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, 2018 and 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

A BETTER CHANCE, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

CONTENTS

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
markspaneth.com

MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of A Better Chance, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 A Better Chance, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2M to the financial statements, during the year ended December 31, 2018, the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Marks Paneth LLP

New York, NY
June 27, 2019

Morison KSi
Independent member

A BETTER CHANCE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents (Notes 2C and 12)	$ 336,006	$ 388,244
Grants and pledges receivable, net (Notes 2D and 4)	566,896	1,044,610
Prepaid expenses and other assets	67,020	41,107
Investments, at fair value (Notes 2F, 5 and 12)	9,861,979	10,973,610
Property and equipment, net (Notes 2E and 6)	12,899	31,282
Beneficial interest in perpetual trust (Notes 2K and 11)	953,020	1,093,373
TOTAL ASSETS	$ 11,797,820	$ 13,572,226
LIABILITIES		
Accounts payable and accrued expenses	$ 151,990	$ 181,714
Accrued vacation	87,503	87,354
Bank lines of credit (Note 7)	1,754,000	1,454,000
Deferred rent (Note 10)	107,751	136,497
Deferred revenue (Note 2G)	239,034	207,461
TOTAL LIABILITIES	2,340,278	2,067,026
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (Note 2B)		
Without donor restrictions (Note 13)	(1,381,840)	(1,312,625)
With donor restrictions (Note 11)	10,839,382	12,817,825
TOTAL NET ASSETS	9,457,542	11,505,200
TOTAL LIABILITIES AND NET ASSETS	$ 11,797,820	$ 13,572,226

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

A BETTER CHANCE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017	Without Donor Restrictions	With Donor Restrictions
OPERATING PUBLIC SUPPORT AND REVENUE:						
Special events	$ 1,540,067	$ -	$ 1,540,067	$ 956,197	$ 956,197	$ -
Less: costs of direct benefits to donors (Note 2I)	(65,500)	-	(65,500)	(91,214)	(91,214)	-
Net revenues from special events	1,474,567	-	1,474,567	864,983	864,983	-
Contributions and grants (Note 8)	1,048,375	449,840	1,498,215	1,966,101	1,222,911	743,190
Contributions in-kind (Note 2H)	239,575	-	239,575	31,812	31,812	-
School membership dues (Note 2G)	115,434	-	115,434	174,935	174,935	-
Registration fees and other	30,531	-	30,531	161,038	161,038	-
Board appropriations (Note 11):						
Accumulated endowment earnings to operations	200,000	-	200,000	500,000	500,000	-
Interest and dividends to operations	218,345	-	218,345	195,055	195,055	-
Net assets released from restrictions (Notes 2B and 11)	1,210,646	(1,210,646)	-	-	583,519	(583,519)
TOTAL OPERATING PUBLIC SUPPORT AND REVENUE	4,537,473	(760,806)	3,776,667	3,893,924	3,734,253	159,671
OPERATING EXPENSES (Note 2J)**:**						
Program services	2,922,097	-	2,922,097	3,011,755	3,011,755	-
Management and general	724,716	-	724,716	832,621	832,621	-
Fundraising	937,549	-	937,549	948,487	948,487	-
TOTAL OPERATING EXPENSES	4,584,362	-	4,584,362	4,792,863	4,792,863	-
CHANGE IN NET ASSETS FROM OPERATIONS	(46,889)	(760,806)	(807,695)	(898,939)	(1,058,610)	159,671
NON-OPERATING ACTIVITIES:						
Change in value of beneficial interest in perpetual trust (Note 2K)	-	(140,353)	(140,353)	93,504	-	93,504
Investment activity (Note 5)	(22,326)	(658,939)	(681,265)	1,479,101	(195)	1,479,296
Permanently restricted contribution repurposed (Note 11)	-	-	-	-	2,000,000	(2,000,000)
Board appropriations (Note 11):						
Accumulated endowment earnings to operations	-	(200,000)	(200,000)	(500,000)	-	(500,000)
Interest and dividends to operations	-	(218,345)	(218,345)	(195,055)	-	(195,055)
TOTAL NON-OPERATING ACTIVITIES	(22,326)	(1,217,637)	(1,239,963)	877,550	1,999,805	(1,122,255)
CHANGE IN NET ASSETS (Note 13)	(69,215)	(1,978,443)	(2,047,658)	(21,389)	941,195	(962,584)
Net assets (deficit) - beginning of year	(1,312,625)	12,817,825	11,505,200	11,526,589	(2,253,820)	13,780,409
NET ASSETS (DEFICIT) - END OF YEAR	$ (1,381,840)	$ 10,839,382	$ 9,457,542	$ 11,505,200	$ (1,312,625)	$ 12,817,825

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

A BETTER CHANCE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	For the Year Ended December 31, 2018				
		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total 2018
Personnel service costs	$ 1,403,320	$ 147,696	$ 396,407	$ 544,103	$ 1,947,423
Payroll taxes and benefits (Note 9)	276,762	29,691	76,671	106,362	383,124
Printing and publications	15,852	13,101	20,396	33,497	49,349
Postage and shipping	6,736	16,756	7,115	23,871	30,607
Professional fees (Includes in-kind of $131,375 and $1,375 in 2018 and 2017, respectively) (Note 2H)	113,148	281,433	178,902	460,335	573,483
Rent and utilities (Note 10)	300,615	29,209	69,286	98,495	399,110
Telephone/telecommunications	6,136	6,370	309	6,679	12,815
Equipment purchases and rentals (Note 10)	79,809	9,640	31,106	40,746	120,555
Office supplies	25,768	7,500	1,184	8,684	34,452
Insurance	22,844	3,205	6,646	9,851	32,695
Recruiting	1,771	-	57,800	57,800	59,571
Staff training and development	4,459	-	259	259	4,718
Awards and financial assistance (Includes in-kind of $108,200 and $12,295 in 2018 and 2017, respectively) (Note 2H)	177,994	-	-	-	177,994
Subscriptions and dues	36,337	3,325	21,126	24,451	60,788
Travel and meetings (Includes in-kind of $0 and $18,142 in 2018 and 2017, respectively) (Note 2H)	353,229	2,386	12,799	15,185	368,414
Interest expense	43,030	5,850	12,501	18,351	61,381
Costs of direct benefits to donors (deducted below) (Note 2I)	-	-	65,500	65,500	65,500
Investment fees (Note 5) (deducted below)	51,029	5,554	12,291	17,845	68,874
Depreciation and amortization (Note 6)	16,461	657	1,265	1,922	18,383
Bad debt	-	129,566	4,000	133,566	133,566
Miscellaneous	37,826	38,331	39,777	78,108	115,934
Sub-total	2,973,126	730,270	1,015,340	1,745,610	4,718,736
Less: expenses deducted directly from revenues on the statements of activities	(51,029)	(5,554)	(77,791)	(83,345)	(134,374)
TOTAL EXPENSES	$ 2,922,097	$ 724,716	$ 937,549	$ 1,662,265	$ 4,584,362

	For the Year Ended December 31, 2017				
			Supporting Services		
	Total 2017	Program Services	Management and General	Fundraising	Total Supporting Services
Personnel service costs	$ 2,046,249	$ 1,419,572	$ 180,929	$ 445,748	$ 626,677
Payroll taxes and benefits (Note 9)	435,939	305,830	36,132	93,977	130,109
Printing and publications	41,566	17,419	3,429	20,718	24,147
Postage and shipping	21,049	6,995	6,064	7,990	14,054
Professional fees (Includes in-kind of $131,375 and $1,375 in 2018 and 2017, respectively) (Note 2H)	368,395	110,288	115,905	142,202	258,107
Rent and utilities (Note 10)	379,227	275,069	26,929	77,229	104,158
Telephone/telecommunications	46,027	25,564	12,052	8,411	20,463
Equipment purchases and rentals (Note 10)	45,321	29,872	3,823	11,626	15,449
Office supplies	44,387	21,250	22,047	1,090	23,137
Insurance	37,526	25,309	2,902	9,315	12,217
Recruiting	38,813	20,969	582	17,262	17,844
Staff training and development	4,086	3,738	50	298	348
Awards and financial assistance (Includes in-kind of $108,200 and $12,295 in 2018 and 2017, respectively) (Note 2H)	84,399	70,837	-	13,562	13,562
Subscriptions and dues	71,470	47,312	5,436	18,722	24,158
Travel and meetings (Includes in-kind of $0 and $18,142 in 2018 and 2017, respectively) (Note 2H)	543,166	516,041	14,007	13,118	27,125
Interest expense	86,099	57,718	6,847	21,534	28,381
Costs of direct benefits to donors (deducted below) (Note 2I)	91,214	-	-	91,214	91,214
Investment fees (Note 5) (deducted below)	76,438	51,478	6,034	18,926	24,960
Depreciation and amortization (Note 6)	21,922	19,249	632	2,041	2,673
Bad debt	366,627	-	366,627	-	366,627
Miscellaneous	110,595	38,723	28,228	43,644	71,872
Sub-total	4,960,515	3,063,233	838,655	1,058,627	1,897,282
Less: expenses deducted directly from revenues on the statements of activities	(167,652)	(51,478)	(6,034)	(110,140)	(116,174)
TOTAL EXPENSES	$ 4,792,863	$ 3,011,755	$ 832,621	$ 948,487	$ 1,781,108

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

A BETTER CHANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (2,047,658)	$ (21,389)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	18,383	21,922
Bad debt	133,566	366,627
Change in discount on grants and pledges receivable	(89)	(9,712)
Unrealized loss (gain) on investments	1,194,231	(327,509)
Realized gain on investments	(338,459)	(984,055)
Change in value of beneficial interest in perpetual trust	140,353	(93,504)
Sub-total	(899,673)	(1,047,620)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Grants and pledges receivable	344,237	61,725
Prepaid expenses and other assets	(25,913)	(1,689)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(29,724)	36,277
Accrued vacation	149	(5,208)
Deferred rent	(28,746)	(25,932)
Deferred revenue	31,573	88,565
Net Cash Used in Operating Activities	(608,097)	(893,882)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,091,052	5,429,591
Purchase of investments	(1,835,193)	(2,915,258)
Purchase of property and equipment	-	(4,700)
Net Cash Provided by Investing Activities	255,859	2,509,633
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank lines of credit	500,000	500,000
Repayment of bank lines of credit	(200,000)	(2,000,000)
Net Cash Provided by (Used in) Financing Activities	300,000	(1,500,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(52,238)	115,751
Cash and cash equivalents - beginning of year	388,244	272,493
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 336,006	$ 388,244
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 61,381	$ 86,099

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 recruits, refers and places approximately 500 new students annually and supports more than 2,000 scholars at more than 350 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 15,000 alumni who have gone onto successful careers in business, medicine, education, politics, and the arts. These young people have not only bettered 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 $15 million in student financial aid provided by a national network of over 350 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 65% African-American, 15% Hispanic/Latino, 6% Asian-American, 1% Native American, and 13% who describe themselves as multi-racial. 40% of incoming Scholars for the school year 2017-2018 were from households making less than the national household median income. About 31% of the Organization's Scholars come from single-parent households. For these young people, the Organization offers an educational opportunity they would not have otherwise.

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 policies generally accepted in the United States of America ("U.S. GAAP").

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

Without Donor Restrictions

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.

With Donor Restrictions

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 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, 2018 and 2017, the Organization determined that an allowance for uncollectible grants and pledges receivable of approximately $51,000 and $98,000, 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 $239,575 and $31,812 for the years ended December 31, 2018 and 2017, 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 met the criteria as prescribed by U.S. GAAP.

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 occupancy costs, depreciation, professional services, office expenses, interest, and insurance which are allocated on the basis of estimates of time and effort.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reported period. Actual results could differ from those estimates.

M. The Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. ASU 2016-14 was adopted by the Organization for the year ended December 31, 2018. Financial statements for the year ended December 31, 2017 were restated to conform to the current year presentation. These changes had no impact on the change in net assets for the year ended December 31, 2017. Specifically, ASU 2016-14 resulted in renaming amounts previously reported as unrestricted net assets as net assets without donor restrictions and temporarily restricted net assets as net assets with donor restrictions. In addition, required disclosures on liquidity and availability of resources were provided for the current year in Note 3.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Organization had cash and cash equivalents of $336,006 as of December 31, 2018. The Organization's objective is that the operating revenues of the Organization are exceeded by its operating expenses. The Organization also has investments of $9,861,979 as of December 31, 2018. 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 2017, the Organization gained the donor's consent to appropriate funds from the investment endowment for the operating needs of the Organization. In the future, similar discussions could ensue regarding appropriation 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 $1,754,000 has been drawn upon as of December 31, 2018.

As of December 31, 2018, 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:

Total financial assets	$ 10,764,881
Line of credit secured by money market funds	(600,000)
Donor-imposed restrictions:	
Investment endowment	(9,104,956)
Pledges not due within the next 12 months	(170,000)
Net financial assets after donor-imposed restrictions	889,925
Internal designations:	
Board designated funds	(92,703)
Financial assets available to meet cash needs for general expenditures over the next 12 months	$ 797,222

The above calculation does not include the Organization's liabilities of $2,340,278 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:

	2018	2017
Amount due in less than one year	$ 455,270	$ 884,142
Amount due from one to five years	170,000	266,000
	625,270	1,150,142
Less: allowance for doubtful accounts	(50,891)	(97,960)
Less: unamortized discount to present value	(7,483)	(7,572)
	$ 566,896	$ 1,044,610

The pledges to be received after one year are recorded net of discounts at risk adjusted interest rates ranging from 2.46% to 2.55% as of December 31, 2018 and 1.93% to 2.70% as of December 31, 2017 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:

	2018	2017
Equity securities	$ 4,572,022	$ 5,690,745
Fixed income mutual funds (Note 7)	2,752,760	2,968,951
Corporate bonds	517,999	533,410
U.S. Treasury and other U.S. government securities	1,000,493	903,129
Money market funds (Note 7)	1,018,705	877,375
	$ 9,861,979	$ 10,973,610

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:

	2018	2017
Interest and dividends	$ 243,381	$ 243,975
Unrealized (loss) gain	(1,194,231)	327,509
Realized gain	338,459	984,055
Investment fees	(68,874)	(76,438)
	$ (681,265)	$ 1,479,101

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.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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 lowest priority to Level 3 inputs.

Investments in equities, fixed income mutual funds, U.S. treasury bills 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 instruments 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, 2018 are classified in the table as follows:

	Level 1	Level 2	Total 2018
ASSETS CARRIED AT FAIR VALUE:			
Investments:			
Equity securities			
U.S. large cap	$ 2,823,491	$ -	$ 2,823,491
U.S. small/mid value	543,847	-	543,847
U.S. small/mid growth	449,550	-	449,550
Developed international	533,702	-	533,702
Emerging markets and others	221,432	-	221,432
	4,572,022	-	4,572,022
Mutual funds			
Fixed income	1,373,756	-	1,373,756
Equity index	1,379,004	-	1,379,004
	2,752,760	-	2,752,760
Corporate bonds	-	517,999	517,999
Government securities	-	1,000,493	1,000,493
Money market funds	1,018,705	-	1,018,705
	1,018,705	1,518,492	2,537,197
TOTAL ASSETS AT FAIR VALUE	$ 8,343,487	$ 1,518,492	$ 9,861,979

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value as of December 31, 2017 are classified in the table as follows:

	Level 1	Level 2	Total 2017
ASSETS CARRIED AT FAIR VALUE:			
Investments:			
Equity securities			
U.S. large cap	$ 3,340,383	$ -	$ 3,340,383
U.S. small/mid value	621,530	-	621,530
U.S. small/mid growth	540,632	-	540,632
Developed international	742,008	-	742,008
Emerging markets and others	446,192	-	446,192
	5,690,745	-	5,690,745
Mutual funds			
Fixed income	1,326,341	-	1,326,341
Equity index	1,642,610	-	1,642,610
	2,968,951	-	2,968,951
Corporate bonds	-	533,410	533,410
Government securities	-	903,129	903,129
Money market funds	877,375	-	877,375
	877,375	1,436,539	2,313,914
TOTAL ASSETS AT FAIR VALUE	$ 9,537,071	$ 1,436,539	$ 10,973,610

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, 2018 and 2017, 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:

	2018	2017	Estimated Useful Lives
Furniture and equipment	$ 68,767	$ 68,767	3 Years
Leasehold improvements	48,525	48,525	7-10 Years
Total cost	117,292	117,292	
Less: accumulated depreciation and amortization	(104,393)	(86,010)	
Net book value	$ 12,899	$ 31,282	

Depreciation and amortization expense amounted to $18,383 and $21,922 for the years ended December 31, 2018 and 2017, respectively.

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 (5.25% as of December 31, 2018) and will expire on August 31, 2019. 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, 2018 and 2017, the outstanding balance amounted to $0. As of June 27, 2019, the outstanding balance amounted to $0

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 LIBOR rate plus 3% resulting in a rate of 5.38% and 4.56% as of December 31, 2018 and 2017, respectively. The loan is payable on demand and is secured by pledged collateral with a fair value of $4,775,301 and $5,232,801 as of December 31, 2018 and 2017, respectively. The outstanding balance amounted to $1,754,000 and $1,454,000 as of December 31, 2018 and 2017, respectively. As of June 27, 2019, the outstanding balance amounted to $2,554,000.

Interest expense incurred for the lines of credit amounted to $61,381 and $86,099 for the years ended December 31, 2018 and 2017, respectively.

NOTE 8 – CONTRIBUTIONS AND GRANTS

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

	2018	2017
Institutions	$ 920,158	$ 839,703
Individuals	578,057	1,126,398
	$ 1,498,215	$ 1,966,101

NOTE 9 – RETIREMENT PLANS

A. The Organization has a frozen defined contribution retirement plan that used to cover all eligible employees. Employees were eligible to participate in the plan after completion of two years of service. The benefits were completely vested immediately after eligibility occurred.

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 one-year period of service. For the years ended December 31, 2018 and 2017, 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. For the years ended December 31, 2018 and 2017, the Organization elected to make a contribution to the non-safe harbor portion of the Plan of an additional 2% of each eligible participant's compensation for the portion of compensation within the social security earnings base and 7% on the compensation above the social security earnings base. These benefits vest at 20% per year over five years of service. Contributions to the Plan for the years ended December 31, 2018 and 2017 amounted to $83,125 and $96,242, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. The Organization leases office space in New York, California, 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, 2018:

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

	Real Property	Equipment	Total
2019	$ 393,000	$ 114,000	$ 507,000
2020	395,000	114,000	509,000
2021	177,000	114,000	291,000
2022	49,000	114,000	163,000
2023	38,000	-	38,000
	$ 1,052,000	$ 456,000	$ 1,508,000

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, 2018 and 2017, a deferred rent liability of $107,751 and $136,497, respectively, is included in the accompanying statements of financial position, under the straight lining method of accounting.

Rent expense for real property (including real estate tax escalation charges and other operating expenses) for the years ended December 31, 2018 and 2017 amounted to approximately $366,000 and $347,000, respectively .

Rent expense for equipment for the years ended December 31, 2018 and 2017, amounted to approximately $90,000 and $72,000, respectively.

B. The Organization believes it has no uncertain tax positions as of December 31, 2018 and 2017, 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.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
Contributions with purpose and time restrictions:		
Scholarships	$ -	$ 10,226
Contributions with time restrictions	450,537	874,074
Specific programs (time/purpose)	270,000	597,043
	720,537	1,481,343
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
Unappropriated earnings from endowment	60,869	1,138,153
	9,165,825	10,243,109
Perpetual trust	953,020	1,093,373
Total	$ 10,839,382	$ 12,817,825

Net assets released from restrictions amounted to $1,210,646 and $583,519, during the years ended December 31, 2018 and 2017, respectively, by incurring expenses or the passage of time, thus satisfying the restricted purposes.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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.

Changes in endowment net assets as of December 31, 2018 are as follows:

	Without donor restrictions - Board Designated	With donor restrictions- Endowment	Total 2018
Investment loss on endowments	$ (2,601)	$ (658,939)	$ (661,540)
Board appropriated to operations	-	(200,000)	(200,000)
Board appropriated interest and dividends to operations	-	(218,345)	(218,345)
Endowment net assets, beginning of year	95,304	10,243,109	10,338,413
Endowment net assets, end of year	$ 92,703	$ 9,165,825	$ 9,258,528

Changes in endowment net assets as of December 31, 2017 are as follows:

	Without donor restrictions - Board Designated	With donor restrictions- Endowment	Total 2017
Repurposed contributions	$ -	$ (2,000,000)	$ (2,000,000)
Investment gain on endowments	12,971	1,479,296	1,492,267
Board appropriated to operations	-	(500,000)	(500,000)
Board appropriated interest and dividends to operations	-	(195,055)	(195,055)
Endowment net assets, beginning of year	82,333	11,458,868	11,541,201
Endowment net assets, end of year	$ 95,304	$ 10,243,109	$ 10,338,413

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.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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 without donor restriction net assets. There were no underwater endowment funds as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, certain endowment assets are pledged as collateral for the lines of credit as detailed in Note 7, with the consent of the donor. During the year ended December 31, 2017, endowment funds amounting to $2,000,000 were repurposed (as agreed to by the donor) to pay down the lines of credit.

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 Corporations (“FDIC”) insurance limits. Interest bearing accounts are insured up to $250,000 per depositor. As of December 31, 2018 and 2017, there was approximately $715,000 and $789,000, 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 $1,381,840 and $1,117,570 as of December 31, 2018 and 2017, respectively, in its “without donor restrictions” net asset class. For the years ended December 31, 2018 and 2017, the change in net assets without donor restrictions amounted to a decrease of $69,215 and an increase of $941,195, respectively. In addition, as of December 31, 2018, there is approximately $61,000 of unappropriated earnings from donor restricted funds that could be appropriated for several purposes. This could potentially bring the negative without donor restricted net assets balance from $(1,381,840) to $(1,320,840). In 2019 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

The Organization has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through June 27, 2019, the date the financial statements were available to be issued.

Since December 31, 2018, the Organization’s investments, at fair value have increased from $9,861,979 to $10,789,524 as of June 27, 2019. As described in Note 5, investments are subject to market volatility that could change their carrying value in the near term.