	
	Program	Management and General	Fundraising	2015	2014
Salaries	\$ 2,424,897	\$ 243,486	\$ 207,755	\$ 2,876,138	\$ 2,356,331
Employee benefits	268,723	26,983	23,023	318,729	282,046
Payroll taxes	201,697	20,253	17,281	239,231	197,795
Retirement	101,908	10,233	8,731	120,872	83,765
Total personnel costs	<u>2,997,225</u>	<u>300,955</u>	<u>256,790</u>	<u>3,554,970</u>	<u>2,919,937</u>
Fees for service	524,579			524,579	335,670
In-kind legal services	283,279			283,279	3,838,283
Travel	212,174			212,174	161,837
Occupancy	141,531	14,211	12,126	167,868	157,427
Conferences and meetings	28,928	111,410	1,460	141,798	93,125
Grants	122,582			122,582	12,721
Office expenses	70,679	7,097	6,055	83,831	73,100
Information technology	26,831	27,853		54,684	30,434
Advertising and promotion	33,441		3,716	37,157	33,079
Dues, licenses, and service fees	24,119			24,119	15,121
Insurance	20,535			20,535	6,110
Accounting		20,413		20,413	18,366
Lobbying	12,609			12,609	-
Depreciation	12,273			12,273	8,877
In-kind out of pocket expenses	8,100			8,100	217,318
Legal	3,682			3,682	71,439
Bank fees			1,232	1,232	1,442
<b>TOTAL 2015 FUNCTIONAL EXPENSES</b>	<u><u>\$ 4,522,567</u></u>	<u><u>\$ 481,939</u></u>	<u><u>\$ 281,379</u></u>	<u><u>\$ 5,285,885</u></u>	
<b>TOTAL 2014 FUNCTIONAL EXPENSES</b>	<u><u>\$ 7,317,535</u></u>	<u><u>\$ 336,718</u></u>	<u><u>\$ 340,033</u></u>		<u><u>\$ 7,994,286</u></u>

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, 2015

With comparative totals for the year ended December 31, 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (1,065,010)	\$ 2,464,811
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	12,273	8,877
Loss (gain) on investments	24,888	(111,421)
Reinvested interest and dividends	(34,527)	(20,963)
Unamortized discount on grants and pledges	(61,068)	61,068
(Increase) decrease in operating assets:		
Accounts receivable	209,702	(287,946)
Grants receivable	750,733	(1,953,475)
Pledges receivable	20,522	4,860
Prepaid expenses	16,425	(7,107)
Increase (decrease) in operating liabilities:		
Accounts payable	44,116	13,339
Accrued payroll	19,864	25,005
Accrued vacation	42,378	29,325
Accrued liabilities other	2,803	-
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(16,901)</b>	226,373
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(987)	(501,534)
Purchase of property and equipment	(18,197)	(21,527)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(19,184)</b>	(523,061)
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(36,085)</b>	(296,688)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,666,351</b>	1,963,039
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,630,266</b>	\$ 1,666,351

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



# NATIONAL CENTER FOR YOUTH LAW

## NOTES TO FINANCIAL STATEMENTS

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### 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

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### 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 \$1,528,001 at December 31, 2015.

**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, 2015.

#### 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.

#### Pledges 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.

continued

# NATIONAL CENTER FOR YOUTH LAW

## NOTES TO FINANCIAL STATEMENTS

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### 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.

Approximately 54% of NCYL's total support and revenue is derived from grants from foundations.

#### 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 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 the following asset and revenues at fair value: non-cash contributions pledged contributions, and certain investments. The specific techniques used to measure fair value for each element is 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 one 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.

continued

# NATIONAL CENTER FOR YOUTH LAW

## NOTES TO FINANCIAL STATEMENTS

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### 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 salaries expense related to each functional category 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, 2014, from which the summarized information was derived.

#### **Subsequent Events**

Management has evaluated subsequent events through March 15, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appears to require recognition or disclosure in the financial statements.

continued

# NATIONAL CENTER FOR YOUTH LAW

## NOTES TO FINANCIAL STATEMENTS

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### 3. Grants and Pledges Receivable

Grants and pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at their estimated fair value and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2015. Total grants and pledges receivable at December 31, 2015 of \$1,506,394 is expected to be collected within one year.

### 4. Property and Equipment

Property and equipment at December 31, 2015 consist of the following:

Furniture and equipment	\$ 75,920
Law library	57,873
Leasehold improvement	<u>5,814</u>
	139,607
Less: accumulated depreciation	<u>(39,813)</u>
	<u>\$ 99,794</u>

Depreciation expense during the year ended December 31, 2015 was \$12,273.

### 5. Investments

Investments at December 31, 2015 consist of the following:

Equity funds	\$1,419,307
Bond funds	507,965
Equities	<u>1,247</u>
	<u>\$1,928,519</u>

### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2015 consist of the following:

Foster Youth Education	\$1,386,126
Juvenile Justice	<u>141,875</u>
	<u>\$1,528,001</u>

For the year ended December 31, 2015, net assets released from purpose restrictions were \$2,247,091.

# NATIONAL CENTER FOR YOUTH LAW

## NOTES TO FINANCIAL STATEMENTS

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### 7. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Mutual funds</b>				
Equity funds				
Large blend	\$1,419,307	\$ -	\$ -	\$1,419,307
Bond funds				
Government	<u>507,965</u>	<u>          </u>	<u>          </u>	<u>507,965</u>
<b>Total mutual funds</b>	<u>1,927,272</u>	<u>          </u>	<u>          </u>	<u>1,927,272</u>
<b>Equities</b>	<u>1,247</u>	<u>          </u>	<u>          </u>	<u>1,247</u>
	<u>\$1,928,519</u>	<u>\$          </u>	<u>\$          </u>	<u>\$1,928,519</u>

The fair value of equity funds, bond funds, and equities 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions - new	\$ -	\$ -	\$ 8,678	\$ 8,678
Donated services	<u>          </u>	<u>          </u>	<u>291,379</u>	<u>291,379</u>
	<u>\$          </u>	<u>\$          </u>	<u>\$300,057</u>	<u>\$300,057</u>

The fair value of pledged contributions - new and donated services are measured on a non-recurring basis on the value provided by the donor at the date of pledge (Level 3 inputs).

### 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.

continued

# NATIONAL CENTER FOR YOUTH LAW

## NOTES TO FINANCIAL STATEMENTS

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### 8. Commitments and Contingencies, continued

#### Obligations Under Operating Leases

NCYL leases an office space, under an operating lease. The lease term 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:

<u>Year ended December 31,</u>	
2016	\$175,779
2017	181,951
2018	188,238
2019	<u>194,648</u>
	<u>\$740,616</u>

Rent expense under the operating lease for the year ended December 31, 2015 was \$167,868.

### 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, law clerks and interns. Total amount of in-kind support for the year ended December 31, 2015 is as follows:

Volunteer staff attorneys	\$124,238
Law clerks	82,439
Legal fees	53,607
Interns	21,615
Youth advocates	<u>1,380</u>
	283,279
Donated facilities	7,600
Out of pocket expenses	<u>500</u>
	<u>\$291,379</u>

### 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, 2015. Employer contributions under this plan for the year ended December 31, 2015 were \$119,027.