Dependency Advocacy Center

Financial Statements

September 30, 2023
(With Comparative Totals for 2022)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Dependency Advocacy Center
San Jose, California

Opinion

We have audited the accompanying financial statements of Dependency Advocacy Center ("DAC"), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Dependency Advocacy Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 2 to the financial statements, DAC has adopted FASB Topic 842, *Leases*. Our opinion is not modified with respect to that matter.

Responsibilities of Management 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, and for 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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, including omissions, 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 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 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 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 Dependency Advocacy Center'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Dependency Advocacy Center'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.

Report on Summarized Comparative Information

We have previously audited Dependency Advocacy Center's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino[LLP]
San Ramon, California

February 1, 2024

Dependency Advocacy Center
Statement of Financial Position
September 30, 2023
(With Comparative Totals for 2022)

	2023	2022
ASSETS		
Cash	$ 1,324,721	$ 958,404
Grants and contract receivables	650,813	700,694
Prepaid expenses and deposits	49,938	48,804
Operating lease right-of-use asset, net	118,258	-
Property and equipment, net	22,252	21,640
Total assets	$ 2,165,982	$ 1,729,542
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 23,182	$ 17,886
Accrued liabilities	308,613	247,151
Deferred rent	-	28,526
Operating lease liability	130,218	-
Total liabilities	462,013	293,563
Net assets		
Without donor restrictions	1,680,109	1,370,806
With donor restrictions	23,860	65,173
Total net assets	1,703,969	1,435,979
Total liabilities and net assets	$ 2,165,982	$ 1,729,542

Dependency Advocacy Center
Statement of Activities
For the Year Ended September 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Revenues, gains and other support				
Grants and contract revenue	$ 4,511,053	$ 21,460	$ 4,532,513	$ 3,802,070
In-kind contributions	63,000	-	63,000	38,000
Contributions	20,665	1,000	21,665	22,156
Miscellaneous	-	-	-	710
Net assets released from restriction	63,773	(63,773)	-	-
Total revenues, gains and other support	4,658,491	(41,313)	4,617,178	3,862,936
Functional expenses				
Program	3,995,388	-	3,995,388	3,262,262
Support services				
Management and general	277,226	-	277,226	320,048
Fundraising	76,574	-	76,574	96,519
Total support services	353,800	-	353,800	416,567
Total functional expenses	4,349,188	-	4,349,188	3,678,829
Change in net assets	309,303	(41,313)	267,990	184,107
Net assets, beginning of year	1,370,806	65,173	1,435,979	1,251,872
Net assets, end of year	$ 1,680,109	$ 23,860	$ 1,703,969	$ 1,435,979

Dependency Advocacy Center
Statement of Functional Expenses
For the Year Ended September 30, 2023
(With Comparative Totals for 2022)

		Support Services			
	Program	Management and General	Fundraising	2023 Total	2022 Total
Personnel expenses					
Salaries and wages	$ 2,742,664	$ 191,000	$ 43,800	$ 2,977,464	$ 2,509,115
Payroll taxes	223,151	2,922	670	226,743	199,034
Employee benefits	261,501	35,278	8,090	304,869	287,030
Total personnel expenses	3,227,316	229,200	52,560	3,509,076	2,995,179
Professional services	34,693	-	-	34,693	71,005
In-kind professional services	63,000	-	-	63,000	38,000
Training	14,444	1,699	850	16,993	23,149
Insurance	36,611	4,307	2,154	43,072	44,658
Rent	197,056	23,183	11,592	231,831	237,659
Postage and printing	46	5	3	54	346
Office supplies and equipment	65,522	7,709	3,854	77,085	67,157
Other expense	342,552	9,458	4,729	356,739	186,436
Depreciation	14,148	1,665	832	16,645	15,240
	$ 3,995,388	$ 277,226	$ 76,574	$ 4,349,188	$ 3,678,829

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

Dependency Advocacy Center
Statement of Cash Flows
For the Year Ended September 30, 2023
(With Comparative Totals for 2022)

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 267,990	$ 184,107
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	16,645	15,240
Amortization of operating lease right-of-use asset	195,414	-
Changes in operating assets and liabilities		
Grants and contract receivables	49,881	252,765
Prepaid expenses and deposits	(1,134)	(2,166)
Accounts payable	5,296	(17,363)
Accrued liabilities	61,462	(51,748)
Deferred rent	(28,526)	(8,838)
Operating lease liability	(183,454)	-
Net cash provided by operating activities	383,574	371,997
Cash flows from investing activities		
Purchases of property and equipment	(17,257)	(4,346)
Net cash used in investing activities	(17,257)	(4,346)
Net increase in cash	366,317	367,651
Cash, beginning of year	958,404	590,753
Cash, end of year	$ 1,324,721	$ 958,404

Supplemental schedule of noncash investing and financing activities

Right-of-use asset obtained in exchange for lease liability	$ 313,672	$ -

Dependency Advocacy Center
Notes to Financial Statements
September 30, 2023

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

The financial statements of DAC have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Net assets and changes therein are classified as follows:

- *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.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 $1,900,000 that have not been recognized at September 30, 2023 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.

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.

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, 2023, DAC does not have any significant uncertain tax positions for which a reserve would be necessary.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022, from which the summarized information was derived.

Leases

DAC determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and operating lease liability on the statement of financial position. Finance leases are included in property and equipment and other long-term liabilities on the statement of financial position. DAC does not have any finance leases.

ROU assets represent DAC's right to use an underlying asset for the lease term and lease liabilities represent DAC's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. If DAC's lease agreement does not provide an implicit rate, DAC will use the risk-free rate based on the information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

DAC's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

DAC has elected not to recognize right-of-use assets and lease liabilities for short-term leases and instead records them in a manner similar to operating leases under legacy leasing guidelines. A short-term lease is one with a maximum lease term of 12 months or fewer and does not include a purchase option that the lessee is reasonably certain to exercise.

Change in accounting principle

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* to increase transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

DAC adopted the standard effective October 1, 2022 and recognized and measured leases existing at, or entered into after, October 1, 2022, with certain practical expedients available. Lease disclosures for the year ended September 30, 2022 are made under prior lease guidance in FASB ASC 840.

DAC elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, DAC recognized on October 1, 2022, an initial lease liability of $342,198 which represents the present value of the remaining operating lease payments of $354,537, discounted using the Daily Treasury Par Yield Curves Rate for 3 years of 4.25%, and a right-of-use asset of $313,672, which represents the operating lease liability of $342,198 adjusted for accrued rent of $28,526.

The standard had a material impact on DAC's statement of financial position as of September 30, 2023, but did not have a material impact on DAC's statement of activities, nor statement of cash flows for the year then ended. The most significant impact was the recognition of a ROU asset and a lease liability for an operating lease on the statement of financial position as of September 30, 2023.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Computer equipment	$ 82,095
Software	29,000
Furniture and office equipment	1,669
	112,764
Accumulated depreciation	(90,512)
	$ 22,252

Depreciation expense totaled $16,645 for the year ended September 30, 2023.

4. LINE OF CREDIT

DAC has a revolving line of credit available through Wells Fargo Bank that matures on January 2024, but was renewed to February 2025 subsequent to year end (see Note 11). Advances under the line of credit are limited to $250,000. There were no outstanding balances as of September 30, 2023. The interest rate is the greater of 5% or the bank's prime rate plus 0.75% (9.25% as of September 30, 2023) 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, 2023.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

State Bar of California grants	$	21,460
Mentor parent program		2,400
	$	23,860

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

State Bar of California grants	$	62,223
Mentor parent program		550
Other		1,000
	$	63,773

6. LEASES

DAC leases office space under a non-cancelable operating lease agreement that expires at April 2024. The lease currently calls for monthly payments of $18,867. The operating lease ROU assets and operating lease liabilities totaled $118,258 and $130,218, respectively, as of September 30, 2023.

Additional information related to the leases is as follows:

Operating lease cost	$	205,902
Operating cash flows from operating leases	$	222,468
Remaining lease term		.58 years
Discounted rate		4.25 %

6. LEASES (continued)

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

Year ending September 30,	
2024	$ 132,069
	132,069
Less: discounts to present value	(1,851)
	$ 130,218

7. CONCENTRATIONS

The table below represents approximate receivable concentrations for the following grantors as of September 30, 2023:

The State of California	40.00 %
The County of Santa Clara	60.00 %

The table below represents approximate revenue concentrations for the following grantors during the year ended September 30, 2023:

The State of California	60.00 %
The County of Santa Clara	40.00 %

8. 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.

9. 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 $250,000 should an unanticipated liquidity event occur.

9. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes financial assets that are available as of September 30, 2023 to fund general expenditures and other obligations as they become due over the next year:

Financial Assets	
Cash	$ 1,324,721
Grants and contract receivables	650,813
	1,975,534
Less: Amounts unavailable for expenditure within one year, due to:	
Cash restricted for parent mentor program	(2,400)
	(2,400)
	$ 1,973,134

10. IN-KIND CONTRIBUTIONS

In-kind contributions are reported as contributions at their estimated fair value on the date of receipt. DAC's gifts-in-kind consisted of contributed services from attorneys and are valued at the estimate fair value based on current rates for similar legal services.

In-kind contributions consisted of the following:

	Contributions	Expenses
Legal services	$ 63,000	$ (63,000)

11. SUBSEQUENT EVENTS

DAC has evaluated subsequent events through February 1, 2024, the date the financial statements were available to be issued. No additional subsequent events, other than that described below, have occured that would have a material impact on the presentation of DAC's financial statements.

In January 2024, DAC renewed the line of credit with Wells Fargo Bank and now has a new maturity date in February 2025 (see Note 4).