

**THE CHILDREN'S LAW CENTER, INC.**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**Years Ended September 30, 2019 and 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The Children's Law Center, Inc.  
Washington, DC

### Report on the Financial Statements

We have audited the accompanying financial statements of The Children's Law Center, Inc. (a not-for-profit organization), which comprise the statement of financial position as of September 30, 2019, the related statement of activities, statement of functional expenses, and statement of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These 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 auditors consider 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Law Center, Inc. as of September 30, 2019, the changes in its net assets, functional expenses, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Prior Period Financial Statements***

The financial statements of The Children's Law Center, Inc. as of September 30, 2018, were audited by other auditors, whose report dated May 29, 2019 expressed an unmodified opinion on these statements.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, The Children's Law Center, Inc. adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended September 30, 2019. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style. The word "Rubins" is written in a large, rounded script, followed by an ampersand "&" and the word "Company" in a similar but slightly smaller script.

Bethesda, Maryland  
May 22, 2020

**THE CHILDREN'S LAW CENTER, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,949,349	\$ 3,148,792
Receivables		
Contracts receivable	481,080	594,933
Contributions and grants receivable	774,524	246,728
Annual event pledges receivable	382,413	443,477
Total current receivables	1,638,017	1,285,138
Other current assets		
Prepaid expenses and other current assets	195,925	202,589
Other investments - certificates of deposit	1,105,249	991,680
Total other current assets	1,301,174	1,194,269
Total current assets	6,888,540	5,628,199
Noncurrent assets		
Receivables		
Contributions and grants receivable, net of current	759,667	-
Annual event pledges receivable, net of current	221,000	174,000
Total receivables	980,667	174,000
Investments	536,195	531,927
Property and equipment, net	1,616,238	1,909,453
Security deposit and other noncurrent assets	81,245	93,510
Total noncurrent assets	3,214,345	2,708,890
Total assets	\$ 10,102,885	\$ 8,337,089
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 85,694	\$ 62,584
Accrued expenses	274,052	260,725
Deferred revenue	-	111,250
Deferred rent and tenant improvement allowance, current	138,486	113,654
Total current liabilities	498,232	548,213
Noncurrent liabilities		
Deferred rent and tenant improvement allowance, net of current	1,898,069	2,036,555
Total liabilities	2,396,301	2,584,768
Net assets		
Without donor restrictions	5,601,414	4,853,025
With donor restrictions	2,105,170	899,296
Total net assets	7,706,584	5,752,321
Total liabilities and net assets	\$ 10,102,885	\$ 8,337,089

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

**THE CHILDREN'S LAW CENTER, INC.**  
**STATEMENTS OF ACTIVITIES**

	<b>Year Ended September 30, 2019</b>			<b>Year Ended September 30, 2018</b>		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
DC court contractual services	\$ 5,772,953	\$ -	\$5,772,953	\$ 7,139,218	\$ -	\$7,139,218
Contributions and grants	1,573,451	2,542,500	4,115,951	1,129,250	247,600	1,376,850
Annual event						
Gross revenue and donations	1,287,396	-	1,287,396	1,420,044	-	1,420,044
Less, direct expenses	(73,586)	-	(73,586)	(164,363)	-	(164,363)
Fellowships	35,625	-	35,625	78,250	37,263	115,513
Donated goods and services	447,534	-	447,534	391,442	-	391,442
Attorney fees	18,000	-	18,000	-	-	-
Net assets released from restrictions	1,336,626	(1,336,626)	-	1,888,014	(1,888,014)	-
Total revenue and support	10,397,999	1,205,874	11,603,873	11,881,855	(1,603,151)	10,278,704
Expenses						
Program services						
Guardian Ad Litem	4,993,909	-	4,993,909	5,672,606	-	5,672,606
Pro Bono	845,494	-	845,494	1,056,549	-	1,056,549
Heathy Together	1,610,863	-	1,610,863	1,736,481	-	1,736,481
Policy Work and Advocacy	689,288	-	689,288	785,340	-	785,340.00
Total program services	8,139,554	-	8,139,554	9,250,976	-	9,250,976
Supporting services						
General & administrative	883,642	-	883,642	771,970	-	771,970
Fundraising	627,310	-	627,310	616,970	-	616,970
Total supporting services	1,510,952	-	1,510,952	1,388,940	-	1,388,940
Total expenses	9,650,506	-	9,650,506	10,639,916	-	10,639,916
Change in net assets from operations	747,493	1,205,874	1,953,367	1,241,939	(1,603,151)	(361,212)
Non-operating activity						
Investment income, net	32,005	-	32,005	45,882	-	45,882
Provision for federal income tax	(31,109)	-	(31,109)	(33,103)	-	(33,103)
Total non-operating activity	896	-	896	12,779	-	12,779
Change in net assets	748,389	1,205,874	1,954,263	1,254,718	(1,603,151)	(348,433)
Net assets, beginning of year	4,853,025	899,296	5,752,321	3,598,307	2,502,447	6,100,754
Net assets, end of year	\$ 5,601,414	\$ 2,105,170	\$7,706,584	\$ 4,853,025	\$ 899,296	\$5,752,321

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

**THE CHILDREN'S LAW CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended September 30, 2019**

	<b>Program Services</b>				<b>Supporting Services</b>			
	Guardian Ad Litem	Pro Bono	Healthy Together	Policy Work and Advocacy	Total Program Services	General & Administrative	Fundraising	Total
Personnel costs								
Compensation	\$ 2,972,448	\$ 463,789	\$ 957,778	\$ 435,389	\$ 4,829,404	\$ 325,131	\$ 279,085	\$ 5,433,620
Benefits	629,144	81,399	183,218	83,936	977,697	78,442	64,085	1,120,224
Payroll taxes	237,685	36,010	75,179	33,729	382,603	24,270	21,247	428,120
Total personnel	<u>3,839,277</u>	<u>581,198</u>	<u>1,216,175</u>	<u>553,054</u>	<u>6,189,704</u>	<u>427,843</u>	<u>364,417</u>	<u>6,981,964</u>
Office rent and occupancy	507,784	86,328	160,190	59,599	813,901	47,862	48,510	910,273
Depreciation and amortization	166,426	28,628	51,578	19,478	266,110	13,377	13,727	293,214
Donated goods and services	63,409	11,147	17,728	-	92,284	178,780	-	271,064
Donated legal services	56,870	88,625	28,875	-	174,370	2,100	-	176,470
Independent contractors	13,283	4,283	4,925	14,602	37,093	23,384	146,909	207,386
Equipment maintenance	74,943	14,615	28,235	9,468	127,261	28,303	12,258	167,822
Transportation	82,463	4,330	15,464	3,365	105,622	1,238	1,095	107,955
Communications	55,704	6,399	17,837	6,549	86,489	12,390	4,523	103,402
Professional fees	-	-	-	-	-	78,157	-	78,157
Bad debt expense	-	-	-	-	-	55,802	-	55,802
Legal library	29,813	4,921	9,935	3,729	48,398	336	4,065	52,799
Insurance	28,131	4,790	8,773	3,281	44,975	931	947	46,853
Cost of litigation	12,311	507	28,482	9	41,309	-	-	41,309
Office supplies	14,279	2,309	5,628	1,580	23,796	1,239	1,261	26,296
Membership dues	12,173	1,334	4,920	2,786	21,213	1,741	1,027	23,981
Other events expense	1,497	571	584	2,199	4,851	-	14,860	19,711
Client costs	11,840	586	3,991	-	16,417	-	-	16,417
Printing and design	4,044	1,998	1,714	5,876	13,632	136	2,332	16,100
Staff costs	6,574	1,017	1,927	1,104	10,622	517	609	11,748
Recruiting	3,543	296	1,851	1,565	7,255	1,141	1,826	10,222
Moving costs and building repairs	2,856	486	895	333	4,570	5,014	265	9,849
Direct mail	-	-	-	-	-	-	7,124	7,124
Postage	2,788	803	966	674	5,231	1,313	378	6,922
Professional development	3,893	258	597	-	4,748	-	1,070	5,818
Meetings	8	65	(407)	37	(297)	2,038	107	1,848
<b>TOTAL EXPENSES</b>	<u>\$ 4,993,909</u>	<u>\$ 845,494</u>	<u>\$ 1,610,863</u>	<u>\$ 689,288</u>	<u>\$ 8,139,554</u>	<u>\$ 883,642</u>	<u>\$ 627,310</u>	<u>\$ 9,650,506</u>

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

**THE CHILDREN'S LAW CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended September 30, 2018**

	<u>Program Services</u>					<u>Supporting Services</u>		<u>Totals</u>
	<u>Guardian Ad Litem</u>	<u>Pro Bono</u>	<u>Healthy Together</u>	<u>Policy Work and Advocacy</u>	<u>Total Program Services</u>	<u>General &amp; Administrative</u>	<u>Fundraising</u>	
Personnel expenses:								
Compensation	\$ 3,404,644	\$ 582,330	\$ 1,047,541	\$ 544,383	\$ 5,578,898	\$ 334,586	\$ 315,020	\$ 6,228,504
Benefits	729,324	110,984	184,905	69,624	1,094,837	50,417	68,074	1,213,328
Payroll taxes	269,866	46,058	87,936	31,360	435,220	25,444	23,994	484,658
Total personnel	<u>4,403,834</u>	<u>739,372</u>	<u>1,320,382</u>	<u>645,367</u>	<u>7,108,955</u>	<u>410,447</u>	<u>407,088</u>	<u>7,926,490</u>
Office rent and occupancy	521,618	90,279	155,067	57,888	824,852	37,018	39,533	901,403
Depreciation and amortization	174,447	30,237	52,106	20,678	277,468	11,604	12,924	301,996
Donated goods and services	80,211	20,782	13,069	-	114,062	85,510	-	199,572
Donated legal services	56,870	103,500	31,500	-	191,870	-	-	191,870
Equipment maintenance	56,579	10,517	16,629	6,881	90,606	75,663	13,636	179,905
Independent contractors	19,139	3,410	7,850	9,944	40,343	700	96,413	137,456
Transportation	91,538	7,625	22,946	4,287	126,396	455	1,100	127,951
Communications	65,925	10,224	16,957	8,710	101,816	10,803	5,753	118,372
Professional fees	15,792	3,064	4,344	1,748	24,948	45,991	1,498	72,437
Cost of litigation	19,305	2,236	47,898	36	69,475	-	73	69,548
Bad debt expense	-	-	-	-	-	58,613	-	58,613
Legal library	30,879	5,868	9,348	3,518	49,613	-	1,540	51,153
Office supplies	28,517	8,051	4,333	4,094	44,995	2,722	2,561	50,278
Professional development	20,914	2,700	7,571	837	32,022	10,276	2,546	44,844
Insurance	25,139	4,970	6,487	2,869	39,465	664	635	40,764
Membership dues	16,421	3,912	4,227	4,483	29,043	4,291	1,850	35,184
Printing and design	4,226	791	3,224	9,026	17,267	2,421	8,095	27,783
Staff costs	15,402	4,218	2,595	2,364	24,579	1,540	1,380	27,499
Recruiting	3,532	295	379	909	5,115	2,083	10,619	17,817
Meetings	4,456	1,258	5,118	1,015	11,847	1,943	2,296	16,086
Client costs	8,415	1,429	1,271	-	11,115	-	-	11,115
Moving costs and building repairs	1,269	219	378	149	2,015	7,884	84	9,983
Postage	3,981	882	1,587	523	6,973	1,342	525	8,840
Direct mail	1,030	-	-	-	1,030	-	6,821	7,851
Other events expense	3,167	710	1,215	14	5,106	-	-	5,106
<b>TOTAL EXPENSES</b>	<u>\$ 5,672,606</u>	<u>\$ 1,056,549</u>	<u>\$ 1,736,481</u>	<u>\$ 785,340</u>	<u>\$ 9,250,976</u>	<u>\$ 771,970</u>	<u>\$ 616,970</u>	<u>\$ 10,639,916</u>

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



**THE CHILDREN'S LAW CENTER, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,954,263	\$ (348,433)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	293,214	301,996
Net realized and unrealized gains	15,567	(21,161)
Donated securities	(125,113)	(135,345)
Changes in operating assets and liabilities:		
Contracts receivable	113,853	(46,615)
Contributions and grants receivable	(1,287,463)	421,740
Annual event pledges receivable	14,064	217,074
Prepaid expenses and other current assets	6,664	(68,835)
Security deposit and other non current assets	12,265	-
Accounts payable	23,110	(11,844)
Accrued expenses	13,327	(64,474)
Deferred revenue	(111,250)	41,830
Deferred rent and tenant improvement allowance	(113,654)	149,855
Net cash provided by operating activities	<u>808,847</u>	<u>435,788</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	-	(47,023)
Purchases of investments	(1,165,836)	(791,840)
Proceeds from sales of investments	1,157,546	919,072
Net cash (used) provided by investing activities	<u>(8,290)</u>	<u>80,209</u>
Net change in cash and cash equivalents	800,557	515,997
Cash, beginning of year	<u>3,148,792</u>	<u>2,632,765</u>
Cash, end of year	<u>\$ 3,949,349</u>	<u>\$ 3,148,762</u>

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

**THE CHILDREN’S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended September 30, 2019 and 2018**

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**1. Organization**

The Children's Law Center, Inc. (CLC) is a not-for-profit organization formed under the laws of the District of Columbia (DC) and is tax exempt under IRS Code Section 501(c)(3). Children’s Law Center fights so every child in DC can grow up with a loving family, good health and a quality education. Judges, pediatricians and families turn to CLC to advocate for children who are abused or neglected, who aren’t learning in school, or who have health problems that can’t be solved by medicine alone. Councilmembers, DC government officials and advocates turn to CLC when the District’s laws and policies are failing children and need to be improved. With almost 100 staff and hundreds of pro bono lawyers, CLC provides individual assistance to 1 out of every 9 children in DC’s poorest neighborhoods – more than 5,000 children and families each year, and CLC’s systemic advocacy has an impact on children and families across the District.

**2. Program Activities**

CLC’s program services include the following:

- *Guardian Ad Litem* - CLC's attorneys are appointed by judges within the DC Superior Court to advocate for a child’s best interests while they are in foster care. CLC does not stop there; CLC also partners with judges, social workers, schools, and medical professionals to fight for the education and health care they need to thrive while CLC helps them find a safe, loving home.
- *Policy Work and Advocacy* - CLC's policy advocacy is grounded in the experience CLC has gained helping tens of thousands of District children since its founding in 1996. CLC offers city-wide solutions to the Mayor, District agencies and the DC Council to better serve vulnerable children. CLC works to improve laws, policies and practice, and also secure media coverage about the District's successes and failures in meeting children's needs. Whether it is advocating for historic special education reforms, pressing agencies to better prepare older youth who age out of foster care, improving mental health services within DC schools, or ensuring students aren’t unfairly suspended or expelled – CLC’s policy advocacy delivers real results that improve all children's lives.
- *Healthy Together* - Children’s Law Center fights so that all children in DC can grow up healthy. Through the Healthy Together program, CLC partners with Children’s National, Mary’s Center and Unity Health Care to put lawyers side-by-side with pediatricians to fix the root causes of a child’s health problem. CLC currently works in six health clinics across the District. CLC also ensures children can start school ready to learn by helping infants and toddlers with developmental delays get support early. When children reach school age, CLC helps families advocate so DC’s schools provide the special education support their children need and find alternatives to unnecessary suspensions and expulsions.

**THE CHILDREN'S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended September 30, 2019 and 2018**

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**2. Program Activities (continued)**

- *Pro Bono* - Although Children's Law Center is the largest civil legal services provider in DC, many more children come to CLC than its staff attorneys can represent. CLC's pro bono team places children, parents and caregivers in need of legal services with more than 500 pro bono attorneys every year. Pro bono lawyers find success with CLC cases regardless of experience because of comprehensive intakes and a commitment to high-quality training and mentoring. The pro bono team also includes a team of lawyers who help children caught in bitter parental disputes, shielding them from conflict and helping families agree on a plan to support their children's well-being. And, when parents can no longer safely care for their children, CLC helps grandparents and other caring adults who step up to give them a home, whether through adoption, custody or guardianship.

**3. Summary of Significant Accounting Policies**

Basis of Presentation

CLC's financial statements have been prepared in accordance with U.S. generally accepted accounting principles, which requires CLC to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the CLC. CLC's board may designate assets without restrictions for specific operational purposes from time to time.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the CLC or by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the CLC's ongoing services. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

**THE CHILDREN'S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended September 30, 2019 and 2018**

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**3. Summary of Significant Accounting Policies (continued)**

Cash and Cash Equivalents

For purposes of the statement of cash flows, CLC considers all money market accounts not held for long-term investment purposes and investments purchased with an original maturity of three months or less to be cash equivalents. CLC maintains cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. CLC has not experienced any losses in such accounts. CLC believes it is not exposed to any significant financial risk on the cash and cash equivalents.

Certificates of Deposit

Certificates of deposit with a maturity of three months or less are included in cash and cash equivalents in the accompanying financial statements. Certificates of deposit with a maturity greater than three months are classified as other investments. The certificates of deposit are recorded at fair value which includes accumulated earnings.

Investments

Investments purchased are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair market value in the statements of financial position. Investments are comprised of mutual funds and exchange traded funds. Money market funds managed and held in the investment portfolio, for long-term investment purposes, are also classified as investments since such amounts are not to be used for general operating purposes.

Net investment income or loss is included in the statements of activities as increases or decreases in net assets without donor restriction unless the income or loss is restricted by donor or by local law. Interest and dividends are recorded as revenue when earned.

Receivables

Receivables are stated at the amount management expects to collect from balances outstanding at year end. Annually, management determines if an allowance for doubtful accounts is necessary based upon review of outstanding receivables, historical collection information and existing economic conditions. At September 30, 2019 and 2018, no allowance for doubtful accounts was recorded. Accounts deemed uncollectible are charged off based on specific circumstances of the parties involved. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. No discount was recorded at September 30, 2019 and 2018, since the amount is immaterial to the financial statements.

**THE CHILDREN'S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended September 30, 2019 and 2018**

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**3. Significant Accounting Policies (continued)**

Property and Equipment

Property and equipment purchased with a cost basis greater than \$2,500 and a useful life of greater than one year are recorded at cost while contributed property and equipment are recorded at the fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. CLC estimates five years for the useful lives of office furniture and telephone equipment and estimates three years for the useful lives of computer equipment and database software. Leasehold improvements are amortized using the straight-line method over the lesser of the useful life or life of the lease. Expenditures for maintenance and repairs are expensed as incurred while improvements which increase the value or materially extend the life of the related asset are capitalized.

Revenue Recognition

*Guardian Ad Litem*

The Guardian Ad Litem services performed in accordance with the fixed price contract with the DC Superior Court are earned ratably during the contract period, consisting of an initial contract year and four additional option years. The current contract expires September 30, 2022. Amounts due under the contract but not yet received are recorded in contracts receivable in the statement of financial position.

*Contributions and Grants*

CLC receives grants and contributions from foundations, corporations, and individuals. Unconditional contributions and grants are recognized as revenue when pledged by the donor. Conditional contributions are recorded when conditions are met. Conditional contributions received prior to conditions being met are recorded in deferred revenue on the statements of financial position. Revenue pledged but not yet received by CLC is reported as contributions and grants receivable in the accompanying statements of financial position. CLC classifies grants and contributions for fellowships as its own income type.

*Annual Event*

Annual event fees and sponsorships are recorded as revenue when the event occurs. Attorney fees are recorded as revenue when received. Cash received related to the direct donor benefit portion of the special event is deferred revenue until the event occurs.

**THE CHILDREN'S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended September 30, 2019 and 2018**

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**3. Significant Accounting Policies (continued)**

*Donated Goods and Services*

CLC records various types of in-kind contributions. Donated legal services which support program activities are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized in the accompanying statement of activities and functional expenses. Costs which cannot be specifically identified with a particular function and which benefit more than one functional category are allocated to the different functional areas based on direct salaries. Management believes this method accurately reflects the cost of administering CLC's programs.

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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Tax Status

CLC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia. CLC is not a private foundation and is exempt from taxes on income other than unrelated business income.

CLC's income tax returns are subject to review and examination by federal and state taxing authorities. CLC is not aware of any activities that would jeopardize its tax-exempt status. Income tax returns for the years ended September 30, 2018, 2017 and 2016 remain open to examination by the taxing jurisdictions.

**THE CHILDREN’S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**3. Significant Accounting Policies (continued)**

Unrelated Business Income

For the years ended September 30, 2019 and 2018, CLC had unrelated business income tax expenses of \$31,109 and \$33,103, respectively, as a result of the Tax Cuts and Jobs Act signed in December of 2017 which taxed transportation benefits as unrelated business income.

On December 20, 2019, a tax law change included the retroactive repeal of the increase to unrelated business taxable income (“UBTI”) for certain fringe benefit expenses which were the result of the Tax Cuts and Job Act. Fringe benefits that were taxable included both non-taxable parking and transit benefits provided by the organization to its employees, as well as employee pre-tax salary deferrals for parking and/or transit expenses. Exempt organizations that had taxable income for fringe benefit amounts paid or incurred beginning January 1, 2018, can file amended federal returns to request refunds for taxes paid on those amounts. CLC intends to file amended federal returns subsequent to year-end to recover unrelated business income taxes previously paid related to the repeal.

New Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, Not-for-Profit Entities (Topic 606): *Revenue from Contracts with Customers*. The new standard provides guidance for recognizing revenue under contractual arrangements. The overall objective is to recognize revenue as promised goods and services are transferred to customers. Determining this involves employing a five-step process. For non-profit organizations, this could affect dues, special events, other fee-for-service arrangements, and the timing of when related revenue is recognized. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. CLC will adopt the standard for the fifteen months ended December 31, 2020, and is in process of evaluating the impact.

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**3. Summary of Significant Accounting Policies (continued)**

Fair Value Measurements

CLC reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities that CLC has the ability to access.
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Investments in *money market funds* are valued at the net asset value (generally \$1) of shares held by the Association at year-end reported in the listing of the applicable major exchanges. Such securities are classified within Level 1 of the valuation hierarchy.



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**3. Summary of Significant Accounting Policies (continued)**

Investments in *certificates of deposit* are valued by discounting the related cash flows based on current yields of similar instruments with comparable derivatives considering the credit worthiness of the issuer. Such securities are classified within Level 2 of the valuation hierarchy.

Investments in *exchange traded funds (ETFs)* are valued at the closing price reported in the active markets in which the common stocks and ETFs are traded. Such securities are classified within Level 1 of the valuation hierarchy.

Investments in *mutual funds* are valued at net asset value, reported daily in the active exchanges, of shares held by the Association at year-end. Such securities are classified within Level 1 of the valuation hierarchy.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the years ended September 30, 2019 and 2018, there were no significant transfers in or out of levels 1, 2 or 3.

Change of Fiscal Year

On May 21, 2019, CLC's board unanimously approved a change of fiscal year from a September 30<sup>th</sup> year-end to a December 31<sup>st</sup> year-end. As such, subsequent to year-end September 30, 2019, CLC will report on the fifteen months ended December 31, 2020.

Subsequent Events

Management has evaluated subsequent events through May 22, 2020, the date the financial statements were available to be issued. On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which may negatively impact net income and future operations. CLC is closely monitoring its operations, liquidity, and net assets and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to CLC's financial position is not known.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

**THE CHILDREN'S LAW CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**4. Availability and Liquidity**

The following reflects CLC's financial assets at September 30, 2019 and 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of donor imposed restrictions and internal board designations. Amounts not available include amounts set aside for long-term investing in the board designated reserves that could be drawn upon if the governing board approves that action.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,949,349	\$ 3,148,792
Receivables - current		
Contracts receivable	481,080	594,933
Contributions and grants receivable	1,534,191	246,728
Annual event pledges receivable	<u>603,413</u>	<u>617,477</u>
Total receivables	2,618,684	1,459,138
Other investments - certificates of deposit	1,105,249	991,680
Investments	<u>536,195</u>	<u>531,927</u>
Total financial assets	<u>8,209,477</u>	<u>6,131,537</u>
Less amounts not available to be used within one year		
Long-term investments	536,195	531,927
Annual event pledges receivable - noncurrent	221,000	174,000
Contributions and grants receivable - noncurrent	759,667	-
Net assets with donor restrictions - purpose restricted	<u>1,478,171</u>	<u>489,141</u>
	<u>2,995,033</u>	<u>1,195,068</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,214,444</u>	<u>\$ 4,936,469</u>

CLC's goal is to maintain financial assets to meet 90 days of operating expenses plus a 10% contingency (approximately \$2,800,000). As part of its liquidity plan, excess cash is invested in equity securities, fixed income securities, mutual funds, exchange-traded funds, and short-term investments (cash and cash equivalents). Funds are invested and maintained with reasonable diversification in accordance with CLC's investment policy. To provide further liquidity, CLC has access to a \$200,000 bank line of credit.

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**NOTES TO FINANCIAL STATEMENTS**  
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**5. Investments**

Investments consist of the following at September 30:

	Fair Value Levels (Note 14)	<u>2019</u>	<u>2018</u>
Short-term investments			
Certificates of deposit	2	\$ 993,038	\$ 991,680
Mutual funds	1	<u>112,211</u>	<u>-</u>
		<u>1,105,249</u>	<u>991,680</u>
Long-term investments			
Cash and money markets	1	42,408	37,745
Mutual funds	1	400,214	407,368
Exchange traded funds	1	<u>93,573</u>	<u>86,814</u>
		<u>536,195</u>	<u>531,927</u>
Total investments		<u>\$ 1,641,444</u>	<u>\$ 1,523,607</u>

**6. Receivables**

Receivables are due from the following sources at September 30:

	<u>2019</u>	<u>2018</u>
Contracts receivable	\$ 481,080	\$ 594,933
Contributions and grants	1,534,191	246,728
Annual event pledges	<u>603,413</u>	<u>617,477</u>
Totals	<u>\$ 2,618,684</u>	<u>\$ 1,459,138</u>

Receivables are expected to be received as follows at September 30:

	<u>2019</u>	<u>2018</u>
Less than 1 year	\$ 1,638,017	\$ 1,285,138
1 - 5 years	<u>980,667</u>	<u>174,000</u>
Totals	<u>\$ 2,618,684</u>	<u>\$ 1,459,138</u>

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**7. Property and Equipment**

Property and equipment consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 277,964	\$ 277,964
Database software	241,496	241,496
Leasehold improvements	1,785,045	1,785,045
Office furniture	339,662	339,662
Telephone equipment	<u>74,806</u>	<u>74,806</u>
Total property and equipment	2,718,973	2,718,973
Less: Accumulated depreciation and amortization	<u>(1,102,735)</u>	<u>(809,520)</u>
Property and equipment, net	<u>\$1,616,238</u>	<u>\$1,909,453</u>

Depreciation and amortization expense for the years ended September 30, 2019 and 2018 are \$293,214 and \$301,996, respectively.

**8. Net Assets With Donor Restrictions**

CLC's net assets with restrictions consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Program restricted pledges and grants		
Healthy Together	\$ 1,306,195	\$ 406,287
Policy	4,000	4,520
Communications and Strategic Planning	167,976	20,834
Listen for Good	-	45,000
Families First	<u>-</u>	<u>12,500</u>
Total purpose restricted grants and pledges	1,478,171	489,141
Time restricted pledges and grants		
Future benefit income	260,000	301,000
Other pledges and grants	<u>366,999</u>	<u>109,155</u>
Totals	<u>\$ 2,105,170</u>	<u>\$ 899,296</u>

**THE CHILDREN'S LAW CENTER, INC.**  
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**9. Donated Services and In-Kind Contributions**

CLC received donated professional services and materials as follows during the year ended September 30, 2019 and 2018:

<u>2019</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Hope Drive	\$ 92,284	\$ -	\$ -	\$ 92,284
Legal services	<u>174,370</u>	<u>180,880</u>	<u>-</u>	<u>355,250</u>
	<u>\$ 266,654</u>	<u>\$ 180,880</u>	<u>\$ -</u>	<u>\$ 447,534</u>
<u>2018</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Hope Drive	\$ 114,062	\$ -	\$ -	\$ 114,062
Legal services	<u>191,870</u>	<u>85,510</u>	<u>-</u>	<u>277,380</u>
	<u>\$ 305,932</u>	<u>\$ 85,510</u>	<u>\$ -</u>	<u>\$ 391,442</u>

**10. Line of Credit**

CLC has an open-end revolving line of credit with SunTrust Bank in the amount of \$200,000. The interest rate is equal to the SunTrust Prime Rate index plus 0.35% per annum. The line of credit matures on May 30, 2020. At September 30, 2019 and 2018, there were no outstanding borrowings on the line.

**11. Retirement Plan**

CLC maintains a 401(k) retirement plan which is available to all employees starting at date of hire. Under the terms of the plan, CLC makes a non-discretionary contribution of 3% of each employee's eligible salary. The employer contributions for the years ended September 30, 2019 and 2018 totaled \$172,241 and \$188,153, respectively, which are included in personnel costs on the statements of functional expenses.

**THE CHILDREN'S LAW CENTER, INC.**  
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**12. Concentration of Risk**

At September 30, 2019 and 2018, the DC Superior Court contract represented 18% and 41%, respectively, of the outstanding receivables balances. During the years ended September 30, 2019 and 2018, revenue from the DC Superior Court contract represented 50% and 69%, respectively, of CLC's total revenue and support. CLC believes it is not exposed to any significant financial risk due to DC's statutory requirement to provide legal services for the children of DC.

As discussed in Note 12, the DC Court contract decreased for the period October 1, 2018 through September 30, 2019; however, management believes that the contract will continue based on DC Code Section 16-2304(b)(5). CLC has significantly decreased costs and implemented new campaign efforts for additional revenue streams, in response to the decrease in contract revenue.

**13. Commitments from the District of Columbia Superior Court**

In 2017, CLC was awarded a fixed price contract with the DC Superior Court to provide continued Guardian Ad Litem representation for abused and neglected children. Under the contract, CLC was also provided with the use of two copiers without charge for the term of the contract. The DC Superior Court may extend the term of this contract for additional one-year periods, or a fraction, or multiple fractions thereof, by written notice to CLC before the expiration of the annual contract. The contract has been extended under option-year contract modifications through September 30, 2020. Effective for 2019, the terms of the contract were modified for the extension period reducing the number of children to receive services from 500 to 425 annually. Exercise of any option under the contract is contingent upon appropriation of funds in DC's budget for the respective option period.

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**14. Lease Commitments**

CLC leases office space under a ten-year operating lease entered into on April 1, 2017 for approximately 20,807 square feet of office space located at 501 3<sup>rd</sup> Street, NW, Washington, DC. The lease provided a buildout allowance of approximately \$1.6 million and a nine-month rent abatement period. In addition to the rent abatement and the buildout allowance for the Washington, DC lease; the lease contains provisions for annual increases in the base rent. Rental payments are recognized as expense on a straight-line basis over the term of the lease. Rent expense for the years ended September 30, 2019 and 2018 was approximately \$910,000 and \$901,000, respectively.

Future minimum lease payments are approximately as follows:

Years ending September 30, 2020	\$	1,018,000
2021		1,044,000
2022		1,077,000
2023		1,112,000
2024		1,140,000
2025 and thereafter		<u>3,903,000</u>
	\$	<u>9,294,000</u>