

# **Sargent Shriver National Center on Poverty Law**

Financial Report  
December 31, 2012 and 2011

## **Contents**

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Independent Auditor's Report on the Financial Statements	1
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Financial Statements	
Statements of financial position	2
Statements of activities	3 – 4
Statements of functional expenses	5 – 6
Statements of cash flows	7 – 8
Notes to financial statements	9 – 20

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## Independent Auditor's Report

To the Board of Directors  
Sargent Shriver National Center on Poverty Law  
Chicago, Illinois

### Report on the Financial Statements

We have audited the accompanying financial statements of Sargent Shriver National Center on Poverty Law (the Shriver Center) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 risk 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 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 the Shriver Center as of December 31, 2012 and 2011, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in accordance with accounting policies generally accepted in the United States of America.

*McGladrey LLP*

Chicago, Illinois  
July 30, 2013

**Sargent Shriver National Center on Poverty Law**

**Statements of Financial Position  
December 31, 2012 and 2011**

	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 891,630	\$ 552,076
Cash and cash equivalents restricted for endowment	57,832	-
Investments	557,214	481,619
Investments restricted for endowment	742,168	-
Funds held on behalf of others	878	926
Contributions, grants and pledges receivable	971,967	943,000
Other receivables	12,121	15,953
Prepaid expenses and other assets	17,771	21,812
	<u>3,251,581</u>	<u>2,015,386</u>
Property and equipment, net	52,062	45,285
Intangible assets, net	71,928	87,887
Lease deposit	21,242	21,242
	<u>\$ 3,396,813</u>	<u>\$ 2,169,800</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 92,825	\$ 71,952
Funds held on behalf of others	878	926
Accrued expenses	162,397	123,408
Unearned revenue	113,916	87,437
	<u>370,016</u>	<u>283,723</u>
Deferred rent liability	154,164	163,855
	<u>524,180</u>	<u>447,578</u>
<b>Net Assets</b>		
Unrestricted	445,337	779,222
Temporarily restricted	1,627,296	943,000
Permanently restricted	800,000	-
	<u>2,872,633</u>	<u>1,722,222</u>
	<u>\$ 3,396,813</u>	<u>\$ 2,169,800</u>

See Notes to Financial Statements.

**Sargent Shriver National Center on Poverty Law**

**Statements of Activities  
Year Ended December 31, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Grants	\$ 1,376,094	\$ 1,516,862	\$ 800,000	\$ 3,692,956
Fundraising events	277,709	-	-	277,709
Training revenue	253,034	-	-	253,034
Subscription revenue	197,381	-	-	197,381
Fellowship grant	132,780	-	-	132,780
Individual donors	129,034	-	-	129,034
Donated goods and services	115,968	-	-	115,968
Cy Pres awards	62,954	-	-	62,954
Service contracts	19,630	-	-	19,630
Attorney fees	2,645	-	-	2,645
Investment returns	55,911	18,934	-	74,845
Net assets released from restrictions	851,500	(851,500)	-	-
	<u>3,474,640</u>	<u>684,296</u>	<u>800,000</u>	<u>4,958,936</u>
Expenses:				
Operating expenses:				
Program services:				
Advocacy	1,795,971	-	-	1,795,971
Communications	676,041	-	-	676,041
Training	524,421	-	-	524,421
	<u>2,996,433</u>	<u>-</u>	<u>-</u>	<u>2,996,433</u>
Costs of direct benefits to donors	<u>38,167</u>	<u>-</u>	<u>-</u>	<u>38,167</u>
Supporting services:				
Management and general	427,070	-	-	427,070
Fundraising	346,855	-	-	346,855
	<u>773,925</u>	<u>-</u>	<u>-</u>	<u>773,925</u>
Total operating expenses	<u>3,808,525</u>	<u>-</u>	<u>-</u>	<u>3,808,525</u>
Change in net assets	<u>(333,885)</u>	<u>684,296</u>	<u>800,000</u>	<u>1,150,411</u>
Net assets:				
Beginning of year	<u>779,222</u>	<u>943,000</u>	<u>-</u>	<u>1,722,222</u>
End of year	<u>\$ 445,337</u>	<u>\$ 1,627,296</u>	<u>\$ 800,000</u>	<u>\$ 2,872,633</u>

See Notes to Financial Statements.

**Sargent Shriver National Center on Poverty Law**

**Statements of Activities (Continued)  
Year Ended December 31, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Grants	\$ 1,419,819	\$ 717,006	\$ -	\$ 2,136,825
Fundraising events	273,424	-	-	273,424
Training revenue	13,750	-	-	13,750
Subscription revenue	220,846	-	-	220,846
Fellowship grant	150,397	-	-	150,397
Individual donors	173,243	-	-	173,243
Donated goods and services	127,840	-	-	127,840
Cy Pres awards	93,424	-	-	93,424
Service contracts	33,153	-	-	33,153
Attorney fees	2,824	-	-	2,824
Investment losses	(17,539)	-	-	(17,539)
Net assets released from restrictions	1,336,000	(1,336,000)	-	-
	<u>3,827,181</u>	<u>(618,994)</u>	<u>-</u>	<u>3,208,187</u>
Expenses:				
Operating expenses:				
Program services:				
Advocacy	1,710,950	-	-	1,710,950
Communications	690,892	-	-	690,892
Training	133,909	-	-	133,909
	<u>2,535,751</u>	<u>-</u>	<u>-</u>	<u>2,535,751</u>
Costs of direct benefits to donors	<u>38,110</u>	<u>-</u>	<u>-</u>	<u>38,110</u>
Supporting services:				
Management and general	430,293	-	-	430,293
Fundraising	351,461	-	-	351,461
	<u>781,754</u>	<u>-</u>	<u>-</u>	<u>781,754</u>
Total operating expenses	<u>3,355,615</u>	<u>-</u>	<u>-</u>	<u>3,355,615</u>
Operating income (loss)	<u>471,566</u>	<u>(618,994)</u>	<u>-</u>	<u>(147,428)</u>
Contribution of assets, net from the Center for Legal Aid Education	<u>72,774</u>	<u>-</u>	<u>-</u>	<u>72,774</u>
Change in net assets	544,340	(618,994)	-	(74,654)
Net assets:				
Beginning of year	<u>234,882</u>	<u>1,561,994</u>	<u>-</u>	<u>1,796,876</u>
End of year	<u>\$ 779,222</u>	<u>\$ 943,000</u>	<u>\$ -</u>	<u>\$ 1,722,222</u>

See Notes to Financial Statements.

**Sargent Shriver National Center on Poverty Law**

**Statements of Functional Expenses  
Year Ended December 31, 2012**

	Program Services			Cost of Direct Benefits to Donors	Supporting Services		Totals
	Advocacy	Communications	Training		Management and General	Fundraising	
Salaries and payroll taxes	\$ 856,056	\$ 436,214	\$ 244,199	\$ -	\$ 287,718	\$ 140,190	\$ 1,964,377
Fringe benefits	114,340	49,357	27,340	-	61,034	36,913	288,984
Pension contribution	19,221	8,216	5,302	-	10,260	6,205	49,204
Fellowships	137,188	-	-	-	-	-	137,188
Contracted services	39,883	14,832	6,917	-	4,005	7,717	73,354
Technology	23,861	7,881	13,449	-	788	4,862	50,841
Postage	2,599	1,224	451	-	260	7,513	12,047
Printing and copying	2,024	282	471	-	76	4,833	7,686
Telephone and telecommunications	10,032	5,262	6,739	-	1,007	1,941	24,981
UPS, FedEx, messenger	530	333	446	-	113	30	1,452
Bank charges and interest	1,585	1,160	677	-	189	3,136	6,747
Liability and property insurance	12,212	4,542	1,758	-	1,226	2,363	22,101
Clearinghouse printing and mailing	-	60,868	-	-	-	-	60,868
Program consultants	118,916	1,956	1,863	-	58	37,436	160,229
Depreciation and amortization expense	7,750	2,882	16,829	-	2,122	1,500	31,083
Subscription and fees	36,944	772	-	-	-	5,404	43,120
Equipment and network maintenance	5,978	2,224	6,228	-	600	1,157	16,187
Meetings and events	5,517	1,129	707	38,167	272	43,278	89,070
Coalition expenses	6,266	-	-	-	-	-	6,266
Occupancy expenses	144,907	53,890	39,997	-	39,685	28,038	306,517
Payroll and benefits administration	9,496	3,400	1,623	-	900	1,733	17,152
Client costs	56,854	-	-	-	-	-	56,854
Auditing	11,581	4,307	2,009	-	1,162	2,241	21,300
Staff travel	36,739	4,376	25,432	-	70	7,944	74,561
Dues and fees	14,820	1,405	113	-	66	126	16,530
Conferences and fees	17,153	4,845	3,316	-	39	76	25,429
Board costs	-	-	-	-	14,601	-	14,601
Supplies	7,147	3,824	3,149	-	819	1,445	16,384
VISTA program	96,372	860	774	-	-	774	98,780
Delivery of training events	-	-	114,632	-	-	-	114,632
	<u>\$ 1,795,971</u>	<u>\$ 676,041</u>	<u>\$ 524,421</u>	<u>\$ 38,167</u>	<u>\$ 427,070</u>	<u>\$ 346,855</u>	<u>\$ 3,808,525</u>

See Notes to Financial Statements.

**Sargent Shriver National Center on Poverty Law**

**Statements of Functional Expenses (Continued)**  
**Year Ended December 31, 2011**

	Program Services			Cost of Direct Benefits to Donors	Supporting Services		Totals
	Advocacy	Communications	Training		Management and General	Fundraising	
Salaries and payroll taxes	\$ 879,703	\$ 435,818	\$ 49,488	\$ -	\$ 292,820	\$ 161,224	\$ 1,819,053
Fringe benefits	89,605	47,543	6,619	-	57,608	37,782	239,157
Pension contribution	18,784	7,836	417	-	9,554	6,266	42,857
Fellowships	116,649	-	-	-	-	-	116,649
Contracted services	39,387	14,647	4,250	-	3,959	8,020	70,263
Technology	24,174	5,454	2,141	-	854	8,490	41,113
Postage	2,408	2,238	148	-	219	5,316	10,329
Printing and copying	4,248	882	149	-	205	4,007	9,491
Telephone and telecommunications	12,654	5,543	2,207	-	1,198	2,305	23,907
UPS, FedEx, messenger	431	142	-	-	627	190	1,390
Bank charges and interest	1,534	799	-	-	266	2,110	4,709
Liability and property insurance	12,875	4,788	4,979	-	1,294	2,491	26,427
Clearinghouse printing and mailing	-	57,717	-	-	-	-	57,717
Program consultants	77,672	-	-	-	-	16,750	94,422
Depreciation and amortization expense	17,127	6,369	4,207	-	2,969	3,314	33,986
Subscription and fees	41,909	49	55	-	9	214	42,236
Equipment and network maintenance	6,135	2,281	1,128	-	1,063	1,187	11,794
Meetings and events	1,747	587	-	38,110	7,566	45,148	93,158
Coalition expenses	4,501	94	-	-	377	-	4,972
Occupancy expenses	162,779	60,530	10,718	-	20,040	31,492	285,559
Payroll and benefits administration	9,495	3,254	785	-	879	1,693	16,106
Client costs	11,646	-	-	-	-	-	11,646
Auditing	10,812	4,021	788	-	1,087	2,092	18,800
Staff travel	55,758	9,387	4,683	-	443	1,966	72,237
Dues and fees	12,163	321	-	-	92	527	13,103
Conferences and fees	21,299	6,391	673	-	11,568	1,514	41,445
Board costs	1,104	411	80	-	14,687	214	16,496
Supplies	4,408	2,066	32	-	909	1,287	8,702
VISTA program	69,943	11,724	1,954	-	-	5,862	89,483
Delivery of training events	-	-	38,408	-	-	-	38,408
	<u>\$ 1,710,950</u>	<u>\$ 690,892</u>	<u>\$ 133,909</u>	<u>\$ 38,110</u>	<u>\$ 430,293</u>	<u>\$ 351,461</u>	<u>\$ 3,355,615</u>

See Notes to Financial Statements.



**Sargent Shriver National Center on Poverty Law**

**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 1,150,411	\$ (74,654)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	31,083	33,986
Change in unrealized (gain) loss and realized gain on investments	(51,731)	29,162
Net contribution from the Center for Legal Aid Education	-	(72,774)
Contributions restricted for endowment	(800,000)	-
Changes in:		
Contributions, grants and pledges receivable	(28,967)	618,994
Other receivables	3,832	1,985
Prepaid expenses and other assets	4,041	(2,780)
Lease deposit	-	(2,450)
Accounts payable	20,873	31,107
Accrued expenses	38,989	18,964
Unearned revenue	26,479	5,310
Deferred rent liability	(9,691)	(11,723)
<b>Net cash provided by operating activities</b>	<b>385,319</b>	<b>575,127</b>
Cash Flows from Investing Activities		
Change in restricted cash	(57,832)	-
Acquisition of assets	-	(23,448)
Purchase of investments	(766,032)	(510,781)
Additions to property and equipment	(21,901)	(28,291)
<b>Net cash used in investing activities</b>	<b>(845,765)</b>	<b>(562,520)</b>
Cash Flows from Financing Activities:		
Contributions restricted for endowment	800,000	-
<b>Net increase in cash and cash equivalents</b>	<b>339,554</b>	<b>12,607</b>
Cash and cash equivalents:		
Beginning of year	552,076	539,469
End of year	<b>\$ 891,630</b>	<b>\$ 552,076</b>

(Continued)

**Sargent Shriver National Center on Poverty Law**

**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	2011
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Supplemental Disclosure of Cash Flow Information		
Assets acquired and liabilities assumed:		
Cash	\$ -	\$ 793
Accounts receivable	-	81
Prepaid expenses	-	8,874
Property and equipment	-	4,345
Intangible assets	-	91,877
Below market value operating lease	-	5,633
Lease deposit	-	2,450
Accounts payable	-	(699)
Accrued obligation to perform	-	(40,580)
	<hr/>	<hr/>
	<b>\$ -</b>	<b>\$ 72,774</b>
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See Notes to Financial Statements.

## **Sargent Shriver National Center on Poverty Law**

### **Notes to Financial Statements**

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#### **Note 1. Nature of Activities and Significant Accounting Policies**

The Sargent Shriver National Center on Poverty Law (the Shriver Center) is an Illinois not-for-profit corporation that provides national leadership in advancing laws and policies that secure justice to improve the lives and opportunities of people living in poverty. The Shriver Center accomplishes this mission through a three-pronged approach - Advocacy, Communication and Training. The Advocacy programs work to address the range of issues impacting people living in poverty through direct advocacy and policy development. The Communication programs improve the quality of representation available to people living in poverty by facilitating the exchange of information on policies and best practices to the national legal aid community. The Training programs offer a progression of courses through which legal aid attorneys and other advocates develop the knowledge and skills they need to obtain justice for their clients.

The Shriver Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any. The Shriver Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Shriver Center files Form 990 in the U.S. Federal jurisdiction and related reports in the State of Illinois, the State of New York, the State of California and in the Commonwealth of Massachusetts.

The Shriver Center conducts its activities from leased offices in Chicago, Illinois and Boston, Massachusetts.

The following programs are included in the accompanying financial statements:

#### **Advocacy**

The Shriver Center's advocacy niche is the nexus between federal policy and state implementation, a key position in the era of increasing devolution of power to the states in many areas of social policy and law. The Shriver Center's advocacy unit uses Illinois as a policy lab, developing models that inform policy development and advocacy activities undertaken in other states, and when asked, playing an advisory role to fellow advocates across the country. On occasion, the attorney-advocates work directly on federal policies and laws. The driving motivation is to give a voice and representation to people living in poverty in decisions that affect their lives.

#### **Communication**

The Shriver Center's Communication Programs use a variety of communication techniques to promote the best and most efficient practices in using law and policy to end poverty. The Shriver Center publishes the CLEARINGHOUSE REVIEW, the country's primary communication and research vehicle to enable a nationally coordinated movement among lawyers to fight poverty through law and policy. Other communication services include the publication of an online interactive Poverty Scorecard that grades United States lawmakers' votes on bills related to alleviating poverty and four newsletters. The Shriver Center also conducts training sessions using traditional and electronic methods.

The Shriver Center has a distinguished history of service as an intellectual and communications hub for professional advocates who serve people living in poverty and also as a critical information source for policymakers, media, philanthropic foundation staff and the public on issues related to improving the lives of people living in poverty.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

##### Training

In August 2011, the Shriver Center and Legal Aid Education, Inc. (d/b/a Center for Legal Aid Education, "CLAE") entered into an agreement for the Shriver Center to acquire substantially all the assets and certain liabilities of CLAE on October 1, 2011. The asset transfer agreement included CLAE's comprehensive training curriculum, which serves as the basis for the Shriver Center's new national training programs. The addition of the training programs to the Shriver Center's advocacy and communications programs enables the Shriver Center to provide broader and deeper support to the national legal aid community of advocates who are able and willing to work together to advance social and economic justice for people living in poverty.

The Shriver Center's national training programs address the full-range of advocacy, management, and leadership skills that legal aid attorneys and staff need to successfully represent their clients. The Shriver Center's training curriculum builds upon a progression of courses through which legal aid lawyers and staff develop mastery as advocates for justice.

The Shriver Center's significant accounting policies are described below:

**Basis of accounting:** The financial statements have been prepared in accordance with accounting principles applicable to nonprofit organizations. For financial reporting purposes, the Shriver Center classifies its activities as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted:* Net assets that are not subject to donor-imposed restrictions are reported as unrestricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

*Temporarily Restricted:* The Shriver Center reports gifts of cash, investments, and grants as temporarily restricted if they are received with donor stipulations limiting the use of the donated assets. When a restriction is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted:* Net assets subject to donor-imposed restrictions which require that they be maintained permanently (in perpetuity) by the Shriver Center are reported as permanently restricted.

**Accounting policies:** The Shriver Center follows accounting standards established by the Financial Accounting Standards Board (the FASB) to ensure consistent reporting of financial position, results of activities, and cash flows. References to Generally Accepted Accounting Principles (GAAP) in these footnotes are to the *FASB Accounting Standards Codification*, sometimes referred to as the Codification or ASC.

**Cash and cash equivalents:** Cash and cash equivalents include highly liquid, short term investments with a maturity at the date of acquisition of three months or less. Cash balances in depository accounts may exceed federally insured limits from time-to-time. The Shriver Center has not experienced any losses in such accounts and management believes the Shriver Center is not exposed to any significant credit risk related to cash.

**Investments:** Investments are in marketable securities and are recorded at fair value based on quoted market prices. Changes in fair value are recorded as unrealized gains (losses) and are included in investment return (losses). Investments are exposed to various risks such as interest rate, market, and credit risks. It is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Funds held for others:** The Shriver Center holds funds in a separate account for the administration of its SEED program. At December 31, 2012 and 2011, funds held on behalf of others amounted to \$878 and \$926, respectively, and have been reflected as liabilities in the accompanying statements of financial position.

**Contributions, grants and pledges receivable:** Contributions, grants and pledges receivable represent amounts pledged by donors or grantors (unconditional promises to give), some of which are due in installments. Amounts due on dates that are more than a year in the future are recorded net of a present value discount, which is based on a risk-free rate of return.

**Property and equipment:** Property and equipment are stated at cost, less accumulated depreciation, except for donated assets, which are recorded at fair value at time of receipt. Disbursements for additions and improvements to existing property in amounts over \$1,000 are capitalized, while general maintenance and repairs are charged to expense. The cost and accumulated depreciation of items sold or retired are removed from the property and equipment account and any gain or loss upon disposition is recognized at that time. Provisions for depreciation of computer equipment are computed using the straight-line method over a five year estimated useful life. Furniture and office equipment are depreciated using the straight-line method over a ten year estimated useful life. Depreciation begins when the assets are placed in service.

**Intangible assets:** Amortizable intangible assets consist of intellectual property related to the comprehensive training curriculum. These assets are amortized on a straight-line basis over the assets' estimated useful lives. The Shriver Center reviews the intangible assets for impairment on or about December 31 of each year. Recoverability for these assets is measured by comparing their carrying amounts to their fair values. If the assets are considered impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair values. The Shriver Center did not record any impairment charges during 2012 or 2011.

**Unearned revenue:** Revenue for future subscriptions to journals is recognized over a 12 month period with unearned revenue being recorded for those months extending into the next calendar year.

**Revenues and other support:** The Shriver Center reports grants and contributions, including unconditional promises to give, as revenue in the period the grant, contribution, or promise is received. Contributions receivable represents amounts pledged by donors, some of which is due in installments. Contributions of cash and other assets are reported as restricted support if received with donor stipulations that limit the use of the contribution. Depending on the nature of the restriction, such contributions are reported as an increase in temporarily or permanently restricted net assets. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. When the donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated goods and services include goods and services such as software, technology, printing, airline tickets, AmeriCorps VISTA, editorial and legal services rendered in-kind at no charge to the Shriver Center. These donations include goods and services that would typically need to be purchased if not provided by donation and are recorded at their fair values in the period received.

Subscription revenue is recognized as it is earned during the 12 month period.

Training fees are recognized as revenue when the related training event is conducted.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Income taxes:** The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Shriver Center may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Shriver Center and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting periods presented in these financial statements. The Shriver Center is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, management has developed and uses estimates to allocate certain costs among the programs and supporting activities benefited (for example based on full-time activity equivalency of staffing levels). Directly identifiable expenses are charged to program services, management and general, and fundraising.

**Rentals and expenses:** Base rentals due under leases are recognized as rental expense on a ratable or straight-line basis over the lease term. The Shriver Center has entered into an operating lease for its administrative office which contains provisions for escalating rent. In accordance with generally accepted accounting principles, the Shriver Center records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is charged to deferred rent liability and is being amortized over the term of the lease as a reduction of rental expense.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

**Reclassifications:** Certain reclassifications were made to the 2011 accompanying financial statements to conform to the 2012 presentation. These reclassifications had no impact on the change in net assets as previously reported.

**Subsequent events:** The Shriver Center has evaluated subsequent events for potential recognition and/or disclosure through July 30, 2013, the date the financial statements were available to be issued.

#### Note 2. Business Combination

In August 2011, the Shriver Center and Legal Aid Education, Inc. (d/b/a Center for Legal Aid Education, "CLAE") entered into an agreement for the Shriver Center to acquire substantially all the assets and certain liabilities of CLAE on October 1, 2011. The asset transfer agreement included CLAE's comprehensive training curriculum, which serves as the basis for the Shriver Center's new national training programs. The addition of the training programs to the Shriver Center's advocacy and communications programs enables the Shriver Center to provide broader and deeper support to the national legal aid community of advocates who are able and willing to work together to advance social and economic justice for people living in poverty.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 2. Business Combination (Continued)

The Shriver Center recognized an inherent contribution of \$72,774 in relation to the acquisition. The transaction was accounted for as a purchase business combination and the fair value of the assets and liabilities acquired were as follows as of December 31, 2011:

	<u>2011</u>
Consideration:	
Cash	<u>\$ -</u>
Recognition amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 793
Accounts receivable	81
Prepaid expenses	8,874
Property and equipment	4,345
Intangible assets	91,877
Below market value operating lease	5,633
Lease deposit	2,450
Accounts payable	(699)
Accrued obligation to perform	<u>(40,580)</u>
Inherent contribution	<u>\$ 72,774</u>

The fair value of the assets acquired from CLAE was estimated by applying the income approach and a market approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement as described in Note 5. Key assumptions include a discount rate of 36.2 percent, a revenue growth rate of 3 percent, an obsolescence factor of 15 percent, and adjustments because of a lack of marketability that market participants would consider when estimating the fair value of CLAE's assets. The accompanying statements of activities and cash flows reflect activity from the date of acquisition (October 1, 2011) through December 31, 2012, resulting from the business combination.

The acquired identifiable intangible assets have useful lives that range from 4 to 6 years. The intangible assets, at gross carrying amount, include a tradename of \$7,757 (4 year useful life) and training programs of \$84,120 (6 year useful life).

#### Note 3. Contributions, Grants and Pledges Receivable

Contributions, grants and pledges receivable at December 31, 2012 and 2011 are due as follows:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 345,105	\$ 943,000
One to five years	630,000	-
	<u>975,105</u>	<u>943,000</u>
Less discount to present value	(3,138)	-
	<u>\$ 971,967</u>	<u>\$ 943,000</u>

As of December 31, 2012, contributions receivable over one year were discounted based upon payment terms using a discount factor of 0.25 percent.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

#### Note 3. Contributions, Grants and Pledges Receivable (Continued)

Management has determined all receivable balances to be fully collectible at December 31, 2012 and 2011, and has not provided an allowance for doubtful contributions, grants and pledges.

In 2012 and 2011, the Shriver Center was provided with up to eight full-time AmeriCorps VISTA volunteers to each provide a year of service to the Shriver Center. The services up to five AmeriCorps VISTA volunteers were provided by the federally funded Corporation for National & Community Service at no cost to the Shriver Center and were recorded at their fair value in the period received, \$48,768 in 2012 and \$49,240 in 2011.

#### Note 4. Investments

The investments held by the Shriver Center are as follows at December 31:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Common stocks - domestic	\$ 44,850	\$ 42,576	\$ -	\$ -
Exchange traded funds - world	26,380	25,207	-	-
Mutual funds:				
Domestic large cap blend	621,347	614,947	481,619	511,523
Domestic mid cap growth	43,189	43,744	-	-
Domestic mid cap blend	30,114	30,012	-	-
World large cap growth	16,589	16,012	-	-
World large cap blend	113,315	111,120	-	-
World large cap value	30,795	30,305	-	-
Fixed income - US agency	372,803	376,073	-	-
Total investments	<u>\$ 1,299,382</u>	<u>\$ 1,289,996</u>	<u>\$ 481,619</u>	<u>\$ 511,523</u>

Investment returns (losses) recorded in the statements of activities and changes in net assets are as follows at December 31:

	2012		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 12,017	\$ 11,097	\$ 23,114
Realized gain	8,645	3,796	12,441
Unrealized gain	35,249	4,041	39,290
	<u>\$ 55,911</u>	<u>\$ 18,934</u>	<u>\$ 74,845</u>
	2011		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 11,623	\$ -	\$ 11,623
Realized gain	742	-	742
Unrealized loss	(29,904)	-	(29,904)
	<u>\$ (17,539)</u>	<u>\$ -</u>	<u>\$ (17,539)</u>



## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 5. Fair Value Disclosures

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Topic as assumptions market participants would use in pricing an asset or liability. The three levels of fair value hierarchy under the Topic are described below:

Level 1: Quoted market prices in active markets, such as the New York Stock Exchange, for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Shriver Center assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that cause the transfer. For the year ended December 31, 2012, there were no such transfers.

For the years ended December 31, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis:

#### *Investment Securities*

The fair value of publicly traded common stock, exchange traded funds, mutual funds, and fixed income securities is based upon market quotations of national security exchanges. These financial instruments, detailed in Note 4 to the financial statements, are considered Level 1.

#### Note 6. Property and Equipment

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

	2012	2011
Computer equipment	\$ 175,491	\$ 155,238
Furniture	24,706	24,706
Office equipment	4,327	2,679
	<u>204,524</u>	<u>182,623</u>
Less accumulated depreciation and amortization	<u>(152,462)</u>	<u>(137,338)</u>
	<u>\$ 52,062</u>	<u>\$ 45,285</u>

Depreciation and amortization expense was \$15,124 and \$29,996 for the years ended December 31, 2012 and 2011, respectively.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 7. Intangible Assets

As of December 31, 2012 and 2011, the Shriver Center had the following intangible assets:

	Useful Life	2012		2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Training programs	6 years	\$ 84,120	\$ 17,525	\$ 84,120	\$ 3,505
Tradenname	4 years	7,757	2,424	7,757	485

Estimated amortization expense for each of the next five years is:

2013	\$ 16,000
2014	16,000
2015	15,500
2016	14,000
2017	10,500

Amortization expense was \$15,959 and \$3,990 for the years ended December 31, 2012 and 2011, respectively.

#### Note 8. Retirement Plan

In December 2004, the Shriver Center established a retirement plan under Section 401(k) of the Internal Revenue Code (IRC). The plan allows for all employees who reach the age of 21 and have completed six months of service to contribute a portion of their pre-tax earnings in accordance with specified limitations as defined by the IRC. Employer matching contributions may be made to the plan based on the Board of Director's discretion. Participants become fully vested in the employer contributions with two years of service at the Shriver Center. The Shriver Center made contributions to the plan of \$49,204 and \$42,857 during the years ended December 31, 2012 and 2011, respectively.

#### Note 9. Line of Credit

The Shriver Center has a \$250,000 line of credit with a bank, which bears interest at BBA LIBOR Daily floating rate plus 2.5 percent. At December 31, 2011, the line of credit bore interest at BBA LIBOR Daily floating rate plus 3.0 percent. The BBA LIBOR Daily floating rate was 0.168 and 0.154 percent at December 31, 2012 and 2011, respectively. The Shriver Center's equipment and receivables are pledged as collateral to this line of credit which has a maturity date of August 1, 2013. There was \$0 in borrowing outstanding under the line of credit at December 31, 2012 and 2011.

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2012	2011
Kresge Foundation - promised in 2012 for subsequent years' activities - General Operations, net of discount	\$ 937,609	\$ -
MacArthur Foundation - promised in 2012 for subsequent years' activities - General Operations, net of discount	299,253	-
Sargent Shriver Peace Institute - promised in 2012 for subsequent year's activities - Fundraising	200,000	-
Lloyd A. Fry Foundation - promised in 2011 for subsequent year's activities - Advocacy	90,000	90,000
Chicago Bar Foundation - promised in 2012 for subsequent year's activities - General Operations	50,000	-
Chicago Community Trust - promised in 2012 for subsequent year's activities - Advocacy	20,000	-
Investment returns of donor-restricted endowment for legal services projects	18,934	-
Chicago Foundation for Women - promised in 2012 for subsequent year's activities - Advocacy	10,000	-
Open Society Institute - promised in 2010 for subsequent years' activities - Advocacy	1,500	1,500
Polk Brothers Foundation - promised in 2011 for subsequent year's activities - Advocacy	-	180,000
MacArthur Foundation - promised in 2010 for subsequent years' activities - General Operations	-	125,000
Ford Foundation - promised in 2011 for subsequent year's activities - Training	-	125,000
Grand Victoria Foundation - promised in 2011 for subsequent year's activities - General Operations	-	125,000
MacArthur Foundation - promised in 2010 for subsequent years' activities - Advocacy	-	100,000
McCormick Foundation - promised in 2011 for subsequent year's activities - General Operations	-	80,000
Chicago Community Trust - promised in 2011 for subsequent year's activities - General Operations	-	37,500
Richard H. Driehaus Foundation - promised in 2011 for subsequent year's activities - General Operations	-	35,000
Circle of Service Foundation - promised in 2011 for subsequent year's activities - Advocacy	-	25,000
Impact Fund - promised in 2011 for subsequent year's activities - Advocacy	-	10,000
National Women's Law Center - promised in 2011 for subsequent year's activities - Advocacy	-	5,000
Michael Reese Health Trust - promised in 2011 for subsequent year's activities - Health Care Issues Roundtable	-	4,000
	<u>\$ 1,627,296</u>	<u>\$ 943,000</u>

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 11. Permanently Restricted Net Assets

Permanently restricted net assets of \$800,000 and \$0 for the years ended December 31, 2012 and 2011, respectively, are restricted to investment in perpetuity, the income from which is expendable to support legal services projects approved by the donor (an organization that is tax-exempt under Section 501(c)(3) of the IRC).

#### Note 12. Endowment

At this time, the Shriver Center's endowment consists of one fund separate and apart from any other endowment fund that may be created. The income from it may be expended for legal services projects of the Shriver Center that embody the values and goals of Sargent Shriver. As required by accounting principles for non profits, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The gift instrument for the endowment fund specifically makes generally inapplicable to such endowment the accounting and expenditure rules of the Illinois Uniform Prudent Management of Institutional Funds and Uniform Principal and Income Acts and any successors thereto. Principal and unrealized appreciation may not be expended without prior written approval of the donor. Realized appreciation may be credited to principal or expended or both in accordance with the Shriver Center's endowment spending policy.

#### *Interpretation of Relevant Law*

In general, as a result of the Board of Director's interpretation of the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Shriver Center classifies as permanently restricted net assets (a) the original value of gifts donated for endowment, (b) the original value of subsequent gifts for endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument. Any portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Shriver Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Shriver Center considers the following factors in making a determination to appropriate or accumulate income or gain on donor-restricted endowment funds:

- 1) The duration and preservation of the funds,
- 2) The mission of the Shriver Center and the purpose of the donor-restricted endowment funds,
- 3) General economic conditions,
- 4) The possible effects of inflation and deflation,
- 5) The expected total return from income and the appreciation of investments,
- 6) Other resources of the Shriver Center, and
- 7) The investment policies of the Shriver Center.

The Shriver Center's donor-restricted endowment net asset composition by type of fund is as follows for the year ended December 31, 2012:

Temporarily restricted	\$ 18,934
Permanently restricted	800,000
Total	<u>\$ 818,934</u>

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 12. Endowment (Continued)

The changes in endowment net assets for the Shriver Center were as follows for the year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Contributions and grants	-	800,000	800,000
Total investment return	18,934	-	18,934
Endowment net assets, end of year	<u>\$ 18,934</u>	<u>\$ 800,000</u>	<u>\$ 818,934</u>

There were no endowment net assets for the year ended December 31, 2011.

#### ***Return Objectives and Risk Parameters***

The Shriver Center has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by endowment while protecting the purchasing power of the endowment assets over time. 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 return of a hypothetical portfolio composed of indices representing the Board approved asset allocation while assuming a moderate level of investment risk.

#### ***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, in general, the Shriver 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 Shriver Center targets a diversified asset allocation that places an emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

#### ***Spending Policy and How the Investment Objectives Relate to Spending Policy***

Subject to the terms of each endowment gift instrument, the Shriver Center has a general policy of appropriating for distribution each year a portion (limited to five percent) of its endowment fund's average market value over a trailing three year period. This is consistent with the Shriver Center's objective to maintain the purchasing power of the endowment assets held in perpetuity.

#### Note 13. Lease Commitments

The Shriver Center leases office space in Chicago, Illinois under a 15 year agreement that expires in July 2017. Under the provisions of the lease, the Shriver Center pays a base rent plus a proportionate share of basic operating costs (e.g., for taxes, insurance, utilities, etc.). The lease terms provide for rental increases each year. The Shriver Center also leases office space in Boston, Massachusetts under a 5 year agreement that expires in October 2014. Under the provisions of the lease, the Shriver Center pays a base rent of \$2,600 per month plus a proportionate share of basic operating costs (e.g., for taxes, insurance, utilities, etc.).

## Sargent Shriver National Center on Poverty Law

### Notes to Financial Statements

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#### Note 13. Lease Commitments (Continued)

The Shriver Center is obligated under two leases for equipment where the first specifies monthly payments of \$421 until September 2014, and the second specifies monthly payments of \$368 until March 2013.

The following is a schedule by year of future minimum rental payments required under these leases as of December 31, 2012:

2013	\$ 272,600
2014	272,000
2015	249,500
2016	257,000
2017	152,500
	<u>\$ 1,203,600</u>

Rent expense was \$288,652 and \$267,637 for the years ended December 31, 2012 and 2011, respectively.

#### Note 14. Significant Concentrations

Generally accepted accounting principles require disclosure of information about certain vulnerabilities due to certain concentrations. This includes the following:

##### Donor and Grantor

Approximately 65 percent of the Shriver Center's 2012 grant revenue was provided by two contributors. These contributors account for 52 percent of contributions, grants and pledges receivable as of December 31, 2012.

Approximately 42 percent of the Shriver Center's 2011 grant revenue was provided by three contributors. These contributors accounted for 46 percent of contributions, grants and pledges receivable as of December 31, 2011.