

FINANCIAL STATEMENTS



AMERICAN
BANKRUPTCY
INSTITUTE

**FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2022**

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, 2023, 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, 2023, 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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 20, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



July 9, 2024

AMERICAN BANKRUPTCY INSTITUTE
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,158,632	\$ 3,302,911
Investments	17,359,171	16,197,544
Accounts receivable, net	423,678	171,205
Interest receivable	-	12,138
Contributions receivable, net	24,688	67,130
Prepaid expenses	398,301	203,970
Right-of-use asset	-	629,009
Deposits	94,068	70,423
Fixed assets, net of accumulated depreciation and amortization of \$9,362	<u>-</u>	<u>19,050</u>
TOTAL ASSETS	<u>\$ 21,458,538</u>	<u>\$ 20,673,380</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Loans payable	\$ -	\$ 150,000
Accounts payable and accrued liabilities	939,046	1,091,558
Deferred revenue	2,604,479	2,272,648
Lease liability	-	797,451
Other liabilities	<u>-</u>	<u>42,333</u>
Total liabilities	<u>3,543,525</u>	<u>4,353,990</u>

NET ASSETS

Without donor restrictions	17,769,095	16,161,935
With donor restrictions	<u>145,918</u>	<u>157,455</u>
Total net assets	<u>17,915,013</u>	<u>16,319,390</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,458,538</u>	<u>\$ 20,673,380</u>

AMERICAN BANKRUPTCY INSTITUTE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022**

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Conferences and meetings	\$ 6,011,928	\$ -	\$ 6,011,928	\$ 5,896,989
Membership	2,988,017	-	2,988,017	2,766,695
Publications	704,608	-	704,608	820,345
Interest and dividend income, net	344,860	-	344,860	258,095
Other revenue	223,313	-	223,313	431,948
Rental income	220,300	-	220,300	242,102
Contributions	164,945	11,779	176,724	168,188
Net assets released from donor restrictions	<u>23,316</u>	<u>(23,316)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>10,681,287</u>	<u>(11,537)</u>	<u>10,669,750</u>	<u>10,584,362</u>
EXPENSES				
Program Services:				
Conferences and Meetings	4,690,175	-	4,690,175	4,705,370
Publications and Other Sales	1,854,376	-	1,854,376	1,741,351
Membership Services	867,791	-	867,791	859,461
Research Projects and Grants	<u>3,142</u>	<u>-</u>	<u>3,142</u>	<u>3,328</u>
Total program services	<u>7,415,484</u>	<u>-</u>	<u>7,415,484</u>	<u>7,309,510</u>
Supporting Services:				
General and Administrative	2,205,565	-	2,205,565	1,848,461
Membership Development	44,150	-	44,150	48,176
Fundraising	<u>269,451</u>	<u>-</u>	<u>269,451</u>	<u>252,563</u>
Total supporting services	<u>2,519,166</u>	<u>-</u>	<u>2,519,166</u>	<u>2,149,200</u>
Total expenses	<u>9,934,650</u>	<u>-</u>	<u>9,934,650</u>	<u>9,458,710</u>
Change in net assets before other item	746,637	(11,537)	735,100	1,125,652
OTHER ITEM				
Unrealized and realized gain (loss)	<u>860,523</u>	<u>-</u>	<u>860,523</u>	<u>(1,287,226)</u>
Change in net assets after other item	1,607,160	(11,537)	1,595,623	(161,574)
Net assets at beginning of year	<u>16,161,935</u>	<u>157,455</u>	<u>16,319,390</u>	<u>16,480,964</u>
NET ASSETS AT END OF YEAR	<u>\$ 17,769,095</u>	<u>\$ 145,918</u>	<u>\$ 17,915,013</u>	<u>\$ 16,319,390</u>

AMERICAN BANKRUPTCY INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

	2023				
	Program Services				Total
	Conferences and Meetings	Publications and Other Sales	Membership Services	Research Projects and Grants	
Salaries, benefits and payroll taxes	\$ 1,335,287	\$ 1,137,420	\$ 621,238	\$ 2,634	\$ 3,096,579
Event expenses	2,406,758	8,100	24,177	-	2,439,035
Occupancy	226,786	158,869	75,006	306	460,967
Audio visual and technology	20,152	90,797	41,472	3	152,424
Consulting fees	27,361	95,337	24,316	5	147,019
Other	157,184	26,414	13,065	39	196,702
Professional fees	91,776	64,291	30,354	124	186,545
Printing and production	67,617	158,218	6,875	-	232,710
Travel and entertainment	182,562	4,188	7,511	8	194,269
Bank fees	3,422	167	-	-	3,589
Supplies	113,245	6,183	10,502	11	129,941
Postage and delivery	39,182	89,240	7,438	-	135,860
Bad debt	-	-	-	-	-
Grant making	-	-	-	-	-
Advertising and promotions	5,339	8,750	2,815	-	16,904
Depreciation and amortization	-	-	-	-	-
Telephone	4,366	-	-	-	4,366
Insurance	5,068	3,551	1,676	7	10,302
Interest expense	4,070	2,851	1,346	5	8,272
TOTAL	\$ 4,690,175	\$ 1,854,376	\$ 867,791	\$ 3,142	\$ 7,415,484

See accompanying notes to financial statements.

AMERICAN BANKRUPTCY INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

	2023 (Continued)					2022
	Supporting Services				Total Expenses	Total Expenses
	General and Administrative	Membership Development	Fundraising	Supporting Services		
Salaries, benefits and payroll taxes	\$ 1,155,544	\$ 1,614	\$ 164,928	\$ 1,322,086	\$ 4,418,665	\$ 3,952,585
Event expenses	5,702	-	7,798	13,500	2,452,535	2,688,149
Occupancy	128,399	25,610	20,054	174,063	635,030	668,298
Audio visual and technology	408,851	268	210	409,329	561,753	470,046
Consulting fees	135,392	407	2,500	138,299	285,318	216,205
Other	30,936	3,244	8,646	42,826	239,528	158,891
Professional fees	51,961	10,364	8,115	70,440	256,985	256,797
Printing and production	338	-	-	338	233,048	242,512
Travel and entertainment	4,949	675	3,504	9,128	203,397	163,037
Bank fees	175,441	-	19,051	194,492	198,081	171,680
Supplies	16,187	936	925	18,048	147,989	93,313
Postage and delivery	3,168	-	1,817	4,985	140,845	127,079
Bad debt	39,000	-	-	39,000	39,000	24,000
Grant making	-	-	31,095	31,095	31,095	64,846
Advertising and promotions	11,501	-	-	11,501	28,405	57,885
Depreciation and amortization	19,050	-	-	19,050	19,050	29,032
Telephone	13,971	-	-	13,971	18,337	43,046
Insurance	2,870	572	448	3,890	14,192	31,309
Interest expense	2,305	460	360	3,125	11,397	-
TOTAL	\$ 2,205,565	\$ 44,150	\$ 269,451	\$ 2,519,166	\$ 9,934,650	\$ 9,458,710

See accompanying notes to financial statements.

AMERICAN BANKRUPTCY INSTITUTE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,595,623	\$ (161,574)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,050	29,032
Unrealized and realized (gain) loss	(860,523)	1,287,226
Amortization of operating lease right-of-use asset	629,009	651,388
Discount on long-term receivables	4,375	-
Change in allowance for doubtful accounts on contribution receivable	(71,000)	(23,999)
Allowance for credit loss	63,000	-
(Increase) decrease in:		
Accounts receivable, net	(315,473)	240,534
Interest receivable	12,138	-
Contributions receivable, net	109,067	30,562
Prepaid expenses	(194,331)	144,299
Deposits	(23,645)	-
(Decrease) increase in:		
Accounts payable and accrued liabilities	(152,512)	22,398
Deferred revenue	331,831	80,123
Operating lease liabilities	(797,451)	(906,022)
Other liabilities	(42,333)	-
Net cash provided by operating activities	<u>306,825</u>	<u>1,393,967</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(344,861)	(258,095)
Proceeds from sale of investments	<u>43,757</u>	<u>19,197</u>
Net cash used by investing activities	<u>(301,104)</u>	<u>(238,898)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on loan payable	<u>(150,000)</u>	<u>-</u>
Net cash used by financing activities	<u>(150,000)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(144,279)	1,155,069
Cash and cash equivalents at beginning of year	<u>3,302,911</u>	<u>2,147,842</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,158,632</u>	<u>\$ 3,302,911</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 11,397</u>	<u>\$ -</u>

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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 accounting principles generally accepted in the United States of America (U.S. GAAP) related to nonprofit 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 10 for details regarding the Board Designated Endowment.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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, 2023

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

Basis of presentation (continued) -

The financial statements include certain prior year summarized comparative information in total but not by net asset class; such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ABI's financial statements for the year ended December 31, 2022, from which the summarized information was derived.

New accounting pronouncements adopted -

Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by ABI that are subject to the guidance in FASB ASC 326 are trade accounts receivable. ABI implemented the ASU on January 1, 2023, using a modified retrospective approach.

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, excluding money market funds held by investment managers in the amount of \$1,792,244 as of December 31, 2023. 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 and dividends are shown net of expenses. Realized and unrealized gain (loss) on investments is included in the Other Items section of the accompanying Statement of Activities and Change in Net Assets.

Accounts, interest, and contributions receivable -

Accounts receivable primarily consists of amounts due within one year related to conferences and meetings, memberships, publications, and rental income. Accounts and interest receivable are recorded at their net realizable value which approximates fair value. Accounts receivable are presented net of an allowance for credit losses resulting from the inability of customers to make required payments. The allowance for credit losses is based upon historical loss experience in combination with current economic conditions and a forecast of future economic conditions. Any change in the assumptions used in analyzing a specific account receivable might result in an additional allowance for credit losses being recognized in the period in which the change occurs. ABI implemented the new standard for determining the allowance for credit losses and recognized an allowance of \$63,000 as of December 31, 2023.

Contributions receivable include unconditional promises to give that are expected to be collected in future years. Contributions receivable are recorded at their fair value, which is measured as the present value of the future cash flows. The discount on long-term contributions receivable is computed using the risk-adjusted interest rates applicable to the years in which the promises to give were received. Amortization of the discount is included in contributions. All contributions receivable should be collected within one year of the statement of financial position.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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

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. During the year ended December 31, 2023, ABI fixed assets were fully depreciated as of December 31, 2023 resulting in a fixed asset balance of \$0 at year-end. Depreciation and amortization expense for the year ended December 31, 2023 totaled \$19,050.

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.

Support and revenue -

Membership dues, conferences and meetings, publications and other sales are the most significant revenue streams that are treated as exchange transaction revenue following ASC *Topic 606*. Revenue from contracts with customers is recorded 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 and/or sales price. Amounts received in advance of satisfying performance obligations are recorded as deferred revenue. ABI's contracts with customers generally have initial terms of one year or less.

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.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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

Support and revenue (continued) -

Publications and other sales (continued): Deferred revenue consisted of the following as of December 31, 2023:

Memberships	\$ 2,051,849
Conferences and meetings	281,319
Sponsorships	204,601
Advertising	<u>66,710</u>
TOTAL DEFERRED REVENUE	<u>\$ 2,604,479</u>

Contributions: Contributions are recognized in the appropriate category of net assets in the period received. ABI performs an analysis of the individual contribution agreement to determine if the funding stream follows the contribution rules or if it should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal in accordance with ASC Topic 958.

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. Contributions, including grants qualifying as contributions, that are unconditional but 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. Contributions with donor restrictions either in excess of expenses incurred or with time restrictions are shown as net assets with donor restrictions in the accompanying financial statements. Contributions that are both received and released from restrictions in the same year are classified as without donor restrictions.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. 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, 2023.

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.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. In particular, certain prior year amounts in the Statement of Financial Position were reclassified with no impact on the change in net asset reported in the prior year.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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.

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.

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, 2023. 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 are 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.

AMERICAN BANKRUPTCY INSTITUTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

- *U.S. Government Securities* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

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, 2023.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ 1,792,244	\$ -	\$ -	\$ 1,792,244
Mutual funds	9,195,758	-	-	9,195,758
U.S. government securities	-	6,371,169	-	6,371,169
TOTAL INVESTMENTS	\$ <u>10,988,002</u>	\$ <u>6,371,169</u>	\$ <u>-</u>	\$ <u>17,359,171</u>

Investment income, net consisted of the following:

Unrealized and realized gain	\$ 860,523
Interest and dividends	364,784
Investment fees	<u>(19,924)</u>
TOTAL INVESTMENT INCOME, NET	\$ <u>1,205,383</u>

3. 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 an initial deferral of payments for the first twelve months. The SBA subsequently extended the deferral period for 30 months after the disbursement date.

In March 2023, ABI paid off the \$150,000 loan amount in full including interest totaling \$11,397.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2023:

Subject to expenditure for specified purpose:	
Shapero Symposium	\$ 101,979
West Grant	7,500
Subject to passage of time	<u>36,439</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ <u>145,918</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:

Passage of Time	\$ <u>23,316</u>
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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

5. 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	\$ 3,158,632
Investments	17,359,171
Accounts receivable, net	423,678
Contribution receivable, net	<u>24,688</u>
Subtotal financial assets available within one year	20,966,169
Less: Donor restricted funds	(145,918)
Less: Board designated funds	<u>(9,651,968)</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS
FOR GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 11,168,283**

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 \$9,651,968 as of December 31, 2023 could be made available for operations as needed, at the Board's discretion.

6. LEASE COMMITMENTS

Office lease: ABI follows FASB ASC 842 for leases. ABI has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and is applying this expedient to all relevant asset classes. ABI has also elected to use a risk-free rate as the lease discount rate for all leases as allowed under FASB ASC 842.

ABI leased office space under an agreement, which originated in April 2018 and continued until October 31, 2023. Base rent was \$845,073 per year, plus a proportionate share of expenses and annual escalation factor.

The right-of-use asset and operating lease liability were amortized over the life of the lease, and as of December 31, 2023, the unamortized right-of-use asset and the unamortized operating lease liability balance was \$0. The lease cost, including imputed interest and amortization of the right-of-use asset for the year ended December 31, 2023, was \$635,030, and is included in occupancy in the accompanying Statement of Functional Expenses.

In May 2023, ABI entered into a 93 month office lease agreement with a commencement date of January 1, 2024. Base rent is \$283,743, increasing by a factor of 2.5% per year. The lease agreement includes provisions whereas the monthly base rent for the first nine months will be abated.

Sublease: On December 23, 2019, ABI entered into an agreement to sublease office space. The lease agreement commenced on January 1, 2020 and was extended through October 31, 2023. Base rent to be received was \$243,648 per annum, increasing by a factor of 4% per year. Rental income for the year ended December 31, 2023 was \$220,300.

7. 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, 2023 totaled \$161,098.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

8. COMMITMENTS

ABI is committed under agreements for conference space through the year 2024. 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, 2026. 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.

9. MANAGEMENT SERVICES AGREEMENT

On January 1, 2021, Credit Abuse Resistance Education (CARE), a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), entered into an agreement for facilities and management services with ABI for a monthly fee of \$4,000. The management services include administrative, payroll, executive and staffing support. During the year ended December 31, 2023, ABI recognized revenue totaling \$44,000. As of December 31, 2023, amounts due from CARE totaled \$96,179.

ABI also has a management service agreement with American Board of Certification (ABC), a tax-exempt organization under Section 501(c)(6) of the IRC. ABI provides services including administrative, payroll, executive and staffing support for a monthly fee of \$13,750. During the year ended December 31, 2023, ABI recognized revenue from this agreement totaling \$171,000.

10. BOARD DESIGNATED ENDOWMENT

ABI's endowment funds consist of funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by GAAP, net assets associated with funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law -

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.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

10. BOARD DESIGNATED ENDOWMENT (Continued)

Interpretation of relevant law (continued) -

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, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ <u>9,651,968</u>	\$ <u>-</u>	\$ <u>9,651,968</u>

Changes in endowment net assets for the year ended December 31, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,094,774	\$ -	\$ 9,094,774
Investment income, net	547,986	-	547,986
Contributions	154,611	-	154,611
Appropriation of endowment assets for expenditure	<u>(145,403)</u>	<u>-</u>	<u>(145,403)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>9,651,968</u>	\$ <u>-</u>	\$ <u>9,651,968</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, 2023.

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. 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.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

10. BOARD DESIGNATED ENDOWMENT (Continued)

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.

11. SUBSEQUENT EVENTS

In preparing these financial statements, ABI has evaluated events and transactions for potential recognition or disclosure through July 9, 2024, the date the financial statements were issued.