

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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditors' Report

To the Board of Directors of
The Children's Law Center, Inc. & Subsidiary

We have audited the accompanying consolidated financial statements of **The Children's Law Center, Inc.** (a nonprofit organization) & **Subsidiary** (collectively referred to as the "Center"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **The Children's Law Center, Inc. & Subsidiary** as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(b) to the financial statements, during the year ended December 31, 2019, **The Children's Law Center, Inc. & Subsidiary** adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)* and Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Paul, Cheek, Leibowitz + Blyskal, LLC

Certified Public Accountants

Vernon, Connecticut
May 7, 2020

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 153,710	\$ 288,178
Investments, at fair value	698,760	669,062
Contributions and grants receivable	293,196	220,650
Prepaid expenses	8,238	3,234
Total Current Assets	1,153,904	1,181,124
PROPERTY AND EQUIPMENT , net of accumulated depreciation	51,037	15,119
TOTAL ASSETS	\$ 1,204,941	\$ 1,196,243

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 23,798	\$ 11,925
Accrued payroll	29,199	15,817
Pension payable	4,624	4,073
Deferred revenue	9,093	-
Refundable advance	46,125	135,063
Total Current Liabilities/Total Liabilities	112,839	166,878
<u>NET ASSETS</u>		
Without donor restrictions:		
General	48,009	123,434
Nest-egg fund - board designated	698,760	669,062
Property and equipment	51,037	15,119
Total without donor restrictions	797,806	807,615
With donor restrictions	294,296	221,750
Total Net Assets	1,092,102	1,029,365
TOTAL LIABILITIES AND NET ASSETS	\$ 1,204,941	\$ 1,196,243

See accompanying notes to the consolidated financial statements

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
	Total	Total	Total	Total
REVENUE, SUPPORT AND OTHER INCOME				
Grants	\$ 346,219	\$ 272,896	\$ 619,115	\$ 217,053
Fees - nonexchange	249,150	-	249,150	-
Fees - exchange	11,263	-	11,263	-
Special events	149,657	16,400	166,057	4,697
Individual contributions	34,378	3,900	38,278	-
Corporate/community contributions	3,027	-	3,027	-
Rebuilding families	9,626	-	9,626	-
Interest and dividend income	17,855	-	17,855	-
Investment gains (losses), net	91,758	-	91,758	-
Net assets released from restrictions	220,650	(220,650)	-	(232,460)
Total Revenue, Support and Other Income	<u>1,133,583</u>	<u>72,546</u>	<u>1,206,129</u>	<u>(10,710)</u>
EXPENSES				
Program services	883,517	-	883,517	-
Fundraising	182,897	-	182,897	-
Management and general	76,978	-	76,978	-
Total Expenses	<u>1,143,392</u>	<u>-</u>	<u>1,143,392</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>(9,809)</u>	<u>72,546</u>	<u>62,737</u>	<u>(10,710)</u>
NET ASSETS				
Beginning of year	807,615	221,750	1,029,365	232,460
End of year	<u>\$ 797,806</u>	<u>\$ 294,296</u>	<u>\$ 1,092,102</u>	<u>\$ 221,750</u>
			<u>\$ 807,615</u>	<u>\$ 807,615</u>
			<u>\$ 1,158,180</u>	<u>\$ 1,158,180</u>
			<u>\$ 1,075,344</u>	<u>\$ 882,117</u>
			<u>\$ 206,182</u>	<u>\$ 206,182</u>
			<u>\$ 69,881</u>	<u>\$ 69,881</u>
			<u>\$ 1,112,201</u>	<u>\$ 1,112,201</u>
			<u>\$ 1,029,365</u>	<u>\$ 1,029,365</u>

See accompanying notes to the consolidated financial statements

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018				
	Program Services	Fund Raising	Management and General	Total	Program Services	Fund Raising	Management and General	Total
Payroll	\$ 605,492	\$ 98,392	\$ 52,980	\$ 756,864	\$ 579,872	\$ 120,493	\$ 52,716	\$ 753,081
Employee benefits	37,360	6,071	3,269	46,700	48,525	10,083	4,411	63,019
Payroll taxes	47,005	7,638	4,113	58,756	45,436	9,441	4,131	59,008
Rent	42,524	1,849	1,849	46,222	40,616	1,785	2,232	44,633
Consulting	35,000	22,050	10,800	67,850	55,930	11,820	2,035	69,785
Fundraising, marketing and special events	-	44,303	-	44,303	-	49,958	-	49,958
Depreciation	4,081	-	-	4,081	3,654	-	-	3,654
Utilities	7,045	306	306	7,657	7,429	323	323	8,075
Office	13,880	458	540	14,878	12,730	560	699	13,989
Travel	18,294	380	328	19,002	15,766	328	328	16,422
Telephone	8,471	372	465	9,308	8,197	360	450	9,007
Training	5,177	-	-	5,177	4,187	-	-	4,187
Dues, subscriptions, and fees	12,623	-	-	12,623	11,001	-	-	11,001
Computer fees and maintenance	18,687	812	812	20,311	22,759	989	989	24,737
Insurance	7,355	-	592	7,947	8,780	-	592	9,372
Accounting	10,804	-	891	11,695	9,009	-	891	9,900
Printing and postage	1,358	266	33	1,657	1,984	42	84	2,110
Rebuilding families	8,361	-	-	8,361	6,242	-	-	6,242
Total Functional Expenses	\$ 883,517	\$ 182,897	\$ 76,978	\$ 1,143,392	\$ 882,117	\$ 206,182	\$ 69,881	\$ 1,158,180

See accompanying notes to the consolidated financial statements

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 62,737	\$ (82,836)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	4,081	3,654
Unrealized and realized (gain) loss on investments	(99,224)	52,865
(Increase) decrease in:		
Contributions and grants receivable	(72,546)	11,810
Prepaid expenses	(5,004)	(214)
Increase (decrease) in:		
Accounts payable	1	(1,082)
Accrued payroll	13,382	2,954
Pension payable	551	722
Deferred revenue	9,093	-
Refundable advance	(88,938)	(11,665)
Total adjustments	<u>(238,604)</u>	<u>59,044</u>
Net cash used in operating activities	<u>(175,867)</u>	<u>(23,792)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(28,127)	(8,632)
Proceeds from sales of investments	819,631	316,943
Purchase of investments	<u>(750,105)</u>	<u>(326,898)</u>
Net cash provided by (used in) investing activities	<u>41,399</u>	<u>(18,587)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
	<u>-</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(134,468)	(42,379)
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	<u>288,178</u>	<u>330,557</u>
End of year	<u>\$ 153,710</u>	<u>\$ 288,178</u>

See accompanying notes to the consolidated financial statements

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of Operations

The Children's Law Center, Inc. (the "Center") is a Connecticut non-stock corporation formed in 1993. The purpose of the Center is to provide vulnerable children with experienced legal representation in family matters where there are allegations of abuse, neglect, drug and/or alcohol dependency, domestic violence or chronic conflict. The Center currently represents children in the Superior Courts of Hartford, Bridgeport, Putnam, New Britain, New Haven, Rockville, Stamford, Litchfield/Torrington, Danbury, Middletown, Milford, Meriden, Norwich, and Waterbury.

On September 17, 2013, the Center formed a wholly owned limited liability company, Rebuilding Families, LLC (the "LLC") to administer drug tests for the legal representation program.

b) Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For the Center, this standard is effective for calendar year 2019. The Center adopted the new standard on January 1, 2019 using a full retrospective basis and has determined there to be an immaterial impact to the Center's financial statements as a result of the adoption of ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities)*, and subsequently issued related ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)*. These standards amend certain aspects of accounting and disclosure requirements for financial instruments. The Center has determined there to be no material impact to the Center's financial statements resulting from the adoption of ASU 2016-01 and ASU 2018-03.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Center has adopted the new standard on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. The Center has determined there to be an immaterial impact to the Center's financial statements as a result of the adoption of ASU 2018-08.

1) **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

c) **Principles of Consolidation**

The consolidated financial statements include the accounts of The Children's Law Center, Inc. and Rebuilding Families, LLC. All intercompany transactions and balances have been eliminated.

d) **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been classified as follows:

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 Center. The Center's Board of Directors 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 Center or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

e) **Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

f) **Cash and Cash Equivalents**

All short-term, highly liquid investments with original maturities of three months or less are considered cash equivalents, except for board restricted investments that function as endowments.

g) **Contributions and Grants Receivable**

Contributions, including unconditional promises to give and nonexchange grant awards, are recognized as revenues in the period the commitment is received. Contributions, which have donor restrictions expiring in the current year, are reported as increases in net assets without donor restrictions. All other contributions received which have donor restrictions are reported as increases in net assets with donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a risk-free rate appropriate for the expected payment term. Amortization of the discount is recorded as contribution revenue in the appropriate net asset category. All contributions and grants receivable are to be received within one year at both December 31, 2019 and 2018. Management periodically evaluates the collectability of receivables and creates an allowance for any accounts deemed uncollectible. As of December 31, 2019 and 2018, there was no allowance for uncollectible accounts.

1) **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

g) **Contributions and Grants Receivable** - Continued

Fees – nonexchange reported on the consolidated statements of activities and changes in net assets are State grants that have been deemed to be conditional contributions. This represents funds recognized for cases worked meeting grant criteria. Payments received that have not yet met conditions are reported as refundable advances in the consolidated statements of financial position.

h) **Investments**

Investments are reported at fair value. The fair value of securities traded on a national securities exchange is determined at the last reported sale price on the last business day of the Center's year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices. The fair value of mutual fund units owned by the Center is based on quoted redemption value on the last business day of the Center's year.

i) **Property and Equipment**

Property and equipment are stated at cost, except for contributed property and equipment, which is recorded at fair value at the date of gift. It is the Center's policy to capitalize such assets whose cost or fair value is greater than \$1,000. Depreciation is charged to expense using the straight-line method over three, five, or seven years. Maintenance and repairs are charged to expense as incurred. Expenditures which substantially increase the useful lives of the related assets are capitalized.

j) **Revenue Recognition**

Fees – exchange includes revenue derived from legal case work paid directly from clients, contracted mediation and government appeals work, and professional development and trainings. The Center recognizes revenue on these service contracts over time as legal work is performed and as trainings are conducted. Payment is typically received prior to or at time services are provided. Amounts billed and collected before the services are performed are included in deferred revenue. These amounts are recognized as revenue at the time the services are performed (i.e. as billable hours are incurred and trainings take place).

Rebuilding family's revenue is derived from fixed fees for hair sample collection and hair drug testing. The Center recognizes this revenue at a point in time when the tests are completed. Payment is received at time the sample is collected.

k) **Income Taxes**

The Center is a nonprofit organization formed under Section 501(c)(3) of the Internal Revenue Code (IRC), which exempts the Center from federal income taxes. The Center is required to operate in conformity with the IRC to maintain its tax-exempt status. The Center's management is not aware of any course of action or series of events that have occurred that might adversely affect the Center's tax-exempt status.

1) **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Continued

k) **Income Taxes**- Continued

Management of the Center evaluates all significant tax positions as required by U.S. GAAP. As of December 31, 2019 and 2018, management does not believe that it has taken any tax position that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Center's income tax returns are subject to examination by the appropriate taxing jurisdiction. As of December 31, 2019 and 2018, the Center's federal and state returns generally remain open for examination for three years after the date filed.

l) **Functional Allocation of Expenses**

The costs of supporting programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent and utilities, which are allocated on a square-footage basis, as well as salaries, payroll taxes, benefits, consulting and other expenses, which are allocated on the basis of time and effort.

m) **Reclassifications**

Certain reclassifications have been made to the December 31, 2018 financial statements to conform to the December 31, 2019 financial statement presentation.

n) **Subsequent Events**

In preparing these consolidated financial statements, management of the Center has evaluated subsequent events through May 7, 2020 which represents the date the consolidated financial statements were available to be issued.

2) **CONTRACT BALANCES FOR EXCHANGE TRANSACTIONS**

The beginning and ending contract balances for exchange transactions consists of the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Deferred revenue	\$ <u>9,093</u>	\$ <u>-</u>	\$ <u>-</u>

3) **INVESTMENTS**

The Center's investments are recorded at fair value and are comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Money market fund	\$ 15,576	\$ 94,795
Equities	415,384	346,179
Mutual funds	<u>267,800</u>	<u>228,088</u>
Total Investments	\$ <u>698,760</u>	\$ <u>669,062</u>

3) **INVESTMENTS** - Continued

The net gain (loss) on investments and total investment return is as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Unrealized gain (loss)	\$ 70,549	\$ (62,958)
Realized gain	28,675	10,094
Management fees	<u>(7,466)</u>	<u>(9,263)</u>
Net gain (loss)	91,758	(62,127)
Interest and dividends	<u>17,855</u>	<u>15,613</u>
Total investment return (loss)	\$ <u>109,613</u>	\$ <u>(46,514)</u>

4) **FAIR VALUE MEASUREMENTS**

In accordance with U.S. GAAP, management classifies its investments as Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. As of December 31, 2019 and 2018, total investments of \$698,760 and \$669,062, respectively, were classified as Level 1 investments (as disclosed in Note 3).

5) **PROPERTY AND EQUIPMENT**

The components of property and equipment are as follows at December 31:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 13,555	\$ 13,555
Software	55,599	15,600
Computer and office equipment	<u>66,968</u>	<u>69,072</u>
	136,122	98,227
Less: accumulated depreciation	<u>85,085</u>	<u>83,108</u>
Property and equipment, net	\$ <u>51,037</u>	\$ <u>15,119</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$4,081 and \$3,654, respectively.

6) **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or period at December 31:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time (for periods after December 31, 2019 and 2018, respectively):		
Interest on Lawyer Trust Accounts	\$ 44,713	\$ 37,664
Judicial Branch Grant-in-Aid	18,918	17,485
Court Fees Grant-in-Aid	173,422	161,904
Hartford Foundation for Public Giving	13,983	-
Pledges and contributions receivable	<u>42,160</u>	<u>3,597</u>
	<u>293,196</u>	<u>220,650</u>
Subject to spending policy and appropriation:		
Investment in perpetuity		
Any activities of the Center	<u>1,100</u>	<u>1,100</u>
Total net assets with donor restrictions	<u>\$ 294,296</u>	<u>\$ 221,750</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions:		
Passage of specified time	<u>\$ 220,650</u>	<u>\$ 232,460</u>

7) **ENDOWMENT**

The Center's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Center is subject to the Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA). The Board of Directors of the Center has interpreted CTUPMIFA 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 Center classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Center has interpreted CTUPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with CTUPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

7) **ENDOWMENT** - Continued

- 1) The duration and preservation of the fund
- 2) The purposes of the Center and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of the Center
- 7) The investment policies of the Center

Underwater Endowment Funds - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTUPMIFA requires the Center to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2019 and 2018.

Investment Return Objectives, Risk Parameters and Strategies - The Center has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable and stable source of liquidity and financial support for the mission of the Center while seeking to preserve and enhance the long-term real purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, 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 Center expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Center 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 Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Center is in the process of establishing its donor restricted endowment fund. As a result, no appropriations for distributions are being made.

The endowment net asset composition by type of fund is as follows as of December 31:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 698,760	\$ -	\$ 698,760
Donor-restricted endowment funds	-	1,100	1,100
Total funds	\$ 698,760	\$ 1,100	\$ 699,860

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 669,062	\$ -	\$ 669,062
Donor-restricted endowment funds	-	1,100	1,100
Total funds	\$ 669,062	\$ 1,100	\$ 670,162

7) **ENDOWMENT** - Continued

Changes in endowment net assets are as follows for the years ended December 31:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 669,062	\$ 1,100	\$ 670,162
Investment return, net	109,613	-	109,613
Appropriation for expenditure	(79,915)	-	(79,915)
Endowment net assets, end of year	<u>\$ 698,760</u>	<u>\$ 1,100</u>	<u>\$ 699,860</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 711,972	\$ -	\$ 711,972
Investment return, net	(46,514)	-	(46,514)
Contributions	3,604	1,100	4,704
Endowment net assets, end of year	<u>\$ 669,062</u>	<u>\$ 1,100</u>	<u>\$ 670,162</u>

8) **PENSION PLAN**

The Center has a 403(b) defined contribution pension plan covering all eligible employees. Employees are eligible upon commencement of employment. The plan allows for contributions up to IRS limitations. The Center in its sole discretion can elect each year to make a matching contribution. The Center elected to match 1% of eligible compensation in 2019 and 2018, not to exceed employee deferrals. The Center's match for the years ended December 31, 2019 and 2018 was \$4,849 and \$4,073, respectively.

9) **LIQUIDITY AND AVAILABILITY**

The Center's financial assets available within one year of the statement of financial position date for general expenditures are as follows as of December 31:

	2019	2018
Cash and cash equivalents	\$ 153,710	288,178
Investments	698,760	669,062
Contributions and grants receivable	293,196	220,650
Total financial assets	<u>1,147,685</u>	<u>1,177,890</u>
Less:		
Amounts unavailable for expenditures within one year due to:		
Donor-restricted endowment included in cash and cash equivalents	1,100	1,100
Board-designated endowment	<u>698,760</u>	<u>669,062</u>
	<u>699,860</u>	<u>670,162</u>
Total financial assets available within one year	<u>\$ 445,806</u>	<u>507,728</u>

9) **LIQUIDITY AND AVAILABILITY** - Continued

Management monitors levels of available financial assets to anticipate cash requirements for general expenditures as obligations come due. In addition, as part of its liquidity management, the Center invests cash in excess of daily requirements in various short-term investments, including money market accounts. The Center also has board designated net assets without donor restrictions that could, upon vote by the Board of Directors, be made available for current operations in the event of a liquidity need.

10) **COMMITMENTS AND CONTINGENCIES**

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, management deems the contingency remote for operating grants, since by accepting the grant and its terms, it has accommodated the objectives of the Center to the provisions of the grant.

11) **LEASES**

The Center leased its office facility in Hartford, Connecticut for a five-year period through February 2017. The lease required monthly rental payments of \$3,576 with annual inflation adjustments.

Effective March 1, 2017, the Center extended the lease agreement for its office facility and storage space for an additional five-year period through February 2022. Rent expense for the years ended December 31, 2019 and 2018 was \$46,222 and \$44,633, respectively.

Future minimum lease payments under these operating leases for the remaining lease term are as follows for the years ending December 31:

2020	\$	43,658
2021		44,968
2022		<u>7,531</u>
Total	\$	<u>96,157</u>

12) **CONCENTRATIONS**

The Center maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on its bank deposits. Uninsured balances totaled \$-0- at both December 31, 2019 and 2018.

During the years ended December 31, 2019 and 2018, the Center received approximately 48% and 51%, respectively, of its revenue from the State of Connecticut. At December 31, 2019 and 2018, approximately 81% and 97%, respectively, of the Center's grants and contributions receivable is from the State of Connecticut.

13) **WHOLLY OWNED SUBSIDIARY**

The activity of Rebuilding Families, LLC is included in the accompanying consolidated financial statements. The activity is as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Assets:		
Cash	\$ <u>2,602</u>	\$ <u>11,742</u>
Liabilities:		
Due to Children's Law Center, Inc.	7,716	18,089
Accounts payable	<u>-</u>	<u>32</u>
Total Liabilities	7,716	18,121
Net Assets	<u>(5,114)</u>	<u>(6,379)</u>
Total Liabilities and Net Assets	\$ <u>2,602</u>	\$ <u>11,742</u>
Revenues	\$ 9,626	\$ 5,892
Expenses	<u>8,361</u>	<u>6,242</u>
Change in Net Assets	\$ <u>1,265</u>	\$ <u>(350)</u>

The Due to Children's Law Center, Inc. line included in the summarized activity above was eliminated upon consolidation.

14) **SUPPLEMENTAL CASH FLOW INFORMATION**

Noncash investing and financing activities:

	<u>2019</u>	<u>2018</u>
Amounts in accounts payable for payment of property and equipment	\$ <u>11,872</u>	\$ <u>-</u>

15) **SUBSEQUENT EVENTS**

The outbreak of the novel coronavirus (or COVID-19) continues to grow both in the U.S. and globally, and related local, state and federal government responsive actions are expected to adversely affect the Center's operations. It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving. While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while the Center expects this matter to negatively impact the Center's financial condition, results of operations or cash flows, the extent of the financial impact and the duration cannot be reasonably estimated at this time.