# AMERICAN BROTHERHOOD FOR THE BLIND
# T/A AMERICAN ACTION FUND FOR BLIND CHILDREN AND ADULTS AND
# T/A BLIND CHILDREN AND ADULTS ACTION FUND OF AMERICA

## FINANCIAL STATEMENTS

## DECEMBER 31, 2019

RS&F

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# Independent Auditor's Report

To the Board of Directors and Officers of American Brotherhood for the Blind T/A American Action Fund for Blind Children and Adults and T/A Blind Children and Adults Action Fund of America

We have audited the accompanying financial statements of American Brotherhood for the Blind (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 American Brotherhood for the Blind as of December 31, 2019, and the changes 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.

Rosen, Sapperstein & Friedlander, LLC

Rosen, Sapperstein & Friedlander, LLC
Baltimore, Maryland
March 3, 2020



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**AMERICAN BROTHERHOOD FOR THE BLIND**
**T/A AMERICAN ACTION FUND FOR BLIND CHILDREN AND ADULTS AND**
**T/A BLIND CHILDREN AND ADULTS ACTION FUND OF AMERICA**
**STATEMENT OF FINANCIAL POSITION**
**December 31, 2019**

ASSETS

| | |
|---|---|
| Cash and cash equivalents | $ 2,697,683 |
| Prepaid expenses | 100,393 |
| Notes receivables | 40,444 |
| Investments | 27,996,245 |
| Investment - Trust | 360,874 |
| Other investments - life insurance | 2,077,461 |
| Property and equipment - net | 222,090 |
| TOTAL ASSETS | $ 33,495,190 |

LIABILITIES AND NET ASSETS

| | |
|---|---|
| LIABILITIES | |
| Accounts payable and accrued expenses | $ 77,493 |
| Accrued annuity benefit | 107,594 |
| TOTAL LIABILITIES | 185,087 |
| NET ASSETS | |
| Without donor restrictions | 32,956,739 |
| With donor restrictions | 353,364 |
| TOTAL NET ASSETS | 33,310,103 |
| TOTAL LIABILITIES AND NET ASSETS | $ 33,495,190 |

See Accompanying Notes to Financial Statements

**AMERICAN BROTHERHOOD FOR THE BLIND**
**T/A AMERICAN ACTION FUND FOR BLIND CHILDREN AND ADULTS AND**
**T/A BLIND CHILDREN AND ADULTS ACTION FUND OF AMERICA**
**STATEMENTS OF ACTIVITIES**
**For the Year Ended December 31, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES, GAINS | | | |
| AND OTHER SUPPORT | | | |
| Public support | | | |
| Contributions | $ 3,377,390 | $ 2,308 | $ 3,379,698 |
| Donated services | 1,439,167 | - | 1,439,167 |
| Total public support | 4,816,557 | 2,308 | 4,818,865 |
| Net investment income (loss) | 5,090,383 | 47,625 | 5,138,008 |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | 9,906,940 | 49,933 | 9,956,873 |
| EXPENSES | | | |
| Program services | | | |
| Braille publications and programs | 904,728 | - | 904,728 |
| Tools for independence | 217,712 | - | 217,712 |
| Specialized programs and services | 3,314,457 | - | 3,314,457 |
| Total program services | 4,436,897 | - | 4,436,897 |
| Supporting services | | | |
| Management and general | 123,301 | - | 123,301 |
| Fundraising | 713,067 | - | 713,067 |
| Total supporting services | 836,368 | - | 836,368 |
| TOTAL EXPENSES | 5,273,265 | - | 5,273,265 |
| CHANGES IN NET ASSETS | 4,633,675 | 49,933 | 4,683,608 |
| NET ASSETS - BEGINNING OF YEAR | 28,323,064 | 303,431 | 28,626,495 |
| NET ASSETS - END OF YEAR | $ 32,956,739 | $ 353,364 | $ 33,310,103 |

See Accompanying Notes to Financial Statements

**AMERICAN BROTHERHOOD FOR THE BLIND**
**T/A AMERICAN ACTION FUND FOR BLIND CHILDREN AND ADULTS AND**
**T/A BLIND CHILDREN AND ADULTS ACTION FUND OF AMERICA**
**STATEMENTS OF FUNCTIONAL EXPENSES**
**For the Year Ended December 31, 2019**

| | PROGRAM SERVICES | | | | SUPPORTING SERVICES | | | |
|---|---|---|---|---|---|---|---|---|
| | Braille Publications and Programs | Tools for Independence | Specialized Programs and Services | Total | Management and General | Fundraising | Total | GRAND TOTAL |
| Volunteer services | $ 359,792 | $ 14,392 | $ 1,064,983 | $ 1,439,167 | $ - | $ - | $ - | $ 1,439,167 |
| Salaries | 21,990 | 3,665 | 304,196 | 329,851 | 21,990 | 14,660 | 36,650 | 366,501 |
| Payroll related expenses | 3,897 | 649 | 53,908 | 58,454 | 3,897 | 2,598 | 6,495 | 64,949 |
| Total salaries and related expenses | 385,679 | 18,706 | 1,423,087 | 1,827,472 | 25,887 | 17,258 | 43,145 | 1,870,617 |
| Supplies | 23,797 | 80,503 | 14,397 | 118,697 | 2,618 | - | 2,618 | 121,315 |
| Postage and shipping | 34,523 | 556 | 296,720 | 331,799 | 262 | 339,854 | 340,116 | 671,915 |
| Printing and publications | 323,121 | 116,547 | 768,612 | 1,208,280 | 1,801 | 355,937 | 357,738 | 1,566,018 |
| Travel | 3,448 | 185 | 44,369 | 48,002 | 7,398 | - | 7,398 | 55,400 |
| Conferences and conventions | 2,453 | 55 | 3,322 | 5,830 | 1,867 | - | 1,867 | 7,697 |
| Professional fees | 16,264 | 622 | 96,848 | 113,734 | 51,573 | - | 51,573 | 165,307 |
| Telephone | 365 | 91 | 103 | 559 | 30 | 18 | 48 | 607 |
| Occupancy | 3,118 | 374 | 8,605 | 12,097 | 374 | - | 374 | 12,471 |
| Awards and grants | 107,550 | - | 618,480 | 726,030 | 1,000 | - | 1,000 | 727,030 |
| Information technology | 1,582 | 63 | 15,860 | 17,505 | - | - | - | 17,505 |
| Data processing | 2,598 | - | 23,385 | 25,983 | 25,982 | - | 25,982 | 51,965 |
| Other | - | - | - | - | 4,461 | - | 4,461 | 4,461 |
| Total expenses before depreciation | 904,498 | 217,702 | 3,313,788 | 4,435,988 | 123,253 | 713,067 | 836,320 | 5,272,308 |
| Depreciation | 230 | 10 | 669 | 909 | 48 | - | 48 | 957 |
| TOTAL EXPENSES | $ 904,728 | $ 217,712 | $ 3,314,457 | $ 4,436,897 | $ 123,301 | $ 713,067 | $ 836,368 | $ 5,273,265 |

See Accompanying Notes to Financial Statements

**AMERICAN BROTHERHOOD FOR THE BLIND**
**T/A AMERICAN ACTION FUND FOR BLIND CHILDREN AND ADULTS AND**
**T/A BLIND CHILDREN AND ADULTS ACTION FUND OF AMERICA**
**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2019**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Changes in net assets | $ 4,683,608 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | |
| Depreciation | 957 |
| Write-off of notes receivables | 30,037 |
| Unrealized gain on investments | (3,214,497) |
| Realized gain on investments | (1,002,817) |
| Change in accrued annuity benefit | (2,308) |
| Decrease (increase) in operating assets: | |
| Prepaid expenses | 13,246 |
| Increase (decrease) in operating liabilities: | |
| Accounts payable and accrued expenses | 4,369 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 512,595 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Cash paid for investments | (7,696,620) |
| Proceeds from sale of investments | 7,542,614 |
| Purchases of property and equipment | (4,515) |
| Cash received on principal amount of notes receivable | 7,579 |
| Cash paid for issuance of notes receivable | (36,000) |
| NET CASH USED BY INVESTING ACTIVITIES | (186,942) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 325,653 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 2,372,030 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 2,697,683 |

See Accompanying Notes to Financial Statements

## NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of the Organization

American Brotherhood for the Blind T/A American Action Fund for Blind Children and Adults and T/A Blind Children and Adults Action Fund of America (Action Fund), headquartered in Baltimore, Maryland, is a nonprofit corporation established for the purpose of integrating the blind into society on the basis of equality.

### Basis of Presentation

The Action Fund follows the Presentation of Financial Statements for Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. This pronouncement sets standards for the financial statement presentation for not-for-profit organizations. The Action Fund is required to report information regarding its financial position and activities according to two (2) classes of net assets: without donor restrictions and with donor restrictions based on the existence or absence of donor imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor imposed time and/or purpose restrictions.

Donor restricted net assets include assets held in trust through the donor's lifetime, and scholarship and book funds, where the donor has restricted that only the income may be used for its stated purpose and that the corpus may not be invaded. Donor restricted contributions whose restrictions are met in the same reporting period are reported as revenue within net assets without donor restrictions.

### Revenue Recognition

The Action Fund has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification. In accordance with this standard, contributions received are recorded as without donor restrictions or with donor restrictions. All contributions are considered to be available without restrictions unless specifically restricted by the donor.

### Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of reporting cash flows, the Action Fund considers all highly liquid investments purchased with an original maturity of three (3) months or less to be a cash equivalent.

**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Credit Risk**

The Action Fund maintains its cash balances at several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to insured limits. As of December 31, 2019, the Action Fund's cash balances were in excess of these insured limits. Management believes that the Action Fund is not exposed to any significant credit risk with respect to its cash balances. In addition, the Action Fund generally maintains investment balances in excess of the Securities Investor Protection Corporation (SIPC) limits.

The Action Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, 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 those changes could materially affect the value reported in the financial statements.

**Notes Receivables**

Notes receivable consist of program-related loans to organizations and individuals who support the Action Fund's mission of encouraging independence and supporting entrepreneurship among the blind. Management evaluates the creditworthiness of each borrower prior to the issuance of these loans.

Past due accounts are determined by management based on historical experience and other relevant factors. On a periodic basis, the Action Fund writes off uncollectible balances, after exhausting reasonable collection efforts. Based on management's historical experience, management considers all notes and other receivables to be fully collectible; therefore, no allowance for doubtful accounts has been reflected in the financial statements.

**Investments**

The Action Fund's investment portfolio is classified as trading and is reported at its fair value, based on quoted market prices at December 31, 2019. Realized and unrealized holding gains and losses on trading securities with readily determinable market values are included in net investment income (loss) in the statements of activities.

**Other Investments – Life Insurance**

The Action Fund invests in life insurance policies on members of management. A policy is issued on the insured party, the Action Fund is the owner and beneficiary of the policy and as such pays all premiums.

## NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation. Major additions and betterments are charged to the asset accounts while maintenance and repairs which do not improve or extend the lives of the assets are expensed when incurred. Contributed property is recorded at fair value at the date of donation. Upon the sale or other disposition of assets, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss are included in operations. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the respective assets.

### Valuation of Long-Lived Assets

The Action Fund accounts for the valuation of long-lived assets under the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standards Codification. Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and evaluated at least annually. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position. Management believes the value of long-lived assets exceed the carrying value as of December 31, 2019.

### Accrued Annuity Benefit

The Action Fund had established a charitable gift annuity program where donors may contribute assets to the Action Fund and in return receive a guaranteed fixed income for life. The Action Fund maintains a segregated investment account to hold reserves required for gift annuity instruments. The investment reserve balance related to this program amounted to $360,874. The Action Fund recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability. The gift annuity liability represents monies restricted until the annuity is satisfied.

Annuity benefit liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using interest rates at the date of gift and actuarial assumptions. The calculation of the liability includes the donor's estimated life expectancy. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced as payments are made to the donor. This program has since been discontinued. The annuity benefit liability at December 31, 2019 includes future payments for beneficiaries who entered the program prior to its termination (see Note 3).

## NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income Taxes

The Action Fund is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). There were no income taxes paid on unrelated business activities for the year ended December 31, 2019.

### Accounting for Uncertainty in Income Taxes

The Action Fund adopted the Accounting for Uncertainty in Income Taxes standard of the FASB Accounting Standards Codification. The standard requires the recognition and measurement of uncertain tax positions taken or expected to be taken by the Action Fund in the preparation of its tax returns. The Action Fund determines whether it is more-likely-than-not that a certain tax position will be sustained upon examination by a taxing authority. If an uncertain tax position is more-likely-than-not to be sustained, an estimate of the potential effect is recognized in the financial statements and the uncertain tax position is required to be disclosed. Per the Action Fund's evaluation as of December 31, 2019, including all prior tax years subject to examination, it was determined that no material adjustments were required in the financial statements for tax positions more-likely-than-not to be sustained upon examination by a taxing authority. The Action Fund believes it is no longer subject to income tax examinations for years prior to 2016.

### Donated Services

The Action Fund has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification in the recognition of donated services. Donated services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Donated services consist of volunteer services. Volunteer services are recorded on the basis of time spent at rates paid by other organizations for comparable services. The volunteer services primarily consist of services for the orientation and adjustment to blindness and blindness advocacy, as well as accounting and administrative services. The volunteer services are recorded as both public support and program services; therefore, there is no effect on the change in net assets. No amounts have been reflected in the financial statements for the volunteer accounting and administrative services since they do not meet the criteria for recognition.

**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Functional Expense Allocations**

The financial statements report certain costs that are attributable either to more than one program function and / or to one or more program function in conjunction with one or more supporting function. Such costs are reported according to their natural expense category and then allocated to the appropriate functional category on a reasonable basis that is consistently applied. Salaries are allocated on the basis of estimates of time and effort; occupancy costs are allocated on the basis of square footage; other natural costs are allocated on the basis of management identification based on observation and professional evaluation of the direct benefit of the cost to a particular program function or supporting function.

If a joint cost is incurred for an activity that includes both informational messages and fundraising appeals, that cost is also evaluated on the basis of the content of the messages, reasons for distributing the messages, and the audience to whom the message is distributed.

**New Accounting Standards Adopted**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The ASU requires that the Action Fund recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Action Fund expects to be entitled in exchange for those goods or services. The Action Fund has adopted this ASU as of and for the year ended December 31, 2019. The adoption of this standard did not have significant impact on the recognition of revenue, gains and other support in the statement of activities.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchanged transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchanged transactions. In addition, it clarified whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Action Fund has adopted this ASU as of and for the year ended December 31, 2019. The adoption of this standard did not have significant impact on the recognition of revenue, gains and other support in the statement of activities.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, and subsequently issued related ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall. These standards amend certain aspects of accounting and disclosure requirements for financial instruments. The Action Fund has adopted this ASU as of and for the year ended December 31, 2019. The adoption of this standard did not have a significant impact on the investments valuation.

## NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Subsequent Events

Events that occurred subsequent to December 31, 2019 have been evaluated by the Action Fund's management for potential recognition or disclosure in the financial statements through the date of the independent auditor's report, which is the date the financial statements were available to be issued. The Action Fund did not have any material recognizable subsequent events during this period.

## NOTE 2 – NOTES RECEIVABLES

Notes receivable at December 31, 2019 consists of business and job related loans made with individuals who support the Action Fund's mission of encouraging independence and supporting entrepreneurship among the blind. The loans bears interest at 3% per annum and mature at various dates through June 2025. The outstanding balance due the Action Fund at December 31, 2019 amounted to $40,444.

## NOTE 3 – INVESTMENT – TRUST

An irrevocable trust was created for the eventual benefit of the Action Fund. The terms of the Trust state that upon the death of Ramona Walhof, the property held by the Trust becomes the property without restriction of the Action Fund. The contribution was recognized as income in the year of the donation. The Action Fund has agreed to make annuity payments of approximately $24,000 per year to Mrs. Walhof. The present value of these payments over Mrs. Walhof's remaining lifetime is currently estimated at $107,594 as of December 31, 2019. All provisions of the Trust Agreement remain unchanged.

## NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows as of December 31, 2019:

| | |
|---|---|
| Braille library - collected works | $ 214,045 |
| Office furniture and equipment | 24,066 |
| Braille press equipment | 75,300 |
| Braille lending library | 149,270 |
| | 462,681 |
| Less: Accumulated depreciation | (240,591) |
| Property and equipment - net | $ 222,090 |

Depreciation expense for the year ended December 31, 2019 amounted to $957. Property and equipment includes a Braille library – collected works that is considered historical treasures and as such, no depreciation is recognized on this asset.

## NOTE 5 – FAIR VALUE MEASUREMENTS

The Action Fund accounts for the fair value of its investments under the Fair Value Measurement topic of the FASB Accounting Standards Codification, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three (3) levels of the fair value hierarchy under this guidance are described as follows:

### Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Action Fund has the ability to access.

### Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

### Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

*Annuities:* Valued at accumulated value, net of surrender charges.

*Mutual funds, common and preferred stocks, and corporate bonds:* Valued at the daily closing price as reported by the funds/bonds. They are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV), to transact at that price, and are deemed to be actively traded.

*Alternative investments:* Consists of mutual funds which are illiquid and valued at net asset value (NAV) using daily, monthly and quarterly valuations.

## NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

*Investments in life insurance:* Valued at accumulated value, net of surrender charges.

*Accrued annuity benefits:* Valued at the present value of expected future cash payments discounted using the interest rates at the time of the gift and actuarial assumptions.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Action Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There have been no changes in the methodologies used at December 31, 2019. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The following table sets forth by level, within the fair value hierarchy, the Action Fund's assets and liabilities at fair value at December 31, 2019:

| Payor Class | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Annuities | $ - | $ - | $ 580,265 | $ 580,265 |
| Corporate bonds | 266,147 | - | - | 266,147 |
| Common and preferred stocks | 800,891 | - | - | 800,891 |
| Mutual funds | 23,241,529 | - | - | 23,241,529 |
| Alternative investments | - | 3,468,287 | - | 3,468,287 |
| Investments subtotal | 24,308,567 | 3,468,287 | 580,265 | 28,357,119 |
| Other investments - life insurance | - | - | 2,077,461 | 2,077,461 |
| Assets at Fair Value | $ 24,308,567 | $ 3,468,287 | $ 2,657,726 | $ 30,434,580 |
| Liabilities: | | | | |
| Accrued annuity benefits | $ - | $ - | $ 107,594 | $ 107,594 |

Included in these investments are certain private equities that have unfunded commitments of $280,000 as of December 31, 2019.

## NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth a summary of changes in the fair value of Action Fund's level 3 assets and liabilities during the year ended December 31, 2019:

| | Level 3 Assets | Level 3 Liabilities |
|---|---|---|
| Balance - beginning of year | $ 2,456,716 | $ 109,902 |
| Accrued annuity benefit adjustment | - | (2,308) |
| Transfer of investments | (70,000) | - |
| Return on annuity investment | 9,436 | - |
| Increase in cash surrender value | 261,574 | - |
| Balance - end of year | $ 2,657,726 | $ 107,594 |

The Action Fund's return on investments for the year ended December 31, 2019 consisted of the following components:

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Interest and dividends | $ 1,138,128 | $ 16,016 | $ 1,154,144 |
| Net realized gains | 1,005,967 | (3,150) | 1,002,817 |
| Net change in unrealized gains | 3,109,502 | 58,759 | 3,168,261 |
| Life insurance - net of premiums | 46,236 | - | 46,236 |
| Investment expense | (209,450) | (24,000) | (233,450) |
| Total return on investments | $ 5,090,383 | $ 47,625 | $ 5,138,008 |

## NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31, 2019 are as follows:

| | |
|---|---|
| Investment in property and equipment | $ 222,090 |
| Undesignated | 32,734,649 |
| Total net assets without donor restrictions | $ 32,956,739 |

## NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 are as follows:

| | | |
|---|---|---|
| Scholarship fund | $ | 50,000 |
| Book fund | | 50,000 |
| Assets held in trust | | 253,364 |
| Total net assets with donor restrictions | $ | 353,364 |

## NOTE 8 – ALLOCATION OF JOINT COSTS

The Action Fund incurred joint costs of $1,364,296 for information materials and activities that included fund raising appeals. Of those costs, $695,791 was allocated to fundraising expense and $668,505 was allocated to specialized programs and services. Management based these allocations on an analysis of the content of the materials, reasons for distributing the materials and the audience to whom the materials were distributed.

## NOTE 9 – RETIREMENT PLAN

The Action Fund has a qualified 403(b) retirement plan for the benefit of all eligible employees. Eligible employees may make voluntary contributions to the plan not to exceed the Internal Revenue Service limits. The Action Fund did not make any contributions to the plan during the year. In addition, the Action Fund adopted a nonqualifying 457(b) retirement plan. The Action Fund’s contribution to this plan for the year ended December 31, 2019 amounted to $19,000.

## NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Action Fund's financial assets available to meet cash needs for general expenditures within one year of December 31, 2019 are as follows:

| | |
|---|---|
| Cash and cash equivalents | $ 2,697,683 |
| Notes receivables | 40,444 |
| Investments | 27,996,245 |
| Investment - Trust, net of liabilities | 253,364 |
| Other investments - life insurance | 2,077,461 |
| Total financial assets | 33,065,197 |
| Donor imposed restrictions | |
| Scholarship fund | (50,000) |
| Book fund | (50,000) |
| Assets held in trust | (253,364) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 32,711,833 |

As part of the Action Fund's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Action Fund invests cash in excess of daily requirements in short term investments. General expenditures are expenses the Action Fund expects to disburse for program and supporting services.