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, 2022 and 2021

A BETTER CHANCE, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
A Better Chance, Inc.
New York, NY

Opinion

We have audited the financial statements of A Better Chance, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years 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, 2022 and 2021, 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 2N to the financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective January 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

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.

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Auditors' Responsibilities for the Audits 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 audits.
- 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 audits 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
November 9, 2023

A BETTER CHANCE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and cash equivalents (Notes 2C and 13)	$ 1,595,724	$ 2,156,871
Accounts receivable	56,350	35,325
Grants and pledges receivable, net (Notes 2D and 4)	2,990,127	1,999,771
Investments, at fair value (Notes 2F and 5)	9,371,278	10,835,877
Prepaid expenses and other assets	208,359	149,183
Operating lease right-of-use assets (Notes 2L, 2N and 10)	2,082,282	-
Property and equipment, net (Notes 2E and 6)	91,174	81,008
Beneficial interest in perpetual trust (Notes 2K and 12)	957,758	1,214,132
TOTAL ASSETS	$ 17,353,052	$ 16,472,167
LIABILITIES		
Accounts payable and accrued expenses	$ 199,603	$ 155,176
Accrued vacation	51,166	41,780
Bank lines of credit (Note 7)	2,959,337	2,524,087
Deferred revenue (Note 2G)	126,932	326,881
Deferred rent (Note 10)	-	62,954
Operating lease liabilities (Notes 2L, 2N and 10)	2,249,990	-
TOTAL LIABILITIES	5,587,028	3,110,878
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS (DEFICIT) (Note 2B)		
Without donor restrictions (Note 14)	(1,666,976)	(1,624,111)
With donor restrictions (Note 12)	13,433,000	14,985,400
TOTAL NET ASSETS	11,766,024	13,361,289
TOTAL LIABILITIES AND NET ASSETS	$ 17,353,052	$ 16,472,167

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

A BETTER CHANCE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total 2022	Without Donor Restrictions	With Donor Restrictions	Total 2021
OPERATING PUBLIC SUPPORT AND REVENUE:						
Special events	$ 578,120	$ 942,400	$ 1,520,520	$ 1,141,221	$ -	$ 1,141,221
Less: costs of direct benefits to donors (Note 2I)	(107,938)	-	(107,938)	-	-	-
Net revenues from special events	470,182	942,400	1,412,582	1,141,221	-	1,141,221
Contributions and grants (Note 8)	676,206	2,515,168	3,191,374	637,968	3,072,299	3,710,267
Contributions in-kind (Notes 2H and 15)	367,870	-	367,870	1,257,291	-	1,257,291
School membership dues (Note 2G)	233,900	-	233,900	241,600	-	241,600
Registration fees and other	11,862	-	11,862	39,674	-	39,674
Board appropriations (Note 12):						
Accumulated endowment earnings to operations	6,282	-	6,282	500,000	-	500,000
Interest and dividends to operations	114,589	-	114,589	205,006	-	205,006
Net assets released from restrictions (Notes 2B and 12)	3,286,090	(3,286,090)	-	1,865,546	(1,865,546)	-
TOTAL OPERATING PUBLIC SUPPORT AND REVENUE	5,166,981	171,478	5,338,459	5,888,306	1,206,753	7,095,059
OPERATING EXPENSES (Note 2J)**:**						
Program services	3,350,070	-	3,350,070	2,698,680	-	2,698,680
Supporting services:						
Management and general	596,730	-	596,730	509,956	-	509,956
Fundraising	1,266,471	-	1,266,471	1,964,875	-	1,964,875
Total supporting services	1,863,201	-	1,863,201	2,474,831	-	2,474,831
TOTAL OPERATING EXPENSES	5,213,271	-	5,213,271	5,173,511	-	5,173,511
CHANGE IN NET ASSETS FROM OPERATIONS	(46,290)	171,478	125,188	714,795	1,206,753	1,921,548
NON-OPERATING ACTIVITIES:						
Change in value of beneficial interest in perpetual trust (Note 2K)	-	(256,374)	(256,374)	-	74,883	74,883
Investment activity, net of investment fees of $71,167 and $79,022 (Note 5)	3,425	(1,346,633)	(1,343,208)	29,342	1,119,581	1,148,923
Board appropriations (Note 12):						
Accumulated endowment earnings to operations	-	(6,282)	(6,282)	-	(500,000)	(500,000)
Interest and dividends to operations	-	(114,589)	(114,589)	-	(205,006)	(205,006)
TOTAL NON-OPERATING ACTIVITIES	3,425	(1,723,878)	(1,720,453)	29,342	489,458	518,800
CHANGE IN NET ASSETS (Note 14)	(42,865)	(1,552,400)	(1,595,265)	744,137	1,696,211	2,440,348
Net assets (deficit) - beginning of year	(1,624,111)	14,985,400	13,361,289	(2,368,248)	13,289,189	10,920,941
NET ASSETS (DEFICIT) - END OF YEAR	$ (1,666,976)	$ 13,433,000	$ 11,766,024	$ (1,624,111)	$ 14,985,400	$ 13,361,289

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, 2022 AND 2021

	For the Year Ended December 31, 2022					For the Year Ended December 31, 2021				
		Supporting Services					Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total 2022	Program Services	Management and General	Fundraising	Total Supporting Services	Total 2021
Personnel service costs	$ 1,701,542	$ 245,377	$ 464,461	$ 709,838	$ 2,411,380	$ 1,319,994	$ 185,453	$ 329,580	$ 515,033	$ 1,835,027
Payroll taxes and benefits (Note 9)	438,146	54,773	110,323	165,096	603,242	325,625	42,739	68,858	111,597	437,222
Printing and publications	444	108	6,803	6,911	7,355	-	86	12,680	12,766	12,766
Postage and shipping	1,719	434	4,840	5,274	6,993	2,430	1,288	7,488	8,776	11,206
Professional fees (Note 2H)	160,636	63,210	474,949	538,159	698,795	132,535	46,452	1,371,352	1,417,804	1,550,339
Rent and utilities (Note 10)	224,204	21,240	51,532	72,772	296,976	299,546	24,611	49,883	74,494	374,040
Telephone/telecommunications	7,026	6,794	2,847	9,641	16,667	3,795	4,485	1,253	5,738	9,533
Equipment purchases and rentals (Note 10)	216,170	25,375	39,574	64,949	281,119	188,310	24,659	41,970	66,629	254,939
Office supplies	12,184	3,619	3,586	7,205	19,389	4,643	5,664	1,033	6,697	11,340
Insurance	18,856	2,678	5,719	8,397	27,253	31,197	3,916	6,138	10,054	41,251
Recruiting	27,290	6,707	17,136	23,843	51,133	24,504	11,192	7,503	18,695	43,199
Staff training and development	14,156	15,271	4,481	19,752	33,908	8,667	10,398	1,979	12,377	21,044
Awards and financial assistance (Note 2H)	112,871	37	806	843	113,714	46,853	687	324	1,011	47,864
Subscriptions and dues	153,395	20,083	31,182	51,265	204,660	124,949	15,964	26,360	42,324	167,273
Travel and meetings (Note 2H)	62,782	11,786	3,635	15,421	78,203	28,824	8,805	1,508	10,313	39,137
Testing and programming	112,263	-	-	-	112,263	96,367	-	-	-	96,367
Interest expense	57,897	12,843	16,034	28,877	86,774	32,827	8,193	6,513	14,706	47,533
Costs of direct benefits to donors (deducted below) (Note 2I)	-	-	107,938	107,938	107,938	-	-	-	-	-
Investment fees (Note 5) (deducted below)	42,556	15,135	13,476	28,611	71,167	51,747	17,064	10,211	27,275	79,022
Depreciation and amortization (Note 6)	9,291	2,822	2,728	5,550	14,841	7,378	827	1,274	2,101	9,479
Bad debt	-	94,774	-	94,774	94,774	-	100,069	-	100,069	100,069
Miscellaneous	19,198	8,799	25,835	34,634	53,832	20,236	14,468	29,179	43,647	63,883
Sub-total	3,392,626	611,865	1,387,885	1,999,750	5,392,376	2,750,427	527,020	1,975,086	2,502,106	5,252,533
Less: expenses deducted directly from revenues on the statements of activities	(42,556)	(15,135)	(121,414)	(136,549)	(179,105)	(51,747)	(17,064)	(10,211)	(27,275)	(79,022)
TOTAL EXPENSES	$ 3,350,070	$ 596,730	$ 1,266,471	$ 1,863,201	$ 5,213,271	$ 2,698,680	$ 509,956	$ 1,964,875	$ 2,474,831	$ 5,173,511

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,595,265)	$ 2,440,348
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,841	9,479
Bad debt	94,774	100,069
Change in discount on grants and pledges receivable	79,795	24,850
Unrealized loss (gain) on investments	1,772,165	(113,012)
Realized gain on investments	(283,812)	(895,565)
Change in value of beneficial interest in perpetual trust	256,374	(74,883)
Sub-total	338,872	1,491,286
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(21,025)	(3,725)
Grants and pledges receivable	(1,164,925)	(1,035,006)
Right-of-use asset - operating leases	313,369	-
Prepaid expenses and other assets	(59,176)	(63,921)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	44,427	664
Accrued vacation	9,386	(12,225)
Deferred rent	(62,954)	45,377
Deferred revenue	(199,949)	148,877
Lease liability	50,241	-
Net Cash (Used in) Provided by Operating Activities	(751,734)	571,327
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,253,722	706,116
Purchase of investments	(2,277,476)	(135,547)
Purchase of property and equipment	(25,007)	(85,582)
Net Cash (Used in) Provided by Investing Activities	(48,761)	484,987
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank lines of credit	552,500	-
Payments on bank line of credit	(117,250)	(382,563)
Payment of operating lease liabilities	(195,902)	-
Payments on Paycheck Protection Program loan payable	-	(17,194)
Net Cash Provided by (Used in) Financing Activities	239,348	(399,757)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(561,147)	656,557
Cash and cash equivalents - beginning of year	2,156,871	1,500,314
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,595,724	$ 2,156,871
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 86,774	$ 47,533

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 2022 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 67% African-American, 15% Hispanic/Latino, 7% Asian-American, and 11% who describe themselves as multi-racial. 53% of incoming scholars for the school year 2022-2023 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:

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 12.

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 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 12.

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, 2022 and 2021, the Organization determined that an allowance for uncollectible grants and pledges receivable of approximately $163,000 and $107,000, 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 $367,870 and $1,257,291 for the years ended December 31, 2022 and 2021, 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 Accounting Standards Update ("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 Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

M. 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.

N. In 2022, the Organization adopted ASU No. 2016-02, *Leases*, which requires lessees to recognize leases on the statements of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2021). The Organization also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, The Organization recognized ROU assets of $2,395,651 and lease liabilities totaling $2,445,891 in its statement of financial position as of January 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

   On September 17, 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-07, that increases transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit organizations—including transparency on how those assets are used and how they are valued. The Organization adopted ASU 2020-07 during the year ended December 31, 2022, and the adoption had no impact on the change in net assets for the year ended December 31, 2021.

O. Certain line items in the December 31, 2021 financial statements have been reclassified to conform to the December 31, 2022 presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Organization had cash and cash equivalents of $1,595,724 and $2,156,871 as of December 31, 2022 and 2021, respectively. The Organization's objective is that the operating revenues of the Organization exceed its operating expenses. The Organization also has investments of $9,371,278 and $10,835,877 as of December 31, 2022 and 2021, 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 12. 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 $2,959,337 and $2,524,087 has been drawn upon as of December 31, 2022 and 2021, respectively (See Note 7).

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES (Continued)

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:

	2022	2021
Total financial assets	$ 14,013,479	$ 15,027,844
Donor-imposed restrictions:		
Endowment fund	(9,222,513)	(10,690,017)
Pledges not due within the next 12 months	(1,649,500)	(1,153,000)
Net financial assets after donor-imposed restrictions	3,141,466	3,184,827
Internal designations:		
Board designated funds*	(145,058)	(145,860)
Financial assets available to meet cash needs for general expenditures over the next 12 months	$ 2,996,408	$ 3,038,967

*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 14 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:

	2022	2021
Amount due in less than one year	$ 1,610,600	$ 980,625
Amount due from one to five years	1,649,500	1,153,000
	3,260,100	2,133,625
Less: allowance for doubtful accounts	(163,005)	(106,681)
Less: unamortized discount to present value	(106,968)	(27,173)
	$ 2,990,127	$ 1,999,771

The pledges to be received after one year are recorded net of discounts at risk adjusted interest rates of 4.00% and 1.35% as of December 31, 2022 and 2021, respectively, 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:

	2022	2021
Equity securities	$ 2,071,753	$ 1,970,154
Mutual funds	5,851,640	7,150,582
Corporate bonds	318,198	403,063
U.S. treasury bills	595,557	498,828
Mortgage backed	351,433	436,215
Money market funds	182,697	377,035
	$ 9,371,278	$ 10,835,877

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:

	2022	2021
Interest and dividends	$ 216,312	$ 219,368
Unrealized (loss) gain	(1,772,165)	113,012
Realized gain	283,812	895,565
Investment fees	(71,167)	(79,022)
	$ (1,343,208)	$ 1,148,923

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.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value as of December 31, 2022 are classified in the table as follows:

	Level 1	Level 2	Total 2022
ASSETS CARRIED AT FAIR VALUE:			
Investments:			
Equity securities	$ 2,071,753	$ -	$ 2,071,753
Mutual funds	5,851,640	-	5,851,640
Corporate bonds	318,198	-	318,198
U.S. treasury bills	595,557	-	595,557
Mortgage backed	-	351,433	351,433
Money market funds	182,697	-	182,697
TOTAL ASSETS AT FAIR VALUE	$ 9,019,845	$ 351,433	$ 9,371,278

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	$ 1,970,154	$ -	$ 1,970,154
Mutual funds	7,150,582	-	7,150,582
Corporate bonds	403,063	-	403,063
U.S. treasury bills	498,828	-	498,828
Mortgage backed	-	436,215	436,215
Money market funds	377,035	-	377,035
TOTAL ASSETS AT FAIR VALUE	$ 10,399,662	$ 436,215	$ 10,835,877

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, 2022 and 2021, 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:

	2022	2021	Estimated Useful Lives
Furniture and equipment	$ 94,899	$ 84,787	3 Years
Leasehold improvements	102,984	88,089	7-10 Years
Total cost	197,883	172,876	
Less: accumulated depreciation and amortization	(106,709)	(91,868)	
Net book value	$ 91,174	$ 81,008	

Depreciation and amortization expense amounted to $14,841 and $9,479 for the years ended December 31, 2022 and 2021, 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 (3.25% as of December 31, 2022) and will expire on November 30, 2023. 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, 2022 and 2021, the outstanding balance amounted to $247,302 and $0, respectively. As of November 9, 2023, the outstanding balance amounted to $235,584.

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 Bloomberg Short Term Bank Yield Index ("BSBY") rate plus 1.50% resulting in a rate of 5.82% as of December 31, 2022. In 2021, the line had a variable interest rate equal to the London Interbank Offered Rate ("LIBOR") rate plus 1.50% resulting in a rate of 1.57% as of December 31, 2021. The loan is payable on demand and is secured by pledged collateral with a fair value of 9,215,748 and $10,684,726 as of December 31, 2022 and 2021, respectively. The outstanding balance amounted to $2,712,035 and $2,524,087 as of December 31, 2022 and 2021, respectively. As of November 9, 2023, the outstanding balance amounted to approximately $3,200,000.

Interest expense incurred for the lines of credit amounted to $86,774 and $47,533 for the years ended December 31, 2022 and 2021, respectively.

NOTE 8 – CONTRIBUTIONS AND GRANTS

Contributions and grant revenue consists of the following for the years ended December 31:

	2022	2021
Institutions	$ 2,268,708	$ 3,057,272
Individuals	922,666	652,995
	$ 3,191,374	$ 3,710,267

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, 2022 and 2021, 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, 2022 and 2021, 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 years ended December 31, 2022 and 2021, the Organization did not make a contribution to the Plan.

NOTE 10 – LEASES

The Organization leases certain facilities, vehicles and equipment under long-term non-cancelable operating lease and finance lease agreements. The Organization assesses whether an arrangement qualifies as a lease at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. As a result, adopting FASB Accounting Standards Codification ("ASC") 842 had no impact on the prior year statement of financial position, and no impact on the Organization's change in net assets. No comparative information is provided for the amounts reported on the statement of financial position as of December 31, 2022 since the Organization used the modified retrospective method of transition that does not require restating the prior period.

The weighted-average discount rate is based on the discount rate implicit in the leases. The Organization has elected the option to use the risk-free rate determined by using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted average remaining lease term in years:	
Operating leases	7.14
Weighted average discount rate:	
Operating leases	4.00%

As of December 31, 2022, the ROU asset balance totaled $2,082,282 and lease liabilities totaled $2,249,990, as shown on the accompanying statement of financial position. Future minimum payments for non-cancelable leases for the remaining five years ending after December 31, 2022, and thereafter, are as follows:

	Operating Leases
2023	$ 387,406
2024	409,429
2025	423,869
2026	281,087
2027	234,479
Thereafter	862,295
Total lease payments	2,598,565
Less: present value discount	(348,575)
Present value of lease liabilities	$ 2,249,990

For the years ended December 31, 2022 and 2021, rent expense amounted to $281,551 and $331,294 and equipment amounted to $80,740 and $13,750, respectively. Such amounts are included in the accompanying statements of functional expenses.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Organization believes it has no uncertain tax positions as of December 31, 2022 and 2021, in accordance with ASC Topic 740, Income Taxes, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Contributions with purpose and time restrictions:		
Contributions with time restrictions	$ 3,153,419	$ 2,026,944
Specific programs (time/purpose)	99,310	1,054,307
	3,252,729	3,081,251
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	117,557	1,585,061
Perpetual trust	957,758	1,214,132
Total	$ 13,433,000	$ 14,985,400

Net assets released from restrictions amounted to $3,286,090 and $1,865,546 during the years ended December 31, 2022 and 2021, 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 also has funds designated by the Board of Directors for future strategic use.

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 12 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Changes in endowment net assets as of December 31, 2022 are as follows:

	Without donor restrictions - Board Designated	With donor restrictions- Endowment	Total 2022
Investment loss on endowments	$ (802)	$ (1,346,633)	$ (1,347,435)
Board appropriated to operations	-	(6,282)	(6,282)
Board appropriated interest and dividends to operations	-	(114,589)	(114,589)
Endowment net assets, beginning of year	145,860	10,690,017	10,835,877
Endowment net assets, end of year	$ 145,058	$ 9,222,513	$ 9,367,571

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

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, 2022 and 2021.

As of December 31, 2022 and 2021, certain endowment assets are pledged as collateral for the lines of credit, as detailed in Note 7, with the consent of the donor.

NOTE 13 – 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, 2022 and 2021, there was approximately $1,118,000 and $1,619,000, respectively, of money market funds held by one bank that exceeded FDIC limits.

NOTE 14 – NET ASSETS DEFICIT WITHOUT DONOR RESTRICTIONS

The Organization had a deficit balance of $1,666,976 and $1,624,111 as of December 31, 2022 and 2021, respectively, in its "without donor restrictions" net asset class. For the years ended December 31, 2022 and 2021, the change in net assets without donor restrictions amounted to a decrease of $42,865 and an increase of $744,137, respectively. In 2023 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 15 – IN-KIND CONTRIBUTIONS

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities included the following:

	2022	2021
Public Relations & Advisory	$ 300,000	$ 1,160,000
Test Waivers	66,370	89,416
Other Supplies	1,500	7,875
	$ 367,870	$ 1,257,291

The Organization recognized contributed nonfinancial assets within revenue, including contributed public relations & advisory services, test waivers and other supplies. Contributed public relations & advisory services recognized comprise of management consulting services to help define the purpose for the Organization. These services are valued and reported at the estimated fair value in the financial statements based on current rates for similar consulting services.

Contributed test waivers and other supplies were utilized for the Organization's program services. Testing waivers were restricted by donors to be used for students of the Organization. In valuing testing waivers and other supplies, the Organization estimated the fair value based on estimates of their values.

NOTE 16 – SUBSEQUENT EVENTS

The Organization has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through November 9, 2023, the date the financial statements were available to be issued.