



ADVOCATES FOR CHILDREN OF NEW YORK, INC.
Financial Statements
June 30, 2024 and 2023
With Independent Auditor's Report

Advocates for Children of New York, Inc.
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June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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.

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

November 5, 2024

Advocates for Children of New York, Inc.
Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,926,808	\$ 1,998,651
Government grants receivable	1,020,770	1,004,681
Legal fees receivable	2,008,990	1,759,589
Less: Allowance for legal fee credit losses	(807,061)	(691,001)
Contributions receivable - current portion	2,576,263	3,608,593
Prepaid expenses	<u>152,592</u>	<u>116,231</u>
Total current assets	6,878,362	7,796,744
Investments	12,778,697	10,027,910
Contributions receivable - long-term, net	561,624	914,730
Property and equipment, net	185,042	150,580
Operating right of use asset, net	3,289,833	3,690,688
Security deposits	<u>57,646</u>	<u>57,646</u>
Total assets	<u>\$ 23,751,204</u>	<u>\$ 22,638,298</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,242,975	\$ 1,568,034
Deferred revenue	125,000	-
Operating lease liability - current portion	<u>557,018</u>	<u>494,328</u>
Total current liabilities	1,924,993	2,062,362
Operating lease liability - long-term	<u>2,949,100</u>	<u>3,406,094</u>
Total liabilities	<u>4,874,093</u>	<u>5,468,456</u>
Net assets		
Without donor restrictions		
Operating	5,063,862	4,796,975
Board designated reserve	7,868,332	6,065,933
Board designated endowment	<u>3,310,365</u>	<u>2,776,648</u>
	16,242,559	13,639,556
With donor restrictions	<u>2,634,552</u>	<u>3,530,286</u>
Total net assets	<u>18,877,111</u>	<u>17,169,842</u>
Total liabilities and net assets	<u>\$ 23,751,204</u>	<u>\$ 22,638,298</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, 2024 with Comparative Totals for the Year Ended June 30, 2023

	<u>2024</u>			<u>2023</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	\$ 2,379,381	\$ 1,087,083	\$ 3,466,464	\$ 3,057,095
Corporations	254,829	-	254,829	126,383
Individuals	570,173	-	570,173	380,472
Right to Learn and Leadership Campaigns	24,056	800,800	824,856	816,499
Special event contributions and ticket sales	2,680,997	-	2,680,997	2,265,130
Grants from government agencies	2,127,273	-	2,127,273	1,721,421
Contribution income - in kind	412,629	-	412,629	184,249
	<u>8,449,338</u>	<u>1,887,883</u>	<u>10,337,221</u>	<u>8,551,249</u>
Revenues				
Legal fees	689,189	-	689,189	188,873
Investment income, net	964,886	-	964,886	530,858
Other	42,366	-	42,366	7,067
	<u>1,696,441</u>	<u>-</u>	<u>1,696,441</u>	<u>726,798</u>
Net assets released from restriction	2,783,617	(2,783,617)	-	-
	<u>12,929,396</u>	<u>(895,734)</u>	<u>12,033,662</u>	<u>9,278,047</u>
Expenses				
Program services				
Case advocacy and parent training	6,686,705	-	6,686,705	5,330,325
Public policy and research	1,285,703	-	1,285,703	1,228,438
Impact litigation	460,682	-	460,682	451,072
	<u>8,433,090</u>	<u>-</u>	<u>8,433,090</u>	<u>7,009,835</u>
Support services				
Management and general	1,033,654	-	1,033,654	679,343
Fundraising	859,649	-	859,649	815,892
	<u>1,893,303</u>	<u>-</u>	<u>1,893,303</u>	<u>1,495,235</u>
	<u>10,326,393</u>	<u>-</u>	<u>10,326,393</u>	<u>8,505,070</u>
Changes in net assets	2,603,003	(895,734)	1,707,269	772,977
Net assets				
Beginning of year	<u>13,639,556</u>	<u>3,530,286</u>	<u>17,169,842</u>	<u>16,396,865</u>
End of year	<u>\$ 16,242,559</u>	<u>\$ 2,634,552</u>	<u>\$ 18,877,111</u>	<u>\$ 17,169,842</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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues			
Public support			
Contributions			
Foundations	\$ 1,763,773	\$ 1,293,322	\$ 3,057,095
Corporations	126,383	-	126,383
Individuals	380,472	-	380,472
Right to Learn and Leadership Campaigns	525,462	291,037	816,499
Special event contributions and ticket sales	2,265,130	-	2,265,130
Grants from government agencies	1,721,421	-	1,721,421
Contribution income - in kind	184,249	-	184,249
	<u>6,966,890</u>	<u>1,584,359</u>	<u>8,551,249</u>
Revenues			
Legal fees	188,873	-	188,873
Investment loss	530,858	-	530,858
Other	7,067	-	7,067
	<u>726,798</u>	<u>-</u>	<u>726,798</u>
Net assets released from restriction	<u>3,733,657</u>	<u>(3,733,657)</u>	<u>-</u>
	<u>11,427,345</u>	<u>(2,149,298)</u>	<u>9,278,047</u>
Expenses			
Program services			
Case advocacy and parent training	5,330,325	-	5,330,325
Public policy and research	1,228,438	-	1,228,438
Impact litigation	451,072	-	451,072
	<u>7,009,835</u>	<u>-</u>	<u>7,009,835</u>
Support services			
Management and general	679,343	-	679,343
Fundraising	815,892	-	815,892
	<u>1,495,235</u>	<u>-</u>	<u>1,495,235</u>
	<u>8,505,070</u>	<u>-</u>	<u>8,505,070</u>
Changes in net assets	2,922,275	(2,149,298)	772,977
Net assets			
Beginning of year	<u>10,717,281</u>	<u>5,679,584</u>	<u>16,396,865</u>
End of year	<u>\$ 13,639,556</u>	<u>\$ 3,530,286</u>	<u>\$ 17,169,842</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating activities		
Changes in net assets	\$ 1,707,269	\$ 772,977
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	59,468	83,612
Provision (recovery) for uncollectible receivables	46,707	(71,352)
Realized and unrealized gain on investments	(539,910)	(405,879)
Amortization on right of use asset	515,773	487,206
Changes in		
Government grants receivable	(16,089)	(86,693)
Legal fees receivable	(180,048)	239,664
Contributions receivable	1,385,436	36,567
Prepaid expenses	(36,361)	1,073
Security deposits	-	(4,000)
Accounts payable and accrued expenses	(325,059)	463,480
Deferred income	125,000	-
Operating lease liability	<u>(509,222)</u>	<u>(465,223)</u>
Net cash provided by operating activities	<u>2,232,964</u>	<u>1,051,432</u>
Investing activities		
Purchase of property and equipment	(93,930)	(25,000)
Proceeds from sale of investments	17,369,690	9,118,931
Purchase of investments	<u>(19,580,567)</u>	<u>(12,014,498)</u>
Net cash used in investing activities	<u>(2,304,807)</u>	<u>(2,920,567)</u>
Net change in cash and cash equivalents	(71,843)	(1,869,135)
Cash and cash equivalents		
Beginning of year	<u>1,998,651</u>	<u>3,867,786</u>
End of year	<u>\$ 1,926,808</u>	<u>\$ 1,998,651</u>
Supplemental disclosure of cash flow information		
Noncash investing activities		
Disposal of fully-depreciated equipment	<u>\$ 28,907</u>	<u>\$ -</u>
Right-of-use asset obtained through operating lease liabilities	<u>\$ 114,918</u>	<u>\$ 4,177,894</u>

No amounts were paid for interest or income taxes during the years ended June 30, 2024 and 2023.

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, 2024 With Comparative Totals for June 30, 2023

	2024								2023 Total Expenses
	Program Services			Support Services			Total Expenses		
	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	\$ 3,492,395	\$ 856,446	\$ 324,869	\$ 4,673,710	\$ 300,978	\$ 420,407	\$ 721,385	\$ 5,395,095	\$ 4,640,710
Payroll taxes and benefits	<u>1,306,119</u>	<u>266,497</u>	<u>99,361</u>	<u>1,671,977</u>	<u>106,632</u>	<u>152,791</u>	<u>259,423</u>	<u>1,931,400</u>	<u>1,645,267</u>
	<u>4,798,514</u>	<u>1,122,943</u>	<u>424,230</u>	<u>6,345,687</u>	<u>407,610</u>	<u>573,198</u>	<u>980,808</u>	<u>7,326,495</u>	<u>6,285,977</u>
Other									
Consultants	129,616	1,427	21	131,064	44,823	44	44,867	175,931	7,710
Depreciation and amortization	44,601	7,136	1,784	53,521	2,379	3,568	5,947	59,468	83,613
Fundraising	-	-	-	-	-	226,268	226,268	226,268	194,291
Insurance	10,092	1,615	404	12,111	5,110	807	5,917	18,028	16,833
Legal (in kind)	7,250	1,296	317	8,863	323,025	711	323,736	332,599	178,489
Occupancy	626,765	83,973	15,659	726,397	6,996	12,263	19,259	745,656	697,661
Professional fees	-	-	-	-	122,671	-	122,671	122,671	113,759
Miscellaneous	45,194	7,213	1,320	53,727	42,551	10,614	53,165	106,892	161,849
Postage	-	-	-	-	-	-	-	-	848
Provision (recovery) for bad debts	-	-	-	-	46,707	-	46,707	46,707	(71,352)
Professional development	70,308	11,075	2,686	84,069	11,187	5,885	17,072	101,141	108,243
Rentals of equipment	19,474	2,857	2,398	24,729	898	1,354	2,252	26,981	23,594
Reproduction	-	-	-	-	-	-	-	-	8,306
Supplies	22,790	3,623	1,283	27,696	3,767	2,212	5,979	33,675	31,457
Sub-contractors	656,318	-	-	656,318	-	-	-	656,318	377,725
Technology	207,819	35,209	9,288	252,316	14,383	20,310	34,693	287,009	238,349
Telephone	25,796	4,270	1,059	31,125	1,416	2,213	3,629	34,754	41,784
Translation and interpreters	<u>22,168</u>	<u>3,066</u>	<u>233</u>	<u>25,467</u>	<u>131</u>	<u>202</u>	<u>333</u>	<u>25,800</u>	<u>5,934</u>
	<u>1,888,191</u>	<u>162,760</u>	<u>36,452</u>	<u>2,087,403</u>	<u>626,044</u>	<u>286,451</u>	<u>912,495</u>	<u>2,999,898</u>	<u>2,219,093</u>
	<u>\$ 6,686,705</u>	<u>\$ 1,285,703</u>	<u>\$ 460,682</u>	<u>\$ 8,433,090</u>	<u>\$ 1,033,654</u>	<u>\$ 859,649</u>	<u>\$ 1,893,303</u>	<u>\$ 10,326,393</u>	<u>\$ 8,505,070</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, 2023

	2023							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	\$ 2,809,788	\$ 856,549	\$ 306,023	\$ 3,972,360	\$ 282,015	\$ 386,335	\$ 668,350	\$ 4,640,710
Payroll taxes and benefits	1,038,524	251,232	113,765	1,403,521	100,941	140,805	241,746	1,645,267
	<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>
Other								
Consultants	1,710	-	-	1,710	6,000	-	6,000	7,710
Depreciation and amortization	60,619	10,836	2,651	74,106	3,562	5,945	9,507	83,613
Fundraising	-	-	-	-	-	194,291	194,291	194,291
Insurance	8,680	1,552	380	10,612	5,370	851	6,221	16,833
Legal (in kind)	-	-	-	-	178,489	-	178,489	178,489
Occupancy	595,437	50,387	12,553	658,377	13,696	25,588	39,284	697,661
Professional fees	-	-	-	-	113,759	-	113,759	113,759
Miscellaneous	77,501	14,027	5,085	96,613	30,091	35,145	65,236	161,849
Postage	558	94	12	664	158	26	184	848
Provision (recovery) for bad debts	-	-	-	-	(71,352)	-	(71,352)	(71,352)
Rentals of equipment	17,666	2,859	706	21,231	850	1,513	2,363	23,594
Reproduction	6,115	1,051	259	7,425	320	561	881	8,306
Supplies	24,584	4,219	983	29,786	635	1,036	1,671	31,457
Sub-contractors	377,725	-	-	377,725	-	-	-	377,725
Technology	167,524	29,750	7,192	204,466	13,149	20,734	33,883	238,349
Telephone	30,699	5,304	1,305	37,308	1,634	2,842	4,476	41,784
Trainings	108,067	-	-	108,067	-	176	176	108,243
Translation and interpreters	5,128	578	158	5,864	26	44	70	5,934
	<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>\$ 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>

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, 2024 and 2023

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, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023

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*
Website development	5

*Estimated useful life of the asset is 10 years or the life of the lease, whichever is shorter.

Depreciation and amortization expense amounted to \$59,468 and \$83,612 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023. The Agency has no income tax related penalties or interest for the periods reported in the financial statements. If penalties or interest were incurred, they would be presented as a separate line within the statement of functional expenses.

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. At June 30, 2024 and 2023, the balance for the allowance for legal fees receivable was \$2,008,990 and \$1,759,589, respectively.

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Allowance for Credit Losses

The Agency provides an allowance for credit losses, for legal fees receivable based on historic and expected collections. At June 30, 2024 and 2023, the allowance for credit losses was \$807,061 and \$691,001, respectively. Activity in the allowance for credit losses for legal fees receivable for the periods ended June 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Allowance for estimated credit losses, beginning of period	\$ 691,001	378,683
Provisions	394,889	366,127
Write-offs	<u>(278,829)</u>	<u>(53,809)</u>
Allowance for estimated credit losses, end of period	<u>\$ 807,061</u>	<u>\$ 691,001</u>

The Agency compared historical information for these receivables and evaluated current and forecasted direction of the economic and political environment in which the customers operate. Management believes that its most recent 5-year period is a reasonable period on which to base its expected credit-loss-rate calculation after considering the contractual terms for receivable balances that existed over the historical period.

Management considered significant factors that could affect the expected collectability if the receivable balances and determined that the primary factors are adverse appeal rulings and administrative oversight by customers. As part of the analysis, the Agency observed that while the significant factors previously outlined do not appear to be an immediate risk as of the current reporting period date, the potential does exist that conditions could change.

The Agency also provides an allowance for credit losses, for contributions receivable based on historic and expected collections. For the years ended June 30, 2024 and 2023, the allowance for credit losses was \$207,524 and \$160,817. Activity in the allowance for credit losses for contributions receivable for the periods ended June 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Allowance for estimated credit losses, beginning of period	\$ 160,817	232,169
Provisions	46,707	80,209
Write-offs	<u>-</u>	<u>(151,561)</u>
Allowance for estimated credit losses, end of period	<u>\$ 207,524</u>	<u>\$ 160,817</u>

Revenue Recognition

Contributions In-Kind – Legal Services

Donated legal services are recorded if they create or enhance a nonfinancial asset or represent specialized skills that would be purchases if they were not donated. The financial statements include in-kind contributions as revenue for contributed legal services and equal amounts as expenses in management and general expenses in the statement of activities and changes in net assets.

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.

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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 are 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 2024 and 2023.

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Accounting Pronouncements Adopted in the Current Period

Financial Instruments—Credit Losses

In June 2016, FASB issued an Accounting Standards Update (“ASU”) amending the accounting for credit losses on financial instruments. This methodology replaces the incurred loss methodology with the expected credit losses using a wide range of reasonable and supportable information. The amendment affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposure, and other financial instruments recorded at amortized cost.

The Agency adopted the new standard effective July 1, 2023, using the modified retrospective approach. The adoption of this ASU did not have a material impact on the financial statements.

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.

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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, 2024:

	<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	\$ 8,720,902	\$ 8,720,902	\$ -	\$ -
Mutual funds	726,102	726,102	-	-
Index funds	<u>3,331,693</u>	<u>3,331,693</u>	<u>-</u>	<u>-</u>
Total fair value	<u>\$ 12,778,697</u>	<u>\$ 12,778,697</u>	<u>\$ -</u>	<u>\$ -</u>

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>	<u>-</u>	<u>-</u>
Total fair value	<u>\$ 10,027,910</u>	<u>\$ 10,027,910</u>	<u>\$ -</u>	<u>\$ -</u>

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Investment income (loss) related to investments for the years ended June 30, 2024 and 2023, was comprised of the following:

	<u>2024</u>	<u>2023</u>
Interest income	\$ 443,593	\$ 140,878
Unrealized gain	539,910	405,879
Investment fees	<u>(18,617)</u>	<u>(15,899)</u>
	<u>\$ 964,886</u>	<u>\$ 530,858</u>

4. CONTRIBUTIONS RECEIVABLE

During the year ended June 30, 2022, AFC launched a multi-year fundraising campaign, the Right to Learn Campaign, with the goal of increasing the Agency's sustainability and impact in the years to come. Donors were invited to make pledges to the campaign that could be paid over a three-year period. Also, AFC has donors outside of the campaign that make pledges over a certain amount payable over a three-year period. These donors are designated as Leadership Circle donors. Right to Learn Campaign and Leadership Circle pledges are reflected in the below table, along with any associated allowance for doubtful accounts.

Contributions receivable consisted of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Receivable in less than one year	\$ 2,783,787	\$ 3,769,410
Receivable in one to five years	561,624	914,730
Allowance for doubtful accounts	<u>(207,524)</u>	<u>(160,817)</u>
	<u>\$ 3,137,887</u>	<u>\$ 4,523,323</u>

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 731,364	\$ 721,194
Equipment and software	203,704	223,851
Website redevelopment	<u>100,000</u>	<u>25,000</u>
	1,035,068	970,045
Accumulated depreciation	<u>(850,026)</u>	<u>(819,465)</u>
	<u>\$ 185,042</u>	<u>\$ 150,580</u>

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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, 2024 and 2023, consist of the following:

	<u>2024</u>	<u>2023</u>
Case advocacy and representation	\$ 1,021,833	\$ 1,250,238
Public policy and research	236,081	433,083
Director of equity and impact	-	150,000
Time restriction	<u>1,376,638</u>	<u>1,696,965</u>
	<u>\$ 2,634,552</u>	<u>\$ 3,530,286</u>

Net assets with donor restrictions were released for the following purposes as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Case advocacy and representation	\$ 1,225,239	\$ 1,040,084
Public policy and research	287,250	134,083
Director of equity and impact	150,000	-
Time restriction	<u>1,121,128</u>	<u>2,559,490</u>
	<u>\$ 2,783,617</u>	<u>\$ 3,733,657</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, 2024 and 2023. The amount charged to pension expense included in employee benefits amounted to \$23,702 and \$27,120 for the years ended June 30, 2024 and 2023, 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. The Agency also has two additional leases, one for two machines, and the other for three copiers and one printer.

Since the rates implicit in the leases were not available, the Agency utilizes the risk-free rate as the discount rate to estimate the net present value of future lease payments at the inception of the lease (see Note 2). The weighted average discount rate used for estimating the net present value of operating leases as of June 30, 2024 and 2023 was 2.89% and 2.85%, respectively. As of June 30, 2024 and 2023, the weighted average remaining life of the leases were 5.67 and 6.75 years, respectively.

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The following is a maturity analysis of the annual undiscounted cash flows of the lease liability as of June 30, 2024:

2025	\$	649,460
2026		665,720
2027		670,743
2028		674,228
2029		679,196
Thereafter		<u>458,088</u>
		3,797,435
Less: Imputed interest		<u>(291,317)</u>
	\$	<u>3,506,118</u>

Rent expense for the years ended June 30, 2024 and 2023 was \$642,476 and \$636,848, respectively. Amounts paid in connection with operating leases during the year ended June 30, 2024 and 2023 amounted to approximately \$615,000 and \$582,000.

9. CONTRIBUTIONS - IN KIND

The Agency received \$332,599 and \$178,489 of donated legal services during the years ended June 30, 2024 and 2023, 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 \$80,030 and \$5,760 of other in-kind contributions during the years ended June 30, 2024 and 2023, 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, 2024 and 2023, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	<u>2024</u>	<u>2023</u>
Financial assets at year end		
Cash and cash equivalents	\$ 1,926,808	\$ 1,998,651
Investments	12,778,697	10,027,910
Government grants receivable	1,020,770	1,004,681
Legal fees receivable, net	2,008,990	1,759,589
Contributions receivable	<u>3,137,887</u>	<u>4,523,323</u>
	<u>20,873,152</u>	<u>19,314,154</u>
Less: Financial assets unavailable for general expenditures within one year, due to		
Contributions receivable - long term, net	(561,624)	(914,730)
Board designated endowment	(3,310,365)	(2,776,648)
Donor restrictions	<u>(27,236)</u>	<u>(2,768,722)</u>
	<u>(3,899,225)</u>	<u>(6,460,100)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,973,927</u>	<u>\$ 12,854,054</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>2024</u>	<u>2023</u>
Board designated reserve	\$ 7,868,332	\$ 6,065,933
Board designated endowment	<u>3,310,365</u>	<u>2,776,648</u>
	<u>\$ 11,178,697</u>	<u>\$ 8,842,581</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, 2024 and 2023, board designated reserve additions and expenditures were as follows:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 6,065,933	\$ 5,227,731
Additions		
Right to Learn campaign	1,878,552	966,261
Allocation of funds based on plan formulas	<u>341,158</u>	<u>333,591</u>
Total funds available	<u>8,285,643</u>	<u>6,527,583</u>
Expenditures		
Raises	246,000	375,000
50th anniversary campaign	5,500	30,250
Compensation consultant	-	6,000
RTL-funded positions	80,551	-
DEI support	9,794	3,900
Multi-year financial plan	-	21,500
Early childhood program	20,466	-
Website redevelopment	<u>55,000</u>	<u>25,000</u>
Total fund expenditures	<u>417,311</u>	<u>461,650</u>
Ending balance	<u>\$ 7,868,332</u>	<u>\$ 6,065,933</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, 2024 and 2023, board designated endowment additions and expenditures were as follows:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 2,776,648	\$ 2,396,861
Additions		
Investment income	<u>533,717</u>	<u>379,787</u>
Total funds available	<u>\$ 3,310,365</u>	<u>\$ 2,776,648</u>

13. SUBSEQUENT EVENTS

The Agency has evaluated subsequent events occurring after the statement of financial position date through the date of November 5, 2024, 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.