



ADVOCATES FOR CHILDREN OF NEW YORK, INC.
Financial Statements
June 30, 2023 and 2022
With Independent Auditor's Report

Advocates for Children of New York, Inc.
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June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Advocates for Children of New York, Inc.:

Opinion

We have audited the financial statements of Advocates for Children of New York, Inc. (“AFC” or the “Agency”) which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”). 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 the Agency 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.

Emphasis of a Matter

As described in Note 2, the Agency adopted Topic 842 as of July 1, 2022. Prior period amount have not been adjusted and continue to be reported in accordance with the Agency’s historic accounting under Topic 840. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Agency’s ability to continue as a going concern for 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 the Agency'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 the Agency'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.

Withum Smith & Brown, PC

October 30, 2023

Advocates for Children of New York, Inc.
Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,998,651	\$ 3,867,786
Government grants receivable	1,004,681	917,988
Legal fees receivable, net	1,068,588	1,236,900
Contributions receivable - current portion	3,608,593	3,086,827
Prepaid expenses	<u>116,231</u>	<u>117,304</u>
Total current assets	7,796,744	9,226,805
Contributions receivable - long-term, net	914,730	1,473,063
Investments	10,027,910	6,726,464
Property and equipment, net	150,580	209,192
Operating right of use asset, net	3,690,688	-
Security deposits	<u>57,646</u>	<u>53,646</u>
Total assets	<u>\$ 22,638,298</u>	<u>\$ 17,689,170</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,568,034	\$ 1,292,305
Operating lease liability - current portion	<u>494,328</u>	<u>-</u>
Total current liabilities	2,062,362	1,292,305
Operating lease liability - long-term	<u>3,406,094</u>	<u>-</u>
Total liabilities	<u>\$ 5,468,456</u>	<u>\$ 1,292,305</u>
Net assets		
Without donor restrictions		
Operating	4,822,822	3,092,689
Board designated reserve	6,065,933	5,227,731
Board designated endowment	<u>2,750,801</u>	<u>2,396,861</u>
	13,639,556	10,717,281
With donor restrictions	<u>3,530,286</u>	<u>5,679,584</u>
Total net assets	<u>17,169,842</u>	<u>16,396,865</u>
Total liabilities and net assets	<u>\$ 22,638,298</u>	<u>\$ 17,689,170</u>

The Notes to Financial Statements are an integral part of these statements.

Advocates for Children of New York, Inc.
Statements of Activities and Changes in Net Assets
Year Ended June 30, 2023 with Comparative Totals for the Year Ended June 30, 2022

	<u>2023</u>			<u>2022</u> <u>Total</u>
	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>	
Public support and revenues				
Public support				
Contributions				
Foundations	\$ 1,763,773	\$ 1,293,322	\$ 3,057,095	\$ 3,312,281
Corporations	126,383	-	126,383	201,961
Individuals	380,472	-	380,472	1,353,138
Right to Learn Campaign	525,462	291,037	816,499	3,503,167
Special event contributions and ticket sales	2,265,130	-	2,265,130	3,717,941
Grants from government agencies	1,721,421	-	1,721,421	1,365,203
Contribution income - in kind	184,249	-	184,249	196,765
	<u>6,966,890</u>	<u>1,584,359</u>	<u>8,551,249</u>	<u>13,650,456</u>
Revenues				
Legal fees	188,873	-	188,873	617,006
Investment income (loss), net	530,858	-	530,858	(441,807)
Other	7,067	-	7,067	44,185
	<u>726,798</u>	<u>-</u>	<u>726,798</u>	<u>219,384</u>
Net assets released from restriction	<u>3,733,657</u>	<u>(3,733,657)</u>	<u>-</u>	<u>-</u>
	<u>11,427,345</u>	<u>(2,149,298)</u>	<u>9,278,047</u>	<u>13,869,840</u>
Expenses				
Program services				
Case advocacy and parent training	5,330,325	-	5,330,325	5,385,205
Public policy and research	1,228,438	-	1,228,438	1,095,111
Impact litigation	451,072	-	451,072	290,275
	<u>7,009,835</u>	<u>-</u>	<u>7,009,835</u>	<u>6,770,591</u>
Support services				
Management and general	679,343	-	679,343	768,648
Fundraising	815,892	-	815,892	856,611
	<u>1,495,235</u>	<u>-</u>	<u>1,495,235</u>	<u>1,625,259</u>
	<u>8,505,070</u>	<u>-</u>	<u>8,505,070</u>	<u>8,395,850</u>
Changes in net assets	2,922,275	(2,149,298)	772,977	5,473,990
Net assets				
Beginning of year	<u>10,717,281</u>	<u>5,679,584</u>	<u>16,396,865</u>	<u>10,922,875</u>
End of year	<u>\$ 13,639,556</u>	<u>\$ 3,530,286</u>	<u>\$ 17,169,842</u>	<u>\$ 16,396,865</u>

The Notes to Financial Statements are an integral part of this statement.

Advocates for Children of New York, Inc.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues			
Public support			
Contributions			
Foundations	\$ 1,601,448	\$ 1,710,833	\$ 3,312,281
Corporations	201,961	-	201,961
Individuals	467,803	885,335	1,353,138
Right to Learn Campaign	888,308	2,614,859	3,503,167
Special event contributions and ticket sales	3,717,941	-	3,717,941
Grants from government agencies	1,365,203	-	1,365,203
Contribution income - in kind	196,765	-	196,765
	<u>8,439,429</u>	<u>5,211,027</u>	<u>13,650,456</u>
Revenues			
Legal fees	617,006	-	617,006
Investment loss	(441,807)	-	(441,807)
Other	44,185	-	44,185
	<u>219,384</u>	<u>-</u>	<u>219,384</u>
Net assets released from restriction	<u>1,174,023</u>	<u>(1,174,023)</u>	<u>-</u>
	<u>9,832,836</u>	<u>4,037,004</u>	<u>13,869,840</u>
Expenses			
Program services			
Case advocacy and parent training	5,385,205	-	5,385,205
Public policy and research	1,095,111	-	1,095,111
Impact litigation	290,275	-	290,275
	<u>6,770,591</u>	<u>-</u>	<u>6,770,591</u>
Support services			
Management and general	768,648	-	768,648
Fundraising	856,611	-	856,611
	<u>1,625,259</u>	<u>-</u>	<u>1,625,259</u>
	<u>8,395,850</u>	<u>-</u>	<u>8,395,850</u>
Changes in net assets	1,436,986	4,037,004	5,473,990
Net assets			
Beginning of year	<u>9,280,295</u>	<u>1,642,580</u>	<u>10,922,875</u>
End of year	<u>\$ 10,717,281</u>	<u>\$ 5,679,584</u>	<u>\$ 16,396,865</u>

The Notes to Financial Statements are an integral part of this statement.

Advocates for Children of New York, Inc.
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Changes in net assets	\$ 772,977	\$ 5,473,990
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	83,612	107,462
Provision (recovery) for uncollectible receivables	(71,352)	23,181
Realized and unrealized loss (gain) on investments	(405,879)	516,295
Amortization on right of use asset	487,206	-
Changes in		
Government grants receivable	(86,693)	326,620
Legal fees receivable	239,664	134,337
Contributions receivable	36,567	(3,636,870)
Prepaid expenses	1,073	12,885
Security deposits	(4,000)	(2,000)
Accounts payable and accrued expenses	463,480	223,210
Operating lease liability	(465,223)	-
Net cash provided by operating activities	<u>1,051,432</u>	<u>3,179,110</u>
Investing activities		
Purchase of property and equipment	(25,000)	(89,749)
Proceeds from sale of investments	9,118,931	5,365,002
Purchase of investments	(12,014,498)	(5,827,920)
Net cash used in investing activities	<u>(2,920,567)</u>	<u>(552,667)</u>
Net change in cash and cash equivalents	(1,869,135)	2,626,443
Cash and cash equivalents		
Beginning of year	<u>3,867,786</u>	<u>1,241,343</u>
End of year	<u>\$ 1,998,651</u>	<u>\$ 3,867,786</u>
Supplemental disclosure of cash flow information		
Noncash investing activities		
Disposal of fully-depreciated equipment	\$ -	\$ 49,385
Right-of-use asset obtained through operating lease liabilities	<u>\$ 4,177,894</u>	<u>\$ -</u>

No amounts were paid for interest or income taxes during the years ended June 30, 2023 and 2022.

The Notes to Financial Statements are an integral part of these statements.

Advocates for Children of New York, Inc.
Statements of Functional Expenses
Year Ended June 30, 2023 With Comparative Totals for June 30, 2022

	2023								2022 Total Expenses
	Program Services				Support Services				
	Case Advocacy and Parent Training	Public Policy and Research	Impact Litigation	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses	
Expenses									
Payroll and related benefits									
Payroll	\$ 2,809,788	\$ 856,549	\$ 306,023	\$ 3,972,360	\$ 282,015	\$ 386,335	\$ 668,350	\$ 4,640,710	\$ 4,253,951
Payroll taxes and benefits	1,038,524	251,232	113,765	1,403,521	100,941	140,805	241,746	1,645,267	1,612,967
	<u>3,848,312</u>	<u>1,107,781</u>	<u>419,788</u>	<u>5,375,881</u>	<u>382,956</u>	<u>527,140</u>	<u>910,096</u>	<u>6,285,977</u>	<u>5,866,918</u>
Other									
Consultants	1,710	-	-	1,710	6,000	-	6,000	7,710	7,765
Depreciation and amortization	60,619	10,836	2,651	74,106	3,562	5,945	9,507	83,613	107,462
Fundraising	-	-	-	-	-	194,291	194,291	194,291	235,641
Insurance	8,680	1,552	380	10,612	5,370	851	6,221	16,833	17,169
Legal (in kind)	-	-	-	-	178,489	-	178,489	178,489	190,491
Occupancy	595,437	50,387	12,553	658,377	13,696	25,588	39,284	697,661	767,934
Professional fees	-	-	-	-	113,759	-	113,759	113,759	109,606
Miscellaneous	77,501	14,027	5,085	96,613	30,091	35,145	65,236	161,849	173,534
Postage	558	94	12	664	158	26	184	848	3,668
Provision (recovery) for bad debts	-	-	-	-	(71,352)	-	(71,352)	(71,352)	201,710
Rentals of equipment	17,666	2,859	706	21,231	850	1,513	2,363	23,594	43,190
Reproduction	6,115	1,051	259	7,425	320	561	881	8,306	1,824
Supplies	24,584	4,219	983	29,786	635	1,036	1,671	31,457	25,877
Sub-contractors	377,725	-	-	377,725	-	-	-	377,725	380,705
Technology	167,524	29,750	7,192	204,466	13,149	20,734	33,883	238,349	212,871
Telephone	30,699	5,304	1,305	37,308	1,634	2,842	4,476	41,784	35,665
Trainings	108,067	-	-	108,067	-	176	176	108,243	363
Translation and interpreters	5,128	578	158	5,864	26	44	70	5,934	13,457
Travel	-	-	-	-	-	-	-	-	-
	<u>1,482,013</u>	<u>120,657</u>	<u>31,284</u>	<u>1,633,954</u>	<u>296,387</u>	<u>288,752</u>	<u>585,139</u>	<u>2,219,093</u>	<u>2,528,932</u>
	<u>\$ 5,330,325</u>	<u>\$ 1,228,438</u>	<u>\$ 451,072</u>	<u>\$ 7,009,835</u>	<u>\$ 679,343</u>	<u>\$ 815,892</u>	<u>\$ 1,495,235</u>	<u>\$ 8,505,070</u>	<u>\$ 8,395,850</u>

The Notes to Financial Statements are an integral part of this statement.

Advocates for Children of New York, Inc.
Statement of Functional Expenses
Year Ended June 30, 2022

	2022							Total Expenses
	Program Services			Support Services				
	Case Advocacy and Parent Training	Public Policy and Research	Impact Litigation	Total Program Services	Management and General	Fundraising	Total Support Services	
Expenses								
Payroll and related benefits								
Payroll	\$ 2,748,542	\$ 726,105	\$ 178,632	\$ 3,653,279	\$ 253,335	\$ 347,337	\$ 600,672	\$ 4,253,951
Payroll taxes and benefits	1,061,975	233,154	78,262	1,373,391	108,634	130,942	239,576	1,612,967
	<u>3,810,517</u>	<u>959,259</u>	<u>256,894</u>	<u>5,026,670</u>	<u>361,969</u>	<u>478,279</u>	<u>840,248</u>	<u>5,866,918</u>
Other								
Consultants	1,257	1,219	47	2,523	5,147	95	5,242	7,765
Depreciation and amortization	81,671	12,895	3,224	97,790	3,224	6,448	9,672	107,462
Fundraising	-	-	-	-	-	235,641	235,641	235,641
Insurance	10,785	1,539	385	12,709	4,460	-	4,460	17,169
Legal (in kind)	144,868	22,859	5,715	173,442	5,683	11,366	17,049	190,491
Occupancy	643,620	54,133	13,533	711,286	29,059	27,589	56,648	767,934
Professional fees	-	-	-	-	109,606	-	109,606	109,606
Miscellaneous	59,056	5,506	1,080	65,642	33,066	74,826	107,892	173,534
Postage	2,504	394	99	2,997	479	192	671	3,668
Provision for bad debts	-	-	-	-	201,710	-	201,710	201,710
Rentals of equipment	33,331	4,929	1,232	39,492	1,233	2,465	3,698	43,190
Reproduction	1,413	215	54	1,682	36	106	142	1,824
Supplies	19,226	2,742	666	22,634	2,287	956	3,243	25,877
Sub-contractors	380,705	-	-	380,705	-	-	-	380,705
Technology	155,837	24,824	6,080	186,741	9,620	16,510	26,130	212,871
Telephone	27,112	4,277	1,069	32,458	1,069	2,138	3,207	35,665
Trainings	328	28	7	363	-	-	-	363
Translation and interpreters	12,975	292	190	13,457	-	-	-	13,457
	<u>1,574,688</u>	<u>135,852</u>	<u>33,381</u>	<u>1,743,921</u>	<u>406,679</u>	<u>378,332</u>	<u>785,011</u>	<u>2,528,932</u>
	<u>\$ 5,385,205</u>	<u>\$ 1,095,111</u>	<u>\$ 290,275</u>	<u>\$ 6,770,591</u>	<u>\$ 768,648</u>	<u>\$ 856,611</u>	<u>\$ 1,625,259</u>	<u>\$ 8,395,850</u>

The Notes to Financial Statements are an integral part of this statement.

Advocates for Children of New York, Inc.
Notes to Financial Statements
June 30, 2023 and 2022

1. ORGANIZATION

Advocates for Children of New York, Inc. (“AFC” or the “Agency”) is a New York State not-for-profit corporation serving children and their families in New York City. AFC’s mission is to ensure a high-quality education for New York students who face barriers to academic success, focusing on students from low-income backgrounds.

Program Services

Case Advocacy and Parent Training

AFC offers a full range of free individual case advocacy and legal assistance to help young people obtain appropriate educational services.

AFC provides training programs to assist and enable New York City parents and young people to navigate the Department of Education’s bureaucracy and receive the educational services they need to succeed. Training also is provided to school districts, child welfare offices and other professionals to prepare them to advocate for the education-related needs of the children they serve.

Impact Litigation

AFC litigates class action lawsuits and other cases to effectuate systemic reforms of the public-school system. The resulting information gathered also assists AFC in monitoring the Department of Education’s compliance with the law, which results in the development and implementation of policy that will prevent the same problems from recurring for other children.

Public Policy and Research

AFC advocates for changes to policy that will improve education for the children the Agency serves. Activities in this program include monitoring the implementation and effects of current policies, producing policy reports, and working collaboratively with other organizations and individuals that share AFC’s goals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Agency. These net assets may be used at the discretion of the Agency’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Agency or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Agency has no donor restrictions that are perpetual in nature.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

Advocates for Children of New York, Inc.
Notes to Financial Statements
June 30, 2023 and 2022

Revenue and Support Recognition

The Agency recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as net assets with or without donor restrictions according to donor stipulations that limit the use of these assets due to time or purpose restrictions. However, the receipt of restricted contributions whose restrictions expire or are otherwise satisfied within the period of receipt are reported as net assets without donor restrictions in the statements of activities and changes in net assets.

The Agency generally accounts for government grant revenues as exchange transactions in the statements of activities and changes in net assets except for revenues earned under cost reimbursement contracts, which represent a reimbursement for property and equipment purchases.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Legal fee revenues are recorded as revenue when earned based on the Agency winning a court ordered stipulation or order allowing for the billing of fees within the fiscal year. Revenue is estimated based on the total hours spent on a case discounted for the historical average of the negotiated settlement.

Special event revenue comprises an exchange element, based on the benefits received, and a contribution element for the difference and is treated as revenue without donor restrictions. The Agency does not have any significant financing components as payment is received at or shortly after the point of sale. The contribution portion is recognized as revenue when received. For the exchange portion, funds received in advance of the event date are recorded as contract liabilities in the statement of financial position. Revenue from the exchange portion is recognized at a point in time, at the date of the event held. During the years ended June 30, 2023 and 2022, the donors did not receive anything of consequential value in exchange for the price paid; therefore, there was no exchange portion, and all special event income was treated as contribution income.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among program activities and supporting services. Payroll, taxes, and fringe benefits are allocated based on time and effort, and additional costs are allocated by direct salaries.

The Agency allocates indirect costs to the programs either based on a cost allocation methodology or a federally negotiated indirect cost rate as required by Title 2 of the Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). This method of allocation better determines the costs of grants, contracts and other agreements administered by the Agency.

Advocates for Children of New York, Inc.
Notes to Financial Statements
June 30, 2023 and 2022

Property and Equipment

The principal rates for computing depreciation by major asset categories are as follows:

<u>Description</u>	<u>Estimated Life (Years)</u>
Equipment and software	5
Leasehold improvements	10

Depreciation and amortization expense amounted to \$83,612 and \$107,462 for the years ended June 30, 2023 and 2022, respectively.

Income Taxes

The Agency is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and New York taxation codes. Accordingly, no provision for income taxes has been recorded in the statements of activities and changes in net assets. The Agency had no unrecognized tax benefits as of and for the years ended June 30, 2023 and 2022. The Agency has no income tax related penalties or interest for the periods reported in the financial statements.

Use of Accounting 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include funds held in money market accounts and other instruments with an initial maturity of three months or less.

Investments

Investments are stated at fair value. Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless the use was restricted by explicit donor stipulations or by law.

Legal Fees Receivable and Contributions Receivable

Legal fees receivable and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through adjustments to valuation allowances based on its assessment of the current status of individual receivables. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance or directly to bad debt expense.

Allowance for Doubtful Accounts

The Agency provides an allowance for doubtful accounts, for legal fees receivable based on historic and expected collections. At June 30, 2023 and 2022, the allowance for doubtful accounts was \$691,001 and \$378,683, respectively.

The Agency provides an allowance for doubtful accounts, for contributions receivable based on historic and expected collections. For the years ended June 30, 2023 and 2022, the allowance for doubtful accounts was \$160,817 and \$232,169.

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Concentration of Credit Risk

The Agency has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Agency's financial condition, results of operations, and cash flows.

Leases

The Agency categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the Agency to substantially utilize or pay for the entire asset over its estimated life. All other leases categorized as operating leases. Leases with contractual terms of twelve months or less are not recorded on the statement of financial position. The Agency had no finance leases during 2023 and 2022.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes, and maintenance. For leases of property, the Agency accounts for these other services as a component of the lease. For all other leases, the services are accounted for separately and the Agency allocates payments to the lease and other service components based on estimated standalone prices.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings available. Right of use assets are recognized based on the initial present value of the fixed lease payments. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease. The interest component of lease liabilities of operating leases is included in occupancy expense.

Accounting Pronouncements Adopted in the Current Period

Leases

During 2023, the Agency adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). This ASU requires that a lease liability and related right-of-use asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. Comparative prior periods were not adjusted upon adoption, as the Agency utilized the practical expedient available under the guidance. Further, the Agency elected to implement the package of practical expedients, whereby the Agency did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs.

The adoption of the ASU did not have a material effect to the statements of activities and changes in net assets. Upon adoption, the Agency recognized \$4,177,894 in the right-of-use ("ROU") assets related to its leased property. Corresponding lease obligations of \$4,365,645 were also recognized. Deferred rent liabilities of \$187,751 were reclassified and netted against the ROU asset. There was no cumulative effect of applying the new standard and accordingly there was no adjustment to net assets upon adoption.

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3. INVESTMENTS

Recurring Fair Value Measurements

FASB Accounting Standard Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for the Agency’s assets measured at fair value.

Corporate fixed income and government securities: Certificates of deposit, corporate fixed income and government securities funds are valued at quoted market prices at the Agency’s year-end.

Mutual funds, index funds, exchange traded and closed-end funds and stocks: Shares of mutual funds, exchange traded, and closed-end funds and stocks are valued at quoted market prices which represent the net asset value of shares held by the Agency.

The following table represents the Agency’s fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2023:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Observable Measurement Criteria (Level 2)</u>	<u>Unobservable Measurement Criteria (Level 3)</u>
Corporate fixed income	\$ 7,136,662	\$ 7,136,662	\$ -	\$ -
Mutual funds	205,440	205,440	-	-
Index funds	<u>2,685,808</u>	<u>2,685,808</u>	-	-
Total fair value	<u>\$ 10,027,910</u>	<u>\$ 10,027,910</u>	<u>\$ -</u>	<u>\$ -</u>

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The following table represents the Agency's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2022:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Observable Measurement Criteria (Level 2)</u>	<u>Unobservable Measurement Criteria (Level 3)</u>
Corporate fixed income	\$ 4,555,373	\$ 4,555,373	\$ -	\$ -
Index funds	<u>2,171,091</u>	<u>2,171,091</u>	<u>-</u>	<u>-</u>
Total fair value	<u>\$ 6,726,464</u>	<u>\$ 6,726,464</u>	<u>\$ -</u>	<u>\$ -</u>

Investment income (loss) related to investments for the years ended June 30, was comprised of the following:

	<u>2023</u>	<u>2022</u>
Interest income	\$ 140,878	\$ 87,035
Unrealized (loss) gain	405,879	(516,295)
Investment fees	<u>(15,899)</u>	<u>(12,547)</u>
	<u>\$ 530,858</u>	<u>\$ (441,807)</u>

4. CONTRIBUTIONS RECEIVABLE

During the year ended June 30, 2022, AFC launched two multi-year fundraising campaigns. The Right to Learn Campaign with the goal of increasing the Agency's sustainability and impact in the years to come and the Leadership Circle with the goal to become Leadership Circle members. Donors have been invited to make pledges that could be paid over a three-year period. The resulting increase in three-year pledges is reflected in the increase in contributions receivable and allowance for doubtful accounts.

Contributions receivable consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 3,769,410	\$ 3,318,996
Receivable in one to five years	914,730	1,473,063
Allowance for doubtful accounts	<u>(160,817)</u>	<u>(232,169)</u>
	<u>\$ 4,523,323</u>	<u>\$ 4,559,890</u>

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5. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 721,194	\$ 721,194
Equipment and software	223,851	223,851
Website redevelopment	25,000	-
	<u>970,045</u>	<u>945,045</u>
Accumulated depreciation	<u>(819,465)</u>	<u>(735,853)</u>
	<u>\$ 150,580</u>	<u>\$ 209,192</u>

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets are restricted for specific purposes as well as time restricted. Net assets with donor restrictions at June 30, consist of the following:

	<u>2023</u>	<u>2022</u>
Case advocacy and representation	\$ 1,250,238	\$ 1,058,083
Public policy and research	433,083	191,083
Director of equity and impact	150,000	-
Time restriction	<u>1,696,965</u>	<u>4,430,418</u>
	<u>\$ 3,530,286</u>	<u>\$ 5,679,584</u>

Net assets with donor restrictions were released for the following purposes as of June 30:

	<u>2023</u>	<u>2022</u>
Case advocacy and representation	\$ 1,040,084	\$ 1,028,356
Public policy and research	134,083	120,667
Time restriction	<u>2,559,490</u>	<u>25,000</u>
	<u>\$ 3,733,657</u>	<u>\$ 1,174,023</u>

7. RETIREMENT PLAN

The Agency contributes to a 403(b)-retirement plan covering all employees, other than those working less than twenty hours per week. The Agency made a discretionary match of 5% of each employee's eligible contributions for each of the years ended June 30, 2023 and 2022. The amount charged to pension expense included in employee benefits amounted to \$27,120 and \$13,468 for the years ended June 30, 2023 and 2022, respectively.

8. LEASES

The Agency currently rents office and program space located on the 4th and 5th floor of a building under an operating lease which expires February 28, 2030.

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Since the rate implicit in the lease was not available, the Agency utilized the risk-free rate as the discount rate to estimate the net present value of future lease payments as of the date of adoption of ASC 842 (see Note 2). The weighted average discount rate used in estimating the net present value of the operating lease as of July 1, 2022 was 2.85%. As of June 30, 2023, the weighted average remaining life of the lease is 6.75 years.

The following is a maturity analysis of the annual undiscounted cash flows of the lease liability as of June 30, 2023:

2024	\$	597,696
2025		613,532
2026		629,792
2027		646,484
2028		663,612
Thereafter		<u>1,137,284</u>
		4,288,400
Less: Imputed interest		<u>(387,978)</u>
	\$	<u>3,900,422</u>

Rent expense for the years ended June 30, 2023 and 2022 was \$636,848 and \$688,901, respectively. Amounts paid in connection with operating leases during the year ended June 30, 2023 amounted to approximately \$582,000.

9. CONTRIBUTIONS - IN KIND

The Agency received \$178,489 and \$190,490 of donated legal services during the years ended June 30, 2023 and 2022, respectively, in connection with employment and communications matters. The value of these donated legal services was included in income as well as management and general expenses. Such services are valued and reported at their estimated fair value in the financial statements based on current rates for similar services.

In addition, the Agency received \$5,760 and \$6,275 of other in-kind contributions during the years ended June 30, 2023 and 2022, respectively, in connection with staff development and software donations. The value of these donated goods and services was included in income as well as management and general, program and fundraising expenses.

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10. LIQUIDITY AND AVAILABILITY OF RESOURCES

At June 30, 2023 and 2022, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	<u>2023</u>	<u>2022</u>
Financial assets at year end		
Cash and cash equivalents	\$ 1,998,651	\$ 3,867,786
Investments	10,027,910	6,726,464
Government grants receivable	1,004,681	917,988
Legal fees receivable, net	1,068,588	1,236,900
Contributions receivable - current portion	<u>4,523,323</u>	<u>4,559,890</u>
	<u>18,623,153</u>	<u>17,309,028</u>
Less: Financial assets unavailable for general expenditures within one year, due to		
Contributions receivable - long term, net	(914,730)	(1,473,063)
Board designated endowment	(2,750,801)	(2,396,861)
Donor restrictions	<u>(2,768,722)</u>	<u>(3,627,454)</u>
	<u>(6,434,253)</u>	<u>(7,497,378)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,188,900</u>	<u>\$ 9,811,650</u>

The Agency manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. The Agency's cash flows have fluctuations during the year attributable to the timing of program operations and collection of funds from donors and grantors. Furthermore, the Agency includes the Board designated reserve (see Note 11) within its financial assets available to meet cash needs since these funds are available to meet annual operational losses or budget shortfalls with board approval.

11. BOARD DESIGNATED FUNDS

Board designated funds consist of the following:

	<u>2023</u>	<u>2022</u>
Board designated reserve	\$ 6,065,933	\$ 5,227,731
Board designated endowment	<u>2,750,801</u>	<u>2,396,861</u>
	<u>\$ 8,816,734</u>	<u>\$ 7,624,592</u>

At a meeting in July 2010, AFC's Board of Directors voted to establish a board designated fund for the purpose of creating a reserve to fund investment in AFC's strategic long-term development and other initiatives as determined by the Board. The fund was established with an initial designation of \$800,000 of net assets without donor restrictions and will be increased by future revenues from class action lawsuits and other revenues at the Board's discretion. The fund will be decreased by expenditures approved by the Board on an annual basis and by any operational losses, if incurred in the future, based upon AFC's budgetary basis for measuring operational losses. There is no requirement that AFC segregate the assets associated with this fund in separate accounts.

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For the years ended June 30, 2023 and 2022, board designated reserve additions and expenditures were as follows:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 5,227,731	\$ 2,851,621
Additions		
Right to Learn Campaign	966,261	879,266
Allocation of funds based on plan formulas	<u>333,591</u>	<u>1,846,746</u>
Total funds available	<u>6,527,583</u>	<u>5,577,633</u>
Expenditures		
Raises	375,000	150,000
50th anniversary campaign	30,250	89,250
Compensation consultant	6,000	5,000
COVID-19-related expenses	-	6,902
DEI consultants	3,900	9,000
Multi-year financial plan	21,500	-
New computers	-	89,750
Website redevelopment	<u>25,000</u>	<u>-</u>
Total fund expenditures	<u>461,650</u>	<u>349,902</u>
Ending balance	<u>\$ 6,065,933</u>	<u>\$ 5,227,731</u>

12. BOARD DESIGNATED ENDOWMENT

At a meeting in October 2016, AFC's Board of Directors voted to establish a board designated endowment for the purpose of providing a stable flow of funds to support the annual operating budget of AFC on an ongoing basis. The fund was established with an initial designation of \$1,500,000 of net assets without donor restrictions and will be increased by future revenues from investment earnings. The fund will be decreased by expenditures approved by the Board on an annual basis.

For the years ended June 30, 2023 and 2022, board designated endowment additions and expenditures were as follows:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 2,396,861	\$ 2,508,081
Additions		
Allocation of funds based on plan formulas	-	250,000
Investment (loss) income	<u>353,940</u>	<u>(361,220)</u>
Total funds available	<u>\$ 2,750,801</u>	<u>\$ 2,396,861</u>

13. SUBSEQUENT EVENTS

The Agency has evaluated subsequent events occurring after the statement of financial position date through the date of October 30, 2023, which is the date the financial statements were available to be issued. Based on this evaluation, the Agency has determined that no subsequent events have occurred, which require disclosure in the financial statements.