

AMERICAN BANKRUPTCY INSTITUTE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

**AMERICAN BANKRUPTCY INSTITUTE
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Bankruptcy Institute
Alexandria, Virginia

We have audited the accompanying financial statements of American Bankruptcy Institute, which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Board of Directors
American Bankruptcy Institute

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Bankruptcy Institute as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Arlington, Virginia
March 27, 2018

**AMERICAN BANKRUPTCY INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 205,726	\$ 204,143
Investments	17,756,197	18,282,220
Accounts Receivable	250,380	186,871
Due from Related Party	503	43,342
Interest Receivable	20,278	27,890
Contributions Receivable, Net	120,418	178,316
Prepaid Expenses	399,997	416,320
Property and Equipment, Net	68,010	132,374
Deposits	117,371	117,371
Deferred Compensation Plan	146,508	108,116
	<u>\$ 19,085,388</u>	<u>\$ 19,696,963</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Obligations	\$ 898,303	\$ 1,017,285
Capital Leases Payable	27,656	32,551
Deferred Revenue	2,397,529	2,286,445
Deferred Rent	726,360	859,021
Deferred Compensation Plan	146,508	108,116
Total Liabilities	<u>4,196,356</u>	<u>4,303,418</u>
NET ASSETS		
Unrestricted:		
Undesignated	5,811,422	6,442,804
Board Designated Reserve	8,826,429	8,643,361
Total Unrestricted	<u>14,637,851</u>	<u>15,086,165</u>
Temporarily Restricted	251,181	307,380
Total Net Assets	<u>14,889,032</u>	<u>15,393,545</u>
Total Liabilities and Net Assets	<u>\$ 19,085,388</u>	<u>\$ 19,696,963</u>

See accompanying Notes to Financial Statements.

AMERICAN BANKRUPTCY INSTITUTE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Conferences and Meetings	\$ 4,723,136	\$ -	\$ 4,723,136	\$ 4,728,780	\$ -	\$ 4,728,780
Membership Dues	2,510,658	-	2,510,658	2,570,658	-	2,570,658
Publications and Other Income	986,920	-	986,920	1,046,631	-	1,046,631
Investment Income	628,416	-	628,416	470,320	-	470,320
Contributions	217,845	122,022	339,867	255,431	121,729	377,160
Net Assets Released from Restriction	178,221	(178,221)	-	125,122	(125,122)	-
Total Revenue	<u>9,245,196</u>	<u>(56,199)</u>	<u>9,188,997</u>	<u>9,196,942</u>	<u>(3,393)</u>	<u>9,193,549</u>
EXPENSE						
Program Expense:						
Conferences and Meetings	4,192,623	-	4,192,623	4,714,845	-	4,714,845
Publications and Other Sales	2,485,790	-	2,485,790	2,303,378	-	2,303,378
Membership Services	779,690	-	779,690	626,940	-	626,940
Research Projects and Grants	617,229	-	617,229	365,301	-	365,301
CARE Program	123,478	-	123,478	116,399	-	116,399
Total Program Expense	<u>8,198,810</u>	<u>-</u>	<u>8,198,810</u>	<u>8,126,863</u>	<u>-</u>	<u>8,126,863</u>
Supporting Expense:						
General and Administrative	1,072,559	-	1,072,559	1,119,186	-	1,119,186
Membership Development	242,386	-	242,386	240,216	-	240,216
Fundraising	179,755	-	179,755	164,600	-	164,600
Total Supporting Expense	<u>1,494,700</u>	<u>-</u>	<u>1,494,700</u>	<u>1,524,002</u>	<u>-</u>	<u>1,524,002</u>
Total Expense	<u>9,693,510</u>	<u>-</u>	<u>9,693,510</u>	<u>9,650,865</u>	<u>-</u>	<u>9,650,865</u>
CHANGE IN NET ASSETS	(448,314)	(56,199)	(504,513)	(453,923)	(3,393)	(457,316)
Net Assets - Beginning of Year	<u>15,086,165</u>	<u>307,380</u>	<u>15,393,545</u>	<u>15,540,088</u>	<u>310,773</u>	<u>15,850,861</u>
NET ASSETS - END OF YEAR	<u>\$ 14,637,851</u>	<u>\$ 251,181</u>	<u>\$ 14,889,032</u>	<u>\$ 15,086,165</u>	<u>\$ 307,380</u>	<u>\$ 15,393,545</u>

See accompanying Notes to Financial Statements.

**AMERICAN BANKRUPTCY INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (504,513)	\$ (457,316)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	89,574	105,209
Loss on Disposal of Property and Equipment	-	452
Provision for Bad Debt	(6,360)	262
Discount of Contributions Receivable	433	1,549
Realized (Gain) Loss on Investments	(340)	13,449
Unrealized Gain on Investments	(289,916)	(168,430)
(Increase) Decrease in:		
Accounts Receivable	(57,149)	(90,503)
Due from Related Party	42,839	(43,342)
Interest Receivable	7,612	(21,813)
Contributions Receivable	57,465	(71,719)
Prepaid Expenses	16,323	(108,468)
Deposits	-	(70,422)
Increase (Decrease) in:		
Accounts Payable and Other Obligations	(118,982)	124,894
CARE Grant Payable	-	(1,000,000)
Deferred Revenue	111,084	(228,405)
Deferred Rent	(132,661)	573,848
Net Cash Used by Operating Activities	(784,591)	(1,440,755)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(18,862,508)	(14,291,752)
Proceeds on Sales of Investments	19,678,787	15,662,434
Purchases of Property and Equipment	(18,683)	-
Net Cash Provided by Investing Activities	797,596	1,370,682
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Leases Payable	(11,422)	(24,264)
Net Cash Used by Financing Activities	(11,422)	(24,264)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,583	(94,337)
Cash and Cash Equivalents - Beginning of Year	204,143	298,480
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 205,726	\$ 204,143
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Period for Interest	\$ 1,694	\$ 2,048
Acquisition of Equipment under Capital Lease	\$ 6,527	\$ 23,200

See accompanying Notes to Financial Statements.

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

American Bankruptcy Institute (the Organization) was founded in 1982 as a nonprofit and nonpartisan educational institution. The Organization provides a multi-disciplinary forum for the exchange of ideas and information on insolvency, reorganization, and bankruptcy issues. Through the Organization, 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, the Organization 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.

The Organization's major programs consist of the following:

Conferences and Meetings

The Organization 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

The Organization produces various publications and journals that represent its commitment to the ongoing enhancement of quality education on insolvency topics. Additionally, the Organization 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

The Organization 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

The Organization provides funding and scholarships to enhance bankruptcy research and education.

CARE Program

The Credit Abuse Resistance Education (CARE) program seeks to educate high school and college students on the responsible use of credit and other fundamentals of financial literacy, as well as the potential consequences of poor money management and credit card abuse. The program was founded by now-retired Western District of New York U.S. Bankruptcy Judge John C. Ninfo II. In December 2012, the original corporation was dissolved and temporarily became a program under the Organization. In order to focus more on the original mission and to distinguish itself for fundraising purposes, CARE reincorporated as a separate corporation in August of 2015. CARE program expenses that are reported in the accompanying statements of activities and changes in net assets relate to staff time and overhead related to providing accounting, IT and other services to CARE.

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses when the obligation is incurred.

Basis of Presentation

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. Includes undesignated net assets available for general operations and the Board Designated Reserve, which consists of unrestricted net assets designated by the board of directors for research and educational activities.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid debt instruments with initial maturities of ninety days or less to be cash equivalents. From time to time the Organization maintains cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Investments

Investments are stated at fair value and consist of certificates of deposit, money market funds, mutual funds - bonds, exchange traded funds, equities, and bond securities. Realized and unrealized gains or losses are included in investment income in the statements of activities and changes in net assets.

Fair Value Measurements

The Organization accounts for its financial instruments as well as certain assets and liabilities at fair value. Fair value is defined as the price that would be paid in an orderly transaction, or exit price, between market participants to sell the asset or transfer the liability in the principal or most advantageous market for the asset or liability. Fair value is a market based measurement, not an entity-specific measurement, and should therefore be determined based on the assumptions that market participants would use in pricing the asset or liability.

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Organization is required by generally accepted accounting principles to categorize its financial instruments based on a three-level fair value hierarchy. The 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 the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument. Financial instruments recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The Organization has certificates of deposits and various bond securities classified at this level.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Organization has no investments classified at this level.

Accounts Receivable

Accounts receivable consist of amounts due to the Organization from sponsorships and the sale of advertising space in the American Bankruptcy Institute Journal. The Organization's management periodically reviews the status of these receivables for collectability, which is assessed on management's knowledge of the relationship with the customer and the age of the receivable. Based on these reviews and the nature of the receivables, management believes all accounts receivable are collectible and accordingly has not recorded an allowance for doubtful accounts as of December 31, 2017 and 2016.

Contributions Receivable

Contributions receivable consist of pledges individuals or companies have made to the Organization. The face amount of the contributions receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts (see Note 4).

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment greater than \$2,500 are recorded at the original cost and are being depreciated on a straight-line basis over estimated lives of three to five years. Leasehold improvements are amortized over the life of the assets or the remaining period of the lease, whichever is shorter.

Deferred Revenue

Deferred revenue represents members' dues recognized over the applicable membership period or member dues received before the membership period, and income for conferences and meetings received in advance of the event.

Revenue Recognition

Conferences and Meetings

Conferences and meetings revenue is recognized when the event takes place.

Membership Dues

Membership dues are recognized as revenue over the applicable membership period. Membership dues collected in advance are included in deferred revenue.

Publications and Other Sales

Publication and other sales consist of advertising, publication sales, and sponsorship revenue and are recognized when the publication is issued.

Contributions

The Organization recognizes all unconditional contributions received as income in the period received or pledged. Unconditional contributions are reported as unrestricted, temporarily restricted or permanently restricted depending on the absence or existence of donor stipulations that limit the use of the contributions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Use of Accounting 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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates.

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. However, the Organization is subject to tax on its unrelated business income activities (primarily advertising). No expense was recorded for unrelated business income taxes for the years ended December 31, 2017 and 2016.

The Organization's income tax returns are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Upcoming Pronouncements

Presentation of Financial Statements of Not-for-Profit Entities – In August 2016, the Financial Accounting Standards Board (FASB) amended guidance to modify the current reporting model for nonprofit organizations and enhance their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and direct expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The guidance is effective for annual reporting periods beginning after December 15, 2017. The provisions of the standard must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of their pending adoption of the new standard on the financial statements.

Revenue from Contracts with Customers – In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Organization for annual reporting periods beginning after December 15, 2018. Management is evaluating the effect of the amended revenue recognition guidance on the entity's financial statements.

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events for potential recognition or disclosure in these financial statements through March 27, 2018, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS

Investments are recorded at fair value and consisted of the following at December 31:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Undesignated:				
Money Market Funds	\$ 296,701	\$ 296,701	\$ 531,239	\$ 531,239
Certificates of Deposit	1,440,000	1,439,870	1,680,000	1,680,029
Mutual Funds - Equities	1,392,777	1,762,747	1,740,679	1,884,744
Mutual Funds - Fixed Income	4,347,814	4,174,552	4,227,496	4,078,247
Corporate Bonds	572,054	560,550	609,476	491,308
Gov't Bonds	357,342	345,079	-	-
Gov't Securities	119,584	116,621	423,239	513,489
Municipal Bonds	584,795	565,793	594,869	574,463
Sub Total	9,111,067	9,261,913	9,806,998	9,753,519
Board Designated Reserve:				
Money Market Funds	510,095	510,095	349,254	349,254
Certificates of Deposit	4,080,000	4,079,402	4,249,711	4,249,063
Mutual Funds - Bonds	3,986,736	3,904,787	3,999,814	3,930,384
Sub Total	8,576,831	8,494,284	8,598,779	8,528,701
Total	\$ 17,687,898	\$ 17,756,197	\$ 18,405,777	\$ 18,282,220

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 2 INVESTMENTS (CONTINUED)

Investment income consisted of the following for the years ended December 31:

2017	Undesignated	Board Designated Reserve	Total
Interest and Dividends	\$ 208,182	\$ 129,978	\$ 338,160
Realized Gain	340	-	340
Unrealized Gain (Loss)	315,462	(25,546)	289,916
Total	<u>\$ 523,984</u>	<u>\$ 104,432</u>	<u>\$ 628,416</u>
2016	Undesignated	Board Designated Reserve	Total
Interest and Dividends	\$ 203,253	\$ 112,086	\$ 315,339
Realized Loss	(13,449)	-	(13,449)
Unrealized Gain (Loss)	176,752	(8,322)	168,430
Total	<u>\$ 366,556</u>	<u>\$ 103,764</u>	<u>\$ 470,320</u>

NOTE 3 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures (see Note 1).

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments, Undesignated:				
Money Market Funds	\$ 296,701	\$ -	\$ -	\$ 296,701
Certificates of Deposit	-	1,439,870	-	1,439,870
Mutual Funds - Equities	1,762,747	-	-	1,762,747
Mutual Funds - Fixed Income	4,174,552	-	-	4,174,552
Corporate Bonds	-	560,550	-	560,550
Gov't Bonds	-	345,079	-	345,079
Gov't Securities	-	116,621	-	116,621
Municipal Bonds	-	565,793	-	565,793
Sub Total	<u>6,234,000</u>	<u>3,027,913</u>	-	<u>9,261,913</u>
Investments, Board Designated:				
Certificates of Deposit	-	4,079,402	-	4,079,402
Money Market Funds	510,095	-	-	510,095
Mutual Funds - Fixed Income	<u>3,904,787</u>	-	-	<u>3,904,787</u>
Sub Total	<u>4,414,882</u>	<u>4,079,402</u>	-	<u>8,494,284</u>
Deferred Compensation Plan				
Mutual Funds - Equity	146,505	-	-	146,505
Money Market Funds	<u>3</u>	-	-	<u>3</u>
Sub Total	<u>146,508</u>	-	-	<u>146,508</u>
Total	<u>\$ 10,795,390</u>	<u>\$ 7,107,315</u>	<u>\$ -</u>	<u>\$ 17,902,705</u>

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Investments, Undesignated:				
Money Market Funds	\$ 531,239	\$ -	\$ -	\$ 531,239
Certificates of Deposit	-	1,680,029	-	1,680,029
Mutual Funds - Equities	1,884,744	-	-	1,884,744
Mutual Funds - Fixed Income	4,078,247	-	-	4,078,247
Corporate Bonds	-	491,308	-	491,308
Gov't Securities	-	513,489	-	513,489
Municipal Bonds	-	574,463	-	574,463
Sub Total	6,494,230	3,259,289	-	9,753,519
Investments, Board Designated:				
Certificates of Deposit	-	4,249,063	-	4,249,063
Money Market Funds	349,254	-	-	349,254
Mutual Funds - Fixed Income	3,930,384	-	-	3,930,384
Sub Total	4,279,638	4,249,063	-	8,528,701
Deferred Compensation Plan				
Mutual Funds - Equity	108,017	-	-	108,017
Money Market Funds	99	-	-	99
Sub Total	108,116	-	-	108,116
Total	<u>\$ 10,881,984</u>	<u>\$ 7,508,352</u>	<u>\$ -</u>	<u>\$ 18,390,336</u>

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable relate to the Board Designated Reserve program. They are unconditional, are to be received over a period up to five years, and have been discounted to their present value at December 31, 2017 and 2016. The following amounts are to be received as of December 31:

	2017	2016
Receivable in Less Than One Year	\$ 41,938	\$ 64,944
Receivable in One to Five Years	93,396	126,944
Total	135,334	191,888
Less: Present Value Discount	(6,779)	(7,212)
Less: Allowance for Doubtful Accounts	(8,137)	(6,360)
Total	<u>\$ 120,418</u>	<u>\$ 178,316</u>

The contributions receivable due after one year have been discounted to their present value using a risk-adjusted discount rate of 2.50% to 2.03% in 2017 and 1.45% to 2.50% in 2016.

**AMERICAN BANKRUPTCY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and Equipment	\$ 132,335	\$ 164,368
Network and Database	319,287	352,467
Leasehold Improvements	<u>241,853</u>	<u>227,216</u>
Total	693,475	744,051
Less: Accumulated Depreciation and Amortization	<u>(625,465)</u>	<u>(611,677)</u>
Net	<u><u>\$ 68,010</u></u>	<u><u>\$ 132,374</u></u>

NOTE 6 CAPITAL LEASES

The Organization has entered into leases for copiers and equipment. These assets are included and reported in property and equipment in the statements of financial position. Amortization of the assets under the capital leases are included in depreciation expense for the years ended December 31, 2017 and 2016. The leases expire at various dates from February 2019 through October 2022.

The future minimum lease payments at December 31, 2017 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 13,026
2019	9,266
2020	6,969
2021	2,334
2022	<u>1,945</u>
Total Minimum Lease Payments	33,540
Amount Representing Interest	<u>(5,884)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 27,656</u></u>

The amount capitalized for lease arrangements and included in property and equipment in the statements of financial position is as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Leased Equipment	\$ 46,227	\$ 63,530
Less: Accumulated Depreciation	<u>(19,112)</u>	<u>(31,022)</u>
Furniture and Equipment, Net	<u><u>\$ 27,115</u></u>	<u><u>\$ 32,508</u></u>

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NOTE 7 DEFERRED REVENUE

Deferred revenue consists of the following as of December 31:

	2017	2016
Member Dues	\$ 1,920,949	\$ 1,881,603
Meetings and Conferences	415,719	384,345
Advertising	47,411	16,747
Other	13,450	3,750
Total	\$ 2,397,529	\$ 2,286,445

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	2017	2016
Time restricted:		
Board Designated Reserve		
Contributions Receivable	\$ 120,418	\$ 178,316
Total time restricted	120,418	178,316
Purpose restricted:		
Shapiro Symposium Grant	72,910	-
National Conference of Bankruptcy Judges Grant	16,858	18,567
National Conference of Bankruptcy Judges Conference Grant	32,929	97,987
West Grant	8,066	12,510
Total purpose restricted	130,763	129,064
Total temporarily restricted	\$ 251,181	\$ 307,380

NOTE 9 BOARD DESIGNATED RESERVE

Board Designated Endowment Fund

The board of directors authorized the establishment of the endowment fund in 1989 to provide an ongoing source of funding of research and education. Funds contributed to the Organization and designated for the endowment fund are unrestricted assets of the Organization, available for expenditure for any purpose authorized by the corporate charter, the by-laws, and applicable law. Notwithstanding the unrestricted nature of the funds contributed to the Organization and designated for the Endowment Fund, such funds shall be kept in one or more accounts that are segregated from other funds of the Organization. The research committee is responsible for recommending and overseeing grants, subject to executive committee approval.

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NOTE 9 BOARD DESIGNATED RESERVE (CONTINUED)

Return Objectives and Risk Parameters

Management of the endowment assets is designed 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, the Organization'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 the Organization's Investment Policy.

Spending Policy

Expenditure of the principal of funds contributed to the Organization and designated for the Endowment Fund would require a 2/3 vote of the board of directors. Historically, the Organization has limited spending to earnings only and anticipates continuing to do so going forward.

Changes in the board designated endowment funds for the years ended December 31, 2017 and 2016, are as follows:

	Unrestricted
Board Designated Reserve, December 31, 2015	\$ 8,293,528
Board Designation of Funds	340,695
Investment Income	103,765
Appropriations	(94,627)
Board Designated Reserve, December 31, 2016	8,643,361
Board Designation of Funds	384,183
Investment Income	104,722
Appropriations	(305,837)
Board Designated Reserve, December 31, 2017	\$ 8,826,429

NOTE 10 RETIREMENT PLANS

Defined Contribution Plan

The Organization maintains a defined contribution retirement plan under the Internal Revenue Code Section 403(b). Employees are eligible to participate following six months of service. The Organization matches up to the first 6% of an eligible employee's gross salary. For the years ended December 31, 2017 and 2016, the Organization incurred plan expenses of \$151,261 and \$142,847, respectively.

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NOTE 10 RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plan

The Organization established deferred compensation plans under Sections 457(b) and 457(f) of the Internal Revenue Code (the IRC) during 2011 for the purpose of providing benefits to certain selected employees. The expense for benefits under these plans was \$28,001 and \$16,935 for 2017 and 2016, respectively. The assets in the 457(b) plan are held by the Organization, subject to the claims of its general creditors, until the employee becomes eligible for withdrawals as provided in the plan agreement. There were no distributions made from the plan in 2017 or 2016. The assets and the related liability have been reflected in the Organization's statements of financial position at December 31, 2017 and 2016.

NOTE 11 RELATED PARTY TRANSACTIONS

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. The board of directors is separate and apart from the board of directors of the Organization. CARE and the Organization entered into a management agreement effective January 1, 2016, whereby the Organization agrees to provide office space and management services to CARE for a monthly management fee of \$7,500. Total revenue recognized under this agreement was \$90,000 for each of the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, amounts receivable from CARE totaled \$503 and \$43,342, respectively.

NOTE 12 COMMITMENTS

Leases

In December 2012, the Organization entered into an agreement, as subtenant, for an operating lease for space in Alexandria, Virginia. In accordance with the lease, the Organization received partial space rent-free and leasehold concessions valued at \$166,928, and is subject to a 3% escalation clause for part of the space. The Organization has recorded rent expense for this space on a straight-line basis and established a deferred rent liability to be charged to rent expense over the life of the lease.

In March 2016, a new lease of the same office space was signed directly with the landlord of the building. Tenancy will commence on April 2018 and continue until October 31, 2023 (subject to renewal). In conjunction with this new lease, the Organization received a cash incentive from the landlord totaling \$688,578. This amount was added to the deferred rent liability and will be amortized to rent expense on a straight-line basis once the new lease term commences.

As of December 31, 2017 and 2016, the total deferred rent liability was \$726,360 and \$859,021, respectively.

The Organization is also obligated as a lessee under a noncancelable operating lease, expiring in 2018, for equipment.

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NOTE 12 COMMITMENTS (CONTINUED)

Leases (Continued)

The following is a schedule by years of future minimum rental payments required under the operating leases that have an initial or remaining noncancelable lease term in excess of one year as of December 31, 2017:

<u>Years Ending December 31:</u>	<u>Office Lease</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 299,368	\$ 2,242	\$ 301,610
2019	860,879	-	860,879
2020	882,423	-	882,423
2021	904,437	-	904,437
2022	927,024	-	927,024
Thereafter	790,891	-	790,891
 Total	 <u>\$ 4,665,022</u>	 <u>\$ 2,242</u>	 <u>\$ 4,667,264</u>

Total rent expense for the years ended December 31, 2017 and 2016, was \$508,437 and \$514,827, respectively.

Employee Contract

The Organization has an employment agreement with its Executive Director through December 31, 2020. The terms of the agreement stipulate that, if his employment is terminated without cause during his employment, the Organization will continue to pay his salary for a period of nine months subsequent to the effective date of such termination.

Conference Facilities

The Organization reserves spaces for its conferences several years in advance. The contracts contain various performance requirements including penalties for cancellation of the events. As of December 31, 2017, the maximum contingency for liquidated damages is approximately \$2,690,000.