
Youth, Rights & Justice

ATTORNEYS AT LAW

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

FINANCIAL STATEMENTS

Year Ended December 31, 2012

with

Independent Auditors' Report

YOUTH, RIGHTS & JUSTICE

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Independent Auditors' Report

The Board of Directors
Youth, Rights & Justice

Report on the Financial Statements

We have audited the accompanying financial statements of Youth, Rights & Justice which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Youth, Rights & Justice as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Youth, Rights & Justice's 2011 financial statements, and our report dated May 21, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Heuman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
June 12, 2013

YOUTH, RIGHTS & JUSTICE

Statement of Financial Position

December 31, 2012 (With Comparative Amounts for 2011)	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 795,145	\$ 638,827
Contributions receivable	15,000	10,000
Contract receivable	43,419	45,796
Other receivables	3,860	4,583
Prepaid expenses	68,981	64,028
Total current assets	926,405	763,234
Property and equipment, net (Note 3)	65,224	63,356
Deposit	14,889	14,889
Total assets	\$ 1,006,518	\$ 841,479
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,775	\$ 13,197
Accrued vacation	85,021	84,904
Current portion of deferred rent expense (Note 4)	11,098	4,960
Current portion of unearned PDSC revenue (Note 5)	60,000	60,000
Total current liabilities	175,894	163,061
Deferred rent expense, net of current portion (Note 4)	85,938	97,036
Unearned PDSC revenue, net of current portion (Note 5)	252,822	217,262
Total liabilities	514,654	477,359
Net assets:		
Unrestricted	435,438	344,120
Temporarily restricted (Note 8)	56,426	20,000
Total net assets	491,864	364,120
Total liabilities and net assets	\$ 1,006,518	\$ 841,479

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

YOUTH, RIGHTS & JUSTICE

Statement of Activities

Year Ended December 31, 2012 (With Comparative Totals for 2011)

	Unrestricted	Temporarily Restricted	Total	
			2012	2011
Revenue and other support:				
PDSC contract revenue (Note 5)	\$2,069,120	\$ -	\$2,069,120	\$2,168,136
Other contract revenue	181,536	-	181,536	220,510
Contributions (Note 9)	104,066	71,000	175,066	58,391
Special events	132,982	-	132,982	111,247
Less direct costs	<u>(34,900)</u>	<u>-</u>	<u>(34,900)</u>	<u>(28,392)</u>
Net proceeds from special events	98,082	-	98,082	82,855
Interest income	1,054	-	1,054	1,313
Other	8,062	-	8,062	9,502
Net assets released from restrictions (Note 8)	<u>34,574</u>	<u>(34,574)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	2,496,494	36,426	2,532,920	2,540,707
Expenses:				
Program services	2,064,880	-	2,064,880	2,187,670
Management and general	213,183	-	213,183	224,446
Fundraising	<u>127,113</u>	<u>-</u>	<u>127,113</u>	<u>112,570</u>
Total expenses	2,405,176	-	2,405,176	2,524,686
Increase in net assets	91,318	36,426	127,744	16,021
Net assets, beginning of year	<u>344,120</u>	<u>20,000</u>	<u>364,120</u>	<u>348,099</u>
Net assets, end of year	<u>\$ 435,438</u>	<u>\$ 56,426</u>	<u>\$ 491,864</u>	<u>\$ 364,120</u>

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

YOUTH, RIGHTS & JUSTICE
Statement of Functional Expenses

Year Ended December 31, 2012 *(With Comparative Totals for 2011)*

	Program Services				Management and	Fundraising	Total	
	Defense	Advocacy	Education	Total	General		2012	2011
Salaries and related expenses	\$ 1,345,720	\$ 21,815	\$ 231,792	\$ 1,599,327	\$ 135,644	\$ 85,897	\$ 1,820,868	\$ 1,955,638
Occupancy	170,402	3,678	29,075	203,155	16,900	17,948	238,003	255,315
Professional services	78,651	31,414	11,100	121,165	48,658	4,940	174,763	142,438
Travel	51,180	510	5,034	56,724	2,941	1,432	61,097	62,197
Supplies, printing and postage	15,906	297	4,149	20,352	2,269	9,115	31,736	36,138
Insurance	15,617	44	2,650	18,311	1,569	994	20,874	19,281
Training and conferences	6,119	12	79	6,210	2,838	52	9,100	5,908
Equipment rental and maintenance	142	3	24	169	14	9	192	6,459
Memberships	11,564	193	1,428	13,185	291	21	13,497	14,059
Discovery and case expenses	2,243	-	-	2,243	-	-	2,243	2,043
Depreciation and amortization	14,526	328	2,474	17,328	1,464	942	19,734	16,621
Bad debt	-	-	-	-	-	-	-	123
Miscellaneous	5,764	263	684	6,711	595	5,763	13,069	8,466
Total expenses	\$ 1,717,834	\$ 58,557	\$ 288,489	\$ 2,064,880	\$ 213,183	\$ 127,113	\$ 2,405,176	\$ 2,524,686

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

YOUTH, RIGHTS & JUSTICE

Statement of Cash Flows

Year Ended December 31, 2012 <i>(With Comparative Totals for 2011)</i>	2012	2011
Cash flows from operating activities:		
Cash received from contractors	\$ 2,288,593	\$ 2,281,780
Cash received from contributors	268,148	259,321
Interest income	1,054	1,313
Other receipts	8,062	9,502
Cash paid to employees and vendors	<u>(2,387,937)</u>	<u>(2,524,445)</u>
Net cash provided by operating activities	177,920	27,471
Cash flows from investing activities:		
Purchases of property and equipment	<u>(21,602)</u>	<u>(22,081)</u>
Net cash used by investing activities	(21,602)	(22,081)
Net increase in cash and cash equivalents	156,318	5,390
Cash and cash equivalents, beginning of year	<u>638,827</u>	<u>633,437</u>
Cash and cash equivalents, end of year	<u>\$ 795,145</u>	<u>\$ 638,827</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 127,744	\$ 16,021
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,734	16,621
Changes in operating assets and liabilities:		
Contributions receivable	(5,000)	118,075
Contract receivable	2,377	(970)
Other receivables	723	3,834
Prepaid expenses	(4,953)	(7,124)
Accounts payable and accrued expenses	6,578	(7,258)
Accrued vacation	117	(6,832)
Deferred rent expense	(4,960)	1,000
Unearned PDSC revenue	<u>35,560</u>	<u>(105,896)</u>
Net cash provided by operating activities	<u>\$ 177,920</u>	<u>\$ 27,471</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, 2013. Support from PDSC during 2012 and 2011 represented approximately 83 percent and 85 percent of total revenue and support, respectively (*Note 5*).

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.

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.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

2. Significant Accounting Policies - Continued

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 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, 2012 and 2011.

Property and Equipment - Acquisitions of property and equipment in excess of \$5,000 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

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.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

2. Significant Accounting Policies - Continued

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 2009, 2010, and 2011 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 2011 - The accompanying financial information as of and for the year ended December 31, 2011, 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, 2011, from which the summarized information was derived.

Reclassifications - Certain accounts in the 2011 financial statements have been reclassified for comparative purposes to conform with the 2012 presentation.

3. Property and Equipment

Property and equipment at December 31, 2012 and 2011, consists of the following:

	2012	2011
Office furniture and equipment	\$ 136,095	\$ 162,403
Leasehold improvements	59,163	47,982
	<u>195,258</u>	<u>210,385</u>
Less accumulated depreciation and amortization	<u>(130,034)</u>	<u>(147,029)</u>
Property and equipment, net	<u>\$ 65,224</u>	<u>\$ 63,356</u>

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

4. 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 \$97,036 and \$101,996 at December 31, 2012 and 2011, 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
2013	\$ 235,229
2014	241,634
2015	233,551
2016	232,208
2017	97,949
	<u><u>\$ 1,040,571</u></u>

Lease expense for the years ended December 31, 2012 and 2011, totaled \$223,692 and \$217,367, respectively.

5. 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. During May, 2012, the total case underage under the contract for the two-year period ended December 31, 2011, was negotiated and finalized. At December 31, 2012, there was a case underage relating to the contract period ending December 31, 2013.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

5. Unearned PDSC Revenue - Continued

As a result of actual negotiations for the contract period ended December 31, 2011, and the total case underage at December 31, 2012, for the contract period ending December 31, 2013, a liability was recorded at December 31, 2012 and 2011. The liability is labeled "unearned PDSC revenue" and totaled \$312,822 and \$277,262 for the years ended December 31, 2012 and 2011, 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.

The PDSC completed a review of contract workload as of December 31, 2012, for the contract period ending December 31, 2013. Based on this review, the PDSC reported a cumulative shortage of \$252,822. A reconciliation of this cumulative shortage amount and the liability recorded in YRJ's financial statements is as follows:

Cumulative shortage reported by the PDSC	\$ 252,822
Add: funding reduction during 2013	<u>60,000</u>
Liability recorded by YRJ at December 31, 2012	<u><u>\$ 312,822</u></u>

Based on contract terms for the contract period ending December 31, 2013, management estimates that \$60,000 of the estimated liability at December 31, 2012 and 2011, will be settled within one year.

6. 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, 2012 and 2011). There were no outstanding borrowings on the line at December 31, 2012 and 2011.

7. 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 \$27,592 and \$28,950 for the years ended December 31, 2012 and 2011, respectively.

YOUTH, RIGHTS & JUSTICE

Notes to Financial Statements - Continued

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for use within specific programs as directed by the donors.

During the year ended December 31, 2012, net assets of \$34,574 were released from restrictions by either incurring expenses related to the restricted purposes specified by donors or by the passage of time.

9. Contributions

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

	2012	2011
Foundations	\$ 76,036	\$ 28,500
Individuals	99,030	29,891
	<u>\$ 175,066</u>	<u>\$ 58,391</u>

10. 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.

11. Subsequent Events

Management has evaluated subsequent events through June 12, 2013, the date the financial statements were available for issue.