

Dependency Advocacy Center

Financial Statements

September 30, 2020
(With Comparative Totals for 2019)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Dependency Advocacy Center
San Jose, California

We have audited the accompanying financial statements of Dependency Advocacy Center ("DAC"), which comprise the statement of financial position as of September 30, 2020, 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.

Auditor's 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 auditor's 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 Dependency Advocacy Center as of September 30, 2020, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, DAC has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective October 1, 2019. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 11 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Dependency Advocacy Center's 2019 financial statements, and our report dated February 4, 2020 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 September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Ramon, California

January 29, 2021

Dependency Advocacy Center
Statement of Financial Position
September 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 750,784	\$ 574,776
Grants and contract receivables	977,654	370,038
Prepaid expenses and deposits	49,782	47,814
Property and equipment, net	<u>44,985</u>	<u>41,020</u>
Total assets	<u>\$ 1,823,205</u>	<u>\$ 1,033,648</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,117	\$ 18,531
Accrued liabilities	250,194	165,231
Deferred rent	38,745	26,451
Note payable - Payroll Protection Program	<u>450,000</u>	<u>-</u>
Total liabilities	<u>742,056</u>	<u>210,213</u>
Net assets		
Without donor restrictions	991,225	798,044
With donor restrictions	<u>89,924</u>	<u>25,391</u>
Total net assets	<u>1,081,149</u>	<u>823,435</u>
Total liabilities and net assets	<u>\$ 1,823,205</u>	<u>\$ 1,033,648</u>

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

Dependency Advocacy Center
Statement of Activities
For the Year Ended September 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues, gains and other support				
Grants and contract revenue	\$ 3,411,132	\$ 68,463	\$ 3,479,595	\$ 2,829,180
In-kind contributions	102,412	-	102,412	92,657
Contributions	19,738	950	20,688	167,187
Miscellaneous	905	-	905	-
Special events, net	-	-	-	30,571
Fiscal sponsorship services	-	-	-	5,250
Net assets released from restriction	4,880	(4,880)	-	-
Total revenues, gains and other support	<u>3,539,067</u>	<u>64,533</u>	<u>3,603,600</u>	<u>3,124,845</u>
Functional expenses				
Program	<u>2,940,672</u>	<u>-</u>	<u>2,940,672</u>	<u>3,075,626</u>
Support services				
Management and general	313,196	-	313,196	293,118
Fundraising	92,018	-	92,018	92,494
Total support services	<u>405,214</u>	<u>-</u>	<u>405,214</u>	<u>385,612</u>
Total functional expenses	<u>3,345,886</u>	<u>-</u>	<u>3,345,886</u>	<u>3,461,238</u>
Change in net assets	193,181	64,533	257,714	(336,393)
Net assets, beginning of year	<u>798,044</u>	<u>25,391</u>	<u>823,435</u>	<u>1,159,828</u>
Net assets, end of year	<u>\$ 991,225</u>	<u>\$ 89,924</u>	<u>\$ 1,081,149</u>	<u>\$ 823,435</u>

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

Dependency Advocacy Center
Statement of Functional Expenses
For the Year Ended September 30, 2020
(With Comparative Totals for 2019)

		Support Services			
	Program	Management and General	Fundraising	2020 Total	2019 Total
Personnel expenses					
Salaries and wages	\$ 1,928,181	\$ 223,390	\$ 58,759	\$ 2,210,330	\$ 2,085,445
Payroll taxes	202,385	23,448	6,167	232,000	164,632
Employee benefits	<u>221,848</u>	<u>25,689</u>	<u>6,757</u>	<u>254,294</u>	<u>291,088</u>
Total personnel expenses	<u>2,352,414</u>	<u>272,527</u>	<u>71,683</u>	<u>2,696,624</u>	<u>2,541,165</u>
Professional services	90,394	-	-	90,394	258,895
In-kind professional services	102,412	-	-	102,412	92,657
Training	13,888	1,634	817	16,339	32,748
Insurance	28,297	3,329	1,665	33,291	32,439
Rent	180,977	21,291	10,646	212,914	190,379
Postage and printing	581	68	34	683	962
Office supplies and equipment	56,771	6,679	3,339	66,789	155,109
Other expense	100,910	6,018	3,009	109,937	141,517
Depreciation	<u>14,028</u>	<u>1,650</u>	<u>825</u>	<u>16,503</u>	<u>15,367</u>
	<u>\$ 2,940,672</u>	<u>\$ 313,196</u>	<u>\$ 92,018</u>	<u>\$ 3,345,886</u>	<u>\$ 3,461,238</u>

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

Dependency Advocacy Center
Statement of Cash Flows
For the Year Ended September 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 257,714	\$ (336,393)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	16,503	15,367
Grants and contract receivables	(607,616)	164,705
Prepaid expenses and deposits	(1,969)	17,538
Accounts payable	(15,414)	(14,096)
Accrued liabilities	84,963	(3,281)
Deferred revenue	-	(33,450)
Deferred rent	12,294	26,451
Net cash used in operating activities	<u>(253,525)</u>	<u>(163,159)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(20,467)</u>	<u>(10,330)</u>
Net cash used in investing activities	<u>(20,467)</u>	<u>(10,330)</u>
Cash flows from financing activities		
Borrowings under note payable	<u>450,000</u>	<u>-</u>
Net cash provided by financing activities	<u>450,000</u>	<u>-</u>
Net increase (decrease) in cash	176,008	(173,489)
Cash, beginning of year	<u>574,776</u>	<u>748,265</u>
Cash, end of year	<u><u>\$ 750,784</u></u>	<u><u>\$ 574,776</u></u>

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

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

1. NATURE OF OPERATIONS

Dependency Advocacy Center ("DAC") is a nonprofit public benefit corporation. DAC provides zealous legal representation to indigent clients in the juvenile dependency system to promote timely reunification and preservation of families in a safe, healthy environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

- *Net assets without donor restrictions* - Net assets not subject to donor-imposed restrictions.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed stipulations that will either be fulfilled or expire by passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as transfers between the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting period as the contribution are reported as without donor restriction.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board issued Accounting Standard Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. DAC adopted ASU 2018-08 with a date of the initial application of October 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on DAC's financial position, result of operations, or cash flows. DAC has evaluated its contracts and has determined that amounts that had previously been recognized as exchange transactions are now contributions under the new standard. These reclassifications have been reflected in the accompanying statements of financial position and activities.

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

DAC recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until they become unconditional, which is when the donor-imposed barriers have been overcome and there is no longer a right of return or release. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Contributions received and promises to give are reported as net assets without donor restrictions or net assets with donor restrictions, depending on donor restrictions (if any).

A portion of DAC's revenue is derived from cost-reimbursable state and county contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. The revenue generated from these contracts meets the criteria to be classified as conditional contributions under GAAP revenue recognition as they contain barriers related to the incurrence of qualifying expenditures and a right of return or release. Amounts received are recognized as revenue when DAC has incurred expenditures in compliance with specific contract or grant provisions. DAC has elected a simultaneous release option to account for these grants and thus are recorded as grants and contract revenue without donor restriction upon satisfaction of the barriers. DAC has been awarded cost-reimbursable grants of approximately \$1,500,000 that have not been recognized at September 30, 2020 because qualifying expenditures have not yet been incurred.

DAC has also entered into state and local contracts that call for monthly invoicing based on actual services provided at agreed-upon rates up to the maximum amount of the contract. Revenue under these contracts is recognized as the services are provided.

Cash

For the purposes of the statement of cash flows, DAC considers all money market funds and highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash. Cash may exceed federally insured limits. DAC believes that it mitigates this risk by maintaining deposits with major financial institutions.

Grants and contract receivables

Grants and contract receivables to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. All grants and contract receivables are expected to be paid within one year. All grants and contract receivables are receivable from governmental agencies and are deemed fully collectible. Therefore, no allowance for doubtful accounts has been provided.

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

DAC capitalizes all property and equipment with a cost or fair value in excess of \$500 and an estimated useful life in excess of one year. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the gift. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered DAC, using its best estimates and projections, reviews assets for impairment considering the carrying value of long-lived identifiable assets to be held and used in the future. DAC will record impairment losses when determined. Depreciation is calculated using the straight-line method over estimated useful lives of 3-10 years.

Contributed services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended September 30, 2020, DAC received \$102,412 of in-kind professional services.

Functional expense allocation

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Expenses such as payroll and benefits have been allocated among program services and supporting services based upon the employees' time spent by function. Facility related costs such as depreciation, office supplies and maintenance have been allocated based on estimated square footage.

Income tax status

DAC is exempt from Federal income and California franchise taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively. As such, there is no provision for income taxes.

DAC has evaluated its current tax positions and has concluded that as of September 30, 2020, DAC does not have any significant uncertain tax positions for which a reserve would be necessary.

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Summarized financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the DAC's financial statements for the year ended September 30, 2019, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform with the 2020 presentation.

Subsequent events

DAC evaluated subsequent events through January 29, 2021, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Computer equipment	\$ 66,026
Software	29,000
Furniture and office equipment	<u>25,627</u>
	120,653
Accumulated depreciation	<u>(75,668)</u>
	<u><u>\$ 44,985</u></u>

Depreciation expense totaled \$16,503 for the year ended September 30, 2020.

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

4. LINE OF CREDIT

DAC has a revolving line of credit available through Wells Fargo Bank that matures in December 2021. Advances under the line of credit are limited to \$450,000. There were no outstanding balances as of September 30, 2020. The interest rate is the greater of 5% or the bank's prime rate plus 0.5% (5% as of September 30, 2020) per annum, and is payable on a monthly basis. Various members of management act as limited guarantors for the line of credit.

There was no interest expense incurred on the line of credit for the year ended September 30, 2020.

5. NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM

On July 1, 2020, DAC received loan proceeds of \$450,000 from a promissory note issued by WebBank, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration. The term on the loan is 60 months and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan proceeds. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent, and utility expenses, and the maintenance of workforce and compensation levels with certain limitations. DAC believes that it will likely qualify for full forgiveness, but there is uncertainty around the standards and operation of the PPP and no assurance is provided that DAC will obtain forgiveness in whole or in part. Therefore, until more clarity is obtained, DAC has recognized the funds as a liability in the statement of financial position at September 30, 2020, and will recognize income once formal forgiveness is received.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

State Bar of California grants	\$ 68,463
Mentor parent program	11,500
Social worker program	<u>9,961</u>
	<u>\$ 89,924</u>

Net assets with donor restrictions released from restriction during the year were as follows:

Mentor parent program	<u>\$ 4,880</u>
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7. COMMITMENTS

DAC leases office space and equipment under non-cancelable operating lease agreements that expire at various dates through April 2024. During fiscal year 2019, DAC entered into a rental agreement that includes an escalation clause based on a fixed rate stipulated in the agreement.

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

7. COMMITMENTS (continued)

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending September 30,</u>	
2021	\$ 212,350
2022	219,808
2023	227,536
2024	<u>136,642</u>
	<u>\$ 796,336</u>

Rental expense totaled \$212,358 for the year ended September 30, 2020.

8. CONCENTRATIONS

The table below represents approximate receivable concentrations for the following grantors as of September 30, 2020:

The State of California	79.90 %
The County of Santa Clara	20.10 %

The table below represents approximate revenue concentrations for the following grantors during the year ended September 30, 2020:

The State of California	68.31 %
The County of Santa Clara	31.09 %

9. RETIREMENT PLAN

Effective October 1, 2008, DAC established a defined contribution pension plan. The plan provides retirement benefits to substantially all employees. The plan is currently funded solely by employee contributions to the plan.

10. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of DAC's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. DAC expects that all grants and contract receivables will be collected and available within 90 days of the fiscal year end. These receivables will be available to support general operations. Additionally, DAC has access to a line of credit with a maximum borrowing limit of \$450,000 should an unanticipated liquidity event occur.

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2020

10. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes financial assets that are available as of September 30, 2020 to fund general expenditures and other obligations as they become due over the next year:

Financial Assets	
Cash	\$ 750,784
Grants and contributions receivables	<u>977,654</u>
	<u><u>\$ 1,728,438</u></u>

11. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. DAC is continuing to monitor and assess the effects of the COVID-19 pandemic on its operations. However, the financial impact and duration cannot be reasonably estimated at this time.