



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, 2020 and 2019

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

A BETTER CHANCE, INC.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Marks Paneth LLP

New York, NY
July 29, 2021

A BETTER CHANCE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents (Notes 2C and 12)	\$ 897,067	\$ 426,692
Accounts receivable	31,600	-
Grants and pledges receivable, net (Notes 2D and 4)	1,089,684	274,271
Investments, at fair value (Notes 2F and 5)	11,001,116	10,813,491
Prepaid expenses and other assets	85,262	75,112
Property and equipment, net (Notes 2E and 6)	4,905	11,314
Beneficial interest in perpetual trust (Notes 2K and 11)	1,139,249	1,083,580
TOTAL ASSETS	\$ 14,248,883	\$ 12,684,460
LIABILITIES		
Accounts payable and accrued expenses	\$ 154,512	\$ 165,978
Accrued vacation	54,005	93,899
Bank lines of credit (Note 7)	2,906,650	2,854,000
Deferred revenue (Note 2G)	178,004	92,443
Deferred rent (Note 10)	17,577	67,233
Paycheck Protection Program loan payable (Note 10C)	17,194	-
TOTAL LIABILITIES	3,327,942	3,273,553
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (Note 2B)		
Without donor restrictions (Note 13)	(2,368,248)	(2,182,027)
With donor restrictions (Note 11)	13,289,189	11,592,934
TOTAL NET ASSETS	10,920,941	9,410,907
TOTAL LIABILITIES AND NET ASSETS	\$ 14,248,883	\$ 12,684,460

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

A BETTER CHANCE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	For the Year Ended December 31, 2020			For the Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total 2020	Without Donor Restrictions	With Donor Restrictions	Total 2019
OPERATING PUBLIC SUPPORT AND REVENUE:						
Special events	\$ 671,976	\$ -	\$ 671,976	\$ 1,198,642	\$ -	\$ 1,198,642
Less: costs of direct benefits to donors (Note 2I)	-	-	-	(65,499)	-	(65,499)
Net revenues from special events	671,976	-	671,976	1,133,143	-	1,133,143
Contributions and grants (Note 8)	264,924	2,776,668	3,041,592	75,869	1,143,600	1,219,469
Contributions in-kind (Note 2H)	123,653	-	123,653	261,331	-	261,331
School membership dues (Note 2G)	226,075	-	226,075	461,187	-	461,187
Registration fees and other	439,017	-	439,017	141,123	-	141,123
Board appropriations (Note 11):						
Accumulated endowment earnings to operations	490,000	-	490,000	495,000	-	495,000
Interest and dividends to operations	260,264	-	260,264	239,101	-	239,101
Net assets released from restrictions (Notes 2B and 11)	1,253,441	(1,253,441)	-	1,449,123	(1,449,123)	-
TOTAL OPERATING PUBLIC SUPPORT AND REVENUE	3,729,350	1,523,227	5,252,577	4,255,877	(305,523)	3,950,354
OPERATING EXPENSES (Note 2J):						
Program services	2,775,558	-	2,775,558	3,157,034	-	3,157,034
Management and general	412,953	-	412,953	780,684	-	780,684
Fundraising	733,567	-	733,567	1,117,096	-	1,117,096
TOTAL OPERATING EXPENSES	3,922,078	-	3,922,078	5,054,814	-	5,054,814
CHANGE IN NET ASSETS FROM OPERATIONS	(192,728)	1,523,227	1,330,499	(798,937)	(305,523)	(1,104,460)
NON-OPERATING ACTIVITIES:						
Change in value of beneficial interest in perpetual trust (Note 2K)	-	55,669	55,669	-	130,560	130,560
Investment activity (Note 5)	6,507	867,623	874,130	(1,250)	1,662,616	1,661,366
Board appropriations (Note 11):						
Accumulated endowment earnings to operations	-	(490,000)	(490,000)	-	(495,000)	(495,000)
Interest and dividends to operations	-	(260,264)	(260,264)	-	(239,101)	(239,101)
TOTAL NON-OPERATING ACTIVITIES	6,507	173,028	179,535	(1,250)	1,059,075	1,057,825
CHANGE IN NET ASSETS (Note 13)	(186,221)	1,696,255	1,510,034	(800,187)	753,552	(46,635)
Net assets (deficit) - beginning of year	(2,182,027)	11,592,934	9,410,907	(1,381,840)	10,839,382	9,457,542
NET ASSETS (DEFICIT) - END OF YEAR	\$ (2,368,248)	\$ 13,289,189	\$ 10,920,941	\$ (2,182,027)	\$ 11,592,934	\$ 9,410,907

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, 2020 AND 2019

	For the Year Ended December 31, 2020					For the Year Ended December 31, 2019				
	Supporting Services				Total 2020	Supporting Services				Total 2019
Program Services	Management and General	Fundraising	Total Supporting Services	Program Services		Management and General	Fundraising	Total Supporting Services		
	-	-	-	-	-	-	-	-	-	-
Personnel service costs	\$ 1,399,682	\$ 184,138	\$ 367,535	\$ 551,673	\$ 1,951,355	\$ 1,431,837	\$ 132,884	\$ 555,531	\$ 688,415	\$ 2,120,252
Payroll taxes and benefits (Note 9)	329,654	30,630	87,191	117,821	447,475	326,394	16,496	132,117	148,613	475,007
Printing and publications	817	1,729	5,103	6,832	7,649	18,958	367	28,144	28,511	47,469
Postage and shipping	4,772	2,489	4,768	7,257	12,029	6,237	2,498	9,598	12,096	18,333
Professional fees (Note 2H)	203,537	25,176	101,710	126,886	330,423	96,984	443,724	125,876	569,600	666,584
Rent and utilities (Note 10)	307,323	25,399	59,069	84,468	391,791	358,918	21,158	86,287	107,445	466,363
Telephone/telecommunications	7,092	2,865	635	3,500	10,592	7,272	6,086	1,159	7,245	14,517
Equipment purchases and rentals (Note 10)	124,606	16,610	32,424	49,034	173,640	110,480	8,728	38,670	47,398	157,878
Office supplies	826	4,197	1,424	5,621	6,447	24,888	9,170	6,081	15,251	40,139
Insurance	26,329	2,869	6,560	9,429	35,758	23,601	1,859	9,224	11,083	34,684
Recruiting	1,266	805	9,325	10,130	11,396	24,427	12,450	10,995	23,445	47,872
Staff training and development	1,512	2,058	201	2,259	3,771	4,208	163	85	248	4,456
Awards and financial assistance (Note 2H)	19,881	1,043	764	1,807	21,688	89,145	250	936	1,186	90,331
Subscriptions and dues	98,662	11,773	23,841	35,614	134,276	59,364	9,763	24,726	34,489	93,853
Travel and meetings (Note 2H)	24,632	4,477	2,803	7,280	31,912	339,472	10,881	48,835	59,716	399,188
Testing and programming	155,743	-	-	-	155,743	123,364	-	-	-	123,364
Interest expense	54,664	3,239	9,026	12,265	66,929	65,283	5,201	25,721	30,922	96,205
Costs of direct benefits to donors (deducted below) (Note 2I)	-	-	-	-	-	-	-	65,499	65,499	65,499
Investment fees (Note 5) (deducted below)	43,289	10,026	10,428	20,454	63,743	30,554	26,380	12,267	38,647	69,201
Depreciation and amortization (Note 6)	5,059	412	938	1,350	6,409	7,424	385	1,748	2,133	9,557
Bad debt	-	58,940	-	58,940	58,940	-	29,490	-	29,490	29,490
Miscellaneous	9,501	34,104	20,250	54,354	63,855	38,778	69,131	11,363	80,494	119,272
Sub-total	2,818,847	422,979	743,995	1,166,974	3,985,821	3,187,588	807,064	1,194,862	2,001,926	5,189,514
Less: expenses deducted directly from revenues on the statements of activities	(43,289)	(10,026)	(10,428)	(20,454)	(63,743)	(30,554)	(26,380)	(77,766)	(104,146)	(134,700)
TOTAL EXPENSES	\$ 2,775,558	\$ 412,953	\$ 733,567	\$ 1,146,520	\$ 3,922,078	\$ 3,157,034	\$ 780,684	\$ 1,117,096	\$ 1,897,780	\$ 5,054,814

A BETTER CHANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,510,034	\$ (46,635)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	6,409	9,557
Bad debt	58,940	29,490
Change in discount on grants and pledges receivable	2,323	(7,483)
Unrealized gain on investments	(219,827)	(1,150,810)
Realized gain on investments	(487,869)	(337,640)
Change in value of beneficial interest in perpetual trust	(55,669)	(130,560)
Sub-total	814,341	(1,634,081)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(31,600)	-
Grants and pledges receivable	(876,676)	270,618
Prepaid expenses and other assets	(10,150)	(8,092)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(11,466)	13,988
Accrued vacation	(39,894)	6,396
Deferred rent	(49,656)	(40,518)
Deferred revenue	85,561	(146,591)
Net Cash Used in Operating Activities	(119,540)	(1,538,280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	687,743	4,492,474
Purchase of investments	(167,672)	(3,955,536)
Purchase of property and equipment	-	(7,972)
Net Cash Provided by Investing Activities	520,071	528,966
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank lines of credit	52,650	1,100,000
Proceeds from Paycheck Protection Program loan payable	441,273	-
Forgiveness from Paycheck Protection Program loan payable	(424,079)	-
Net Cash Provided by Financing Activities	69,844	1,100,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	470,375	90,686
Cash and cash equivalents - beginning of year	426,692	336,006
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 897,067	\$ 426,692
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 66,929	\$ 96,205

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

A BETTER CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 500 new students in 2020 and supports more than 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 onto 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 \$18 million in student financial aid provided by a national network of over 320 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 2019-2020 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 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 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 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 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.

A BETTER CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, the Organization determined that an allowance for uncollectible grants and pledges receivable of approximately \$57,000 and \$29,000, 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 \$123,653 and \$261,331 for the years ended December 31, 2020 and 2019, 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.

A BETTER CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2019 financial statements have been reclassified to conform to the December 31, 2020 presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Organization had cash and cash equivalents of \$897,067 and \$426,692 as of December 31, 2020 and 2019, 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 \$11,001,116 and \$10,813,491 as of December 31, 2020 and 2019, 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 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 \$2,906,650 and \$2,854,000 has been drawn upon as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Total financial assets	\$ 13,019,467	\$ 11,514,454
Donor-imposed restrictions:		
Endowment fund	(10,275,442)	(10,094,340)
Pledges not due within the next 12 months	<u>(264,000)</u>	<u>(90,000)</u>
Net financial assets after donor-imposed restrictions	2,480,025	1,330,114
Internal designations:		
Board designated funds*	<u>(116,348)</u>	<u>(114,307)</u>
Financial assets available to meet cash needs for general expenditures over the next 12 months	<u>\$ 2,363,677</u>	<u>\$ 1,215,807</u>

*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.

A BETTER CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 – GRANTS AND PLEDGES RECEIVABLE, NET

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

	<u>2020</u>	<u>2019</u>
Amount due in less than one year	\$ 885,481	\$ 213,717
Amount due from one to five years	<u>264,000</u>	<u>90,000</u>
	1,149,481	303,717
Less: allowance for doubtful accounts	(57,474)	(29,446)
Less: unamortized discount to present value	<u>(2,323)</u>	<u>-</u>
	<u>\$ 1,089,684</u>	<u>\$ 274,271</u>

The pledges to be received after one year are recorded net of discounts at risk adjusted interest rates ranging from .36% to 2.46% as of December 31, 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:

	<u>2020</u>	<u>2019</u>
Equity securities	\$ 2,266,630	\$ 3,340,371
Mutual funds	6,376,233	5,119,546
Corporate bonds	447,843	474,774
Government securities	918,525	1,100,650
Money market funds	<u>991,885</u>	<u>778,150</u>
	<u>\$ 11,001,116</u>	<u>\$ 10,813,491</u>

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:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 230,177	\$ 242,117
Unrealized gain	219,827	1,150,810
Realized gain	487,869	337,640
Investment fees	<u>(63,743)</u>	<u>(69,201)</u>
	<u>\$ 874,130</u>	<u>\$ 1,661,336</u>

A BETTER CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total 2020</u>
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
Cash and equivalents	<u>991,885</u>	<u>-</u>	<u>991,885</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 9,634,748</u>	<u>\$ 1,366,368</u>	<u>\$ 11,001,116</u>

Financial assets carried at fair value as of December 31, 2019 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total 2019</u>
ASSETS CARRIED AT FAIR VALUE:			
Investments:			
Equity securities	\$ 3,340,371	\$ -	\$ 3,340,371
Mutual funds	5,119,546	-	5,119,546
Corporate bonds	-	474,774	474,774
Government securities	-	1,100,650	1,100,650
Cash and equivalents	<u>778,150</u>	<u>-</u>	<u>778,150</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 9,238,067</u>	<u>\$ 1,575,424</u>	<u>\$ 10,813,491</u>

A BETTER CHANCE, INC.
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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, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	\$ 75,503	\$ 75,503	3 Years
Leasehold improvements	<u>49,761</u>	<u>49,761</u>	7-10 Years
Total cost	125,264	125,264	
Less: accumulated depreciation and amortization	<u>(120,359)</u>	<u>(113,950)</u>	
Net book value	<u>\$ 4,905</u>	<u>\$ 11,314</u>	

Depreciation and amortization expense amounted to \$6,409 and \$9,557 for the years ended December 31, 2020 and 2019, 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, 2020) and will expire on August 31, 2020. 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, 2020 and 2019, the outstanding balance amounted to \$0. As of July 29, 2021, 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 London Interbank Offered Rate ("LIBOR") rate plus 1.50% resulting in a rate of 1.65% and 3.30% as of December 31, 2020 and 2019, respectively. The loan is payable on demand and is secured by pledged collateral with a fair value of \$9,931,477 and \$5,396,251 as of December 31, 2020 and 2019, respectively. The outstanding balance amounted to approximately \$2,907,000 and \$2,854,000 as of December 31, 2020 and 2019, respectively. As of July 29, 2021, the outstanding balance amounted to approximately \$2,909,000.

Interest expense incurred for the lines of credit amounted to \$66,929 and \$96,205 for the years ended December 31, 2020 and 2019, respectively.

NOTE 8 – CONTRIBUTIONS AND GRANTS

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

	<u>2020</u>	<u>2019</u>
Institutions	\$ 2,204,641	\$ 375,053
Individuals	<u>836,951</u>	<u>844,416</u>
	<u>\$ 3,041,592</u>	<u>\$ 1,219,469</u>

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019 amounted to \$55,664 and \$91,953, respectively.

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, 2020:

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2021	\$ 212,000	\$ 123,000	\$ 335,000
2022	55,000	140,000	195,000
2023	<u>42,000</u>	<u>13,000</u>	<u>55,000</u>
	<u>\$ 309,000</u>	<u>\$ 276,000</u>	<u>\$ 585,000</u>

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, 2020 and 2019, a deferred rent liability of \$17,577 and \$67,233, 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, 2020 and 2019, amounted to approximately \$378,000 and \$433,000, respectively .

Rent expense for equipment for the years ended December 31, 2020 and 2019, amounted to approximately \$114,000 and \$105,000, 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, 2020 and 2019, 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.

A BETTER CHANCE, INC.
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NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

In March 2021, loan forgiveness was granted in the amount of \$424,079. The remaining loan balance and accumulated accrued interest totaling \$17,194 is payable over two years and bears interest at 1%. As of June 30, 2021, the balance of the loan was paid off.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Contributions with purpose and time restrictions:		
Contributions with time restrictions	\$ 1,092,007	\$ 265,014
Specific programs (time/purpose)	846,234	150,000
	1,938,241	415,014
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	1,106,743	989,384
Perpetual trust	1,139,249	1,083,580
Total	<u>\$ 13,289,189</u>	<u>\$ 11,592,934</u>

Net assets released from restrictions amounted to \$1,253,441 and \$1,449,123, during the years ended December 31, 2020 and 2019, respectively, by incurring expenses or the passage of time, thus satisfying the restricted purposes.

A BETTER CHANCE, INC.
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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 and an allocation of interest and dividends generated by the fund.

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

	Without donor restrictions - <u>Board Designated</u>	With donor restrictions- <u>Endowment</u>	Total <u>2020</u>
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	<u>114,307</u>	<u>10,094,340</u>	<u>10,208,647</u>
Endowment net assets, end of year	<u>\$ 116,348</u>	<u>\$ 10,275,442</u>	<u>\$ 10,391,790</u>

Changes in endowment net assets as of December 31, 2019 are as follows:

	Without donor restrictions - <u>Board Designated</u>	With donor restrictions- <u>Endowment</u>	Total <u>2019</u>
Investment gain on endowments	\$ 21,604	\$ 1,662,616	\$ 1,684,220
Board appropriated to operations	-	(495,000)	(495,000)
Board appropriated interest and dividends to operations	-	(239,101)	(239,101)
Endowment net assets, beginning of year	<u>92,703</u>	<u>9,165,825</u>	<u>9,258,528</u>
Endowment net assets, end of year	<u>\$ 114,307</u>	<u>\$ 10,094,340</u>	<u>\$ 10,208,647</u>

A BETTER CHANCE, INC.
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NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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, 2020 and 2019.

As of December 31, 2020 and 2019, 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, 2020 and 2019, there was approximately \$1,032,000 and \$758,000, 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 \$2,368,248 and \$2,182,027 as of December 31, 2020 and 2019, respectively, in its “without donor restrictions” net asset class. For the years ended December 31, 2020 and 2019, the change in net assets without donor restrictions amounted to a decrease of \$186,221 and \$800,187, respectively. In 2020 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 July 29, 2021, the date the financial statements were available to be issued.