

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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY

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PUE, CHICK, LEIBOWITZ & BLEZARD LLC

Certified Public Accountants

Steven R. Leibowitz, CPA, CVA, MST
Michael R. Blezard, CPA/ABV, CVA
Michael J. Welch, CPA/ABV/PFS, J.D., LL.M
Jeremy S. Brayer, CPA

Mark R. Barzottini, CPA
Ann M. Burnett, CPA
Jeffrey D. Myshraal, CPA
Jaclyn B. Straznitskas, CPA

Independent Auditors' Report

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

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **The Children's Law Center, Inc. & Subsidiary** 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

76 South Frontage Road, Vernon Rockville, Connecticut 06066
Tel. (860) 871-1722 Fax (860) 871-1228
E-Mail Info@Pue-CPAs.com www.Pue-CPAs.com

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 **The Children's Law Center, Inc. & Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **The Children's Law Center, Inc. & Subsidiary'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.

Paol, Clark, Leibowitz + Beyond, LLC

Certified Public Accountants

Vernon, Connecticut
July 22, 2022

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

| ASSETS | | <u>2021</u> | <u>2020</u> |
|---|-----------|-------------------------|----------------------------|
| <u>CURRENT ASSETS</u> | | | |
| Cash and cash equivalents | \$ | 453,858 | \$ 603,383 |
| Investments, at fair value | | 867,481 | 777,953 |
| Contributions and grants receivable | | 255,061 | 218,365 |
| Prepaid expenses | | <u>5,429</u> | <u>3,996</u> |
| Total Current Assets | | 1,581,829 | 1,603,697 |
| PROPERTY AND EQUIPMENT , net of accumulated depreciation | | <u>27,968</u> | <u>39,229</u> |
| TOTAL ASSETS | \$ | <u>1,609,797</u> | \$ <u>1,642,926</u> |
| LIABILITIES AND NET ASSETS | | | |
| <u>CURRENT LIABILITIES</u> | | | |
| Accounts payable | \$ | 8,036 | \$ 2,650 |
| Accrued payroll | | 31,623 | 41,966 |
| Accrued interest | | 6,724 | 2,599 |
| Pension payable | | 4,670 | 3,834 |
| Deferred revenue | | 11,877 | 18,526 |
| Refundable advance | | <u>36,500</u> | <u>158,063</u> |
| Total Current Liabilities | | <u>99,430</u> | <u>227,638</u> |
| <u>LONG-TERM LIABILITIES</u> | | | |
| Long-term debt, net of current portion | | <u>150,000</u> | <u>150,000</u> |
| Total Liabilities | | <u>249,430</u> | <u>377,638</u> |
| <u>NET ASSETS</u> | | | |
| Without donor restrictions: | | | |
| General | | 208,757 | 228,641 |
| Nest-egg fund - board designated | | 867,481 | 777,953 |
| Property and equipment | | <u>27,968</u> | <u>39,229</u> |
| Total without donor restrictions | | 1,104,206 | 1,045,823 |
| With donor restrictions | | <u>256,161</u> | <u>219,465</u> |
| Total Net Assets | | <u>1,360,367</u> | <u>1,265,288</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ | <u>1,609,797</u> | \$ <u>1,642,926</u> |

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, 2021 AND 2020

| | 2021 | | | 2020 | | |
|---|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| <u>REVENUE, SUPPORT AND OTHER INCOME</u> | | | | | | |
| Grants | \$ 472,757 | \$ 241,626 | \$ 714,383 | \$ 495,647 | \$ 213,693 | \$ 709,340 |
| Fees - non-exchange | 205,000 | 7,235 | 212,235 | 195,150 | - | 195,150 |
| Fees - exchange | 78,494 | - | 78,494 | 60,021 | - | 60,021 |
| Special events | 109,391 | 4,200 | 113,591 | 104,386 | 3,600 | 107,986 |
| Individual contributions | 39,423 | 2,000 | 41,423 | 40,483 | 1,072 | 41,555 |
| Corporate/community contributions | 2,321 | - | 2,321 | 3,575 | - | 3,575 |
| Rebuilding families | 9,936 | - | 9,936 | 6,332 | - | 6,332 |
| Collaborative Family Law | 4,000 | - | 4,000 | 4,500 | - | 4,500 |
| Interest and dividend income | 20,849 | - | 20,849 | 15,293 | - | 15,293 |
| Investment gains, net | 65,661 | - | 65,661 | 58,013 | - | 58,013 |
| Net assets released from restrictions | 218,365 | (218,365) | - | 293,196 | (293,196) | - |
| Total Revenue, Support and Other Income | <u>1,226,197</u> | <u>36,696</u> | <u>1,262,893</u> | <u>1,276,596</u> | <u>(74,831)</u> | <u>1,201,765</u> |
| <u>EXPENSES</u> | | | | | | |
| Program services | 896,607 | - | 896,607 | 802,056 | - | 802,056 |
| Fundraising | 177,545 | - | 177,545 | 149,597 | - | 149,597 |
| Management and general | 93,662 | - | 93,662 | 76,926 | - | 76,926 |
| Total Expenses | <u>1,167,814</u> | <u>-</u> | <u>1,167,814</u> | <u>1,028,579</u> | <u>-</u> | <u>1,028,579</u> |
| CHANGE IN NET ASSETS | 58,383 | 36,696 | 95,079 | 248,017 | (74,831) | 173,186 |
| <u>NET ASSETS</u> | | | | | | |
| Beginning of year | <u>1,045,823</u> | <u>219,465</u> | <u>1,265,288</u> | <u>797,806</u> | <u>294,296</u> | <u>1,092,102</u> |
| End of year | <u>\$ 1,104,206</u> | <u>\$ 256,161</u> | <u>\$ 1,360,367</u> | <u>\$ 1,045,823</u> | <u>\$ 219,465</u> | <u>\$ 1,265,288</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, 2021 AND 2020

| | 2021 | | | | 2020 | | | |
|--|---------------------|-------------------|---------------------------|---------------------|---------------------|-------------------|---------------------------|---------------------|
| | Program Services | Fund Raising | Management and General | Total | Program Services | Fund Raising | Management and General | Total |
| Payroll | \$ 606,646 | \$ 98,580 | \$ 53,081 | \$ 758,307 | \$ 531,785 | \$ 86,415 | \$ 46,531 | \$ 664,731 |
| Employee benefits | 48,259 | 7,842 | 4,223 | 60,324 | 43,252 | 7,028 | 3,785 | 54,065 |
| Payroll taxes | 47,628 | 7,740 | 4,168 | 59,536 | 41,283 | 6,709 | 3,612 | 51,604 |
| Rent | 32,733 | 1,423 | 1,423 | 35,579 | 43,169 | 1,877 | 1,877 | 46,923 |
| Consulting | 65,443 | 23,198 | 11,835 | 100,476 | 50,217 | 12,050 | 3,913 | 66,180 |
| Fundraising, marketing and special events | - | 35,330 | - | 35,330 | - | 32,057 | - | 32,057 |
| Depreciation | 9,009 | 1,464 | 788 | 11,261 | 9,446 | 1,535 | 827 | 11,808 |
| Utilities | 7,246 | 308 | 154 | 7,708 | 6,883 | 293 | 146 | 7,322 |
| Office | 15,192 | 454 | 562 | 16,208 | 9,525 | 280 | 531 | 10,336 |
| Travel | 5,800 | 121 | 121 | 6,042 | 6,355 | 132 | 132 | 6,619 |
| Telephone | 7,802 | 343 | 429 | 8,574 | 9,074 | 399 | 499 | 9,972 |
| Training | 1,375 | - | - | 1,375 | 1,184 | - | - | 1,184 |
| Dues, subscriptions, and fees | 9,909 | - | - | 9,909 | 6,686 | - | - | 6,686 |
| Computer fees and maintenance | 15,243 | 663 | 663 | 16,569 | 16,584 | 721 | 721 | 18,026 |
| Insurance | 9,142 | - | 592 | 9,734 | 7,664 | - | 592 | 8,256 |
| Accounting | - | - | 11,450 | 11,450 | - | - | 11,100 | 11,100 |
| Printing and postage | 1,462 | 79 | 48 | 1,589 | 1,855 | 101 | 61 | 2,017 |
| Collaborative law expenses | 3,556 | - | - | 3,556 | 9,056 | - | - | 9,056 |
| Interest expense | - | - | 4,125 | 4,125 | - | - | 2,599 | 2,599 |
| Rebuilding families | 10,162 | - | - | 10,162 | 8,038 | - | - | 8,038 |
| Total Functional Expenses | \$ 896,607 | \$ 177,545 | \$ 93,662 | \$ 1,167,814 | \$ 802,056 | \$ 149,597 | \$ 76,926 | \$ 1,028,579 |

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, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ 95,079 | \$ 173,186 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Depreciation | 11,261 | 11,808 |
| Unrealized and realized gain on investments | (74,705) | (65,201) |
| (Increase) decrease in: | | |
| Contributions and grants receivable | (36,696) | 74,831 |
| Prepaid expenses | (1,433) | 4,242 |
| Increase (decrease) in: | | |
| Accounts payable | 5,386 | (9,276) |
| Accrued payroll | (10,343) | 12,767 |
| Accrued interest | 4,125 | 2,599 |
| Pension payable | 836 | (790) |
| Deferred revenue | (6,649) | 9,433 |
| Refundable advance | (121,563) | 111,938 |
| Total adjustments | <u>(229,781)</u> | <u>152,351</u> |
| Net cash (used in) provided by operating activities | <u>(134,702)</u> | <u>325,537</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchase of property and equipment | - | (11,872) |
| Proceeds from sales of investments | 329,445 | 199,152 |
| Purchase of investments | <u>(344,268)</u> | <u>(213,144)</u> |
| Net cash used in investing activities | <u>(14,823)</u> | <u>(25,864)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Proceeds from issuance of long-term debt | - | 150,000 |
| Net cash provided by financing activities | <u>-</u> | <u>150,000</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (149,525) | 449,673 |
| <u>CASH AND CASH EQUIVALENTS</u> | | |
| Beginning of year | <u>603,383</u> | <u>153,710</u> |
| End of year | <u>\$ 453,858</u> | <u>\$ 603,383</u> |

See accompanying notes to the consolidated financial statements

THE CHILDREN'S LAW CENTER, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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. The LLC also started the Collaborative Family Law program during 2020, which provides a settlement process to resolve a divorce or separation without turning over the decision-making to a judge.

b) 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.

c) 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, whereby the donor has stipulated the funds be maintained in perpetuity.

d) 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.

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

- Continued

e) **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.

f) **Contributions and Grants Receivable**

Contributions and grants receivable that are expected to be collected within one year are recorded at their net realizable value. 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, 2021 and 2020. Management periodically evaluates the collectability of receivables and creates an allowance for any accounts deemed uncollectible. As of December 31, 2021 and 2020, there was no allowance for uncollectible accounts.

g) **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.

h) **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.

i) **Revenue Recognition – Contracts with Customers**

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 families' revenue is generated through the LLC and derived from fixed fees for hair sample collection and hair drug testing. The LLC recognizes this revenue at a point in time when the tests are completed. Payment is received at time the sample is collected.

Collaborative Family Law revenue is generated through the LLC from a traditional multidisciplinary team model of collaborative practice. The charge per case is a flat fee determined at the start of each case, with 60% of the fee paid at the onset of the process and 40% paid upon completion and prior to the preparation of final documents. The performance obligations are satisfied as the services are performed.

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

- Continued

j) **Contributions, Including Government Grants and Contracts**

Certain governmental grants and contracts received by a not-for-profit, including certain awards to fund capital expenditures, are generally considered to be contributions rather than exchange transactions since there was not commensurate value transferred between the resource provider and the Center. Promises to give that are subject to donor-imposed conditions (i.e. a donor stipulation that includes a barrier that must be overcome and a right of return of assets) are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Unconditional contributions are recognized when promised or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor.

The Center reports contributions of cash and other assets as donor restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions. Contributions received whose conditions and restrictions are met in the same period are reported as increases in net assets without donor restrictions. Transfers of assets from a resource provider received before the barriers are overcome are reported as refundable advances on the accompanying consolidated statements of financial position.

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. All refundable advances as of December 31, 2021 and 2020 pertain to these State grants.

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.

Management of the Center evaluates all significant tax positions as required by U.S. GAAP. As of December 31, 2021 and 2020, 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, 2021 and 2020, 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, depreciation and other expenses, which are allocated on the basis of time and effort.

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

- Continued

m) **Reclassifications**

Certain reclassifications have been made to the December 31, 2020 financial statements to conform to the December 31, 2021 financial statement presentation.

n) **Subsequent Events**

In preparing these consolidated financial statements, management of the Center has evaluated subsequent events through July 22, 2022 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>2021</u> | <u>2020</u> | <u>2019</u> |
|---------------------|-------------|-------------|-------------|
| Accounts receivable | \$ - | \$ - | \$ - |
| Deferred revenue | \$ 11,877 | \$ 18,526 | \$ 9,093 |

3) **INVESTMENTS**

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

| | <u>2021</u> | <u>2020</u> |
|-------------------|-------------|-------------|
| Money market fund | \$ 17,934 | \$ 19,952 |
| Equities | 538,533 | 480,571 |
| Mutual funds | 311,014 | 277,430 |
| Total Investments | \$ 867,481 | \$ 777,953 |

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

| | <u>2021</u> | <u>2020</u> |
|-------------------------|-------------|-------------|
| Unrealized gain | \$ 23,242 | \$ 69,863 |
| Realized gain (loss) | 51,463 | (4,662) |
| Management fees | (9,044) | (7,188) |
| Net gain | 65,661 | 58,013 |
| Interest and dividends | 20,849 | 15,293 |
| Total investment return | \$ 86,510 | \$ 73,306 |

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, 2021 and 2020, total investments of \$867,481 and \$777,953, 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>2021</u> | <u>2020</u> |
|--------------------------------|------------------|------------------|
| Leasehold improvements | \$ 13,555 | \$ 13,555 |
| Software | 55,599 | 55,599 |
| Computer and office equipment | <u>66,968</u> | <u>66,968</u> |
| | 136,122 | 136,122 |
| Less: accumulated depreciation | <u>108,154</u> | <u>96,893</u> |
| Property and equipment, net | \$ <u>27,968</u> | \$ <u>39,229</u> |

Depreciation expense for the years ended December 31, 2021 and 2020 was \$11,261 and \$11,808, respectively.

6) **LINE OF CREDIT**

The Center obtained an unsecured line of credit in April 2020 from a financial institution in the amount of \$75,000. Interest only is payable monthly at four percent (4%) and all outstanding principal and accrued interest is payable on March 30, 2024. During the term of the agreement, the line of credit is required to be reduced to a zero balance for a period of not less than forty-five consecutive days every twelve months. The outstanding balance at December 31, 2021 and 2020 was \$-0-.

7) **LONG-TERM DEBT**

Long-term debt consists of the following as of December 31:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| The Center obtained an Economic Injury Disaster Loan (EIDL) through the United States Small Business Administration (“SBA”) in the amount of \$150,000 on May 16, 2020. The EIDL requires monthly payments of \$641, including interest at 2.75%, through May 16, 2050 with payments starting 30 months from the date of the promissory note (first payment due November 16, 2022). Payments in 2022 and 2023 will all be for interest. This loan is secured by all assets of the Center. The EIDL term note is guaranteed by the SBA. Loan proceeds are required to be used as working capital to alleviate economic injury in early 2020. | \$ 150,000 | \$ 150,000 |
| Less: Current portion of long-term debt | <u>-</u> | <u>-</u> |
| Long-term debt, net of current portion | \$ <u>150,000</u> | \$ <u>150,000</u> |

Aggregate principal payments of long-term debt are as follows for the years ending December 31:

| | |
|------------|-------------------|
| 2022 | - |
| 2023 | - |
| 2024 | 1,085 |
| 2025 | 3,638 |
| 2026 | 3,740 |
| Thereafter | <u>141,537</u> |
| Total | \$ <u>150,000</u> |

Related interest expense for the years ended December 31, 2021 and 2020 was \$4,125 and \$2,599, respectively.

8) **NET ASSETS WITH DONOR RESTRICTIONS**

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

| | <u>2021</u> | <u>2020</u> |
|--|----------------|----------------|
| Subject to the passage of time (for periods after December 31, 2021 and 2020, respectively): | | |
| Interest on Lawyer Trust Accounts | \$ 32,581 | \$ 32,542 |
| Judicial Branch Grant-in-Aid | 19,633 | 17,991 |
| Court Fees Grant-in-Aid | 161,912 | 148,160 |
| Pledges and contributions receivable | <u>40,935</u> | <u>19,672</u> |
| | <u>255,061</u> | <u>218,365</u> |

8) **NET ASSETS WITH DONOR RESTRICTIONS** – Continued

| | <u>2021</u> | <u>2020</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>256,161</u> | \$ <u>219,465</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>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|-------------------|
| Expiration of time restrictions: | | |
| Passage of specified time | <u>\$ 218,365</u> | <u>\$ 293,196</u> |

9) **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:

- 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, 2021 and 2020.

9) **ENDOWMENT** - Continued

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:

| | 2021 | | |
|----------------------------------|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Board-designated endowment funds | \$ 867,481 | \$ - | \$ 867,481 |
| Donor-restricted endowment funds | - | 1,100 | 1,100 |
| Total funds | \$ 867,481 | \$ 1,100 | \$ 868,581 |

| | 2020 | | |
|----------------------------------|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Board-designated endowment funds | \$ 777,953 | \$ - | \$ 777,953 |
| Donor-restricted endowment funds | - | 1,100 | 1,100 |
| Total funds | \$ 777,953 | \$ 1,100 | \$ 779,053 |

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

| | 2021 | | |
|--|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | \$ 777,953 | \$ 1,100 | \$ 779,053 |
| Contributions | 3,018 | - | 3,018 |
| Investment return, net | 86,510 | - | 86,510 |
| Appropriation for expenditure | - | - | - |
| Endowment net assets, end of year | \$ 867,481 | \$ 1,100 | \$ 868,581 |

9) **ENDOWMENT** - Continued

| | 2020 | | |
|---|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | \$ 698,760 | \$ 1,100 | \$ 699,860 |
| Contributions | 6,050 | - | 6,050 |
| Investment return, net | 73,143 | - | 73,143 |
| Appropriation for expenditure | - | - | - |
| Endowment net assets, end of year | <u>\$ 777,953</u> | <u>\$ 1,100</u> | <u>\$ 779,053</u> |

10) **GOVERNMENT GRANT – PAYCHECK PROTECTION PROGRAM**

During April 2020, the Center received approval for a Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan in the amount of \$167,062. While the Payroll Protection Program funds are known as a loan, the Center is treating them as a cost-reimbursement grant from the government for accounting purposes. Management considers PPP loans to be conditional contributions, with a right-of-return in the form of an obligation to be repaid if barriers to entitlement are not met. These barriers include qualifying expenses to be used to pay for payroll costs, including salaries, commissions and similar compensation, group health care benefits; rent; utilities; and interest on certain other outstanding debt. Management considers the review of the Center’s application for forgiveness by the lender and the SBA, as well as potential audits, to be administrative in nature rather than barriers to entitlement. The primary barriers are identifiable and management has determined that the full amount of the PPP loan were utilized for qualifying expenses. Accordingly, for the year ended December 31, 2020, the Center recognized \$167,062 of revenue for this grant, which is included in grants in the accompanying consolidated statements of activities and change in net assets. Additionally, the Center submitted a request for forgiveness of the PPP loan in January 2021. The request was approved by the lender, who then submitted it to the SBA for the SBA’s review and approval. The Center received notification that the SBA forgave the full balance of the loan via payment to the lender on January 25, 2021.

In January 2021, the Center applied for and was approved for a loan of approximately \$162,965 for another SBA PPP loan pursuant to the Paycheck Protection Program under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act). Under the terms of the agreement, the Company can apply to the issuing bank for loan forgiveness, which will be confirmed and approved by the SBA. The amount of forgiveness is determined based on the criteria as outlined in the Economic Aid Act. Similar to the PPP loan received in 2020, the Center is treating it as a cost-reimbursement grant from the government for accounting purposes. The primary barriers are identifiable and management has determined that the full amount of the PPP loan was utilized for qualifying expenses during 2021. Accordingly, for the year ended December 31, 2021, the Center recognized \$162,965 of revenue for this grant, which is included in grants in the accompanying consolidated statements of activities and change in net assets. The Center submitted a request for full forgiveness of the PPP loan in June 2021. The request was approved by the lender, who then submitted it to the SBA for the SBA’s review and approval. The Center received notification that the SBA forgave the full balance of the loan via payment to the lender on July 9, 2021.

11) **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 2021 and 2020, not to exceed employee deferrals. The Center’s match for the years ended December 31, 2021 and 2020 was \$4,745 and \$3,984, respectively.

12) 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:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Cash and cash equivalents | \$ 453,858 | \$ 603,383 |
| Investments | 867,481 | 777,953 |
| Contributions and grants receivable | 255,061 | 218,365 |
| Total financial assets | <u>1,576,400</u> | <u>1,599,701</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>867,481</u> | <u>777,953</u> |
| | <u>868,581</u> | <u>779,053</u> |
| Total financial assets available within one year | <u>\$ 707,819</u> | <u>\$ 820,648</u> |

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. In addition, as part of its liquidity management, the Center has access to a line of credit (see Note 6). As of December 31, 2021 and 2020, the Center has \$75,000 and \$75,000, respectively, available on the line of credit.

13) 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.

14) LEASES

The Center leased its office facility in Hartford, Connecticut for a five-year period through February 2017. 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. This lease for the Center's office facility was revised with a new lease effective March 1, 2021 with a term through February 28, 2026. Rent expense for the years ended December 31, 2021 and 2020 was \$35,579 and \$46,923, respectively.

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

14) **LEASES** – Continued

| | |
|-------|-------------------|
| 2022 | 29,719 |
| 2023 | 30,610 |
| 2024 | 31,529 |
| 2025 | 32,475 |
| 2026 | <u>5,439</u> |
| Total | \$ <u>129,772</u> |

15) **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.

During the years ended December 31, 2021 and 2020, the Center received approximately 41% and 37%, respectively, of its revenue from the State of Connecticut. At December 31, 2021 and 2020, approximately 84% and 91%, respectively, of the Center’s grants and contributions receivable is from the State of Connecticut.

16) **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>2021</u> | <u>2020</u> |
|------------------------------------|-----------------|-------------------|
| Assets: | | |
| Cash | \$ <u>2,024</u> | \$ <u>1,021</u> |
| Liabilities: | | |
| Accounts payable | 66 | - |
| Due to Children’s Law Center, Inc. | <u>13,116</u> | <u>12,397</u> |
| Total Liabilities | <u>13,182</u> | <u>12,397</u> |
| Net Assets | <u>(11,158)</u> | <u>(11,376)</u> |
| Total Liabilities and Net Assets | \$ <u>2,024</u> | \$ <u>1,021</u> |
| Revenues | \$ 13,936 | \$ 10,832 |
| Expenses | <u>13,718</u> | <u>17,095</u> |
| Change in Net Assets | \$ <u>218</u> | \$ <u>(6,262)</u> |

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

17) **SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest and income taxes for 2021 and 2020 was as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------|-----------------------|-----------------------|
| Interest | \$ <u> -</u> | \$ <u> -</u> |
| Income taxes | \$ <u> -</u> | \$ <u> -</u> |

18) **RISKS AND UNCERTAINTIES**

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. In response to this pandemic, many local and national governments, including the State of Connecticut, imposed restrictions on business operations, travel and time spent outside the home. As a result of these developments, the caseload decreased in the middle of 2020 and certain funding amounts decreased in 2020 as a result of court closures. While the caseload started to rebound in 2021, there remains uncertainty as to the extent to which the COVID-19 pandemic could further affect the Center's results of future operations, financial position, and liquidity. This impact will depend on numerous evolving factors, which are uncertain and cannot be predicted, including duration and scope of the pandemic and associated disruptions; effects of current and future governmental and public responses to changing conditions.