



**ADVOCATES FOR CHILDREN OF NEW YORK**  
**Financial Statements**  
**June 30, 2019 and 2018**  
**With Independent Auditors' Report**

**Advocates for Children of New York, Inc.**  
**June 30, 2019 and 2018**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Advocates for Children of New York, Inc. which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

### 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.

### Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advocates for Children of New York, Inc. as of June 30, 2019 and 2018, 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.

**Emphasis of Matter**

As discussed in Note 2, in 2019, the Organization adopted Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958). Our opinion is not modified with respect to this matter.

*WithumSmith+Brown, PC*

November 14, 2019

**Advocates for Children of New York, Inc.**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,600,745	\$ 3,656,254
Government grants receivable	563,454	881,844
Legal fees receivable, net	1,308,972	1,211,539
Contributions receivable, net	198,868	420,714
Prepaid expenses	<u>139,088</u>	<u>127,794</u>
Total current assets	4,811,127	6,298,145
Contributions receivable	470,082	18,468
Investments	4,359,914	2,845,031
Property and equipment, net	389,107	410,684
Security deposits	<u>47,646</u>	<u>47,646</u>
Total assets	<u>\$ 10,077,876</u>	<u>\$ 9,619,974</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,018,099	\$ 1,027,565
Deferred rent	5,450	46,095
Net assets		
Without donor restrictions		
Operating	3,712,038	3,657,353
Board designated reserve	2,575,740	2,331,604
Board designated endowment	1,762,467	1,642,370
With donor restrictions	<u>1,004,082</u>	<u>914,987</u>
Total net assets	<u>9,054,327</u>	<u>8,546,314</u>
Total liabilities and net assets	<u>\$ 10,077,876</u>	<u>\$ 9,619,974</u>

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

**Advocates for Children of New York, Inc.**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2019 with Comparative Totals for the Year Ended June 30, 2018**

	<b>2019</b>			<b>2018</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	
Public support and revenues				
Public support				
Contributions				
Foundations	\$ 821,300	\$ 429,834	\$ 1,251,134	\$ 2,095,209
Corporations	286,679	--	286,679	455,983
Individuals	600,584	470,082	1,070,666	325,866
Special event contributions and ticket sales	2,165,000	75,000	2,240,000	2,006,096
Grants from government agencies	2,029,848	--	2,029,848	1,932,671
Contribution income - in kind	36,942	--	36,942	117,184
	<u>5,940,353</u>	<u>974,916</u>	<u>6,915,269</u>	<u>6,933,009</u>
Revenues				
Legal fees	928,329	--	928,329	651,649
Investment income	189,395	--	189,395	182,340
Other	7,825	--	7,825	13,994
	<u>1,125,549</u>	<u>--</u>	<u>1,125,549</u>	<u>847,983</u>
Net assets released from restriction	885,821	(885,821)	--	--
	<u>7,951,723</u>	<u>89,095</u>	<u>8,040,818</u>	<u>7,780,992</u>
Expenses				
Program services				
Case advocacy and parent training	5,256,022	--	5,256,022	5,066,867
Public policy and research	804,473	--	804,473	719,432
Impact litigation	242,938	--	242,938	220,048
	<u>6,303,433</u>	<u>--</u>	<u>6,303,433</u>	<u>6,006,347</u>
Support services				
Management and general	576,512	--	576,512	574,403
Fundraising	652,860	--	652,860	683,921
	<u>1,229,372</u>	<u>--</u>	<u>1,229,372</u>	<u>1,258,324</u>
	<u>7,532,805</u>	<u>--</u>	<u>7,532,805</u>	<u>7,264,671</u>
Changes in net assets	418,918	89,095	508,013	516,321
Net assets, beginning of year	<u>7,631,327</u>	<u>914,987</u>	<u>8,546,314</u>	<u>8,029,993</u>
Net assets, end of year	<u>\$ 8,050,245</u>	<u>\$ 1,004,082</u>	<u>\$ 9,054,327</u>	<u>\$ 8,546,314</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, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues			
Public support			
Contributions			
Foundations	\$ 1,409,376	\$ 685,833	\$ 2,095,209
Corporations	455,983	--	455,983
Individuals	325,866	--	325,866
Special event contributions and ticket sales	1,912,109	93,987	2,006,096
Grants from government agencies	1,932,671	--	1,932,671
Contribution income - in kind	117,184	--	117,184
	<u>6,153,189</u>	<u>779,820</u>	<u>6,933,009</u>
Revenues			
Legal fees	651,649	--	651,649
Investment income	182,340	--	182,340
Other	13,994	--	13,994
	<u>847,983</u>	<u>--</u>	<u>847,983</u>
Net assets released from restriction	<u>592,010</u>	<u>(592,010)</u>	<u>--</u>
	7,593,182	187,810	7,780,992
Expenses			
Program services			
Case advocacy and parent training	5,066,867	--	5,066,867
Public policy and research	719,432	--	719,432
Impact litigation	220,048	--	220,048
	<u>6,006,347</u>	<u>--</u>	<u>6,006,347</u>
Support services			
Management and general	574,403	--	574,403
Fundraising	683,921	--	683,921
	<u>1,258,324</u>	<u>--</u>	<u>1,258,324</u>
	<u>7,264,671</u>	<u>--</u>	<u>7,264,671</u>
Changes in net assets	328,511	187,810	516,321
Net assets, beginning of year	<u>7,302,816</u>	<u>727,177</u>	<u>8,029,993</u>
Net assets, end of year	<u>\$ 7,631,327</u>	<u>\$ 914,987</u>	<u>\$ 8,546,314</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, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 508,013	\$ 516,321
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	94,205	86,105
Provision for uncollectible receivables	(134,223)	(119,403)
Unrealized (gain) loss on investments	(100,510)	(137,394)
Realized loss (gain) on investments	6,394	27,820
Changes in		
Government grants receivable	318,390	(224,741)
Legal fees receivable	36,790	257,919
Contributions receivable	(229,768)	64,656
Prepaid expenses	(11,294)	(35,158)
Accounts payable and accrued expenses	(9,466)	(17,974)
Deferred rent	(40,645)	(34,742)
Net cash provided by operating activities	<u>437,886</u>	<u>383,409</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	(72,628)	(60,493)
Proceeds from sale of investments	1,154,546	3,817,184
Purchase of investments	<u>(2,575,313)</u>	<u>(2,300,261)</u>
Net cash (used) provided by investing activities	<u>(1,493,395)</u>	<u>1,456,430</u>
Net change in cash and cash equivalents	(1,055,509)	1,839,839
<b>Cash and cash equivalents</b>		
Beginning of year	<u>3,656,254</u>	<u>1,816,415</u>
End of year	<u>\$ 2,600,745</u>	<u>\$ 3,656,254</u>
<b>Supplemental disclosure of cash flow information</b>		
Noncash investing activities		
Disposal of fully-depreciated equipment	<u>\$ 28,422</u>	<u>\$ 215,094</u>

No amounts were paid for interest or income taxes during the years ended June 30, 2019 and 2018.

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



**Advocates for Children of New York, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	2019								2018 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	\$ 2,877,128	\$ 573,355	\$ 154,033	\$ 3,604,516	\$ 238,428	\$ 317,803	\$ 556,231	\$ 4,160,747	\$ 3,986,013
Payroll taxes and benefits	1,060,433	144,263	68,081	1,272,777	86,764	135,471	222,235	1,495,012	1,358,745
	<u>3,937,561</u>	<u>717,618</u>	<u>222,114</u>	<u>4,877,293</u>	<u>325,192</u>	<u>453,274</u>	<u>778,466</u>	<u>5,655,759</u>	<u>5,344,758</u>
Other									
Commuter tax	--	--	--	--	11,489	--	11,489	11,489	--
Conference and education	3,022	355	11	3,388	4,849	530	5,379	8,767	8,788
Consultants	--	--	--	--	52,063	--	52,063	52,063	80,844
Depreciation and amortization	72,538	10,363	2,826	85,727	2,826	5,652	8,478	94,205	86,105
Fundraising	--	--	--	--	--	141,876	141,876	141,876	152,588
Insurance	11,743	1,678	458	13,879	4,302	915	5,217	19,096	16,983
Legal (in kind)	--	--	--	--	28,794	--	28,794	28,794	85,115
Newsletter	11,500	1,757	452	13,709	452	904	1,356	15,065	8,136
Occupancy	448,996	40,312	8,925	498,233	10,511	18,709	29,220	527,453	500,653
Professional fees	--	--	--	--	107,924	--	107,924	107,924	96,448
Miscellaneous	28,222	1,283	120	29,625	9,000	9,490	18,490	48,115	45,257
Postage	8,521	455	117	9,093	533	1,199	1,732	10,825	7,494
Rentals of equipment	29,524	3,441	779	33,744	891	1,569	2,460	36,204	35,559
Reproduction	15,589	857	225	16,671	230	900	1,130	17,801	11,641
Supplies	32,330	3,763	1,553	37,646	1,165	3,006	4,171	41,817	42,816
Sub-contractors	396,231	--	--	396,231	--	--	--	396,231	401,811
Technology	177,933	19,840	4,938	202,711	15,859	13,968	29,827	232,538	209,282
Telephone	10,714	1,478	364	12,556	364	697	1,061	13,617	22,138
Trainings	41,211	--	--	41,211	--	--	--	41,211	78,550
Translation and interpreters	14,656	239	56	14,951	50	100	150	15,101	12,836
Travel	15,731	1,034	--	16,765	18	71	89	16,854	16,869
	<u>1,318,461</u>	<u>86,855</u>	<u>20,824</u>	<u>1,426,140</u>	<u>251,320</u>	<u>199,586</u>	<u>450,906</u>	<u>1,877,046</u>	<u>1,919,913</u>
	<u>\$ 5,256,022</u>	<u>\$ 804,473</u>	<u>\$ 242,938</u>	<u>\$ 6,303,433</u>	<u>\$ 576,512</u>	<u>\$ 652,860</u>	<u>\$ 1,229,372</u>	<u>\$ 7,532,805</u>	<u>\$ 7,264,671</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, 2018**

	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	\$ 2,815,701	\$ 499,943	\$ 143,338	\$ 3,458,982	\$ 229,383	\$ 297,648	\$ 527,031	\$ 3,986,013
Payroll taxes and benefits	980,618	120,956	55,547	1,157,121	78,696	122,928	201,624	1,358,745
	<u>3,796,319</u>	<u>620,899</u>	<u>198,885</u>	<u>4,616,103</u>	<u>308,079</u>	<u>420,576</u>	<u>728,655</u>	<u>5,344,758</u>
Other								
Americorp fees	--	--	--	--	--	--	--	--
Conference and education	4,638	1,010	497	6,145	2,036	607	2,643	8,788
Consultants	964	199	46	1,209	14,558	65,077	79,635	80,844
Depreciation and amortization	64,579	11,194	2,583	78,356	2,583	5,166	7,749	86,105
Fundraising	--	--	--	--	--	152,588	152,588	152,588
Insurance	10,233	1,427	406	12,066	3,855	1,062	4,917	16,983
Legal (in kind)	--	--	--	--	85,115	--	85,115	85,115
Miscellaneous	26,378	3,391	168	29,937	9,939	5,381	15,320	45,257
Newsletter	6,183	1,058	244	7,485	244	407	651	8,136
Occupancy	418,611	43,670	9,624	471,905	12,494	16,254	28,748	500,653
Office supplies	33,310	5,516	1,193	40,019	1,410	1,387	2,797	42,816
Professional fees	--	--	--	--	96,448	--	96,448	96,448
Postage	5,668	401	213	6,282	512	700	1,212	7,494
Rentals	28,690	3,819	830	33,339	830	1,390	2,220	35,559
Reproduction	8,520	983	227	9,730	345	1,566	1,911	11,641
Sub-contractors	401,811	--	--	401,811	--	--	--	401,811
Technology	139,715	19,689	4,463	163,867	34,734	10,681	45,415	209,282
Telephone	16,542	2,683	619	19,844	1,219	1,075	2,294	22,138
Training	78,550	--	--	78,550	--	--	--	78,550
Translation and interpreters	11,558	1,265	13	12,836	--	--	--	12,836
Travel	14,598	2,228	37	16,863	2	4	6	16,869
	<u>1,270,548</u>	<u>98,533</u>	<u>21,163</u>	<u>1,390,244</u>	<u>266,324</u>	<u>263,345</u>	<u>529,669</u>	<u>1,919,913</u>
	<u>\$ 5,066,867</u>	<u>\$ 719,432</u>	<u>\$ 220,048</u>	<u>\$ 6,006,347</u>	<u>\$ 574,403</u>	<u>\$ 683,921</u>	<u>\$ 1,258,324</u>	<u>\$ 7,264,671</u>

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

**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.

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

**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. Salaries and wages, taxes and fringe benefits are allocated based on time and effort, and additional costs are allocated by direct salaries.

The Organization allocates indirect costs to the programs either based on a cost allocation methodology or a federally negotiated indirect cost rate as required by the Uniform Guidance. This method of allocation better determines the costs of grants, contracts and other agreements administered by the Organization.

**Property and Equipment**

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

<b>Description</b>	<b>Estimated Life (Years)</b>
Equipment and software	3 - 5
Leasehold improvements	10

Depreciation and amortization expense amounted to \$94,205 and \$86,105 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018. 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.

**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, 2019 and 2018, the allowance for doubtful accounts was \$267,751 and \$401,974, respectively.

The Agency provides an allowance for doubtful accounts, for contributions receivable based on historic and expected collections. For each of the years ended June 30, 2019 and 2018, the allowance for doubtful accounts was \$30,459.

**Deferred Rent**

The Agency recognizes lease expense on the straight-line basis over the life of the respective leases. Differences between base rental expense and contractual amounts are recorded on the statements of financial position as deferred rent. Escalation expense is recorded on the accrual basis of accounting.

**Concentration of Credit Risk**

Financial instruments which potentially subject the Agency to concentrations of credit risk consist of cash at various quality financial institutions. During the years ended June 30, 2019 and 2018, AFC had cash in excess of the FDIC insurance limit. Management monitors the soundness of the institutions and has not incurred any significant credit related losses.

**Reclassifications**

Certain reclassifications have been made to the 2018 financial statements to conform to the current year presentation. There was no impact on the changes in net assets or reported amounts of net assets.

**Advocates for Children of New York, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Recent Accounting Pronouncements Adopted in the Current Year**

*Not-for-Profit Reporting*

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, it increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both their natural and functional classification in one location. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2019 are as follows:

Net Assets Classifications	ASU 2016-14 Classifications		
	Net Assets Without Restrictions	Net Assets With Restrictions	Total
Net assets			
Unrestricted			
Available for general operations	\$ 3,657,353	\$ --	\$ 3,657,353
Board restricted	2,331,604	--	2,331,604
Temporarily restricted	--	914,987	914,987
Total net assets	<u>\$ 5,988,957</u>	<u>\$ 914,987</u>	<u>\$ 6,903,944</u>

**Issued but not yet Effective**

*Revenue Recognition*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers. The standard, including subsequent amendments, was codified as Topic 606 and requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. This ASU is to be applied retrospectively or using a cumulative effect transition method. The Agency is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

*Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the statement of financial position for all of the Agency’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2019. The Agency is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

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**3. INVESTMENTS**

The following summarizes the relationship between the market value and cost of investments at June 30, 2019:

	<u>Cost</u>	<u>Market</u>
Corporate fixed income	\$ 829,683	\$ 834,457
Exchange traded & closed-end funds	1,521,156	1,758,658
Government securities	935,777	942,718
Mutual funds	755,422	755,687
Stocks	72,182	68,394
	<u>\$ 4,114,220</u>	<u>\$ 4,359,914</u>

The following summarizes the relationship between the market value and cost of investments at June 30, 2018:

	<u>Cost</u>	<u>Market</u>
Corporate fixed income	\$ 813,463	\$ 808,253
Exchange traded & closed-end funds	1,486,975	1,638,828
Government securities	274,251	271,215
Mutual funds	55,070	55,070
Stocks	70,088	71,665
	<u>\$ 2,699,847</u>	<u>\$ 2,845,031</u>

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

	<b>2019</b>	<b>2018</b>
Interest income, net of fees	\$ 108,324	\$ 86,718
Realized (loss) gain	(6,394)	(27,820)
Unrealized gain (loss)	100,510	137,394
Investment fees	(13,045)	(13,952)
	<u>\$ 189,395</u>	<u>\$ 182,340</u>

**Recurring Fair Value Measurements**

The Agency follows the accounting guidance related to *Fair Value Measurements* with respect to its financial assets and liabilities. *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined under *Fair Value Measurements* as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under *Fair Value Measurements* must maximize the use of observable inputs and minimize the use of unobservable inputs.

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The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value 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 Plan'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, 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, 2019:

	<b>Total</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Observable Measurement Criteria (Level 2)</b>	<b>Unobservable Measurement Criteria (Level 3)</b>
Corporate fixed income	\$ 834,457	\$ 834,457	\$ --	\$ --
Exchange traded and closed-end funds	1,758,658	1,758,658	--	--
Government securities	942,718	--	942,718	--
Mutual funds	755,687	755,687	--	--
Stocks	68,394	68,394	--	--
Total fair value	<u>\$ 4,359,914</u>	<u>\$ 3,417,196</u>	<u>\$ 942,718</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, 2018:

	<b>Total</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Observable Measurement Criteria (Level 2)</b>	<b>Unobservable Measurement Criteria (Level 3)</b>
Corporate fixed income	\$ 808,253	\$ 808,253	\$ --	\$ --
Exchange traded and closed-end funds	1,638,828	1,638,828	--	--
Government securities	271,215	--	271,215	--
Mutual funds	55,070	55,070	--	--
Stocks	71,665	71,665	--	--
Total fair value	<u>\$ 2,845,031</u>	<u>\$ 2,573,816</u>	<u>\$ 271,215</u>	<u>\$ --</u>

**4. CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following at June 30:

	<b>2019</b>	<b>2018</b>
Receivable in less than one year	\$ 229,327	\$ 451,173
Receivable in one to five years	470,082	18,468
Allowance for doubtful accounts	<u>(30,459)</u>	<u>(30,459)</u>
	<u>\$ 668,950</u>	<u>\$ 439,182</u>

**5. PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follows at June 30:

	<b>2019</b>	<b>2018</b>
Leasehold improvements	\$ 719,594	\$ 708,303
Equipment and software	<u>239,008</u>	<u>206,093</u>
	958,602	914,396
Accumulated depreciation	<u>(569,495)</u>	<u>(503,712)</u>
	<u>\$ 389,107</u>	<u>\$ 410,684</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, consist of the following:

	<b>2019</b>	<b>2018</b>
Case Advocacy and Representation	\$ 349,889	\$ 570,300
Public Policy and Research	75,111	100,700
Time restriction	470,082	150,000
Fund-A-Need	<u>109,000</u>	<u>93,987</u>
	<u>\$ 1,004,082</u>	<u>\$ 914,987</u>

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

	<b>2019</b>	<b>2018</b>
Case Advocacy and Representation	\$ 543,634	\$ 386,400
Public Policy and Research	98,200	55,610
Impact Advocacy	--	--
Time restriction	150,000	--
Fund-A-Need	<u>93,987</u>	<u>150,000</u>
	<u>\$ 885,821</u>	<u>\$ 592,010</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 percent of each employee's eligible contributions for each of the years ended June 30, 2019 and 2018. The amount charged to pension expense included in employee benefits amounted to \$22,333 and \$22,325 for the years ended June 30, 2019 and 2018, respectively.

**8. COMMITMENTS**

**Operating Lease**

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, 2020.

The following is a schedule of future minimum annual lease payments as of June 30, 2019, for the 4<sup>th</sup> and 5<sup>th</sup> floors combined:

	<u>4th Floor</u>	<u>4th Floor Annex</u>	<u>5th Floor</u>	<u>Total</u>
2020	\$ 84,360	\$ 30,279	\$ 158,176	\$ 272,815
	<u>\$ 84,360</u>	<u>\$ 30,279</u>	<u>\$ 158,176</u>	<u>\$ 272,815</u>

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Rent expense for the years ended June 30, 2019 and 2018 was \$409,195 and \$414,755, respectively, and includes real estate taxes.

**9. CONTRIBUTIONS - IN KIND**

The Agency received \$28,794 and \$85,115 of donated legal services during the years ended June 30, 2019 and 2018, respectively, in connection with drafting and review of corporate governance policies and board policies, employee policies and legal contracts. The value of these donated legal services was included in income as well as management and general expenses.

In addition, the Agency received \$8,148 and \$32,069 of other in-kind contributions during the years ended June 30, 2019 and 2018, respectively, in connection with staff development and software donations. The value of these donated goods and services were included in income as well as management and general, program and fundraising expenses.

**10. LIQUIDITY AND AVAILABILITY OF RESOURCES**

At June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets at year end	
Cash and cash equivalents	\$ 2,600,745
Investments	4,359,914
Government grants receivable	563,454
Legal fees receivable, net	1,308,972
Contributions receivable, net	<u>668,950</u>
	9,502,035
Less financial assets unavailable for general expenditures within one year, due to:	
Contributions receivable, net - non-current	(470,082)
Board designated reserve	(2,575,740)
Board designated endowment	<u>(1,762,467)</u>
	(4,808,289)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,693,746</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.

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**11. BOARD DESIGNATED FUNDS**

Board designated funds consist of the following:

	<b>2019</b>	<b>2018</b>
Board Designated Reserve	\$ 2,575,740	\$ 2,331,604
Board Designated Endowment	<u>1,762,467</u>	<u>1,642,370</u>
	<u>\$ 4,338,207</u>	<u>\$ 3,973,974</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 law suits 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.

For the years ended June 30, 2019 and 2018, board designated reserve additions and expenditures were as follows:

	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 2,331,604	\$ 2,347,533
Additions		
Allocation of funds based on plan formulas	<u>615,397</u>	<u>363,167</u>
Total funds available	2,947,001	2,710,700
Expenditures		
Bring salaries to market levels	150,000	150,000
Compensation consultant	8,600	3,000
Server closet relocation	--	34,741
Supervisor training	--	1,900
New servers	--	12,134
New phone system	16,721	2,572
Pentegra-403(b) new plan conversion fee	--	1,530
New computers	58,490	13,805
Salesforce consultant	2,250	9,414
Fund-A-Need funding	93,987	150,000
Strategic planning consultant	<u>41,213</u>	<u>--</u>
Total fund expenditures	<u>371,261</u>	<u>379,096</u>
Ending balance	<u>\$ 2,575,740</u>	<u>\$ 2,331,604</u>

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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, 2019 and 2018, board designated endowment additions and expenditures were as follows:

	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 1,642,370	\$ 1,469,372
Additions		
Investment income	<u>120,097</u>	<u>172,998</u>
Total funds available	1,762,467	1,642,370
Ending balance	<u>\$ 1,762,467</u>	<u>\$ 1,642,370</u>

**12. SUBSEQUENT EVENTS**

The Agency has evaluated subsequent events occurring after the statement of financial position date through the date of November 14, 2019, 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.