
Youth, Rights & Justice

ATTORNEYS AT LAW

An independent, not-for-profit law firm, Est. 1975

FINANCIAL STATEMENTS

Year Ended December 31, 2011

with

Independent Auditors' Report

YOUTH, RIGHTS & JUSTICE

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Independent Auditors' Report

The Board of Directors
Youth, Rights & Justice

We have audited the accompanying statement of financial position of Youth, Rights & Justice (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Youth, Rights & Justice's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Youth, Rights & Justice's 2010 financial statements and, in our report dated May 16, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Youth, Rights & Justice as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

May 21, 2012

YOUTH, RIGHTS & JUSTICE

Statement of Financial Position

| December 31, 2011 (With Comparative Amounts for 2010) | 2011 | 2010 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 638,827 | \$ 633,437 |
| Contributions receivable (Note 3) | 10,000 | 128,075 |
| Contract receivable | 45,796 | 44,826 |
| Other receivables | 4,583 | 8,417 |
| Prepaid expenses | 64,028 | 56,904 |
| Total current assets | 763,234 | 871,659 |
| Property and equipment, net (Note 4) | 63,356 | 57,896 |
| Deposit | 14,889 | 14,889 |
| Total assets | \$ 841,479 | \$ 944,444 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 98,101 | \$ 112,191 |
| Current portion of deferred rent expense (Note 5) | 4,959 | - |
| Current portion of unearned PDSC revenue (Note 6) | 60,000 | 84,000 |
| Total current liabilities | 163,060 | 196,191 |
| Deferred rent expense, net of current portion (Note 5) | 97,037 | 100,996 |
| Unearned PDSC revenue, net of current portion (Note 6) | 217,262 | 299,158 |
| Total liabilities | 477,359 | 596,345 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 280,764 | 157,128 |
| Net investment in property and equipment | 63,356 | 57,896 |
| Total unrestricted | 344,120 | 215,024 |
| Temporarily restricted (Note 9) | 20,000 | 133,075 |
| Total net assets | 364,120 | 348,099 |
| Total liabilities and net assets | \$ 841,479 | \$ 944,444 |

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

YOUTH, RIGHTS & JUSTICE

Statement of Activities

Year Ended December 31, 2011 (With Comparative Totals for 2010)

| | Unrestricted | Temporarily Restricted | Total | |
|---|--------------------------|---------------------------|--------------------------|--------------------------|
| | | | 2011 | 2010 |
| Revenue and other support: | | | | |
| PDSC contract revenue (Note 6) | \$ 2,168,136 | \$ - | \$ 2,168,136 | \$ 2,015,038 |
| Other contract revenue | 220,510 | - | 220,510 | 229,893 |
| Program service fees | 1,310 | - | 1,310 | 8,517 |
| Contributions (Note 10) | 30,891 | 27,500 | 58,391 | 137,384 |
| Special events | 111,247 | - | 111,247 | 118,368 |
| Less direct costs | <u>(28,392)</u> | <u>-</u> | <u>(28,392)</u> | <u>(48,574)</u> |
| Net proceeds from special events | 82,855 | - | 82,855 | 69,794 |
| Interest income | 1,313 | - | 1,313 | 1,463 |
| Other | 8,192 | - | 8,192 | 16,847 |
| Net assets released from restrictions (Note 9) | <u>140,575</u> | <u>(140,575)</u> | <u>-</u> | <u>-</u> |
| Total revenue and other support | 2,653,782 | (113,075) | 2,540,707 | 2,478,936 |
| Expenses: | | | | |
| Program services | 2,187,670 | - | 2,187,670 | 2,224,064 |
| Management and general | 224,446 | - | 224,446 | 198,812 |
| Fundraising | <u>112,570</u> | <u>-</u> | <u>112,570</u> | <u>107,253</u> |
| Total expenses | 2,524,686 | - | 2,524,686 | 2,530,129 |
| Increase (decrease) in net assets | 129,096 | (113,075) | 16,021 | (51,193) |
| Net assets, beginning of year | <u>215,024</u> | <u>133,075</u> | <u>348,099</u> | <u>399,292</u> |
| Net assets, end of year | <u>\$ 344,120</u> | <u>\$ 20,000</u> | <u>\$ 364,120</u> | <u>\$ 348,099</u> |

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

YOUTH, RIGHTS & JUSTICE
Statement of Functional Expenses

Year Ended December 31, 2011 (With Comparative Totals for 2010)

| | Program Services | | | | Management and General | Fundraising | Total | |
|----------------------------------|---------------------|------------------|-------------------|---------------------|------------------------------|-------------------|---------------------|---------------------|
| | Defense | Advocacy | Education | Total | | | 2011 | 2010 |
| Salaries and related expenses | \$ 1,347,666 | \$ 29,758 | \$ 356,836 | \$ 1,734,260 | \$ 144,821 | \$ 76,557 | \$ 1,955,638 | \$ 1,975,641 |
| Occupancy | 177,701 | 4,411 | 36,516 | 218,628 | 17,844 | 18,843 | 255,315 | 251,347 |
| Professional services | 48,981 | 30,777 | 6,181 | 85,939 | 54,682 | 1,817 | 142,438 | 113,843 |
| Travel | 52,844 | 2,496 | 4,702 | 60,042 | 773 | 1,382 | 62,197 | 64,845 |
| Supplies, printing and postage | 19,899 | 470 | 4,783 | 25,152 | 2,198 | 8,788 | 36,138 | 44,570 |
| Insurance | 13,884 | 39 | 3,025 | 16,948 | 1,516 | 817 | 19,281 | 21,575 |
| Training and conferences | 5,577 | 7 | 55 | 5,639 | 28 | 241 | 5,908 | 8,165 |
| Equipment rental and maintenance | 4,689 | 117 | 922 | 5,728 | 471 | 260 | 6,459 | 1,497 |
| Memberships | 11,345 | - | 2,634 | 13,979 | 68 | 12 | 14,059 | 13,842 |
| Discovery and case expenses | 2,043 | - | - | 2,043 | - | - | 2,043 | 4,473 |
| Depreciation and amortization | 12,092 | 300 | 2,344 | 14,736 | 1,212 | 673 | 16,621 | 17,041 |
| Bad debt | - | - | - | - | - | 123 | 123 | 350 |
| Miscellaneous | 3,885 | 159 | 532 | 4,576 | 833 | 3,057 | 8,466 | 12,940 |
| Total expenses | \$ 1,700,606 | \$ 68,534 | \$ 418,530 | \$ 2,187,670 | \$ 224,446 | \$ 112,570 | \$ 2,524,686 | \$ 2,530,129 |

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

YOUTH, RIGHTS & JUSTICE

Statement of Cash Flows

| Year Ended December 31, 2011 <i>(With Comparative Totals for 2010)</i> | 2011 | 2010 |
|--|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Cash received from contractors | \$ 2,281,780 | \$ 2,362,615 |
| Cash received from contributors | 259,321 | 336,628 |
| Interest income | 1,313 | 1,463 |
| Other receipts | 9,502 | 25,364 |
| Cash paid to employees and vendors | <u>(2,524,445)</u> | <u>(2,508,360)</u> |
| Net cash provided by operating activities | 27,471 | 217,710 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | <u>(22,081)</u> | <u>(2,262)</u> |
| Net cash used by investing activities | (22,081) | (2,262) |
| Net increase in cash and cash equivalents | 5,390 | 215,448 |
| Cash and cash equivalents, beginning of year | <u>633,437</u> | <u>417,989</u> |
| Cash and cash equivalents, end of year | <u>\$ 638,827</u> | <u>\$ 633,437</u> |
| Reconciliation of increase (decrease) in net assets to net cash provided by operating activities: | | |
| Increase (decrease) in net assets | \$ 16,021 | \$ (51,193) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,621 | 17,041 |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | 118,075 | 129,450 |
| Contract receivable | (970) | 3,202 |
| Other receivables | 3,834 | (6,124) |
| Prepaid expenses | (7,124) | 11,054 |
| Accounts payable and accrued expenses | (14,090) | (6,988) |
| Deferred rent expense | 1,000 | 6,786 |
| Unearned PDSC revenue | <u>(105,896)</u> | <u>114,482</u> |
| Net cash provided by operating activities | <u>\$ 27,471</u> | <u>\$ 217,710</u> |

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

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements

1. Nature of Activities

Youth, Rights & Justice (YRJ) is a public charity organized in 1985 as Oregon's only public interest law firm devoted exclusively to representing children and youth in juvenile court. YRJ now represents children, youth and parents in juvenile court, including dependency and delinquency matters. YRJ represents clients who have been deemed indigent in the Multnomah County Juvenile Court and in the Oregon Court of Appeals. YRJ also advocates for the educational rights of students in local public school systems and provides a HelpLine service for youth and their adult advocates in Oregon who request information, referral, legal advice, and brief legal services. YRJ is supported by state contracts, foundation grants, and individual donors.

YRJ's primary support is from the Oregon Judicial Department, Public Defense Service Commission (PDSC) under a contract effective through December 31, 2011. Support from PDSC during 2011 and 2010 represented approximately 85 percent and 82 percent of total revenue and support, respectively (*Note 6*).

2. Significant Accounting Policies

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of YRJ and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of YRJ and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the financial statements for, among other things, the calculation of any allowance for uncollectible receivables, the estimated useful lives of property and equipment, and the calculation of the liability for unearned PDSC revenue.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

2. Significant Accounting Policies - Continued

Cash and Cash Equivalents - YRJ considers all highly-liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Contributions Receivable - Contributions receivable that are collectible in one year or less are recorded at estimated net realizable value. Contributions receivable that are collectible in more than one year, if material, are recorded at the present value of estimated future cash flows.

Contribution Recognition - Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

YRJ reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Pledges are recorded as received and allowances, if any, are provided for amounts estimated to be uncollectible.

YRJ reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, YRJ reports expirations of donor restrictions of donated or acquired long-lived assets when the asset is placed into service.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contract Receivable - Receivables are recognized as services are provided. Management provides for probable uncollectible amounts, if any, through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. No valuation allowance was determined necessary for the years ended December 31, 2011 and 2010.

Property and Equipment - Acquisitions of property and equipment in excess of \$500 are capitalized. Capitalized property and equipment are stated at cost or, if donated, at fair market value at the time of receipt. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives of the assets, as follows:

| | |
|--------------------------------|-------------|
| Office furniture and equipment | 4 - 5 years |
| Leasehold improvements | 10 years |

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

2. Significant Accounting Policies - Continued

Deferred Rent Expense - YRJ records lease expense over the lease term on a straight-line basis for leases with fixed escalation clauses. Accordingly, YRJ recognizes deferred rent to the extent that the straight-line recognition of lease expense exceeds required lease rental payments. Deferred rents are reduced when lease payment requirements exceed the recognized amount of expense.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Certain costs have been allocated among the program and supporting services benefited.

Income Taxes - YRJ is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as YRJ has no activities subject to unrelated business income tax. YRJ is not a private foundation.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions, and also provide guidance on various related matters such as interest, penalties, and required disclosures. Management believes YRJ does not have any uncertain tax positions. YRJ files informational returns. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return. As such, the returns for 2008, 2009, and 2010 are currently subject to examination. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

Summarized Financial Information for 2010 - The accompanying financial information as of and for the year ended December 31, 2010, is presented for comparative purposes only and is not intended to represent a complete financial statement presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with YRJ's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

3. Contributions Receivable

Contributions receivable consist of the following at December 31:

| | 2011 | 2010 |
|-------------------------------------|------------------|-------------------|
| Restricted for an education program | \$ - | \$ 95,000 |
| Restricted for an advocacy program | 10,000 | 33,075 |
| | <u>10,000</u> | <u>128,075</u> |
| | <u>\$ 10,000</u> | <u>\$ 128,075</u> |

At December 31, 2011 and 2010, contributions receivable are expected to be received in less than one year.

4. Property and Equipment

Property and equipment at December 31, 2011 and 2010, consists of the following:

| | 2011 | 2010 |
|--|------------------|------------------|
| Office furniture and equipment | \$ 162,403 | \$ 151,610 |
| Leasehold improvements | 47,982 | 47,982 |
| | 210,385 | 199,592 |
| Less accumulated depreciation and amortization | <u>(147,029)</u> | <u>(141,696)</u> |
| Property and equipment, net | <u>\$ 63,356</u> | <u>\$ 57,896</u> |

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

5. Operating Leases

Effective June 1, 2007, YRJ entered into a ten-year lease agreement for office space. The lease calls for monthly base rent of \$14,889 with an annual 3 percent inflation adjustment. YRJ recognized deferred rent, which represents the difference between straight-line recognition of lease expense and actual lease payments made. Deferred rent expense totaled \$101,996 and \$100,996 at December 31, 2011 and 2010, respectively.

YRJ leases certain office equipment under operating leases that expire through August, 2015.

Future minimum payments due under the aforementioned leases are as follows:

| Years Ending December 31, | Amount |
|--------------------------------------|---------------------|
| 2012 | \$ 220,144 |
| 2013 | 226,361 |
| 2014 | 232,766 |
| 2015 | 233,551 |
| 2016 | 232,208 |
| Thereafter | 97,949 |
| | <hr/> |
| | <u>\$ 1,242,979</u> |

Lease expense for the years ended December 31, 2011 and 2010, approximated \$221,251 and \$215,205, respectively.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

6. Unearned PDSC Revenue

The majority of YRJ's revenue comes from a two-year contract with the Public Defense Services Commission (PDSC). The contract provides minimum caseload requirements throughout the contract period and for renegotiation when the probable number of available cases increases or decreases substantially.

YRJ's total case overage or underage for each two-year period, and the result of actual negotiations with PDSC, determines either the amount to be paid to or to be received from PDSC or the amount to be settled with PDSC through future contract terms. At December 31, 2011 and 2010, there was a case underage relating to the contract period ended December 31, 2011. As a result, a liability was recorded and labeled "unearned PDSC revenue" in the accompanying statement of financial position and totaled \$277,262 and \$383,158, for the years ended December 31, 2011 and 2010, respectively. This balance represents the dollar amount management expects to settle with the PDSC through a reduction in funding for the contract for the two-year period ending December 31, 2013, and by providing additional work during future contracts.

Based on contract terms for the contract period ending December 31, 2013, management estimates that \$60,000 of the estimated liability at December 31, 2011, will be settled within one year.

7. Line of Credit

YRJ has a \$100,000 unsecured line of credit with Bank of the West. Interest is payable at the bank's prime rate plus 1 percent (4.25 percent at December 31, 2011 and 2010). There were no outstanding borrowings on the line at December 31, 2011 and 2010.

8. Retirement Plan

YRJ maintains a 401(k) retirement plan and trust (the Plan). The Plan covers substantially all employees employed longer than six months. Employees may make voluntary contributions to the Plan. YRJ's contributions to the Plan are determined each year on a discretionary basis. Currently, YRJ has elected to contribute 1 percent of salary for all eligible employees, plus a matching contribution equal to 50 percent of employee contributions, up to a maximum of one percent of compensation for a total maximum contribution of 2 percent of eligible compensation. Employer contributions to the Plan totaled \$28,950 and \$29,766 for the years ended December 31, 2011 and 2010, respectively.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for use on reform efforts, including legislative work and efforts to improve Oregon's foster care system. A breakdown by type of program at December 31, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|-----------|------------------|-------------------|
| Education | \$ - | \$ 100,000 |
| Advocacy | 20,000 | 33,075 |
| | <u>\$ 20,000</u> | <u>\$ 133,075</u> |

During the year ended December 31, 2011, net assets of \$140,575 were released from restrictions by either incurring expenses related to the restricted purposes specified by donors or by the passage of time.

10. Contributions

Contributions were received from the following sources during the years ended December 31:

| | 2011 | 2010 |
|-------------|------------------|-------------------|
| Foundations | \$ 28,500 | \$ 107,816 |
| Individuals | 29,891 | 29,568 |
| | <u>\$ 58,391</u> | <u>\$ 137,384</u> |

11. Concentrations of Credit Risk

YRJ maintains its cash balances in various financial institutions located in Portland, Oregon. The balances are insured by the Federal Deposit Insurance Corporation up to specified limits. YRJ's cash balances, at times, may exceed those limits.

12. Subsequent Events

Management has evaluated subsequent events through May 21, 2012, the date the financial statements were available for issue.