

FINANCIAL STATEMENTS



FOR THE YEAR ENDED MARCH 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017

ADVOCATES FOR YOUTH

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of March 31, 2018, with Summarized Financial Information for 2017	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended March 31, 2018, with Summarized Financial Information for 2017	5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended March 31, 2018, with Summarized Financial Information for 2017	6 - 7
EXHIBIT D - Statement of Cash Flows, for the Year Ended March 31, 2018, with Summarized Financial Information for 2017	8
NOTES TO FINANCIAL STATEMENTS	9 - 14

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Advocates for Youth
Washington, D.C.

We have audited the accompanying financial statements of Advocates for Youth (Advocates), which comprise the statement of financial position as of March 31, 2018, and the related statements of activities and change in net assets, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Advocates as of March 31, 2018, and the change 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.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

Report on Summarized Comparative Information

We have previously audited Advocates' 2017 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 March 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018 on our consideration of Advocates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Advocates' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

October 24, 2018

ADVOCATES FOR YOUTH
STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,993,116	\$ 2,479,323
Accounts receivable	28,628	34,217
Grants receivable	4,964,520	3,819,792
Inventory	3,321	5,528
Prepaid expenses and other assets	<u>102,367</u>	<u>89,788</u>
Total current assets	<u>8,091,952</u>	<u>6,428,648</u>
FIXED ASSETS		
Furniture and equipment	330,384	170,735
Leasehold improvements	<u>738,733</u>	<u>-</u>
	1,069,117	170,735
Less: Accumulated depreciation and amortization	<u>(205,084)</u>	<u>(170,735)</u>
Net fixed assets	<u>864,033</u>	<u>-</u>
OTHER ASSETS		
Grants receivable, non-current	215,000	-
Deposits	<u>150,072</u>	<u>150,072</u>
Total other assets	<u>365,072</u>	<u>150,072</u>
TOTAL ASSETS	<u>\$ 9,321,057</u>	<u>\$ 6,578,720</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 350,065	\$ 328,015
Accrued expenses	174,990	164,911
Deferred rent, current	34,139	77,876
Tenant improvement allowance, current	<u>69,749</u>	<u>-</u>
Total current liabilities	<u>628,943</u>	<u>570,802</u>
LONG-TERM LIABILITIES		
Deferred rent, net of current	185,388	34,139
Tenant improvement allowance, net of current	<u>636,409</u>	<u>-</u>
Total long-term liabilities	<u>821,797</u>	<u>34,139</u>
Total liabilities	<u>1,450,740</u>	<u>604,941</u>
NET ASSETS		
Unrestricted	303,757	465,274
Temporarily restricted	<u>7,566,560</u>	<u>5,508,505</u>
Total net assets	<u>7,870,317</u>	<u>5,973,779</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,321,057</u>	<u>\$ 6,578,720</u>

See accompanying notes to financial statements.

ADVOCATES FOR YOUTH

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Individual contributions	\$ 143,363	\$ -	\$ 143,363	\$ 194,803
Foundation and corporate grants	-	7,873,576	7,873,576	7,498,814
Government grants	-	1,447,726	1,447,726	938,714
Publications and merchandise	8,233	-	8,233	9,785
Program service fees	207,628	-	207,628	76,648
Other	-	-	-	1,000
Interest income	17,353	-	17,353	5,712
Net assets released from donor restrictions	<u>7,263,247</u>	<u>(7,263,247)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>7,639,824</u>	<u>2,058,055</u>	<u>9,697,879</u>	<u>8,725,476</u>
EXPENSES				
Program Services:				
Youth Empowerment	2,041,659	-	2,041,659	1,964,855
Public Affairs	1,092,394	-	1,092,394	1,335,211
International Programs	402,393	-	402,393	425,524
Education and Outreach	1,630,053	-	1,630,053	1,357,290
HIV/AIDS Education	1,174,932	-	1,174,932	871,388
Adolescent Sexual Health Services	826,902	-	826,902	683,579
Public Information Services	<u>13,311</u>	<u>-</u>	<u>13,311</u>	<u>13,247</u>
Total program services	<u>7,181,644</u>	<u>-</u>	<u>7,181,644</u>	<u>6,651,094</u>
Supporting Services:				
Management and General	202,382	-	202,382	4,284
Fundraising	<u>417,315</u>	<u>-</u>	<u>417,315</u>	<u>496,386</u>
Total supporting services	<u>619,697</u>	<u>-</u>	<u>619,697</u>	<u>500,670</u>
Total expenses	<u>7,801,341</u>	<u>-</u>	<u>7,801,341</u>	<u>7,151,764</u>
Change in net assets	(161,517)	2,058,055	1,896,538	1,573,712
Net assets at beginning of year	<u>465,274</u>	<u>5,508,505</u>	<u>5,973,779</u>	<u>4,400,067</u>
NET ASSETS AT END OF YEAR	<u>\$ 303,757</u>	<u>\$ 7,566,560</u>	<u>\$ 7,870,317</u>	<u>\$ 5,973,779</u>

ADVOCATES FOR YOUTH

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018				
	Program Services				
	Youth Empowerment	Public Affairs	International Programs	Education and Outreach	HIV/AIDS Education
Salaries	\$ 602,560	\$ 421,284	\$ 144,774	\$ 224,715	\$ 427,771
Payroll taxes and employee benefits	132,563	93,148	31,296	49,437	85,921
Printing and duplicating	25,280	1,036	1,910	258	1,218
Legal and accounting	1,878	-	6	47	-
Rent	71,428	50,029	17,551	15,689	29,501
Insurance	6,500	-	-	-	-
Depreciation and amortization	-	-	-	-	-
Telephone and fax	7,158	7,804	2,097	4,334	7,704
Other travel	196,474	28,767	9,442	76,981	48,966
Professional and consulting	181,793	109,021	12,129	899,343	168,320
Postage and mailings	13,278	380	66	2,574	1,597
Equipment rental, repair and maintenance	-	-	-	-	-
Office supplies and expense	4,858	734	62	948	764
Dues and publications	90	71,971	195	1,340	-
Meetings and conferences	111,257	35,812	11,384	55,456	7,746
Advertising	5,507	1,887	-	64,064	-
Bank fees	26	10	234	134	7
Non-capitalized equipment	1,200	-	-	-	964
Contributions	28,525	-	-	-	-
Seed grants	150,000	43,000	77,266	-	189,130
Staff development	5,000	-	-	-	-
Staff travel	57,463	11,477	14,554	30,853	45,550
Temporary personnel and intern stipends	27,726	7,859	11,180	8,063	15,000
Training materials	44,680	4,485	175	32,183	2,687
Computer services	3,959	10,717	445	507	1,269
Public relations	409	148	-	681	-
Miscellaneous	-	-	25	-	4
Special events	5,868	2,811	-	-	-
Registration fees	12,920	6,353	5,400	17,024	5,676
Sub-total	1,698,400	908,733	340,191	1,484,631	1,039,795
Management and general allocation	343,259	183,661	62,202	145,422	135,137
TOTAL	\$ 2,041,659	\$ 1,092,394	\$ 402,393	\$ 1,630,053	\$ 1,174,932

2017							
<u>Supporting Services</u>							
Adolescent Sexual Health Services	Public Information Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 233,275	\$ 1,803	\$ 2,056,182	\$ 601,563	\$ 237,924	\$ 839,487	\$ 2,895,669	\$ 2,758,099
51,320	397	444,082	62,337	52,343	114,680	558,762	544,716
180	4,907	34,789	12,830	5,022	17,852	52,641	71,984
70	-	2,001	54,323	25	54,348	56,349	52,957
27,678	230	212,106	317,768	27,670	345,438	557,544	389,366
-	-	6,500	8,336	-	8,336	14,836	13,021
-	-	-	34,349	-	34,349	34,349	12,160
4,049	43	33,189	24,286	1,678	25,964	59,153	53,870
21,216	-	381,846	13,825	-	13,825	395,671	387,398
138,125	-	1,508,731	8,686	3,445	12,131	1,520,862	1,444,380
527	1,160	19,582	5,051	3,298	8,349	27,931	27,136
-	-	-	19,417	-	19,417	19,417	15,996
377	33	7,776	14,242	117	14,359	22,135	19,730
1,108	118	74,822	1,118	1,609	2,727	77,549	62,087
10,333	-	231,988	26,869	286	27,155	259,143	206,177
88	-	71,546	505	615	1,120	72,666	31,767
-	24	435	7,556	2,077	9,633	10,068	11,666
2,844	-	5,008	7,458	95	7,553	12,561	12,565
-	-	28,525	8,278	-	8,278	36,803	15,415
180,225	-	639,621	-	-	-	639,621	552,140
-	-	5,000	-	-	-	5,000	5,000
7,356	-	167,253	10,792	3,889	14,681	181,934	243,529
1,952	-	71,780	200	-	200	71,980	40,642
4,207	2,365	90,782	421	-	421	91,203	43,228
913	364	18,174	15,767	759	16,526	34,700	49,849
100	-	1,338	11,163	31	11,194	12,532	11,618
-	-	29	14,871	-	14,871	14,900	3,397
224	-	8,903	495	-	495	9,398	45,322
<u>1,710</u>	<u>-</u>	<u>49,083</u>	<u>611</u>	<u>6,270</u>	<u>6,881</u>	<u>55,964</u>	<u>26,549</u>
687,877	11,444	6,171,071	1,283,117	347,153	1,630,270	7,801,341	7,151,764
<u>139,025</u>	<u>1,867</u>	<u>1,010,573</u>	<u>(1,080,735)</u>	<u>70,162</u>	<u>(1,010,573)</u>	<u>-</u>	<u>-</u>
<u>\$ 826,902</u>	<u>\$ 13,311</u>	<u>\$ 7,181,644</u>	<u>\$ 202,382</u>	<u>\$ 417,315</u>	<u>\$ 619,697</u>	<u>\$ 7,801,341</u>	<u>\$ 7,151,764</u>

ADVOCATES FOR YOUTH

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,896,538	\$ 1,573,712
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	34,349	12,160
Decrease (increase) in:		
Accounts receivable	5,589	(2,058)
Grants receivable	(1,359,728)	(1,953,165)
Inventory	2,207	173
Prepaid expenses and other assets	(12,579)	13,582
Deposits	-	(93,236)
Increase (decrease) in:		
Accounts payable	22,050	22,288
Accrued expenses	10,079	2,570
Deferred rent	107,512	(68,231)
Tenant improvement allowance	<u>(28,962)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>677,055</u>	<u>(492,205)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	<u>(163,262)</u>	<u>-</u>
Net cash used by investing activities	<u>(163,262)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	513,793	(492,205)
Cash and cash equivalents at beginning of year	<u>2,479,323</u>	<u>2,971,528</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,993,116</u>	<u>\$ 2,479,323</u>
SUPPLEMENTAL INFORMATION:		
Sale of Donated Stock	<u>\$ 1,851,756</u>	<u>\$ 1,742,629</u>
Landlord Provided Improvement Allowance	<u>\$ 735,120</u>	<u>\$ -</u>

ADVOCATES FOR YOUTH
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Advocates for Youth (Advocates) was incorporated in 1980, under the District of Columbia Nonprofit Corporation Act, for the purpose of conducting public education, information and communication programs, with the aim of reducing the incidence of unintended adolescent pregnancy and the spread of HIV infection.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with Advocates' financial statements for the year ended March 31, 2017, from which the summarized information was derived.

Cash and cash equivalents -

Advocates considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, Advocates maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Fixed assets -

Furniture and equipment are stated at cost. Furniture and equipment, with costs greater than \$5,000, are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

Advocates is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Advocates is not a private foundation.

Uncertain tax positions -

For the year ended March 31, 2018, Advocates has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Inventory -

Inventory consists of publications and other merchandise.

ADVOCATES FOR YOUTH

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Inventory (continued) -

For the year ended March 31, 2018, Advocates adopted FASB ASU 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory. The ASU is applied prospectively.

Accounts and grants receivable -

Accounts and grants receivable are stated at their fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operations of Advocates and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Advocates and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Advocates receives funding under grants from the U.S. Government. The grants are recorded as temporarily restricted and subsequently released from restriction to the extent that expenses have been incurred for the purpose or period specified.

At times donors will satisfy their grant obligations in the form of stock. Advocates' policy is to sell the stock within a few days of receiving it to minimize any potential negative fluctuations in the fair value of the donated stock.

Program service fees -

Program service fees consist of training and consulting fees. Revenue is recognized as earned as the services are provided.

ADVOCATES FOR YOUTH

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising costs -

Advocates incurs certain costs associated with advertising. Advocates expenses these costs as they are incurred. For the year ended March 31, 2018, advertising expense totaled \$72,666.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Advocates' financial statements, it is not expected to alter Advocates' reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. Advocates has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

ADVOCATES FOR YOUTH

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

New accounting pronouncements (not yet adopted)(continued) -

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

Advocates plans to adopt the new ASUs at the respective required implementation dates.

2. **TEMPORARILY RESTRICTED NET ASSETS**

As of March 31, 2018, the temporarily restricted net assets balance consisted of the following:

Program Services:	
Youth Empowerment	\$ 2,210,419
Adolescent Sexual Health Services	664,767
Public Affairs	75,000
HIV/AIDS Education	865,097
International Programs	632,365
Education and Outreach	<u>971,584</u>
Total program services	5,419,232
Restricted for Time: General Operations	<u>2,147,328</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 7,566,560</u>

3. **NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Program Services:	
Youth Empowerment	\$ 1,727,297
Adolescent Sexual Health Services	789,889
Public Affairs	150,833
HIV/AIDS Education	1,172,614
International Programs	280,676
Education and Outreach	1,610,055
Communication	<u>100,000</u>
Total program services	5,831,364
Passage of Time: General Operations	<u>1,431,883</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 7,263,247</u>

ADVOCATES FOR YOUTH

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

3. NET ASSETS RELEASED FROM RESTRICTIONS (Continued)

Included in the released amounts are amounts spent with United States Government funds in the amount of \$983,986.

4. COMMITMENTS - OPERATING LEASES

Advocates is currently under a fifteen-year lease agreement for office space in Washington, D.C., which expires in August 2018. The base rent is adjusted annually by an increase in the consumer price index and a pro-rata increase in real estate taxes. The office lease provided for free rent for the first three months of the lease term.

On February 2, 2017, Advocates signed an eleven-year lease agreement for office space in Washington, D.C. The lease commenced on November 1, 2017 and expires on December 31, 2028. Base rent under the lease agreement is \$35,905 per month, adjusted annually by an increase of 2.5% and a pro-rata increase in real estate taxes. The office lease provides for free rent for the first fourteen months of the lease term. The lease also requires a \$107,716 security deposit. Advocates received a tenant improvement allowance of \$735,120 as part of the lease agreement. The deferred improvement allowance as of March 31, 2018 totaled \$706,158.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the accompanying Statement of Financial Position. The deferred rent liability as of March 31, 2018 was \$219,527.

Rent and other operating costs included in rent expense for the year ended March 31, 2018 totaled \$557,544. Future minimum lease payments are as follows:

Year Ending March 31,

2019	\$ 276,871
2020	446,234
2021	457,390
2022	468,825
2023	480,545
2023 and Thereafter	<u>3,005,003</u>
	<u>\$ 5,134,868</u>

5. PENSION PLAN

Advocates participates in a retirement arrangement pursuant to Section 403(b) of the Internal Revenue Code for the benefit of its employees. All employees working twenty or more hours weekly and having one-year of service are eligible for employer contributions to the plan. Employees are eligible to make voluntary contributions to the plan with pre-tax dollars after completing 90 days of service. Individual contracts issued under the plan provide for full and immediate vesting of both employer and employee contributions. Advocates contributed four percent of each eligible participant's salary to the plan during the year.

Pension expense for the year ended March 31, 2018 totaled \$110,073, and is included in payroll taxes and employee benefits in the accompanying Statement of Functional Expenses.

ADVOCATES FOR YOUTH

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018**

6. CONTINGENCY

Advocates receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2018. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

7. SUBSEQUENT EVENTS

In preparing these financial statements, Advocates has evaluated events and transactions for potential recognition or disclosure through October 24, 2018, the date the financial statements were issued.