A Better Chance

Opening the door to greater educational opportunities since 1963.

A Better Chance, Inc.
Financial Statements
(Together with Independent Auditors' Report)

For the Years Ended December 31, 2021 and 2020

A BETTER CHANCE, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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Mayer Hoffman McCann CPAs
The New York Practice of Mayer Hoffman McCann P.C., An Independent CPA Firm
685 Third Avenue ■ New York, NY 10017
212.503.8800 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
A Better Chance, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of A Better Chance, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year 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 Organization as of December 31, 2021, 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.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

Report on December 31, 2020 Financial Statements

The financial statements of the Organization as of and for the year ended December 31, 2020 were audited by another auditor whose report dated July 29, 2021 expressed an unmodified opinion on those statements.

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 Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 Organization'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 Organization'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.

Mayer Hoffman McCann CPAs

New York, NY
August 9, 2022

A BETTER CHANCE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents (Notes 2C and 12)	$ 1,553,390	$ 897,067
Accounts receivable	35,325	31,600
Grants and pledges receivable, net (Notes 2D and 4)	1,999,771	1,089,684
Investments, at fair value (Notes 2F and 5)	11,439,358	11,001,116
Prepaid expenses and other assets	149,183	85,262
Property and equipment, net (Notes 2E and 6)	81,008	4,905
Beneficial interest in perpetual trust (Notes 2K and 11)	1,214,132	1,139,249
TOTAL ASSETS	$ 16,472,167	$ 14,248,883
LIABILITIES		
Accounts payable and accrued expenses	$ 155,176	$ 154,512
Accrued vacation	41,780	54,005
Bank lines of credit (Note 7)	2,524,087	2,906,650
Deferred revenue (Note 2G)	326,881	178,004
Deferred rent (Note 10)	62,954	17,577
Paycheck Protection Program loan payable (Note 10C)	-	17,194
TOTAL LIABILITIES	3,110,878	3,327,942
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (DEFICIT) (Note 2B)		
Without donor restrictions (Note 13)	(1,624,111)	(2,368,248)
With donor restrictions (Note 11)	14,985,400	13,289,189
TOTAL NET ASSETS	13,361,289	10,920,941
TOTAL LIABILITIES AND NET ASSETS	$ 16,472,167	$ 14,248,883

A BETTER CHANCE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	For the Year Ended December 31, 2021			For the Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total 2021	Without Donor Restrictions	With Donor Restrictions	Total 2020
OPERATING PUBLIC SUPPORT AND REVENUE:						
Special events	$ 1,141,221	$ -	$ 1,141,221	$ 671,976	$ -	$ 671,976
Contributions and grants (Note 8)	637,968	3,072,299	3,710,267	264,924	2,776,668	3,041,592
Contributions in-kind (Note 2H)	1,257,291	-	1,257,291	123,653	-	123,653
School membership dues (Note 2G)	241,600	-	241,600	226,075	-	226,075
Registration fees and other	39,674	-	39,674	439,017	-	439,017
Board appropriations (Note 11):						
Accumulated endowment earnings to operations	500,000	-	500,000	490,000	-	490,000
Interest and dividends to operations	205,006	-	205,006	260,264	-	260,264
Net assets released from restrictions (Notes 2B and 11)	1,865,546	(1,865,546)	-	1,253,441	(1,253,441)	-
TOTAL OPERATING PUBLIC SUPPORT AND REVENUE	5,888,306	1,206,753	7,095,059	3,729,350	1,523,227	5,252,577
OPERATING EXPENSES (Note 2J):						
Program services	2,698,680	-	2,698,680	2,775,558	-	2,775,558
Management and general	509,956	-	509,956	412,953	-	412,953
Fundraising	1,964,875	-	1,964,875	733,567	-	733,567
TOTAL OPERATING EXPENSES	5,173,511	-	5,173,511	3,922,078	-	3,922,078
CHANGE IN NET ASSETS FROM OPERATIONS	714,795	1,206,753	1,921,548	(192,728)	1,523,227	1,330,499
NON-OPERATING ACTIVITIES:						
Change in value of beneficial interest in perpetual trust (Note 2K)	-	74,883	74,883	-	55,669	55,669
Investment activity, net of investment fees of $79,022 and $63,473 (Note 5)	29,342	1,119,581	1,148,923	6,507	867,623	874,130
Board appropriations (Note 11):						
Accumulated endowment earnings to operations	-	(500,000)	(500,000)	-	(490,000)	(490,000)
Interest and dividends to operations	-	(205,006)	(205,006)	-	(260,264)	(260,264)
TOTAL NON-OPERATING ACTIVITIES	29,342	489,458	518,800	6,507	173,028	179,535
CHANGE IN NET ASSETS (Note 13)	744,137	1,696,211	2,440,348	(186,221)	1,696,255	1,510,034
Net assets (deficit) - beginning of year	(2,368,248)	13,289,189	10,920,941	(2,182,027)	11,592,934	9,410,907
NET ASSETS (DEFICIT) - END OF YEAR	$ (1,624,111)	$ 14,985,400	$ 13,361,289	$ (2,368,248)	$ 13,289,189	$ 10,920,941

A BETTER CHANCE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	For the Year Ended December 31, 2021					For the Year Ended December 31, 2020				
		Supporting Services					Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total 2021	Program Services	Management and General	Fundraising	Total Supporting Services	Total 2020
Personnel service costs	$ 1,319,994	$ 185,453	$ 329,580	$ 515,033	$ 1,835,027	$ 1,399,682	$ 184,138	$ 367,535	$ 551,673	$ 1,951,355
Payroll taxes and benefits (Note 9)	325,625	42,739	68,858	111,597	437,222	329,654	30,630	87,191	117,821	447,475
Printing and publications	-	86	12,680	12,766	12,766	817	1,729	5,103	6,832	7,649
Postage and shipping	2,430	1,288	7,488	8,776	11,206	4,772	2,489	4,768	7,257	12,029
Professional fees (Note 2H)	132,535	46,452	1,371,352	1,417,804	1,550,339	203,537	25,176	101,710	126,886	330,423
Rent and utilities (Notes 2H and 10)	299,546	24,611	49,883	74,494	374,040	307,323	25,399	59,069	84,468	391,791
Telephone/telecommunications	3,795	4,485	1,253	5,738	9,533	7,092	2,865	635	3,500	10,592
Equipment purchases and rentals (Note 10)	188,310	24,659	41,970	66,629	254,939	124,606	16,610	32,424	49,034	173,640
Office supplies	4,643	5,664	1,033	6,697	11,340	826	4,197	1,424	5,621	6,447
Insurance	31,197	3,916	6,138	10,054	41,251	26,329	2,869	6,560	9,429	35,758
Recruiting	24,504	11,192	7,503	18,695	43,199	1,266	805	9,325	10,130	11,396
Staff training and development	8,667	10,398	1,979	12,377	21,044	1,512	2,058	201	2,259	3,771
Awards and financial assistance (Note 2H)	46,853	687	324	1,011	47,864	19,881	1,043	764	1,807	21,688
Subscriptions and dues	124,949	15,964	26,360	42,324	167,273	98,662	11,773	23,841	35,614	134,276
Travel and meetings (Note 2H)	28,824	8,805	1,508	10,313	39,137	24,632	4,477	2,803	7,280	31,912
Testing and programming	96,367	-	-	-	96,367	155,743	-	-	-	155,743
Interest expense	32,827	8,193	6,513	14,706	47,533	54,664	3,239	9,026	12,265	66,929
Investment fees (Note 5) (deducted below)	51,747	17,064	10,211	27,275	79,022	43,289	10,026	10,428	20,454	63,743
Depreciation and amortization (Note 6)	7,378	827	1,274	2,101	9,479	5,059	412	938	1,350	6,409
Bad debt	-	100,069	-	100,069	100,069	-	58,940	-	58,940	58,940
Miscellaneous	20,236	14,468	29,179	43,647	63,883	9,501	34,104	20,250	54,354	63,855
Sub-total	2,750,427	527,020	1,975,086	2,502,106	5,252,533	2,818,847	422,979	743,995	1,166,974	3,985,821
Less: expenses deducted directly from revenues on the statements of activities	(51,747)	(17,064)	(10,211)	(27,275)	(79,022)	(43,289)	(10,026)	(10,428)	(20,454)	(63,743)
TOTAL EXPENSES	$ 2,698,680	$ 509,956	$ 1,964,875	$ 2,474,831	$ 5,173,511	$ 2,775,558	$ 412,953	$ 733,567	$ 1,146,520	$ 3,922,078

A BETTER CHANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,440,348	$ 1,510,034
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,479	6,409
Bad debt	100,069	58,940
Change in discount on grants and pledges receivable	24,850	2,323
Unrealized gain on investments	(113,012)	(219,827)
Realized gain on investments	(895,565)	(487,869)
Change in value of beneficial interest in perpetual trust	(74,883)	(55,669)
Sub-total	1,491,286	814,341
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(3,725)	(31,600)
Grants and pledges receivable	(1,035,006)	(876,676)
Prepaid expenses and other assets	(63,921)	(10,150)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	664	(11,466)
Accrued vacation	(12,225)	(39,894)
Deferred rent	45,377	(49,656)
Deferred revenue	148,877	85,561
Net Cash Provided by (Used in) Operating Activities	571,327	(119,540)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	706,116	687,743
Purchase of investments	(135,781)	(167,672)
Purchase of property and equipment	(85,582)	-
Net Cash Provided by Investing Activities	484,753	520,071
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank lines of credit	-	52,650
Payments on bank line of credit	(382,563)	-
Payments on Paycheck Protection Program loan payable	(17,194)	-
Proceeds from Paycheck Protection Program loan payable	-	17,194
Net Cash (Used in) Provided by Financing Activities	(399,757)	69,844
NET INCREASE IN CASH AND CASH EQUIVALENTS	656,323	470,375
Cash and cash equivalents - beginning of year	897,067	426,692
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,553,390	$ 897,067
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 47,533	$ 66,929

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

A Better Chance, Inc. (the "Organization") is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The Organization believes it is the oldest and only national organization of its kind changing the life trajectory for academically talented youth of color via access to rigorous and prestigious educational opportunities for students in grades 6-12. Its mission is to increase substantially the number of well-educated young people of color who are capable of assuming positions of responsibility and leadership in American society. It carries out this mission through its signature College Preparatory Schools Program ("CPSP"), which recruited, referred and placed approximately 350 new students in 2021 and supports approximately 2,000 scholars at 200 member schools in 27 states. The Organization has been opening the doors to greater educational opportunities since 1963.

The Organization provides talented students of color with outstanding educational opportunities to enable them to fulfill their potential. Since its founding in 1963, the Organization has produced more than 17,000 alumni who have gone on to successful careers in business, medicine, education, politics, and the arts. These young people have not only improved their own lives but have improved the lives of others through their contributions to society and their communities. With a modest budget, the Organization helps leverage over $11 million in student financial aid provided by a national network of over 200 member schools. The Organization's alumni, with successful careers in business, medicine, education, politics and the arts, are the living product of the Organization's impact and program success.

The students served by the Organization are approximately 62% African-American, 16% Hispanic/Latino, 8% Asian-American, and 14% who describe themselves as multi-racial. 53% of incoming scholars for the school year 2021-2022 were from households making less than the U.S. Department of Housing and Urban Development ("HUD") household median income for their area. For these young people, the Organization offers an educational opportunity they would not otherwise have.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Organization's financial statements have been prepared on the accrual basis of accounting. The Organization adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP").

B. The Organization maintains its net assets under the following two classes:

<u>Without Donor Restrictions</u>

These represent resources received that have not been restricted by the donor and that have no time restrictions. Such resources are available for support of the Organization's operations over which the Board of Directors (the "Board") has discretionary control. The Board maintains a Board designated endowment fund in this net asset class as further described in Note 11.

<u>With Donor Restrictions</u>

These represent net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization, pursuant to those stipulations. In addition, earnings on endowment assets are classified as net assets with donor restrictions until appropriated for operations by the Board. When such stipulations end or are fulfilled or endowment assets are appropriated for operations, such restricted net assets are reported in the statements of activities as net assets released from restrictions as to donor restrictions, or Board appropriations as to restrictions described by law. Net assets with donor restrictions that have been both earned and have had their restrictions met in the current year are recorded as net assets without donor restrictions.

There are also restricted net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. These restricted net assets consist of endowments and the beneficial interest in perpetual trust as described in Note 11.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. The Organization considers cash and cash equivalents to include highly liquid instruments with maturities of 90 days or less when acquired, except for money market funds held in the Organization's investment portfolio.

D. 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.

   Historically, the Organization has estimated its allowance for doubtful accounts pertaining to its grants and pledges receivable at a rate of approximately 8-10% of its gross receivable balance. Accordingly, as of December 31, 2021 and 2020, the Organization determined that an allowance for uncollectible grants and pledges receivable of approximately $107,000 and $57,000, respectively, was necessary. This determination is based on a combination of factors such as management's assessment of the creditworthiness of its donors, a review of individual accounts outstanding, and the aged basis of the receivables and historical experience.

E. Property and equipment is stated at cost less accumulated depreciation and amortization. These amounts do not purport to represent replacement or realizable values. The Organization capitalizes all assets having a useful life of more than one year and a cost greater than $2,500. Purchases below $2,500 are expensed at the time of acquisition. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is charged at the lesser of the life of the improvements or the lease.

F. Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for a discussion of fair value measurements.

G. Membership dues collected in advance of the year to which they apply are recorded as deferred revenue.

H. Contributions, including cash and in-kind contributions, are recorded as revenue in the period in which they are received. The Organization also receives contributed space and services that are an integral part of its operations. Contributed services and space amounting to $1,257,291 and $123,653 for the years ended December 31, 2021 and 2020, respectively, consists primarily of office space, financial assistance in the form of testing vouchers to waive testing fees and legal services that have been valued at the fair values that would have been incurred by the Organization to obtain them and are reported as revenue and expenses in the accompanying financial statements, because they meet the criteria as prescribed by U.S. GAAP.

   Contributions are non-exchange transactions and accounted for under ASU 2018-08. Contributions are recognized as revenue when barriers within the contract are overcome, and there is no right of return/release from obligation.

I. The costs of direct benefit for special events include expenses for the benefit of the donor. For example, meals and facility rentals are considered direct costs of special events.

J. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel service costs, payroll taxes and fringe benefits, occupancy costs, depreciation, professional services, office expenses, interest, and insurance, which are allocated on the basis of estimates of time and effort.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. The Organization is the beneficiary of a perpetual trust held by a third-party trustee. The fair value of the Organization's beneficial interest in this trust is equal to the fair market value of the assets underlying the trust attributable to the Organization's interest. The assets consist primarily of equities, fixed income and short-term investments. The change in value of this trust is reflected within the net assets with donor restrictions class.

L. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

M. Certain line items in the December 31, 2020 financial statements have been reclassified to conform to the December 31, 2021 presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Organization had cash and cash equivalents of $1,553,390 and $897,067 as of December 31, 2021 and 2020, respectively. The Organization's objective is that the operating revenues of the Organization are exceeded by its operating expenses. The Organization also has investments of $11,439,358 and $11,001,116 as of December 31, 2021 and 2020, respectively. The investment endowment generates income, and this is used in the operations of the Organization. When the investment balance exceeds the donor restricted balance, the Board of Directors may elect to appropriate an amount in accordance with the conditions outlined in Note 11. In prior years, the Organization gained the donor's consent to reclassify funds from the investment endowment for the operating needs of the Organization. In the future, similar discussions could ensue regarding reclassification of funds from the endowment. In the event of a liquidity need, the Organization has access to two lines of credit totaling approximately $3,900,000, of which $2,524,087 and $2,906,650 has been drawn upon as of December 31, 2021 and 2020, respectively (See Note 7).

The following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2021	2020
Total financial assets	$ 15,027,844	$ 13,019,467
Donor-imposed restrictions:		
Endowment fund	(10,690,017)	(10,275,442)
Pledges not due within the next 12 months	(1,153,000)	(264,000)
Net financial assets after donor-imposed restrictions	3,184,827	2,480,025
Internal designations:		
Board designated funds*	(145,860)	(116,348)
Financial assets available to meet cash needs for general expenditures over the next 12 months	$ 3,038,967	$ 2,363,677

*The calculation above does not include the Organization's liabilities which exceed the financial assets available to meet cash needs for general expenditures. See Note 13 regarding the Organization's net assets deficit without donor restrictions.

NOTE 4 – GRANTS AND PLEDGES RECEIVABLE, NET

Grants and pledges receivable consist of the following as of December 31:

	2021	2020
Amount due in less than one year	$ 982,948	$ 885,481
Amount due from one to five years	1,153,000	264,000
	2,135,948	1,149,481
Less: allowance for doubtful accounts	(106,681)	(57,474)
Less: unamortized discount to present value	(24,850)	(2,323)
	$ 1,999,771	$ 1,089,684

The pledges to be received after one year are recorded net of discounts at risk adjusted interest rate of 1.35% as of December 31, 2021 and 2020 to reflect the present value of future cash flows. The amortization of the discount is reflected as additional contribution revenue in the accompanying financial statements.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following as of December 31:

	2021	2020
Equity securities	$ 1,991,231	$ 2,266,630
Mutual funds	7,129,506	6,376,233
Corporate bonds	403,063	447,843
Government securities	935,042	918,525
Money market funds	980,516	991,885
	$ 11,439,358	$ 11,001,116

Investments are subject to market volatility that could change their carrying value in the near term.

Investment activity consists of the following for the years ended December 31:

	2021	2020
Interest and dividends	$ 219,368	$ 230,177
Unrealized gain	113,012	219,827
Realized gain	895,565	487,869
Investment fees	(79,022)	(63,743)
	$ 1,148,923	$ 874,130

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

In determining the fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

The fair value hierarchy defined three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Investments in equities, fixed income mutual funds and money market funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in corporate bonds and government securities are valued using quoted prices in inactive markets (Level 2). Level 2 instrument valuations are obtained from similar assets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Financial assets carried at fair value as of December 31, 2021 are classified in the table as follows:

	Level 1	Level 2	Total 2021
ASSETS CARRIED AT FAIR VALUE:			
Investments:			
Equity securities	$ 1,991,231	$ -	$ 1,991,231
Mutual funds	7,129,506	-	7,129,506
Corporate bonds	-	403,063	403,063
Government securities	-	935,042	935,042
Money market funds	980,516	-	980,516
TOTAL ASSETS AT FAIR VALUE	$ 10,101,253	$ 1,338,105	$ 11,439,358

Financial assets carried at fair value as of December 31, 2020 are classified in the table as follows:

	Level 1	Level 2	Total 2020
ASSETS CARRIED AT FAIR VALUE:			
Investments:			
Equity securities	$ 2,266,630	$ -	$ 2,266,630
Mutual funds	6,376,233	-	6,376,233
Corporate bonds	-	447,843	447,843
Government securities	-	918,525	918,525
Money market funds	991,885	-	991,885
TOTAL ASSETS AT FAIR VALUE	$ 9,634,748	$ 1,366,368	$ 11,001,116

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended December 31, 2021 and 2020, there were no transfers in or out of levels 1, 2 or 3.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2021	2020	Estimated Useful Lives
Furniture and equipment	$ 84,787	$ 75,503	3 Years
Leasehold improvements	88,089	49,761	7-10 Years
Total cost	172,876	125,264	
Less: accumulated depreciation and amortization	(91,868)	(120,359)	
Net book value	$ 81,008	$ 4,905	

Depreciation and amortization expense amounted to $9,479 and $6,409 for the years ended December 31, 2021 and 2020, respectively.

During 2021, the Organization wrote off fully depreciated assets totaling $37,970. There were no disposals during the year ended December 31, 2020.

NOTE 7 – BANK LINES OF CREDIT

The Organization has a revolving line of credit of $600,000 with a financial institution. The line bears interest at the prime rate (3.25% as of December 31, 2021) and will expire on August 31, 2022. The line is payable on demand and borrowings are secured by $600,000 in money market funds owned by the Organization. As of December 31, 2021 and 2020, the outstanding balance amounted to $0. As of August 9, 2022, the outstanding balance amounted to $250,000.

The Organization has another line of credit account with a financial institution that is secured by the Organization's investments. There is no expiration date on this line. Such investments ("pledged collateral") are segregated and consist of equity and fixed income securities. The maximum amount of credit is equal to 70% of the fair value of the pledged collateral less outstanding loan balances and accrued finance charges. The line bears a variable interest rate equal to The London Interbank Offered Rate ("LIBOR") rate plus 1.50% resulting in a rate of 1.57% and 1.65% as of December 31, 2021 and 2020, respectively. The loan is payable on demand and is secured by pledged collateral with a fair value of $10,684,726 and $9,931,477 as of December 31, 2021 and 2020, respectively. The outstanding balance amounted to $2,524,087 and $2,906,650 as of December 31, 2021 and 2020, respectively. As of August 9, 2022, the outstanding balance amounted to approximately $2,826,587.

Interest expense incurred for the lines of credit amounted to $47,533 and $66,929 for the years ended December 31, 2021 and 2020, respectively.

NOTE 8 – CONTRIBUTIONS AND GRANTS

Contributions and grant revenues consist of the following for the years ended December 31:

	2021	2020
Institutions	$ 3,057,272	$ 2,204,641
Individuals	652,995	836,951
	$ 3,710,267	$ 3,041,592

NOTE 9 – RETIREMENT PLANS

A. The Organization has a frozen defined contribution retirement plan that used to cover all eligible employees. The Plan was frozen as of December 31, 2011. Employees were eligible to participate in the plan after completion of two years of service. The benefits were completely vested immediately after eligibility occurred. For the years ending December 31, 2021 and 2020, the Organization did not make contributions to this plan.

B. The Organization has a 401(k) plan (the “Plan”) effective January 1, 2012. All employees other than those classified as temporary employees are eligible to participate in the salary deferral contribution and the safe harbor non-elective portions of the Plan upon their date of hire. Employees other than those classified as temporary employees are eligible to participate in the non-safe harbor non-elective portion of the Plan after a six month period of continuous service. For the years ended December 31, 2021 and 2020, the Organization elected to make a safe harbor non-elective contribution of 3% of each eligible participant’s compensation and these benefits are 100% vested. The non-safe harbor portion of the Plan allows the Organization to make a contribution of an additional 3% of each eligible participant’s eligible compensation, plus an additional 50% of an eligible participant’s elective deferrals up to 5% of each eligible participant’s compensation. These benefits vest at 100%. For the year ended December 31, 2021, the Organization did not make a contribution to the Plan. For the year ended December 31, 2020, the Organization contributed $55,664 to the Plan.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. The Organization leases office space in New York, California, Pennsylvania and Georgia. The Organization has an outstanding letter of credit of $105,608 as security for the New York office lease. In addition to the base rent for its premises, the Organization is required to pay its allocated share of taxes and operating costs. The Organization also has entered into non-cancelable operating leases for office equipment. Minimum annual rentals for real property and equipment are approximately as follows for years ended subsequent to December 31, 2021:

	Real Property	Equipment	Total
2022	$ 104,896	$ 133,043	$ 237,939
2023	205,673	12,868	218,541
2024	219,338	-	219,338
2025	224,273	-	224,273
	$ 754,180	$ 145,911	$ 900,091

The rental commitment presented above does not include certain operating leases, which are currently on a month-to-month basis.

Rent expense for each year is based on the total lease commitment recognized over the life of the lease on a straight-line basis. As of December 31, 2021 and 2020, a deferred rent liability of $62,954 and $17,577, respectively, is included in the accompanying statements of financial position, under the straight-lining method of accounting.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Rent expense for real property (including real estate tax escalation charges and other operating expenses) for the years ended December 31, 2021 and 2020, amounted to approximately $331,000 and $378,000, respectively.

Rent expense for equipment for the years ended December 31, 2021 and 2020, amounted to approximately $229,000 and $114,000, respectively.

Subsequent to year end, the Organization signed a new lease agreement for office space ending in June 2031. The average annual rent is approximately $190,000.

B. The Organization believes it has no uncertain tax positions as of December 31, 2021 and 2020, in accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes", which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

C. In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The Organization could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Organization's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, the Organization cannot predict the extent to which its financial condition and results of operations will be affected.

In response to the pandemic, in March 2020, the United States passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which included the Paycheck Protection Program, which intends to provide loans to businesses to cover payroll costs. The loans are eligible for forgiveness if certain criteria are met. On April 13, 2020, the Organization received a loan of $437,572 under this program.

The Organization opted to account for the PPP loan as a conditional contribution under FASB ASC Topic 958-605. The Organization believed that it had met all of the conditions for forgiveness of the PPP loan as of December 31, 2020 and recognized revenue amounting to $424,079.

In March 2021, loan forgiveness was granted in the amount of $424,079. The remaining loan balance and accumulated accrued interest was payable over two years and bears interest at 1%. As of June 30, 2021, the balance of the loan was paid in full.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction net assets are available for the following purposes as of December 31:

	2021	2020
Contributions with purpose and time restrictions:		
Contributions with time restrictions	$ 2,026,944	$ 1,028,264
Specific programs (time/purpose)	1,054,307	846,234
	3,081,251	1,874,498
Contributions perpetual in nature:		
College Preparatory Schools Program	7,797,500	7,797,500
For a Better Life Foundation Fund – scholarship for schools	1,200,000	1,200,000
Diana Ross scholarships	57,456	57,456
Safety net program	50,000	50,000
	9,104,956	9,104,956
Unappropriated earnings from endowment funds	1,585,061	1,170,486
Perpetual trust	1,214,132	1,139,249
Total	$ 14,985,400	$ 13,289,189

Net assets released from restrictions amounted to $1,865,546 and $1,253,441, during the years ended December 31, 2021 and 2020, respectively, by incurring expenses or the passage of time, thus satisfying the restricted purposes.

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization is subject to the Massachusetts-enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") in relation to its donor restricted endowment funds. The Board of Directors of the Organization has interpreted the Massachusetts-enacted version of UPMIFA as allowing the Organization to appropriate for expenditure or accumulate as much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment funds are established, subject to the intent of the donor as expressed in the gift instrument. The earnings from the endowment funds shall be classified as net assets with donor restrictions until appropriated for expenditure by the Board of Directors.

The Organization's endowment investment policy is to invest primarily in a mix of equities and fixed-income securities based on an asset allocation to satisfy its overall endowment financial and investment objectives, such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The objective of the endowment spending policy is to provide a steady, growing income stream to support the Organization's programs while providing sufficient reinvestment to protect the endowment from inflation. Endowment spending is set at 5% of the three-year moving average of the market value of the endowment funds at the end of each year and an allocation of interest and dividends generated by the fund.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Changes in endowment net assets as of December 31, 2021 are as follows:

	Without donor restrictions - Board Designated	With donor restrictions- Endowment	Total 2021
Investment gain on endowments	$ 29,512	$ 1,119,581	$ 1,149,093
Board appropriated to operations	-	(500,000)	(500,000)
Board appropriated interest and dividends to operations	-	(205,006)	(205,006)
Endowment net assets, beginning of year	116,348	10,275,442	10,391,790
Endowment net assets, end of year	$ 145,860	$ 10,690,017	$ 10,835,877

Changes in endowment net assets as of December 31, 2020 are as follows:

	Without donor restrictions - Board Designated	With donor restrictions- Endowment	Total 2020
Investment gain on endowments	$ 2,041	$ 867,623	$ 869,664
Board appropriated to operations	-	(490,000)	(490,000)
Board appropriated interest and dividends to operations	-	(196,521)	(196,521)
Endowment net assets, beginning of year	114,307	10,094,340	10,208,647
Endowment net assets, end of year	$ 116,348	$ 10,275,442	$ 10,391,790

Interest and dividends from donor restricted endowment funds are restricted for specific purposes and are presented as with donor restriction investment activity and Board appropriations in the statements of activities.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of with donor restriction net assets. There were no underwater endowment funds as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, certain endowment assets are pledged as collateral for the lines of credit as detailed in Note 7, with the consent of the donor.

NOTE 12 – CONCENTRATION OF CREDIT RISK

Cash and cash equivalents and investments that potentially subject the Organization to a concentration of credit risk include cash and money market accounts with one bank that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest bearing accounts are insured up to $250,000 per depositor, per insured financial institution. As of December 31, 2021 and 2020, there was approximately $1,619,000 and $1,032,000, respectively, of money market funds held by one bank that exceeded FDIC limits.

NOTE 13 – NET ASSETS DEFICIT WITHOUT DONOR RESTRICTIONS

The Organization had a deficit balance of $1,624,111 and $2,368,248 as of December 31, 2021 and 2020, respectively, in its “without donor restrictions” net asset class. For the years ended December 31, 2021 and 2020, the change in net assets without donor restrictions amounted to an increase of $744,137 and a decrease of $186,221, respectively. In 2021 and beyond, management will be focused on longer-term program shifts that will best serve the scholars. Management will also be focusing on maximizing fundraising and working on a plan to eliminate the debt. Management believes that the long-term stability of the Organization is sustainable.

NOTE 14 – SUBSEQUENT EVENTS

As of August 9, 2022, the total investment portfolio of the Foundation decreased by approximately $1.1 million or 7% of total assets. The decrease in the Organization’s total investment portfolio can be attributable to the overall global market declines.

The Organization has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through August 9, 2022, the date the financial statements were available to be issued.