

FINANCIAL STATEMENTS



AMERICAN
BANKRUPTCY
INSTITUTE

**FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2020**

AMERICAN BANKRUPTCY INSTITUTE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Bankruptcy Institute
Alexandria, Virginia

Opinion

We have audited the accompanying financial statements of the American Bankruptcy Institute (ABI), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABI as of December 31, 2021, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABI and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards will always detect a material misstatement when it exists.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, including omissions, 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABI'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 ABI'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.

Report on Summarized Comparative Information

We have previously audited ABI's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



August 4, 2022

AMERICAN BANKRUPTCY INSTITUTE
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,147,842	\$ 734,800
Investments	17,245,872	16,819,148
Accounts receivable, net	358,468	709,422
Interest receivable	12,138	11,957
Contributions receivable, net	97,692	66,723
Other receivables	29,272	15,557
Prepaid expenses	348,269	461,629
Right-of-use asset	1,280,397	1,868,270
Deferred compensation plan	112,690	208,225
Deposits	70,423	70,423
Fixed assets, net of accumulated depreciation and amortization of \$447,975	<u>48,082</u>	<u>79,696</u>
TOTAL ASSETS	<u>\$ 21,751,145</u>	<u>\$ 21,045,850</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Loans payable	\$ 150,000	\$ 833,700
Accounts payable and accrued liabilities	1,069,160	763,893
Deferred revenue	2,192,525	2,949,044
Lease liability	1,703,473	2,457,943
Deferred compensation plan	112,690	208,225
Other liabilities	<u>42,333</u>	<u>43,956</u>
Total liabilities	<u>5,270,181</u>	<u>7,256,761</u>

NET ASSETS

Without donor restrictions	16,296,564	13,625,376
With donor restrictions	<u>184,400</u>	<u>163,713</u>
Total net assets	<u>16,480,964</u>	<u>13,789,089</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,751,145</u>	<u>\$ 21,045,850</u>

AMERICAN BANKRUPTCY INSTITUTE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Conferences and meetings	\$ 3,874,099	\$ -	\$ 3,874,099	\$ 2,117,680
Membership	2,773,459	-	2,773,459	2,674,068
Publications	1,025,109	-	1,025,109	856,058
Contributions	270,489	147,637	418,126	270,542
Rental income	240,478	-	240,478	242,100
Other revenue	211,512	-	211,512	182,659
Interest and dividend income, net	211,876	-	211,876	300,419
Net assets released from donor restrictions	<u>126,950</u>	<u>(126,950)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>8,733,972</u>	<u>20,687</u>	<u>8,754,659</u>	<u>6,643,526</u>
EXPENSES				
Program Services:				
Conferences and Meetings	3,068,714	-	3,068,714	2,385,649
Publications and Other Sales	2,049,556	-	2,049,556	2,108,704
Membership Services	809,132	-	809,132	661,639
Research Projects and Grants	<u>29,966</u>	<u>-</u>	<u>29,966</u>	<u>146,795</u>
Total program services	<u>5,957,368</u>	<u>-</u>	<u>5,957,368</u>	<u>5,302,787</u>
Supporting Services:				
General and Administrative	1,560,488	-	1,560,488	1,389,162
Membership Development	51,124	-	51,124	298,551
Fundraising	<u>134,501</u>	<u>-</u>	<u>134,501</u>	<u>116,581</u>
Total supporting services	<u>1,746,113</u>	<u>-</u>	<u>1,746,113</u>	<u>1,804,294</u>
Total expenses	<u>7,703,481</u>	<u>-</u>	<u>7,703,481</u>	<u>7,107,081</u>
Change in net assets before other items	1,030,491	20,687	1,051,178	(463,555)
OTHER ITEMS				
Extinguishment of debt	1,367,445	-	1,367,445	-
Investment gain	<u>273,252</u>	<u>-</u>	<u>273,252</u>	<u>329,378</u>
Change in net assets after other items	2,671,188	20,687	2,691,875	(134,177)
Net assets at beginning of year	<u>13,625,376</u>	<u>163,713</u>	<u>13,789,089</u>	<u>13,923,266</u>
NET ASSETS AT END OF YEAR	<u>\$ 16,296,564</u>	<u>\$ 184,400</u>	<u>\$ 16,480,964</u>	<u>\$ 13,789,089</u>

AMERICAN BANKRUPTCY INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021				
	Program Services				
	Conferences and Meetings	Publications and Other Sales	Membership Services	Research Projects and Grants	Total Program Services
Salaries, benefits and payroll taxes	\$ 1,206,633	\$ 1,245,812	\$ 551,868	\$ 22,297	\$ 3,026,610
Event expenses	1,201,421	6,970	4,932	-	1,213,323
Occupancy	185,621	229,070	60,427	4,249	479,367
Audit visual and technology	40,432	49,836	5,713	80	96,061
Professional fees	108,064	133,359	35,179	2,474	279,076
Consulting fees	39,592	53,334	117,061	206	210,193
Other	178,602	62,233	15,766	476	257,077
Printing and production	15,316	147,395	6,625	-	169,336
Bank fees	70	854	-	-	924
Advertising and promotions	2,537	39,854	2,660	-	45,051
Postage and delivery	4,779	70,354	4,087	35	79,255
Travel and entertainment	62,515	2,263	782	19	65,579
Grant making	-	-	-	-	-
Telephone	4,052	-	-	-	4,052
Depreciation and amortization	-	630	-	-	630
Supplies	14,231	1,608	2,454	19	18,312
Insurance	4,849	5,984	1,578	111	12,522
Interest expense	-	-	-	-	-
Direct mail	-	-	-	-	-
TOTAL	\$ 3,068,714	\$ 2,049,556	\$ 809,132	\$ 29,966	\$ 5,957,368

See accompanying notes to financial statements.

AMERICAN BANKRUPTCY INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021 (Continued)				2020	
	Supporting Services					
	General and Administrative	Membership Development	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Salaries, benefits and payroll taxes	\$ 718,700	\$ -	\$ 24,642	\$ 743,342	\$ 3,769,952	\$ 4,118,570
Event expenses	3,145	-	7,602	10,747	1,224,070	386,787
Occupancy	117,799	28,460	3,598	149,857	629,224	721,990
Audit visual and technology	292,063	538	68	292,669	388,730	166,658
Professional fees	68,580	16,569	2,095	87,244	366,320	218,152
Consulting fees	82,106	1,377	12,852	96,335	306,528	226,013
Other	3,604	3,185	23,475	30,264	287,341	446,784
Printing and production	306	-	-	306	169,642	138,917
Bank fees	148,290	-	2,370	150,660	151,584	118,823
Advertising and promotions	41,505	-	-	41,505	86,556	3,857
Postage and delivery	2,506	-	119	2,625	81,880	50,893
Travel and entertainment	1,491	126	445	2,062	67,641	33,918
Grant making	-	-	57,125	57,125	57,125	14,255
Telephone	38,739	-	-	38,739	42,791	62,668
Depreciation and amortization	30,984	-	-	30,984	31,614	32,514
Supplies	6,882	126	16	7,024	25,336	256,748
Insurance	3,077	743	94	3,914	16,436	17,386
Interest expense	711	-	-	711	711	1,150
Direct mail	-	-	-	-	-	90,998
TOTAL	\$ 1,560,488	\$ 51,124	\$ 134,501	\$ 1,746,113	\$ 7,703,481	\$ 7,107,081

See accompanying notes to financial statements.

AMERICAN BANKRUPTCY INSTITUTE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,691,875	\$ (134,177)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	31,614	32,514
Unrealized and realized gain	(273,252)	(329,378)
Extinguishment of debt	(1,367,445)	-
Change in measurement of operating lease	(166,597)	589,673
Discount on long-term receivables	-	(272)
Change in allowance for bad debt	12,370	18,630
Decrease (increase) in:		
Accounts receivable, net	338,584	(389,300)
Interest receivable	(181)	-
Contributions receivable, net	(30,969)	34,870
Other receivables	(13,715)	(10,126)
Prepaid expenses	113,360	74,950
Increase (decrease) in:		
Accounts payable and accrued liabilities	305,267	(950,742)
Deferred revenue	(756,519)	533,213
Deferred rent abatement	-	(892,212)
Other liabilities	<u>(1,623)</u>	<u>34,789</u>
Net cash provided (used) by operating activities	<u>882,769</u>	<u>(1,387,568)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	-	(64,850)
Purchase of investments	(1,243,541)	(7,451,053)
Proceeds from sale of investments	<u>1,090,069</u>	<u>8,410,045</u>
Net cash (used) provided by investing activities	<u>(153,472)</u>	<u>894,142</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans payable	<u>683,745</u>	<u>833,700</u>
Net cash provided by financing activities	<u>683,745</u>	<u>833,700</u>
Net increase in cash and cash equivalents	1,413,042	340,274
Cash and cash equivalents at beginning of year	<u>734,800</u>	<u>394,526</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,147,842</u>	<u>\$ 734,800</u>

AMERICAN BANKRUPTCY INSTITUTE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	<u>2021</u>	<u>2020</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ <u>711</u>	\$ <u>1,150</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Right-Of-Use Asset	\$ <u>-</u>	\$ <u>2,500,039</u>
Operating Lease Liability for Right-of-Use Asset	\$ <u>-</u>	\$ <u>3,392,251</u>

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The American Bankruptcy Institute (ABI) was founded in 1982 as a nonprofit and nonpartisan educational institution. ABI provides a multi-disciplinary forum for the exchange of ideas and information on insolvency, reorganization, and bankruptcy issues. Through ABI, accountants, attorneys, bankers, court clerks, consumer specialists, credit managers, finance and insurance executives, judges, legislators, professors, and others pursue mutual business, professional, and academic interests. In fulfillment of its mission to provide information to its members, journalists, Congress and the public, ABI is engaged in numerous educational and research activities, as well as the production of a number of publications both for the insolvency practitioner and the public. ABI's major programs consist of the following:

Conferences and Meetings: ABI holds two national membership meetings and many regional conferences throughout the year. These meetings offer a concentrated opportunity for the exchange of ideas, discussions of findings among colleagues, and continuing legal education.

Publications and Other Sales: ABI produces various publications and journals that represent its commitment to the ongoing enhancement of quality education on insolvency topics. Additionally, ABI maintains a comprehensive internet site covering insolvency issues and providing instant updates on legislation, new filings, Supreme Court cases, bankruptcy filing statistics, and daily bankruptcy news.

Membership Services: ABI provides ongoing services to its members in order to provide a broad, in-depth resource of insolvency issues and related services.

Research Projects and Grants: ABI provides funding and scholarships to enhance bankruptcy research and education.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions. ABI's endowment consists of funds designated by the governing Board. See Note 12 for details regarding the Board Designated Endowment.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Cash and cash equivalents -

ABI considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000.

At times during the year, ABI maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Statement of Activities and Change in Net Assets.

Accounts, interest and contributions receivable -

Accounts, interest and contributions receivable are recorded at their net realizable value, which approximates fair value. Receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these 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 contributions revenue. Conditional promises to give are not included as support until the conditions are substantially met. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor.

Fixed assets -

Fixed assets in excess of \$2,500 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Depreciation and amortization expense for the year ended December 31, 2021 totaled \$31,614.

Income taxes -

ABI is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is only subject to tax on unrelated business income. ABI is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2021, ABI has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Revenue -

Membership dues, conferences and meetings, publications and other sales are classified as exchange transactions which follow ASU 2014-09, *Revenue from Contracts With Customers*, and are recorded as revenue at a point in time when the performance obligations are met. ABI has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost.

Membership dues: Membership dues includes general member benefits that are a series of distinct obligations. The revenue is recognized ratably over the membership period. There are several benefits received that are individual distinct obligations; however, they are immaterial in nature to the contract and thus are included with the general member benefits.

Conferences and meetings: Conference and meetings revenue consists of registration fees, workshop fees and sponsorship revenue. The performance obligation for conference registration and workshop fees is admission to the event. Sponsorships are considered nonreciprocal transactions, and are classified as conditional contributions. Conference and meetings revenue, including sponsorships, are recognized in the period in which the conferences and workshops are held.

Publications and other sales: Publications and other sales consist of advertising, publications, royalties and commissions, and miscellaneous other sales, and revenue is recognized upon satisfaction of the respective performance obligations. The performance obligation for advertising revenues is satisfied upon issuance of the print ads or when digital content is displayed. The performance obligation for publication revenues is satisfied when shipped or when digital access to the content has been granted. Royalty and commission revenue is generally based on third-party sale of publications using ABI content based on the terms of the agreement. ABI's performance obligation is satisfied over time as data is provided to the third-party on a regular basis, and revenue is recognized quarterly accordingly.

Revenue received in advance for membership dues, sponsorships, conferences and meetings, and publications is recorded as deferred revenue within the Statement of Financial Position. Deferred revenue consisted of the following as of December 31, 2021:

Memberships	\$ 1,791,899
Sponsorships	296,998
Meetings and conferences	<u>103,628</u>
TOTAL DEFERRED REVENUE	<u>\$ 2,192,525</u>

Contributions: Contributions are recognized in the appropriate category of net assets in the period received. ABI perform an analysis of the individual contribution to determine if the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For contributions qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Revenue (continued) -

Contributions (continued): Contributions and grants qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. There were no unrecognized conditional contributions as of December 31, 2021.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of ABI are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Investment risks and uncertainties -

ABI invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

In accordance with FASB ASC 820, *Fair Value Measurement*, ABI has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market ABI has the ability to access.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

Fair value measurement (continued) -

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For disclosure of inputs and valuation techniques, see Note 2.

New accounting pronouncement not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

ABI plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

2. INVESTMENTS

Investments consisted of the following as of December 31, 2021:

	<u>Fair Value</u>
Mutual funds	\$ 12,887,125
Money market	<u>4,358,747</u>
TOTAL INVESTMENTS	<u>\$ 17,245,872</u>

Included in investment income, net are the following:

Unrealized and realized gain	\$ 273,252
Interest and dividends	213,792
Investment expenses provided by external investment advisors and allocated internal management costs	<u>(1,916)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 485,128</u>

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

2. INVESTMENTS (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2021. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Money market funds* - The money market funds are open-end funds that are registered with the Securities and Exchange Commission (SEC) and is deemed to be actively traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by ABI are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by ABI are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy as of December 31, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds	\$ 12,887,125	\$ -	\$ -	\$ 12,887,125
Money market	<u>4,358,747</u>	<u>-</u>	<u>-</u>	<u>4,358,747</u>
TOTAL INVESTMENTS	<u>\$ 17,245,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,245,872</u>
Deferred Compensation Investments:				
Money Market	<u>\$ 112,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,690</u>
TOTAL	<u>\$ 17,358,562</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,358,562</u>

3. CONTRIBUTIONS RECEIVABLE

As of December 31, 2021, contributors to ABI have made unconditional written promises to give, of which \$102,067, remained due and outstanding. Amounts due beyond one year of the Statement of Financial Position date have been recorded at the present value of the estimated cash flows, using a discount rate.

Following is a schedule of amounts due, by year, as of December 31, 2021:

Less than one year	\$ 75,397
One to five years	<u>26,670</u>
Total	102,067
Less: Allowance to discount balance to present value	<u>(4,375)</u>
NET CONTRIBUTIONS RECEIVABLE	<u>\$ 97,692</u>

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4. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2021:

Equipment	\$ 79,200
Computer equipment	112,959
Leasehold improvements	<u>303,898</u>
Total fixed assets	496,057
Less: Accumulated depreciation and amortization	<u>(447,975)</u>
NET FIXED ASSETS	<u>\$ 48,082</u>

5. LOANS PAYABLE

On June 6, 2020, ABI received loan proceeds in the amount of \$150,000 with a 2.75% fixed interest rate under the Economic Injury Loan Program. The promissory note calls for monthly principal and interest payments amortized over the 30 year term of the promissory note with a deferral of payments for the first twelve months. Principal payments as stated in the promissory notes are due as follows unless otherwise forgiven:

Year Ending December 31,

2022	\$ 1,103
2023	3,643
2024	3,744
2025	3,849
2026	3,956
2027 and Thereafter	<u>133,705</u>
	<u>\$ 150,000</u>

On May 7, 2020, ABI received loan proceeds in the amount of \$683,700 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration (SBA) in whole or in part. ABI used the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds met the conditions for forgiveness of the loan. ABI applied for forgiveness after completing the 24 week period and on March 5, 2021 forgiveness was granted. This amount is recorded as "Extinguishment of debt," which is an Other Item on the Statement of Activities and Change in Net Assets.

On March 12, 2021, ABI received loan proceeds in the amount of \$683,745 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the CARES Act, the promissory note may be forgiven by the SBA in whole or in part. ABI used the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds met the conditions for forgiveness of the loan. ABI applied for forgiveness after completing the 24 week period. On December 22, 2021, ABI received notice that the loan was forgiven in its entirety, both interest and principal. This amount is recorded as "Extinguishment of debt," which is an Other Item on the Statement of Activities and Change in Net Assets.

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NOTES TO FINANCIAL STATEMENTS
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6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2021:

Subject to expenditure for specified purpose:	
Shapero Symposium	\$ 89,100
West Grant	5,000
Subject to passage of time	<u>90,300</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 184,400</u>

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

Purpose restrictions accomplished:	
National Conference of Bankruptcy Judges	\$ 105,671
Passage of time	<u>21,279</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 126,950</u>

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 2,147,842
Investments	17,245,872
Accounts receivable, net	358,468
Interest receivable	12,138
Current portion contribution receivable, net	75,397
Other receivables	<u>29,272</u>
Subtotal financial assets available within one year	19,868,989
Less: Donor restricted funds	(184,400)
Less: Board designated funds	<u>(9,370,981)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 10,313,608</u>

ABI holds investments in its general fund for long-term purposes. Although ABI does not intend to spend from investments other than the amount budgeted during its annual budget approval and appropriation, amounts from its investments could be made available as necessary. Additionally, the Board designated reserve funds (Endowment Fund) of \$9,370,981 as of December 31, 2021 could be made available for operations as needed, at the Board's discretion.

8. LEASE COMMITMENTS

ABI leases office space under an agreement, which originated in April 2018 and will continue until October 31, 2023 (subject to renewal). Base rent is \$845,073 per year, plus a proportionate share of expenses and annual escalation factor.

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8. LEASE COMMITMENTS (Continued)

On January 1, 2020, ABI early adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2019-01 related to *Leases* (Topic 842). The ASU requires an organization to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments in the Statement of Financial Position and recognize a single lease cost, calculated so the cost of the lease is allocated over the lease term on a generally straight line basis. ABI elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes.

As a result, ABI recorded the right-of-use asset in the amount of \$2,500,039 and operating lease liability in the amount of \$3,392,251 by calculating the net present value of their new lease commitments using a discount rate of 1.375%.

The right-of-use asset and operating lease liability are being amortized over the life of the lease. As of December 31, 2021, the unamortized right-of-use asset was \$1,280,397 and the unamortized operating lease liability was 1,703,473. The lease cost, including imputed interest and amortization of the right-of-use asset for the year ended December 31, 2021, was \$629,224, and is included in occupancy in the accompanying Statement of Functional Expenses.

The following is a schedule of the future minimum lease payments:

Year Ending December 31,

2022	\$ 927,025
2023	<u>790,891</u>
	<u>\$ 1,717,916</u>

On December 23, 2019, ABI entered into an agreement to sublease office space. The lease agreement commenced on January 1, 2020 and extends through October 31, 2023. Base rent to be received is \$243,648 per annum, increasing by a factor of 4% per year. Rental income for the year ended December 31, 2021 was \$240,478. The following is a schedule of the future minimum rental income:

Year Ending December 31,

2022	\$ 263,530
2023	<u>228,392</u>
	<u>\$ 491,922</u>

9. RETIREMENT PLANS

ABI provides retirement benefits to its employees through a defined contribution plan covering all full-time employees with six months of eligible experience. ABI provides a 100% match of each eligible employee's contribution, up to 6% of covered compensation. Contributions to the Plan during the year ended December 31, 2021 totaled \$139,058.

Additionally, ABI established deferred compensation plans under Sections 457(b) and 457(f) of the IRC for the purpose of providing benefits to certain selected employees.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

9. RETIREMENT PLANS (Continued)

The assets in the 457(b) plan are held by ABI, subject to the claims of its general creditors, until the employee becomes eligible for withdrawals as provided in the Plan agreement. The Plan made \$104,113 in distributions during 2021. As of December 31, 2021, the balance of \$112,690 is included in the assets held and deferred liability for the executive compensation plan account on the accompanying Statement of Financial Position.

A final distribution from the 457(b) deferred compensation account was made to Sam Gerdano on March 5, 2022 pursuant to Mr. Gerdano's separation agreement with ABI. ABI no longer expects to have a balance in this Plan as a result of the final distribution.

10. COMMITMENTS

ABI is committed under agreements for conference space through the year 2023. The total commitments under the agreements are not determinable as it depends upon attendance and other unknown factors. There are cancellation penalties that would be due if the agreements were cancelled prior to the event date. The amount of the cancellation penalties increase through the date of the event.

Additionally, ABI has an employment agreement with its current executive director through December 31, 2022. The terms of the agreement stipulate that if employment is terminated without cause during the period of the agreement, ABI will continue to pay salary for a period of twenty-six weeks subsequent to the effective date of such termination.

11. MANAGEMENT SERVICES AGREEMENT

In August 2016, Credit Abuse Resistance Education (CARE) was approved as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). CARE and ABI have separate Boards of Directors. On January 1, 2019, CARE entered into an agreement for facilities and management services with ABI for a monthly fee of \$7,500. The management services include administrative, payroll, executive and staffing support. The agreement expired December 31, 2020. As of the date of this report, a new agreement or addendum has not been entered into. ABI granted a credit of approximately \$19,000 to CARE during the year ended December 31, 2020. During the year ended December 31, 2021, ABI recognized revenue of \$52,000 under this agreement for facilities and management services which is included in other revenue in the accompanying Statement of Activities and Change in Net Assets. As of December 31, 2021, amounts due from CARE totaled \$29,272.

12. BOARD DESIGNATED ENDOWMENT

ABI's endowment consists of funds designated by the governing Board to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of Board-imposed restrictions. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its Board designated endowment funds as designated net assets with Board restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the endowment fund.

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12. BOARD DESIGNATED ENDOWMENT (Continued)

As a result of this interpretation, when reviewing its Board designated endowment funds, ABI considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent amounts added to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity.

ABI has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, ABI considers the following factors in making a determination to appropriated or accumulate Board designated endowment funds:

- The duration and preservation of the fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ <u>9,370,981</u>	\$ <u>-</u>	\$ <u>9,370,981</u>

Changes in endowment net assets for the year ended December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,127,702	\$ -	\$ 9,127,702
Investment income, net	29,683	-	29,683
Contributions	270,489	-	270,489
Appropriation of endowment assets for expenditure	<u>(56,893)</u>	<u>-</u>	<u>(56,893)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>9,370,981</u>	\$ <u>-</u>	\$ <u>9,370,981</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with Board designated endowment funds may fall below the level that UPMIFA requires the organization to retain as a fund of perpetual duration. There were no deficiencies as of December 31, 2021.

Return Objectives and Risk Parameters -

ABI has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to ensure a total return necessary to preserve and enhance the principal of the fund and provide a dependable source of support for current operations and programs.

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**NOTES TO FINANCIAL STATEMENTS
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12. BOARD DESIGNATED ENDOWMENT (Continued)

Return Objectives and Risk Parameters (continued) -

Therefore, ABI's goal for its endowment fund is capital preservation and to minimize the loss of capital. The finance committee of the Board of Directors reviews the performance and diversification of the portfolio in relation to ABI's investment policy.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, ABI 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). ABI targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

Expenditure of the principal of funds contributed to ABI and designated for the endowment fund would require a 2/3 vote of the Board of Directors. Historically, ABI has limited spending to earnings only.

13. SUBSEQUENT EVENTS

In preparing these financial statements, ABI has evaluated events and transactions for potential recognition or disclosure through August 4, 2022, the date the financial statements were issued.