

AVENUES FOR JUSTICE, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

AVENUES FOR JUSTICE, INC.

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Independent Auditor's Report

**Board of Directors
Avenues for Justice, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Avenues for Justice, Inc. which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient 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 Avenues for Justice, Inc., as of December 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited Avenues for Justice, Inc.'s December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 18, 2018

AVENUES FOR JUSTICE, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017
 (With Summarized Financial Information
 for December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash	\$ 480,530	\$ 439,054
Investments (Note 3)	1,307,838	1,392,279
Contributions receivable - due within one year	107,474	65,018
Prepaid expenses	<u>26,746</u>	<u>24,719</u>
Total current assets	1,922,588	1,921,070
Security deposit	12,750	12,750
Fixed assets - net (Note 4)	<u>445,688</u>	<u>415,525</u>
Total assets	<u>\$ 2,381,026</u>	<u>\$ 2,349,345</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts and accrued expenses payable	\$ 19,799	\$ 8,960
Accrued salaries and vacations payable	<u>29,365</u>	<u>21,135</u>
Total liabilities - current	<u>49,164</u>	<u>30,095</u>
Net assets (Exhibit B)		
Unrestricted		
Operating fund	1,855,256	1,903,725
Board designated (Note 2)	20,918	
Plant fund	<u>445,688</u>	<u>415,525</u>
Total unrestricted	2,321,862	2,319,250
Temporarily restricted (Note 7)	<u>10,000</u>	
Total net assets	<u>2,331,862</u>	<u>2,319,250</u>
Total liabilities and net assets	<u>\$ 2,381,026</u>	<u>\$ 2,349,345</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AVENUES FOR JUSTICE, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	
Revenues, gains and other support				
Individuals	\$ 139,116	\$ 10,000	\$ 149,116	\$ 99,005
Foundations	728,437	45,000	773,437	779,500
Special events (including in-kind donations of \$42,000)	\$ 739,005			
Less direct costs of special events	(225,496)			
Net revenues from special events	513,509		513,509	607,105
Government grants	42,003		42,003	20,000
Interest and dividends	27,922		27,922	27,803
Realized and unrealized gain on investments	32,197		32,197	11,393
In-kind contributions (Note 6)	34,800		34,800	34,000
Net assets released from restrictions (Note 7)	45,000	(45,000)		
Total revenues, gains and other support	<u>1,562,984</u>	<u>10,000</u>	<u>1,572,984</u>	<u>1,578,806</u>
Expenses (Exhibit C)				
Program services				
Court advocacy	814,580		814,580	842,160
Community services	431,944		431,944	408,784
Total program services	1,246,524		1,246,524	1,250,944
Management and general	211,542		211,542	201,618
Fundraising	102,306		102,306	99,050
Total expenses	<u>1,560,372</u>		<u>1,560,372</u>	<u>1,551,612</u>
Change in net assets (Exhibit D)	2,612	10,000	12,612	27,194
Net assets - beginning of year	<u>2,319,250</u>	<u>-</u>	<u>2,319,250</u>	<u>2,292,056</u>
Net assets - end of year (Exhibit A)	<u>\$ 2,321,862</u>	<u>\$ 10,000</u>	<u>\$ 2,331,862</u>	<u>\$ 2,319,250</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	Program Services			Supporting Services			Total		
	Court Advocacy	Community Services	Total	Management and General	Fund- Raising	Direct Costs of Special Events	Total	2017	2016
Salaries	\$ 426,566	\$ 190,106	\$ 616,672	\$ 56,432	\$ 9,303		\$ 65,735	\$ 682,407	\$ 698,879
Employee health and retirement benefits	124,044	55,284	179,328	16,410	2,705		19,115	198,443	204,888
Payroll taxes	32,147	14,327	46,474	4,253	700		4,953	51,427	51,911
Total salaries and related expenses	582,757	259,717	842,474	77,095	12,708		89,803	932,277	955,678
Professional fees and contract service payments	798		798	29,019	57,543		86,562	87,360	77,688
Supplies	8,402	3,564	11,966	3,815	12,231		16,046	28,012	30,600
Rent (Note 8)		55,162	55,162					55,162	53,040
Telephone	19,736		19,736	2,193			2,193	21,929	24,899
Utilities	20,663		20,663					20,663	18,996
Postage	4,037		4,037	505	967		1,472	5,509	9,044
Travel and conferences	18,574		18,574		622		622	19,196	18,279
Direct assistance to clients	52,077		52,077					52,077	64,095
Bookkeeping and payroll services				58,008			58,008	58,008	46,541
Printing and publications	5,506	4,894	10,400	1,835	12,260		14,095	24,495	33,805
Insurance	9,600	20,799	30,399	1,600	5,342		6,942	37,341	34,006
Repairs and maintenance	52,744	851	53,595					53,595	46,575
Catering and facility rental						\$ 183,496	183,496	183,496	166,985
In-kind (Note 6)	21,753	9,695	31,448	2,878	474	42,000	45,352	76,800	34,000
Depreciation and amortization	13,766	48,180	61,946	6,883			6,883	68,829	76,272
Office expenses				25,549			25,549	25,549	24,967
Puerto Rico Disaster Relief		29,082	29,082					29,082	
Miscellaneous	4,167		4,167	2,162	159		2,321	6,488	3,127
Total expenses	814,580	431,944	1,246,524	211,542	102,306	225,496	539,344	1,785,868	1,718,597
Less expenses deducted from revenues on the statement of activities									
Direct costs of special events						(225,496)	(225,496)	(225,496)	(166,985)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 814,580	\$ 431,944	\$ 1,246,524	\$ 211,542	\$ 102,306	\$ -	\$ 313,848	\$ 1,560,372	\$ 1,551,612

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AVENUES FOR JUSTICE, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 12,612	\$ 27,194
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	68,829	76,272
Realized and unrealized gain on investments	(32,197)	(11,393)
Decrease (increase) in assets		
Contributions receivable	(42,456)	22,582
Prepaid expenses	(2,027)	425
Increase (decrease) in liabilities		
Accounts and accrued expenses payable	10,839	(55,470)
Accrued salaries and vacations payable	8,230	3,954
	<u>23,830</u>	<u>63,564</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of fixed assets	(98,992)	(8,294)
Purchase of investments	(240,512)	(277,714)
Proceeds from sale of investments	357,150	389,779
	<u>17,646</u>	<u>103,771</u>
Net cash provided by investing activities		
Net change in cash	41,476	167,335
Cash - beginning of year	439,054	271,719
Cash - end of year	<u>\$ 480,530</u>	<u>\$ 439,054</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AVENUES FOR JUSTICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - NATURE OF ORGANIZATION

Avenues for Justice, Inc. ("AFJ"), (formerly known as Andrew Glover Youth Program, Inc.) incorporated in 1978 by Lower East Side resident Robert L. Siegal, is a progressive criminal diversion program for youths from the Lower East Side and East Harlem, New York. AFJ's purpose is to divert at-risk youths from a life of crime and incarceration by instilling in them an understanding and acceptance of their responsibility for the consequences of their actions. AFJ helps them gain a sense of their ability to control and direct their own lives and become positive law-abiding members of their community. AFJ is funded primarily by foundation grants and net income from special events.

AFJ is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Court Advocacy Program

AFJ serves over 400 youths a year with individualized advocacy, speaking on behalf of youths charged with crimes in court, street supervision, crisis intervention, and referrals to other agencies.

Community Services - The Robert Siegal Center and East Harlem Community Center

The Centers serve as community-based headquarters. Programs include client supervision, tutoring, job training, drug rehabilitation program referrals, recreation, art, street law and health classes, and education on topics of interest to the clients and community.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments are recorded at fair value. Investment securities are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect the amounts represented in AFJ's financial statements.

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AVENUES FOR JUSTICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - AFJ determines whether an allowance for uncollectibles should be provided for contributions receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Interest is not charged or recorded on overdue receivables. Management has determined that an allowance for doubtful accounts is not necessary as of December 31, 2017.

Fixed assets - Fixed assets costing in excess of \$1,000 with estimated useful lives of greater than one year are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the lesser of the term of the lease or their estimated useful lives.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Operating fund net assets also includes funds budgeted for capital expansion and renovation projects in the Lower East Side and Harlem.

Board designated net assets - Board designated restricted net assets are those whose use has been limited by the board for a specific purpose. In the aftermath of Hurricane Maria on September 17, 2017 and with knowledge that a significant portion of the clients and employees had relatives that lived in and were affected by the Hurricane, the Avenues for Justice Board established a \$50,000 fund to be distributed to provide assistance to clients and employees affected by the Hurricane. As of year-end December 31, 2017, \$20,918 remained in the fund.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value on the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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AVENUES FOR JUSTICE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Special events - AFJ conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenue in the accompanying statement of activities.

Government grants - Government grants are unrestricted support from government agencies.

In-kind contributions - The value of in-kind contributions is reported at fair value at the date the contributions are received.

Rent expense - Rent expense is recorded on the straight-line basis. Deferred rent is recorded when material.

Functional expenses - The costs of providing AFJ's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The 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 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AFJ has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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AVENUES FOR JUSTICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Fair Value Measurements (continued)***

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 as compared to 2016.

Equities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value (NAV) of shares held by AFJ at year end.

Certificate of deposit - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the creditworthiness of the issuers.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while AFJ believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Summarized financial information for 2016 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AFJ's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Uncertainty in income taxes - AFJ has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2014 and subsequent remain subject to review by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 18, 2018, which is the date the financial statements were available to be issued.

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AVENUES FOR JUSTICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 3 - INVESTMENTS

The components of investments are as follows at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equities			
Preferred stock - large cap	\$ <u>29,451</u>		\$ <u>29,451</u>
Mutual funds			
Small cap	5,445		5,445
Large cap	159,098		159,098
Bond	194,497		194,497
Foreign	43,356		43,356
Equity	38,420		38,420
Real assets	54,003		54,003
Alternatives	5,428		5,428
REITS	6,034		6,034
Large Value	10,460		10,460
Natural Resources	<u>2,521</u>		<u>2,521</u>
Total mutual funds	<u>519,262</u>		<u>519,262</u>
Certificate of deposit		\$ <u>599,878</u>	<u>599,878</u>
Total	<u>\$ 548,713</u>	<u>\$ 599,878</u>	<u>1,148,591</u>
Total investments reported on the fair value hierarchy			<u>1,148,591</u>
Cash and cash equivalents			<u>159,247</u>
Total investments			<u>\$ 1,307,838</u>

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AVENUES FOR JUSTICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Land	\$ 20,000	
Building	301,211	40 years
Building improvements	464,644	20 years
Equipment	131,943	3-6 years
Leasehold improvements	<u>344,846</u>	4 years
	1,262,644	
Accumulated depreciation and amortization	<u>(816,956)</u>	
	<u>\$ 445,688</u>	

NOTE 5 - PENSION

AFJ has a 403(b) defined contribution retirement plan which covers all eligible full-time and part-time employees. Pension expense was \$42,496 for 2017.

NOTE 6 - IN-KIND CONTRIBUTIONS

AFJ occupies office space in a New York City-owned building. The value of this contributed space is reflected in the financial statements as \$34,800. AFJ received donated items throughout the year for their various special events. The value of these donated items are reflected in the financial statements as \$42,000.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2017:

Computer Lab Renovation at Robert Siegel Center \$ 10,000

Temporarily restricted net assets were released by donor restrictions by satisfying the following restrictions:

Computer Lab Renovation at Robert Siegel Center \$ 45,000

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AVENUES FOR JUSTICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 8 - RENT

AFJ entered into a lease agreement for the East Harlem Community Center. The term of the lease is for a period of four years commencing on December 1, 2014 and ending on November 30, 2018 with an option to renew. The lease was renewed in June 2018 and extends the original lease beginning on December 1, 2018 and ending on November 30, 2023. Rent expense for 2017 was \$55,162.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Payment</u>
2018	\$ 57,559
2019	59,862
2020	62,256
2021	64,746
2022	67,336
Thereafter	<u>63,981</u>
	<u>\$ 375,740</u>

NOTE 9 - CONCENTRATIONS

Financial instruments which potentially subject AFJ to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

NOTE 10 - LINE OF CREDIT

AFJ obtained a \$500,000 line of credit from First Republic Bank in March 2017 that is secured by all the investments of AFJ. Interest is accrued at the Variable Rate, which was 4.5% at December 31, 2017. The line of credit was set to expire in April 2018 and was subsequently extended until April 2019. As of December 31, 2017, there was no balance due.