



Certified Public Accountants, LLP

NATIONAL CENTER FOR YOUTH LAW



FINANCIAL STATEMENTS

DECEMBER 31, 2017

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CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14

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, 2017, 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, 2017, 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

Report on Summarized Comparative Information

We have previously audited the National Center for Youth Law's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
May 23, 2018

NATIONAL CENTER FOR YOUTH LAW

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With comparative totals at December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
ASSETS				
Cash and cash equivalents	\$ 271,838	\$ 985,429	\$ 1,257,267	\$ 1,675,238
Accounts receivable	656,578		656,578	99,516
Grants receivable (Note 3)		2,555,217	2,555,217	2,515,243
Prepaid expenses	109,295		109,295	56,444
Deposits	21,304		21,304	9,127
Investments (Note 4)	1,369,546		1,369,546	1,645,210
Property and equipment (Note 5)	252,561		252,561	316,450
	<u>2,681,122</u>	<u>3,540,646</u>	<u>6,221,768</u>	<u>6,317,228</u>
TOTAL ASSETS	\$ 2,681,122	\$ 3,540,646	\$ 6,221,768	\$ 6,317,228
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 167,465	\$ -	\$ 167,465	\$ 128,937
Accrued payroll	113,690		113,690	81,758
Accrued vacation	256,497		256,497	210,970
Accrued liabilities other	121,500		121,500	111,924
	<u>659,152</u>	<u>-</u>	<u>659,152</u>	<u>533,589</u>
TOTAL LIABILITIES	659,152	-	659,152	533,589
NET ASSETS				
Unrestricted	2,021,970		2,021,970	1,733,110
Temporarily restricted (Note 6)		3,540,646	3,540,646	4,050,529
	<u>2,021,970</u>	<u>3,540,646</u>	<u>5,562,616</u>	<u>5,783,639</u>
TOTAL NET ASSETS	2,021,970	3,540,646	5,562,616	5,783,639
TOTAL LIABILITIES AND NET ASSETS	\$ 2,681,122	\$ 3,540,646	\$ 6,221,768	\$ 6,317,228

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, 2017

With comparative totals for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	2017	2016
REVENUE AND SUPPORT				
Foundation grants and contracts	\$ 2,119,829	\$ 2,312,110	\$ 4,431,939	\$ 5,340,426
In-kind support (Note 9)	1,491,505		1,491,505	1,020,278
Government grants	1,476,928		1,476,928	329,408
Attorneys fees	434,535		434,535	145,213
Contributions	125,842		125,842	229,893
Gain on investments	124,181		124,181	80,145
Law firms and corporate giving	42,540		42,540	47,588
Interest and dividend income	27,797		27,797	30,118
Miscellaneous	15		15	105
Net assets released from purpose restrictions	2,821,993	(2,821,993)	-	-
TOTAL REVENUE AND SUPPORT	8,665,165	(509,883)	8,155,282	7,223,174
EXPENSES				
Program	7,276,474		7,276,474	5,393,726
Management and general	808,368		808,368	695,845
Fundraising	291,463		291,463	231,634
TOTAL EXPENSES	8,376,305	-	8,376,305	6,321,205
CHANGE IN NET ASSETS	288,860	(509,883)	(221,023)	901,969
NET ASSETS, BEGINNING OF YEAR	1,733,110	4,050,529	5,783,639	5,946,680
NET ASSETS, END OF YEAR	\$ 2,021,970	\$ 3,540,646	\$ 5,562,616	\$ 6,848,649

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, 2017

With comparative totals for the year ended December 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>	
				<u>2017</u>	<u>2016</u>
Salaries	\$ 3,123,892	\$ 446,597	\$ 201,800	\$ 3,772,289	\$ 3,008,712
Employee benefits	421,856	73,469	21,308	516,633	408,962
Payroll taxes	271,321	39,043	17,293	327,657	283,914
Retirement	119,457	16,486	7,771	143,714	122,506
Total personnel costs	<u>3,936,526</u>	<u>575,595</u>	<u>248,172</u>	<u>4,760,293</u>	<u>3,824,094</u>
In-kind legal services (Note 9)	1,491,505			1,491,505	1,020,278
Grants	653,123			653,123	249,646
Travel	301,976	45,902	4,439	352,317	273,642
Information technology	219,962	30,271	5,524	255,757	105,520
Occupancy	183,363	27,958	14,489	225,810	188,863
Fees for service	190,501	18,599	7,435	216,535	318,831
Office expenses	119,207	27,428	10,360	156,995	103,243
Depreciation	97,964	1,607	581	100,152	88,041
Conferences and meetings	60,310	17,413	439	78,162	30,646
Insurance	128	29,709		29,837	16,341
Accounting	2,101	21,382		23,483	9,730
Dues, licenses, and service fees	7,244	6,604	24	13,872	19,438
Legal	11,076	12		11,088	827
Bank fees	10	5,888		5,898	6,345
Interest expense	1,429			1,429	-
Advertising and promotion	49			49	2,576
Bad debt expense				-	63,144
TOTAL 2017 FUNCTIONAL EXPENSES	<u>\$ 7,276,474</u>	<u>\$ 808,368</u>	<u>\$ 291,463</u>	<u>\$ 8,376,305</u>	
TOTAL 2016 FUNCTIONAL EXPENSES	<u>\$ 5,393,726</u>	<u>\$ 695,845</u>	<u>\$ 231,634</u>		<u>\$ 6,321,205</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, 2017

With comparative totals for the year ended December 31, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (221,023)	\$ 901,969
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	100,152	88,041
(Gain) on investments	(124,181)	(80,145)
Reinvested interest and dividends	(27,515)	(29,793)
(Increase) decrease in operating assets:		
Accounts receivable	(557,062)	(7,722)
Grants receivable	(39,974)	(1,008,849)
Prepaid expenses	(52,851)	(36,878)
Deposits	(12,177)	8,327
Increase (decrease) in operating liabilities:		
Accounts payable	38,528	74,779
Accrued payroll	31,932	(37,229)
Accrued vacation	45,527	13,952
Accrued liabilities other	9,576	69,970
	(809,068)	(43,578)
CASH FLOW FROM INVESTING ACTIVITIES:		
Sales of investments	430,920	393,247
Purchase of investments	(3,560)	-
Purchase of property and equipment	(36,263)	(304,697)
	391,097	88,550
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(417,971)	44,972
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,675,238	1,630,266
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,257,267	\$ 1,675,238

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 law firm that helps low-income children achieve their potential by transforming the public agencies that serve them. NCYL’s efforts are national in scope and create lasting change on behalf of tens of thousands of children in need each year.

NCYL’s goal is to transform the multiple public systems serving vulnerable children – including education, child welfare, public health, behavioral health, juvenile justice, and workforce development – such that they receive the supports they need to advance and thrive.

NCYL leads high impact campaigns that weave together multiple strategies, including:

- Partnering directly with public agencies (e.g. child welfare systems, juvenile courts) to help them rethink and redesign services for youth;
- Sponsoring and advocating for legislation;
- Working with the media to expose agencies that are failing kids in their care;
- Initiating impact litigation to accelerate reform of public agencies;
- Setting up demonstration sites to test new models of providing services to vulnerable youth.

Current campaigns include the following:

- Supporting the educational outcomes of children in foster care or the juvenile justice system;
- Protecting reproductive and sexual health access for youth in foster care;
- Defending the civil rights of students;
- Ending child sex trafficking;
- Ending the practice of trying and incarcerating youth in the adult criminal system;
- Reforming juvenile justice systems so that children are being treated in a developmentally appropriate and supportive manner;
- Reducing the use of psychotropic medications on youth in foster care;
- Protecting students from harassment, bullying and intimidation;
- Protecting the due process rights of children in federal immigration custody;
- Improving access to appropriate health and mental health services for low-income children;
- Eliminating juvenile fines and fees.

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.

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

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.

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 \$3,540,646 at December 31, 2017.

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, 2017.

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.

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 7).

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, 2016, from which the summarized information was derived.

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Reclassification

Certain amounts from the December 31, 2016 financial statements have been reclassified to conform to the December 31, 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through May 23, 2018, 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.

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, 2017. Unamortized discount on multi-year grants receivable is immaterial, and has not been recorded. Total grants receivable at December 31, 2017 of \$2,555,217 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2018	\$1,970,727
2019	417,490
2020	<u>167,000</u>
	<u>\$2,555,217</u>

4. Investments

Investments at December 31, 2017 consist of the following:

Exchange traded funds	\$1,365,876
Equities	<u>3,670</u>
	<u>\$1,369,546</u>

continued

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2017 consist of the following:

Developed software	\$ 334,127
Furniture and equipment	79,217
Law library	57,873
Leasehold improvement	<u>9,350</u>
	480,567
Less: accumulated depreciation	<u>(228,006)</u>
	<u>\$ 252,561</u>

Depreciation expense during the year ended December 31, 2017 was \$100,152.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 consist of the following:

Foster Youth Education – California	\$2,206,111
Health and Information	780,000
Deep End	166,458
Foster Youth Education – New Mexico	112,500
Fiza Fellowship	82,660
ECRA	75,000
Foster Youth Education – Arizona	66,667
Child Trafficking	33,750
Psych Meds	<u>17,500</u>
	<u>\$3,540,646</u>

For the year ended December 31, 2017, net assets released from purpose restrictions were \$2,821,993.

NATIONAL CENTER FOR YOUTH LAW

NOTES TO FINANCIAL STATEMENTS

7. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds				
Equity funds				
Large blend	\$ 575,385	\$ -	\$ -	\$ 575,385
World large	<u>142,587</u>	<u>-</u>	<u>-</u>	<u>142,587</u>
Total equity funds	<u>717,972</u>	<u>-</u>	<u>-</u>	<u>717,972</u>
Bond funds				
Government	323,156			323,156
Intermediate-term bond	162,777			162,777
Short-term bond	<u>161,971</u>	<u>-</u>	<u>-</u>	<u>161,971</u>
Total bond funds	<u>647,904</u>	<u>-</u>	<u>-</u>	<u>647,904</u>
Total exchange traded funds	<u>1,365,876</u>	<u>-</u>	<u>-</u>	<u>1,365,876</u>
Equities				
Large blend	<u>3,670</u>	<u>-</u>	<u>-</u>	<u>3,670</u>
Fair value at December 31, 2017	<u>\$1,369,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,369,546</u>

The fair value of exchange traded 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Grant commitments - new	\$ -	\$ -	\$1,355,217	\$1,355,217
Donated services	<u>-</u>	<u>1,491,505</u>	<u>-</u>	<u>1,491,505</u>
	<u>\$ -</u>	<u>\$1,491,505</u>	<u>\$1,355,217</u>	<u>\$2,846,722</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,

2018	\$338,640
2019	335,855
2020	105,725
2021	<u>4,806</u>
	<u>\$785,026</u>

Rent expense under the operating lease for the year ended December 31, 2017 was \$225,810.

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, 2017 was \$1,491,505.

Legal fees	\$ 910,773
Legal fees and expenses	442,619
Volunteer staff attorney	90,198
Law clerks	<u>47,915</u>
	<u>\$1,491,505</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, 2017. Employer contributions under this plan for the year ended December 31, 2017 were \$143,714.