

LEGAL SERVICES FOR CHILDREN, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022



LEGAL SERVICES FOR CHILDREN, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Legal Services for Children, Inc.

Opinion

We have audited the accompanying financial statements of Legal Services for Children, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Services for Children, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Legal Services for Children, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter – Change in Accounting Principle

As discussed in notes 2 and 10 to the financial statements, the Organization changed its method of accounting for leases during the year ended June 30, 2023, due to the adoption of Accounting Standards Update (ASU) No. 2016-02. The auditor's opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legal Services for Children, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Services for Children, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

January 10, 2024

Perotti & Canade

LEGAL SERVICES FOR CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash and cash equivalents	\$ 1,764,777	\$ 1,802,464
Investments	1,485,334	1,334,853
Grants receivable	786,197	640,135
Prepaid expenses	68,593	61,843
Total current assets	<u>4,104,901</u>	<u>3,839,295</u>
Non-Current Assets:		
Property and equipment, net	18,673	-
Operating lease right-of-use asset	353,142	-
Endowment Fund	121,149	123,220
Total non-current assets	<u>492,964</u>	<u>123,220</u>
Total Assets	<u>\$ 4,597,865</u>	<u>\$ 3,962,515</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 70,377	\$ 63,367
Accrued vacation	124,292	103,990
Other accrued expenses	103,024	21,855
Current portion of operating lease liability	80,879	-
Total current liabilities	<u>378,572</u>	<u>189,212</u>
Long-term liability: operating lease liability	<u>279,605</u>	<u>-</u>
Total liabilities	<u>658,177</u>	<u>189,212</u>
Net Assets:		
Without donor restrictions:		
Undesignated	1,401,521	1,592,354
Board-designated	1,588,049	1,437,196
Total without donor restrictions	<u>2,989,570</u>	<u>3,029,550</u>
With donor restrictions	950,118	743,753
Total net assets	<u>3,939,688</u>	<u>3,773,303</u>
Total Liabilities and Net Assets	<u>\$ 4,597,865</u>	<u>\$ 3,962,515</u>

See accompanying notes to financial statements.

LEGAL SERVICES FOR CHILDREN, INC.

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Government services	\$ 1,738,469	\$ -	\$ 1,738,469	\$ 1,847,603	\$ -	\$ 1,847,603
Contributed nonfinancial assets	1,820,376	-	1,820,376	1,642,321	-	1,642,321
Foundation and community grants	581,028	620,563	1,201,591	453,274	450,697	903,971
Gross special events revenue	309,128	-	309,128	306,901	-	306,901
Less: costs of direct benefit to donors	(26,367)	-	(26,367)	(15,625)	-	(15,625)
Net special event revenue	282,761	-	282,761	291,276	-	291,276
Contributions	325,066	-	325,066	242,837	-	242,837
Other income	25,000	-	25,000	27,247	-	27,247
Net assets released from restrictions	422,127	(422,127)	-	487,464	(487,464)	-
Total revenue and support	5,194,827	198,436	5,393,263	4,992,022	(36,767)	4,955,255
Expenses:						
Program services	4,508,882	-	4,508,882	3,942,931	-	3,942,931
General and administrative	467,399	-	467,399	386,885	-	386,885
Development	414,379	-	414,379	347,385	-	347,385
Total expenses	5,390,660	-	5,390,660	4,677,202	-	4,677,202
Change in net assets before investment earnings	(195,833)	198,436	2,603	314,820	(36,767)	278,053
Investment Earnings:						
Interest and dividends	77,925	8,164	86,089	87,694	8,884	96,578
Unrealized gains on investments	72,928	4,765	77,693	(300,415)	(29,120)	(329,535)
Net assets released from restrictions	5,000	(5,000)	-	-	-	-
Total investment earnings	155,853	7,929	163,782	(212,721)	(20,236)	(232,957)
Change in Net Assets	(39,980)	206,365	166,385	102,099	(57,003)	45,096
Net Assets at Beginning of Year	3,029,550	743,753	3,773,303	2,927,451	800,756	3,728,207
Net Assets at End of Year	\$ 2,989,570	\$ 950,118	\$ 3,939,688	\$ 3,029,550	\$ 743,753	\$ 3,773,303

See accompanying notes to financial statements.

LEGAL SERVICES FOR CHILDREN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>Programs</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Salaries and wages	\$ 2,001,883	\$ 179,084	\$ 296,965	\$ 2,477,932
Benefits	272,102	24,340	40,365	336,807
Payroll taxes	152,278	13,623	22,589	188,490
Total compensation costs	<u>2,426,263</u>	<u>217,047</u>	<u>359,919</u>	<u>3,003,229</u>
Contributed legal services	1,820,376	-	-	1,820,376
Consulting and professional services	-	115,880	8,931	124,811
Occupancy	75,266	9,528	10,480	95,274
Compliance	-	83,385	-	83,385
Telephone	36,558	4,627	5,090	46,275
Special event and other fundraising	-	-	46,169	46,169
Office supplies	32,851	4,024	4,267	41,142
Insurance	21,553	2,728	3,001	27,282
Travel	27,108	26	82	27,216
Audit fee	-	22,500	-	22,500
Equipment rental and repairs	14,043	1,778	1,955	17,776
Dues and subscriptions	15,475	-	-	15,475
Stipends and subgrants	11,948	-	-	11,948
Staff training, conferences and meetings	10,686	-	-	10,686
Legal fees	10,631	-	-	10,631
Bank charges	-	5,100	-	5,100
Postage, copying, and printing	3,693	468	514	4,675
Depreciation and amortization	2,431	308	338	3,077
Total	<u>4,508,882</u>	<u>467,399</u>	<u>440,746</u>	<u>5,417,027</u>
Less expenses included with revenues on the statement of activities:				
Cost of direct benefits to donors	-	-	(26,367)	(26,367)
Total expenses included in expense section of the statement of activities	<u>\$ 4,508,882</u>	<u>\$ 467,399</u>	<u>\$ 414,379</u>	<u>\$ 5,390,660</u>

See accompanying notes to financial statements.

LEGAL SERVICES FOR CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2022

	<u>Programs</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Salaries and wages	\$ 1,727,030	\$ 154,496	\$ 256,193	\$ 2,137,719
Benefits	223,765	20,018	33,194	276,977
Payroll taxes	131,970	11,806	19,577	163,353
Total compensation costs	<u>2,082,765</u>	<u>186,319</u>	<u>308,964</u>	<u>2,578,049</u>
Contributed legal services	1,642,321	-	-	1,642,321
Consulting and professional services	8,718	108,672	-	117,390
Occupancy	55,405	7,013	7,715	70,133
Telephone	8,259	1,045	1,150	10,454
Special event and other fundraising	-	-	36,159	36,159
Office supplies	14,486	55,698	1,771	71,955
Insurance	20,135	2,548	2,804	25,487
Travel	9,637	-	-	9,637
Audit fee	-	15,000	-	15,000
Equipment rental and repairs	24,996	3,164	3,480	31,640
Dues and subscriptions	12,299	-	-	12,299
Stipends and subgrants	37,573	-	-	37,573
Staff training, conferences and meetings	5,078	96	49	5,223
Legal fees	14,661	-	-	14,661
Bank charges	-	6,495	-	6,495
Postage, copying, and printing	5,562	704	774	7,040
Depreciation and amortization	<u>1,036</u>	<u>131</u>	<u>144</u>	<u>1,311</u>
Total	<u>\$ 3,942,931</u>	<u>\$ 386,885</u>	<u>\$ 363,010</u>	<u>\$ 4,692,827</u>
Less expenses included with revenues on the statement of activities:				
Cost of direct benefits to donors	-	-	(15,625)	(15,625)
Total expenses included in expense section of the statement of activities	<u>\$ 3,942,931</u>	<u>\$ 386,885</u>	<u>\$ 347,385</u>	<u>\$ 4,677,202</u>

See accompanying notes to financial statements.

LEGAL SERVICES FOR CHILDREN, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 166,385	\$ 45,096
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	3,077	1,311
Unrealized (gains) losses from endowment fund and investments	(77,693)	329,535
Interest and dividend income from endowment fund and investments	(85,717)	(96,364)
Operating lease expense	90,189	-
Changes in operating assets and liabilities:		
Grants receivable	(146,062)	103,251
Prepaid expenses	(6,750)	(3,078)
Accounts payable and accrued expenses	7,010	32,499
Accrued vacation	20,302	(7,869)
Lease liability payments	(82,847)	-
Other accrued expenses	81,169	(6,991)
Net cash provided by (used for) operating activities	<u>(30,937)</u>	<u>397,390</u>
Cash Flow from Investing Activities:		
Property additions	(21,750)	-
Withdrawals for endowment fund	15,000	-
Net cash used for investing activities	<u>(6,750)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(37,687)	397,390
Cash and Cash Equivalents - Beginning of Year	<u>1,802,464</u>	<u>1,405,074</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,764,777</u>	<u>\$ 1,802,464</u>

See accompanying notes to financial statements.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

1. ORGANIZATION

Legal Services for Children, Inc. (“the Organization”) was incorporated in 1975 under the laws of the State of California. The first nonprofit law firm for children and youth in the country, the Organization has served over 52,000 children and youth. The Organization remains one of the few agencies of its kind and is well known in the community as a resource for at-risk children. Through its direct services, the Organization has been instrumental in shaping policy as it affects children in the San Francisco Bay Area and participates regularly in numerous collaborative efforts with other similar community-based organizations.

The Organization’s attorneys and social workers work together to assess and address the needs of each child holistically. Using this interdisciplinary approach, the Organization provides children with a wide spectrum of services, including legal representation and advocacy, psychosocial assessment, crisis intervention, case management, and counseling. The Organization provides representation to children in matters involving abuse and neglect, guardianship, immigration, and school discipline. The Organization also works with a panel of pro bono attorneys who assist with guardianship, immigration, and education matters.

Each year, the Organization serves over 1,000 children and concerned adults through an intake hotline and provides direct representation and advocacy to over 500 minors each year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are described below to enhance the usefulness of the financial statements to the readers. Certain amounts from the 2022 financial statements have been reclassified to conform with current year presentation.

Basis of Presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve. Net assets with donor restrictions are subject to donor-imposed restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the board limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation, continued – Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity. The Organization's donor-restricted endowment fund, including the unspent appreciation of the endowment fund and the portion of the Organization's donor-restricted endowment fund that the Organization is committed to maintaining in perpetuity are classified in net assets with donor restrictions.

Cash and Cash Equivalents – Cash and cash equivalents consist of all cash and money market funds on hand maintained at banking and investing institutions.

Contributions – Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions in which the use is limited by the donor are reported as increases in net assets with donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions are satisfied in the fiscal year in which the contributions are recognized. Conditional promises to give are reported as increases in net assets without donor restriction if restrictions are satisfied at the same time the conditions are also met. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restrictions are accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. As of June 30, 2023 there was at least \$360,000 of conditional grants not reflected as revenue. The grants will be recorded as revenue once the Organization meets the conditions.

Grants and Accounts Receivable Realization – An allowance for doubtful accounts reflects management's best estimate of probable losses inherent in grants and accounts receivable balances. Management primarily determines the allowance based on the aging of accounts receivable balances. Receivables are generally considered past due once a receivable is older than thirty days. It is the Organization's policy to not charge interest on its receivables. Receivables are written off once management has determined the ability to collect is not possible. No allowance was deemed necessary as of June 30, 2023 and 2022.

Contributed Nonfinancial Assets – In-kind donations represent contributed goods and services. The Organization recognizes in-kind donations received at estimated fair value if such goods or services are measurable, would otherwise be purchased and (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be paid for if not provided by donation.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements – The Organization adopted a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization's financial assets shown at fair value include investments (composed of the board-designated reserve securities) and the endowment fund and valued using the following categories: Level 1 - quoted prices in active markets for identical investments; Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date; and Level 3 – Pricing inputs with significant unobservable inputs. As of June 30, 2023 and 2022, the Organization had no investments classified as Level 3. Investment earnings include unrealized and realized gains and losses, interest and dividends.

Property and Equipment – Property, which consists of leasehold improvements and furniture and equipment, is recorded at cost at the date of purchase or, if donated, at the fair market value on the date received if the value is \$5,000 or more. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, with lives that range from 3-5 years (furniture and equipment); 5-10 years or the lease term whichever is shorter (leasehold improvements).

Leases – The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Leases are evaluated on a regular basis to consider economic and strategic incentives of exercising the renewal options, and how they align with the Organization's operating strategy. Therefore, substantially all the renewal option periods are not included within the lease term and the associated payments are not included in the measurement of the right-of-use asset and lease liability as the options to extend are not reasonably certain at lease commencement.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs were de minimus in the years ended June 30, 2023 and 2022.

Income Taxes – The Organization is exempt from the federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar California statute. The Organization has evaluated its current tax positions as of June 30, 2023 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively, after they are filed.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification of expenses by function. Accordingly, certain costs, including personnel costs, insurance, depreciation, and occupancy, have been allocated among the programs and supporting services benefited based upon management's analysis of time and effort spent on the programs and supportive services.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Recently Adopted Accounting Standard – Effective July 1, 2022, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, Leases, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2022). It also elected not to reassess at adoption (i) expired leases or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. No restatement was required in implementing ASU No. 2016-02. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.

3. LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of immediate cash requirements are invested in the board designated reserve.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

3. LIQUIDITY AND AVAILABILITY (continued)

The following table reflects the Organization's financial assets as of June 30, 2023 and 2022, that are available to meet general expenditures within one year of the statement of financial position date. Amounts available to meet general expenditures within one year include net assets with donor restrictions as the purposes are expected to be fulfilled within the next year. To help manage unanticipated liquidity needs, the Organization has a board designated long-term operating reserve, which it could utilize.

	2023	2022
Cash and cash equivalents	\$ 1,764,777	\$ 1,802,464
Investments	1,485,334	1,334,853
Grants receivable	786,197	640,135
Endowment Fund	121,149	123,220
Less:		
Endowment Fund	(121,149)	(123,220)
Board-designated reserve	<u>(1,588,049)</u>	<u>(1,437,196)</u>
Net financial assets available to meet cash needs for general expenditures within one year	\$ <u>2,448,259</u>	\$ <u>2,340,256</u>

4. BOARD DESIGNATED RESERVE

The Organization's Board designated cash and investments held in a brokerage account as a long-term operating reserve. In addition, during the year ended June 30, 2021 the Organization received non-recurring, unplanned, unrestricted Cy Pres awards of \$81,730. The Organization's Board designated the awards for use during the year ended June 30, 2022. The bond and equity funds are reflected as investments on the statement of financial position. The investments and cash are carried at fair value and consist of the following as of June 30, 2023 and 2022:

	2023	2022
Investments:		
Equity Funds, level 1	\$ 1,064,562	\$ 907,493
Bond Funds, level 2	<u>420,772</u>	<u>427,360</u>
Total investments	1,485,334	1,334,853
Cash and cash equivalents	<u>102,715</u>	<u>102,343</u>
Total board-designated reserve	\$ <u>1,588,049</u>	\$ <u>1,437,196</u>

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

4. BOARD DESIGNATED RESERVE (continued)

A summary of earnings for the years ended June 30, 2023 and 2022 follows for the assets held in the board designated reserve:

	2023	2022
Interest and dividends	\$ 77,925	\$ 87,694
Net unrealized gains/(losses)	72,928	(300,415)
Total	\$ 150,853	\$ (212,721)

5. ENDOWMENT FUND

The Organization's endowment consists of a donor-restricted endowment fund.

A donor-restricted endowment was established in 2013 in order for the Organization to support its internship program. The endowment is to be invested in perpetuity with the appreciation in value to be used at the discretion of the governing board to support operations.

In January 2009 the State of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which establishes standards relating to the management of endowment and quasi-endowment funds by nonprofit organizations.

Interpretation of Relevant Law

The Board of the Organization has interpreted the California version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as within net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is separately distinguished within net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

5. ENDOWMENT FUND (continued)

Interpretation of Relevant Law, continued

- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Investment and Spending Policies

The Organization's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the Organization to utilize current dividend and interest income, and over time, a portion of the aggregate capital appreciation, in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Within that framework, the investment policy establishes an achievable return objective through diversification of asset classes. Under this policy, as approved by the Board the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of Investment risk. The Organization expects its endowment fund, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy in which during its annual budget process the Organization will determine whether it should appropriate a portion of the endowment for the following year. The appropriation requires approval of the board each year. In establishing this policy, the Organization considers the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

5. ENDOWMENT FUND (continued)

The changes in endowment net assets for the years ended June 30, 2023 and 2022 and the composition of endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions Time Restricted	Restricted in Perpetuity	Total
Balance, June 30, 2021	\$ 10,000	\$ 45,416	\$ 88,040	\$ 143,456
Investment return:				
Interest and dividends	-	8,884	-	8,884
Change in fair value of investments	-	(29,120)	-	(29,120)
Total investment return	-	(20,236)	-	(20,236)
Appropriation of endowment earnings for expenditure	-	-	-	-
Balance, June 30, 2022	10,000	25,180	88,040	123,220
Investment return:				
Interest and dividends	-	8,164	-	8,164
Change in fair value of investments	-	4,765	-	4,765
Total investment return	-	12,929	-	12,929
Appropriation of endowment earnings for expenditure	(10,000)	(5,000)	-	(15,000)
Balance, June 30, 2023	\$ -	\$ 33,109	\$ 88,040	\$ 121,149

6. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following as of June 30, 2023 and 2022:

	2023	2022
Leasehold improvements	\$ 14,817	\$ 141,391
Furniture and equipment	6,949	118,992
Total property	21,766	260,383
Less: accumulated depreciation and amortization	(3,093)	(260,383)
Property and Equipment, net	\$ 18,673	\$ -

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available at June 30, 2023 and 2022 for the following purposes:

	<u>2023</u>	<u>2022</u>
Guardianship	\$ 380,254	\$ 172,467
Immigration	200,000	318,180
Infrastructure	142,866	-
Endowment - principal	88,040	88,040
General	52,710	69,075
Dependency	38,701	60,811
Endowment - earnings	33,109	25,180
Fellowship	14,438	-
Other	-	10,000
Total net assets with donor restrictions	<u>\$ 950,118</u>	<u>\$ 743,753</u>

Net assets with donor restrictions were released from donor restriction by incurring expenses satisfying the purposes specified by donors during the years ended June 30, 2023 and 2022 as follows:

	<u></u>	<u></u>
Immigration	\$ 193,180	\$ 81,820
Guardianship	125,547	138,444
General	69,075	181,250
Dependency	24,325	-
Other	10,000	10,000
Endowment	5,000	
Education	-	75,950
Releases from restrictions	<u>\$ 427,127</u>	<u>\$ 487,464</u>

8. CONTRIBUTED NONFINANCIAL ASSETS

During the years ended June 30, 2023 and 2022, the Organization recognized \$1,820,376 and \$1,642,321, respectively, of nonfinancial assets within revenue on the statements of activities. Contributed nonfinancial assets did not have donor-imposed restrictions, unless otherwise noted. The costs were reflected as contributed legal services under programs on the statements of functional expenses. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services.

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

9. RETIREMENT PLAN

The Organization maintained a defined contribution 401(k) retirement plan. After the completion of nine months of employment, employees are eligible to make elective contributions up to the maximum allowed by the Internal Revenue Code. During the years ended June 30, 2023 and 2022, the Organization contributed \$55,000 and \$50,000, respectively, into the retirement plan.

10. OPERATING LEASES

The Organization evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) asset represents the Organization's right to use underlying assets for the lease term, and the lease liabilities represent the Organization's obligation to make lease payments arising from these leases. The ROU asset and lease liability, all of which arise from an operating lease, were calculated based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. One contract, an office lease, met the criteria. The discount rates applied to calculate the lease liability as of June 30, 2023, was 2.66%.

The Organization rented office space in San Francisco, California under a lease which expired on December 31, 2021. The Organization continued to rent that space on a month-to-month basis until August 2022. A new lease for a new location was executed in June 2022 with a lease expiration date in July 2027.

For the years ended June 30, 2023 and 2022, total operating lease costs were \$90,189 and \$48,650, respectively. As of June 30, 2023, the weighted-average remaining lease term for the Organization's operating lease was approximately four years.

Cash paid for the operating leases for the year ended June 30, 2023 was \$82,847. There were no noncash investing and financing transactions related to the operating lease.

Future minimum lease payments under noncancelable operating leases discounted to present value are presented in the following table, for the years ending June 30:

2024	\$ 89,112
2025	91,510
2026	94,368
2027	97,248
2028	8,124
Total remaining payments	380,362
Less: remaining discount	(19,878)
Lease obligation	<u>\$ 360,484</u>

LEGAL SERVICES FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

11. RISKS AND UNCERTAINTIES

Cash and Cash Equivalents – Financial instruments that potentially subject the Organization to credit risk include cash on deposit with a financial institution that at times is in excess of the \$250,000 insurance limitation of the Federal Deposit Insurance Corporation (“FDIC”).

Union Agreement – The Organization executed an agreement with the Engineers and Scientists of California Local 20 International Federation of Professional which became effective October 3, 2022 through October 3, 2025. The agreement requires specific benefits for employees covered by the agreement including, but not limited to: contributions to the 401(K) plan, benefits, and increases in compensation annually.

12. SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to June 30, 2023, for potential recognition or disclosure in the financial Statements. Subsequent events have been evaluated through January 10, 2024, the date on which the financial statements were available to be issued.