

# **National Restaurant Association Educational Foundation**

Financial Report  
December 31, 2017

## Contents

---

Independent auditor's report	1-2
------------------------------	-----

---

Financial statements	
Statements of financial position	3
Statements of activities	4-5
Statement of cash flows	6
Notes to financial statements	7-16

---

Supplementary information	
Schedules of expenses	17

---

## Independent Auditor's Report

To the Board of Trustees  
National Restaurant Association  
Educational Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of National Restaurant Association Educational Foundation (Foundation) which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities 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.

### Auditor's 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 audits 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 the Foundation 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. 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 information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Chicago, Illinois  
April 12, 2018

**National Restaurant Association Educational Foundation**

**Statements of Financial Position  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 1,420,080	\$ 886,085
Contributions receivable, net of allowance	2,822,363	2,576,995
Contract receivable	220,437	-
Accrued investment income	21,998	15,436
Due from (to) the National Restaurant Association	166,000	(121,569)
Prepaid expenses and other assets	264,340	269,304
	<u>4,915,218</u>	<u>3,626,251</u>
Contributions receivable, net of current portion and discount	1,935,400	2,120,400
Investments	19,896,369	17,730,231
Property and equipment, net	2,902,058	3,153,084
	<u>\$ 29,649,045</u>	<u>\$ 26,629,966</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 401,271	\$ 124,951
Accrued expenses	687,569	490,589
Scholarships payable	139,500	351,000
Deferred revenue	323,600	182,775
	<u>1,551,940</u>	<u>1,149,315</u>
Net assets:		
Unrestricted	10,827,356	9,945,463
Temporarily restricted	7,500,412	6,093,351
Permanently restricted	9,769,337	9,441,837
	<u>28,097,105</u>	<u>25,480,651</u>
	<u>\$ 29,649,045</u>	<u>\$ 26,629,966</u>

See notes to financial statements.

**National Restaurant Association Educational Foundation**

**Statements of Activities**

**Year Ended December 31, 2017 (With Comparative Totals for 2016)**

	2017			Total	2016 Total*
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
License fee revenue	\$ 4,662,373	\$ -	\$ -	\$ 4,662,373	\$ 4,442,856
Contributions	1,421,460	3,454,610	327,500	5,203,570	4,635,807
Events	551,075	-	-	551,075	368,051
Contract revenue	2,072,060	-	-	2,072,060	180,877
Net assets released from restrictions	3,588,669	(3,588,669)	-	-	-
	<u>12,295,637</u>	<u>(134,059)</u>	<u>327,500</u>	<u>12,489,078</u>	<u>9,627,591</u>
Expenses:					
Program activities	8,318,142	-	-	8,318,142	5,608,232
Scholarships awarded	546,534	-	-	546,534	1,032,818
Administrative	816,850	-	-	816,850	569,023
Fundraising activities	2,254,894	-	-	2,254,894	2,248,120
	<u>11,936,420</u>	<u>-</u>	<u>-</u>	<u>11,936,420</u>	<u>9,458,193</u>
<b>Increase (decrease) in net assets before other changes</b>	359,217	(134,059)	327,500	552,658	169,398
Other changes:					
Investment return	522,676	1,541,120	-	2,063,796	756,581
<b>Increase in net assets</b>	881,893	1,407,061	327,500	2,616,454	925,979
Net assets:					
Beginning of year	9,945,463	6,093,351	9,441,837	25,480,651	24,554,672
End of year	<u>\$ 10,827,356</u>	<u>\$ 7,500,412</u>	<u>\$ 9,769,337</u>	<u>\$ 28,097,105</u>	<u>\$ 25,480,651</u>

\*2016 information is provided for informational purposes only.

Refer to page 5 for complete presentation of the 2016 Statement of Activities and net asset classifications.

See notes to financial statements.

**National Restaurant Association Educational Foundation**

**Statement of Activities  
Year Ended December 31, 2016**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
License fee revenue	\$ 4,442,856	\$ -	\$ -	\$ 4,442,856
Contributions	1,001,094	3,348,713	286,000	4,635,807
Events	368,051	-	-	368,051
Contract revenue	180,877	-	-	180,877
Net assets released from restrictions	3,079,580	(3,079,580)	-	-
	<u>9,072,458</u>	<u>269,133</u>	<u>286,000</u>	<u>9,627,591</u>
Expenses:				
Program activities	5,608,232	-	-	5,608,232
Scholarships awarded	1,032,818	-	-	1,032,818
Administrative	569,023	-	-	569,023
Fundraising activities	2,248,120	-	-	2,248,120
	<u>9,458,193</u>	<u>-</u>	<u>-</u>	<u>9,458,193</u>
<b>Increase (decrease) in net assets before other changes</b>	(385,735)	269,133	286,000	169,398
Other changes:				
Investment return	265,299	491,282	-	756,581
<b>Increase (decrease) in net assets</b>	(120,436)	760,415	286,000	925,979
Net assets:				
Beginning of year	10,065,899	5,332,936	9,155,837	24,554,672
End of year	<u>\$ 9,945,463</u>	<u>\$ 6,093,351</u>	<u>\$ 9,441,837</u>	<u>\$ 25,480,651</u>

See notes to financial statements.

**National Restaurant Association Educational Foundation**

**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 2,616,454	\$ 925,979
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	298,425	273,320
Realized and unrealized gain on investments	(1,699,353)	(448,973)
Contributions restricted for investment in endowments	(327,500)	(286,000)
Changes in assets and liabilities:		
Contributions receivable	(60,368)	(241,326)
Contract receivable	(220,437)	-
Accrued investment income	(6,562)	(736)
Due to / from National Restaurant Association	(287,569)	157,256
Prepaid expenses and other assets	4,964	(53,328)
Accounts payable	276,320	(195,888)
Accrued expenses	196,980	106,972
Scholarships payable	(211,500)	35,500
Deferred revenue	140,825	109,425
Other liability	-	(29,752)
<b>Net cash provided by operating activities</b>	<b>720,679</b>	<b>352,449</b>
Cash flows from investing activities:		
Purchases of property and equipment	(47,399)	(267,547)
Proceeds from the sale of investments	10,012,700	9,963,923
Purchase of investments	(10,479,485)	(10,379,980)
<b>Net cash used in investing activities</b>	<b>(514,184)</b>	<b>(683,604)</b>
Cash flows from financing activities:		
Contributions restricted for investment in endowments	327,500	286,000
<b>Net cash provided by financing activities</b>	<b>327,500</b>	<b>286,000</b>
<b>Net increase (decrease) in cash</b>	<b>533,995</b>	<b>(45,155)</b>
Cash:		
Beginning of year	886,085	931,240
End of year	<b>\$ 1,420,080</b>	<b>\$ 886,085</b>

See notes to financial statements.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies

The National Restaurant Association Educational Foundation (Foundation), a nonprofit organization, was formed in 1987. The Foundation's mission is to serve as a philanthropic foundation of the National Restaurant Association (Association) to enhance the restaurant and foodservice industry's service to the public through education, community engagement and promotion of career opportunities.

The Foundation is closely affiliated with the Association (also a nonprofit organization). The Foundation's Board of Trustees consists of various members, a majority of which are members of the Association's Board of Directors. The Foundation's financial statements are therefore included in the Association's consolidated financial statements. License fees, a significant portion of the Foundation's revenue, are received from the Association. Also, the Association provides various administrative and support services for the Foundation, for which the Foundation reimburses the Association for costs incurred.

The Foundation is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and applicable state law except for taxes pertaining to unrelated business income, if any.

The Foundation conducts its activities from its headquarters in Washington, DC.

The Foundation's significant accounting policies are described below:

**Basis of accounting:** The financial statements have been prepared in accordance with accounting principles applicable to nonprofit organizations. For financial reporting purposes, the Foundation classifies its activities as unrestricted, temporarily or permanently restricted based on the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted:* Net assets that are not subject to donor-imposed restrictions are reported as unrestricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

*Temporarily Restricted:* The Foundation reports gifts of cash, investments and grants as temporarily restricted if they are received with donor stipulations limiting the use of the donated assets. When a restriction is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted:* Net assets subject to donor-imposed restrictions which require that they be maintained permanently (in perpetuity) by the Foundation are reported as permanently restricted. Generally, the donors of such assets permit the Foundation to use all or part of the income earned on the related investments for general or specific purposes.

**Accounting policies:** The Foundation follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial position, results of activities, and cash flows. References to generally accepted accounting principles in these disclosures are to the *FASB Accounting Standards Codification™*, sometimes referred to as the Codification or ASC.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Cash:** Cash balances in depository accounts may exceed federally insured limits from time to time. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash.

**Investments:** Investment income, realized gains (losses), and change in unrealized gains (losses), and investment fees are reflected in the statements of activities as investment return. Investments received as contributions are recorded at fair value at the date of receipt.

The Foundation's investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that changes in the fair value of investments may occur, and that such changes could materially affect the Foundation's financial statements.

**Property and equipment:** Property and equipment are stated at cost, minus accumulated depreciation, except for donated assets, which are recorded at fair value at time of receipt. Disbursements for additions and improvements to existing property in amounts greater than \$1,000 are capitalized, while general maintenance and repairs are charged to expense. The cost and accumulated depreciation of items sold or retired are removed from the property and equipment account and any gain or loss upon disposition is recognized at that time. The office condominium is depreciated over a 40-year estimated useful life. Provisions for depreciation of office furniture and equipment are computed using the straight-line method over a five-year estimated useful life. Leasehold improvements are amortized using the straight-line method over the lesser of the remaining term of the lease or the estimated useful life of the assets. Software is amortized over a three- or five-year estimated life. Depreciation begins when respective assets are placed in service.

**Revenue recognition:** License fee revenue is recognized as revenue according to the terms of a contract as sales occur. Revenue for various programs are recognized as earned. Amounts collected in advance for future events are recorded as deferred revenue. Revenue from contracts is recognized as it is earned, per written agreement, which is generally in the period when the services are performed.

The Foundation reports contributions, including unconditional promises to give, as revenue in the period the contribution or promise is received. Contributions receivable represent amounts pledged by donors (unconditional promises to give), some of which is due in installments. Amounts due on dates which are more than one year in the future are classified as a non-current asset and are recorded net of a present value discount. Contributions of cash and other assets are reported as restricted support if received with donor stipulations that limit the use of the contribution. Depending on the nature of the restriction, such contributions are reported as an increase in temporarily or permanently restricted net assets. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. When the donor restriction expires (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 as net assets released from restrictions. The Foundation determines an allowance for uncollectible amounts by analyzing the length of time amount is past due, donors' ability to pay and previous loss history.

**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. Accordingly, management has developed and uses estimates to allocate certain costs among the programs and supporting activities benefited.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Rentals and expenses:** Base rentals due under leases, net of rental incentives received, are recognized as rental expense on a ratable or straight-line basis over the lease term.

**Scholarship expenses:** Scholarship awards are expensed when awarded to the recipient.

**Income taxes:** The accounting standard on *Accounting for Uncertainty in Income Taxes* addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business income. There were no unrecognized tax benefits identified or recorded as liabilities during the reporting periods covered by these financial statements. The Foundation files Form 990 in the U.S. federal jurisdiction and a related return in the State of Illinois. Tax returns filed by the Foundation generally are subject to examination by U.S. and state taxing authorities for years after 2013.

**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 disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Recent accounting pronouncements:** In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful for assessing liquidity. The new standard will be effective for the Foundation's 2018 financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of the revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The undated standard will replace most existing revenue recognition guidance in U.S. GAAP. The updated standard is effective for the Foundation's 2019 financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Foundation's 2020 financial statements.

The Foundation is currently evaluating the impact of the adoption of these standards on its financial statements.

**Subsequent events:** The Foundation has evaluated subsequent events for potential recognition and/or disclosure through April 12, 2018, the date these financial statements were available for issuance.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 2. Contributions Receivable

The Foundation records contributions in the appropriate net asset category based on the existence and nature of donor-imposed restrictions. Pledges are recorded as contributions receivable after being discounted to the net present value of the expected future cash flows (at rates up to 1 percent). The Foundation maintains an allowance for uncollectability if determined necessary by management.

Contributions receivable at December 31, 2017 and 2016, are as follows:

	2017	2016
Gross amounts due in:		
One year	\$ 2,822,363	\$ 2,611,059
One to five years	2,019,100	2,146,100
More than five years	-	18,500
	<u>4,841,463</u>	<u>4,775,659</u>
Less:		
Discount	(83,700)	(44,200)
Allowance for uncollectability	-	(34,064)
	<u>\$ 4,757,763</u>	<u>\$ 4,697,395</u>

#### Note 3. Investments

Investments comprised the following at December 31, 2017 and 2016:

	2017	2016
Money market funds	\$ 1,158,815	\$ 863,585
U.S. Government securities	1,228,088	1,660,489
Corporate and other bonds	2,578,414	1,994,105
Common stocks	6,572,150	5,239,438
Mutual funds:		
U.S. corporate bond funds	1,918,972	2,242,405
Foreign bond funds	396,453	559,991
Equity funds	6,043,477	5,170,218
	<u>\$ 19,896,369</u>	<u>\$ 17,730,231</u>

Investment return consisted of the following at December 31, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 480,705	\$ 419,453
Realized and unrealized gains, net	1,699,353	448,973
Less investment management fees	(116,262)	(111,845)
	<u>\$ 2,063,796</u>	<u>\$ 756,581</u>

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 4. Fair Value of Financial Instruments

The Foundation follows ASC Topic, *Fair Value Measurements and Disclosure*, which provides the framework for measuring fair value under generally accepted accounting principles. This Topic applies to all financial instruments that are being measured and reported on a fair value basis. As defined in the Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Based on the observability of the inputs used on the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1. Valuations for assets and liabilities traded in active markets, such as the New York Stock Exchange. Level 1 assets primarily include listed equities, money market funds, government securities, common stocks, and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. Level 2 assets primarily include corporate bonds and certain money market funds.
- Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Foundation assesses the levels of the investments at each measurement date. Transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer, in accordance with the Foundation's accounting policy.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

#### Note 4. Fair Value of Financial Instruments (Continued)

Investments in securities traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Shares of mutual funds are valued at the net asset value of shares held by the Foundation at year-end, which is based on quoted market prices. Management determines the fair value of U.S. Government securities based on market prices provided by recognized broker-dealers or estimates provided by the Foundation's investment managers. These financial instruments are classified as Level 1 in the fair value hierarchy. Common stocks classified as Level 1 are recorded at fair value based on market prices from active markets. Certain money market funds are valued at the net asset value of shares held by the Foundation at year-end, which is based on quoted market prices. These financial instruments are classified as Level 2 on the fair value hierarchy due to the underlying investments held by the fund. Corporate bonds are generally classified in Level 2 on the fair value hierarchy, as prices are not always available from active markets.

The following tables summarize investments according to the fair value hierarchy as of December 31, 2017 and 2016:

	2017			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market funds	\$ 1,158,815	\$ -	\$ 1,158,815	\$ -
U.S. Government securities	1,228,088	1,153,075	75,013	-
Corporate and other bonds	2,578,414	-	2,578,414	-
Common stocks	6,572,150	6,572,150	-	-
Mutual funds:				
U.S. corporate bond funds	1,918,972	1,918,972	-	-
Foreign bond funds	396,453	396,453	-	-
Equity funds	6,043,477	6,043,477	-	-
	<u>\$ 19,896,369</u>	<u>\$ 16,084,127</u>	<u>\$ 3,812,242</u>	<u>\$ -</u>

**National Restaurant Association Educational Foundation**

**Notes to Financial Statements**

**Note 4. Fair Value of Financial Instruments (Continued)**

	2016			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market funds	\$ 863,585	\$ -	\$ 863,585	\$ -
U.S. Government securities	1,660,489	1,660,489	-	-
Corporate and other bonds	1,994,105	-	1,994,105	-
Marketable equity securities	5,239,438	5,239,438	-	-
Mutual funds:				
U.S. corporate bond funds	2,242,405	2,242,405	-	-
Foreign bond funds	559,991	559,991	-	-
Equity funds	5,170,218	5,170,218	-	-
	<u>\$ 17,730,231</u>	<u>\$ 14,872,541</u>	<u>\$ 2,857,690</u>	<u>\$ -</u>

**Note 5. Property and Equipment**

Property and equipment consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Building	\$ 2,859,216	\$ 2,859,216
Office furniture, equipment and software	1,648,772	1,601,373
	<u>4,507,988</u>	<u>4,460,589</u>
Less accumulated depreciation	(1,605,930)	(1,307,505)
	<u>\$ 2,902,058</u>	<u>\$ 3,153,084</u>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$298,425 and \$273,320, respectively.

**Note 6. Related-Party Transactions**

The Association manages the payroll and benefits function of the Foundation, including participation in the savings and investment plan. The Foundation reimbursed the Association amounts totaling \$3,717,353 and \$2,230,777 for these salaries and staff benefits for the years ended December 31, 2017 and 2016, respectively.

The Association provides certain administrative support functions on behalf of the Foundation. These functions include executive, accounting and finance, information technology, human resources and office support services. Amounts paid by the Foundation to the Association for the years ended December 31, 2017 and 2016, were \$886,000 and \$1,241,976, respectively.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 6. Related-Party Transactions (Continued)

In addition, the Foundation may incur expenses on behalf of, or owe amounts to, the Association or other related parties. These amounts are unsecured, due on demand and typically include payroll and other operating expenses. At December 31, 2017 and 2016, the amounts due from (to) related parties were \$166,000 and (\$121,569), respectively.

A licensing agreement with the Foundation allows the Association to operate certain food safety certification and examination programs for a fee equal to 10 percent of the net sales of these products. The agreement expires December 31, 2027. The Association paid the Foundation license fees of \$4,662,373 and \$4,442,856 in 2017 and 2016, respectively.

#### Note 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, are restricted for future use. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or time restrictions specified by donors. During the years ended December 31, 2017 and 2016, \$3,588,669 and \$3,079,580, respectively, were released from restriction.

Permanently restricted net assets represent endowments contributed with restrictions that principal amounts be invested in perpetuity. The permanently restricted funds are restricted by donors for scholarships and general activities at December 31, 2017 and 2016, as follows:

	2017	2016
Support of scholarship programs	\$ 5,854,664	\$ 5,527,164
Support of activities of the Foundation	3,914,673	3,914,673
	<u>\$ 9,769,337</u>	<u>\$ 9,441,837</u>

#### Note 8. Endowment Net Assets

Permanently restricted net assets are endowment funds which are restricted in perpetuity. Net assets associated with the Foundation's endowment funds are classified and reported based on the existence of donor-imposed restrictions. Donors have restricted the earnings of certain endowment funds for scholarship and mentoring programs.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) governs endowment funds in the State of Illinois. UPMIFA eliminates the historic dollar value rule with respect to endowment fund spending, updates the prudence standard for the management and investment of charitable funds, and amends the provisions governing the release and modification of restrictions on charitable funds.

The Foundation's management has interpreted the Illinois UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanently restricted net asset is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### Note 8. Endowment Net Assets (Continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

- (1) The duration and preservation of the fund; (2) the purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Foundation; and (7) the investment policies of the Foundation.

The Foundation 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. As of December 31, 2017 and 2016, endowment assets only include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide adequate liquidity, maximizing returns on all funds invested and achieving full employment of all available funds as earning assets. The Foundation's Finance Committee meets regularly to ensure the objectives of the investment policy are being met and the strategies used to meet the objectives are in accordance with the investment policy.

Changes in endowment net assets for 2017 and 2016, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	\$ (20,572)	\$ 315,103	\$ 9,155,837	\$ 9,450,368
Contributions	-	-	286,000	286,000
Investment return	18,867	491,282	-	510,149
Appropriation of endowment assets for expenditure	-	(176,748)	-	(176,748)
Endowment net assets, December 31, 2016	(1,705)	629,637	9,441,837	10,069,769
Contributions	-	-	327,500	327,500
Investment return	1,705	1,541,120	-	1,542,825
Appropriation of endowment assets for expenditure	-	(231,250)	-	(231,250)
Endowment net assets, December 31, 2017	\$ -	\$ 1,939,507	\$ 9,769,337	\$ 11,708,844

## National Restaurant Association Educational Foundation

### Notes to Financial Statements

---

#### **Note 8. Endowment Net Assets (Continued)**

Permanently restricted endowment net assets do not include endowment contributions receivable.

##### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies are charged to unrestricted net assets which are then restored with any investment gains in future periods. There were deficiencies of \$1,705 as of December 31, 2016.

##### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation's annual spending guidelines provide for withdrawing an amount of up to 6 percent of the accumulated earnings balance.

#### **Note 9. Commitments and Contingencies**

The Foundation previously occupied office space in Chicago under an operating lease. The lease was assigned to the Association in 2008; however, the Foundation remained liable in the event the Association defaults under the terms of the lease. In December 2016, the Association exercised its option to cancel the lease as of December 31, 2017.

#### **Note 10. Department of Labor Contract**

In November 2016, the Foundation, in partnership with the American Hotel & Lodging Association, secured a \$1,800,000 contract with the U.S. Department of Labor (DOL) to create and implement a registered apprenticeship initiative for the restaurant and hospitality industries. The program will provide a definitive pathway to equip individuals with the knowledge, skills and confidence to advance to management-level positions.

The DOL has the option of renewing the program annually, for up to five years, with potential contract amounts totaling up to \$9,700,000. In September 2017, the DOL renewed the contract through September 20, 2018 for an additional \$1,500,000. During the years ended December 31, 2017 and 2016, the Foundation recognized revenue of \$2,072,060 and \$180,877, respectively, from this contract.

## **Supplementary Information**

**National Restaurant Association Educational Foundation**

**Schedules of Expenses**

**Years Ended December 21, 2017 and 2016**

	2017		2016	
	Amount	%	Amount	%
Outsourced labor	\$ 2,705,230	22.66 %	\$ 1,307,256	13.82 %
Salaries	2,129,209	17.84	1,457,141	15.41
Events	1,854,549	15.54	1,595,744	16.87
State implementation grants	1,287,814	10.79	907,486	9.59
Staff benefits	905,237	7.58	526,899	5.57
Shared services	886,000	7.42	1,241,976	13.13
Scholarships	546,534	4.58	1,032,818	10.92
Travel	413,506	3.46	387,637	4.10
Marketing	310,616	2.60	303,167	3.21
Depreciation	298,425	2.50	273,320	2.89
Charitable contributions	173,250	1.45	62,766	0.66
Legal and professional fees	100,143	0.84	43,749	0.46
Printing	87,539	0.74	102,267	1.08
Tax assessments	37,394	0.31	36,520	0.39
Condominium fees	33,270	0.28	14,072	0.15
Credit card fees	22,924	0.19	20,970	0.22
Pick-up and delivery	22,776	0.19	25,463	0.27
Telephone and utilities	19,960	0.17	16,586	0.18
Service and maintenance contracts	18,407	0.16	21,991	0.23
Staff training and development	17,271	0.14	10,219	0.11
Supplies	16,570	0.14	7,832	0.08
Bank fees	15,976	0.13	14,724	0.16
Dues and subscriptions	14,012	0.12	54,075	0.57
Bad debt expense	10,010	0.08	2,323	0.02
Business licenses	6,766	0.06	6,038	0.06
Tradeshows	1,029	0.01	1,323	0.01
Postage	1,019	0.01	2,023	0.02
Small equipment and software	984	0.01	1,560	0.02
Alliance support	-	-	10,000	0.11
Amortization of deferred rent liability	-	-	(29,752)	(0.31)
	<b>\$ 11,936,420</b>	<b>100.00 %</b>	<b>\$ 9,458,193</b>	<b>100.00 %</b>