



National Restaurant Association Educational Foundation

Financial Report
December 31, 2019

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Independent Auditor's Report

RSM US LLP

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, 2019 and 2018, the related statements of activities, functional expenses 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 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 the Foundation as of December 31, 2019 and 2018, 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
May 1, 2020

National Restaurant Association Educational Foundation

**Statements of Financial Position
December 31, 2019 and 2018**

	2019	2018
Assets		
Current assets:		
Cash	\$ 2,048,777	\$ 1,726,093
Contributions receivable, net of allowance	4,264,494	2,985,302
Grant receivable	312,300	101,983
Accrued investment income	22,065	23,991
Due from National Restaurant Association	521,660	491,876
Prepaid expenses and other assets	293,879	293,745
	<u>7,463,175</u>	<u>5,622,990</u>
Contributions receivable, net of current portion and discount	2,048,100	2,777,000
Investments	20,693,827	18,029,786
Property and equipment, net	2,774,183	2,940,286
	<u>\$ 32,979,285</u>	<u>\$ 29,370,062</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 349,934	\$ 552,343
Accrued expenses	1,142,721	1,077,505
Scholarships payable	209,500	215,750
Deferred revenue	272,340	221,000
	<u>1,974,495</u>	<u>2,066,598</u>
Net assets:		
Without donor restrictions	8,202,513	9,299,110
With donor restrictions	22,802,277	18,004,354
	<u>31,004,790</u>	<u>27,303,464</u>
	<u>\$ 32,979,285</u>	<u>\$ 29,370,062</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

Statements of Activities

Year Ended December 31, 2019 (With Comparative Totals for 2018)

	2019			2018 Total*
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
License fee revenue	\$ 5,292,277	\$ -	\$ 5,292,277	\$ 5,043,943
Contributions	1,378,551	6,256,340	7,634,891	6,462,413
Events	447,806	-	447,806	515,375
Department of Labor contract	1,699,739	-	1,699,739	1,405,969
Contract revenue	71,667	-	71,667	-
Net assets released from restrictions	3,912,177	(3,912,177)	-	-
	<u>12,802,217</u>	<u>2,344,163</u>	<u>15,146,380</u>	<u>13,427,700</u>
Expenses:				
Program activities	10,491,565	-	10,491,565	9,039,728
Scholarships awarded	783,965	-	783,965	785,731
Administrative	910,320	-	910,320	793,737
Fundraising activities	2,570,774	-	2,570,774	2,237,684
	<u>14,756,624</u>	<u>-</u>	<u>14,756,624</u>	<u>12,856,880</u>
(Decrease) increase in net assets before other changes	(1,954,407)	2,344,163	389,756	570,820
Other changes:				
Investment gain (loss) return	857,810	2,453,760	3,311,570	(1,364,461)
Increase (decrease) in net assets	(1,096,597)	4,797,923	3,701,326	(793,641)
Net assets:				
Beginning of year	9,299,110	18,004,354	27,303,464	28,097,105
End of year	<u>\$ 8,202,513</u>	<u>\$ 22,802,277</u>	<u>\$ 31,004,790</u>	<u>\$ 27,303,464</u>

See notes to financial statements.

*2018 information is provided for informational purposes only.

National Restaurant Association Educational Foundation

**Statements of Activities
Year Ended December 31, 2018**

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
License fee revenue	\$ 5,043,943	\$ -	\$ 5,043,943
Contributions	1,192,838	5,269,575	6,462,413
Events	515,375	-	515,375
Department of Labor contract	1,405,969	-	1,405,969
Net assets released from restrictions	3,548,450	(3,548,450)	-
	<u>11,706,575</u>	<u>1,721,125</u>	<u>13,427,700</u>
Expenses:			
Program activities	9,039,728	-	9,039,728
Scholarships awarded	785,731	-	785,731
Administrative	793,737	-	793,737
Fundraising activities	2,237,684	-	2,237,684
	<u>12,856,880</u>	<u>-</u>	<u>12,856,880</u>
(Decrease) increase in net assets before other changes	(1,150,305)	1,721,125	570,820
Other changes:			
Investment (loss) return	(377,941)	(986,520)	(1,364,461)
(Decrease) increase in net assets	(1,528,246)	734,605	(793,641)
Net assets:			
Beginning of year	10,827,356	17,269,749	28,097,105
End of year	<u>\$ 9,299,110</u>	<u>\$ 18,004,354</u>	<u>\$ 27,303,464</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

**Statement of Functional Expenses
Year Ended December 31, 2019**

	2019				
	Program Activities	Scholarships Awarded	Administrative	Fundraising Activities	Total
Outsourced labor and consultants	\$ 3,075,568	\$ -	\$ 17,609	\$ 41,676	\$ 3,134,853
Salaries	1,646,280	-	87,759	829,754	2,563,793
Events	1,597,534	-	334,452	673,074	2,605,060
State implementation grants	1,340,675	-	-	15,000	1,355,675
Staff benefits	806,574	-	85,701	306,388	1,198,663
Shared services	689,616	-	41,257	355,127	1,086,000
Scholarships	-	783,965	-	-	783,965
Travel	231,628	-	52,374	189,505	473,507
Marketing	300,912	-	546	3,005	304,463
Depreciation	156,538	-	9,368	80,611	246,517
Charitable contributions	501,650	-	1,409	15,020	518,079
Printing	39,096	-	4,267	13,091	56,454
Legal and professional fees	16,894	-	80,463	-	97,357
Tax assessments	-	-	38,287	-	38,287
Condominium fees	-	-	38,999	-	38,999
Supplies	15,930	-	5,065	7,656	28,651
Dues and subscriptions	31,855	-	4,052	9,764	45,671
Service and maintenance contracts	678	-	24,216	2,085	26,979
Credit card fees	-	-	37,634	-	37,634
Staff training and development	15,761	-	9,925	10,324	36,010
Telephone and utilities	4,441	-	11,547	4,606	20,594
Pick-up and delivery	4,051	-	6,719	6,968	17,738
Bank fees	-	-	12,746	-	12,746
Tradeshows	616	-	19	6,908	7,543
Business licenses	39	-	5,824	21	5,884
Bad debt expense	4,319	-	-	-	4,319
Small equipment and software	10,527	-	-	-	10,527
Postage	383	-	82	191	656
	<u>\$ 10,491,565</u>	<u>\$ 783,965</u>	<u>\$ 910,320</u>	<u>\$ 2,570,774</u>	<u>\$ 14,756,624</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

**Statement of Functional Expenses
Year Ended December 31, 2018**

	2018				
	Program Activities	Scholarships Awarded	Administrative	Fundraising Activities	Total
Outsourced labor and consultants	\$ 2,847,459	\$ -	\$ 21,432	\$ 54,424	\$ 2,923,315
Salaries	1,420,008	-	86,129	739,701	2,245,838
Events	1,308,959	-	252,641	618,835	2,180,435
State implementation grants	1,337,292	-	-	-	1,337,292
Staff benefits	652,386	-	76,639	227,845	956,870
Shared services	424,596	-	38,835	399,569	863,000
Scholarships	-	785,731	-	-	785,731
Travel	239,939	-	42,430	117,520	399,889
Marketing	310,717	-	2,765	417	313,899
Depreciation	164,485	-	46,996	23,498	234,979
Charitable contributions	174,400	-	-	-	174,400
Printing	87,565	-	659	13,426	101,650
Legal and professional fees	3,276	-	43,365	-	46,641
Tax assessments	-	-	40,800	-	40,800
Condominium fees	-	-	35,373	-	35,373
Supplies	20,943	-	7,022	6,997	34,962
Dues and subscriptions	22,086	-	1,531	7,539	31,156
Service and maintenance contracts	38	-	23,779	4,957	28,774
Credit card fees	-	-	24,939	-	24,939
Staff training and development	8,932	-	4,247	11,039	24,218
Telephone and utilities	3,168	-	11,591	5,246	20,005
Pick-up and delivery	6,472	-	8,465	940	15,877
Bank fees	-	-	15,399	-	15,399
Tradeshows	1,534	-	3,200	5,640	10,374
Business licenses	304	-	4,870	-	5,174
Bad debt expense	2,350	-	38	-	2,388
Small equipment and software	2,047	-	-	-	2,047
Postage	772	-	592	91	1,455
	\$ 9,039,728	\$ 785,731	\$ 793,737	\$ 2,237,684	\$ 12,856,880

See notes to financial statements.

National Restaurant Association Educational Foundation

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,701,326	\$ (793,641)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation	246,517	234,979
Realized and unrealized (gain) loss on investments	(2,847,627)	1,782,102
Contributions restricted for investment in endowments	(397,758)	(350,000)
Changes in assets and liabilities:		
Contributions receivable	(550,292)	(1,004,539)
Contract receivable	(210,317)	118,454
Accrued investment income	1,926	(1,993)
Due from National Restaurant Association	(29,784)	(325,876)
Prepaid expenses and other assets	(134)	(29,405)
Accounts payable	(202,409)	151,072
Accrued expenses	65,216	389,936
Scholarships payable	(6,250)	76,250
Deferred revenue	51,340	(102,600)
Net cash (used in) provided by operating activities	(178,246)	144,739
Cash flows from investing activities:		
Purchases of property and equipment	(80,414)	(273,207)
Proceeds from the sale of investments	6,110,093	9,764,611
Purchase of investments	(5,926,507)	(9,680,130)
Net cash provided by (used in) investing activities	103,172	(188,726)
Cash flows from financing activities:		
Contributions restricted for investment in endowments	397,758	350,000
Net cash provided by financing activities	397,758	350,000
Net increase in cash	322,684	306,013
Cash:		
Beginning of year	1,726,093	1,420,080
End of year	\$ 2,048,777	\$ 1,726,093

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 financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions are reported as net assets without donor restrictions. Contributions are considered to be without donor restrictions and available for general use unless specifically restricted by the donor.

Net assets with donor restrictions: The Foundation reports gifts of cash, investments and grants as net assets with donor restrictions if they are received with donor stipulations limiting the use of the donated assets. When a restriction is satisfied, net assets with donor restrictions are transferred to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Net assets subject to donor-imposed restrictions which require that they be maintained permanently (in perpetuity) by the Foundation are also reported as net assets with donor restrictions. 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.

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.

National Restaurant Association Educational Foundation

Notes to Financial Statements

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

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.

Accrued expenses: Accrued expenses consist primarily of salaries and related payroll expenses incurred in the current year but not paid until after year-end.

Revenue recognition: License fee revenue is recognized during the contract term when the underlying sale or usage occurs, per monthly royalty reports which summarize sales of covered products and related royalty amounts. These reports are received subsequent to the period in which the licensee's underlying sales occurred. The Foundation utilizes the sales- or usage- based royalty exception, as provided under Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective January 1, 2019. As a result, adoption of the ASU had no impact on the Foundation's financial statements.

Contract revenue is recognized in an amount to which the Foundation expects to be entitled for the transfer of promised services to a customer, as those services are performed. Revenue received in advance from contract revenue is deferred.

Department of Labor contract revenue is similar to grant revenue for accounting and financial reporting purposes. Grant revenue is recognized in the period when requirements have been met as qualifying expenses are incurred. The Foundation follows the guidance included in ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective January 1, 2019. This ASU clarifies the guidance presented in Topic 958, *Not-for-Profit Entities*, of the FASB's ASC for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The Foundation's adoption of the standard had no impact on the financial statements.

National Restaurant Association Educational Foundation

Notes to Financial Statements

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

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 net assets with donor restrictions. Conditional promises to give are not recognized until the conditions (as defined in ASU 2018-08) on which they depend are substantially met. When the donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 and are presented in greater detail on the statements of functional expenses. If an expense can be identified with a specific program, fundraising or administrative function, it will be charged directly to that category. In some circumstances, an expense will be allocated between program, fundraising or administrative function based on the project code. Project code allocations, which are allocations tied to a specific event, are an estimate made by management and are reviewed for reasonableness on a periodic basis. For personnel costs, an expense will be allocated based on the estimate of the employee's time spent in each respective role. The allocation for personnel costs is done on a monthly basis when the Foundation records its salary expense.

Program expenses: The program expenses on the statements of functional expenses relate to the activities taken to support the mission of the Foundation which is, to attract, empower and advance restaurant and foodservice leaders. This is done primarily through ProStart, a nationwide, two-year high school program, and the apprenticeship program with the Department of Labor. The Foundation also provides educational opportunities to members of the United States Armed Forces, as well as hosting industry award programs.

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.

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.

National Restaurant Association Educational Foundation

Notes to Financial Statements

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

Recent accounting pronouncements: 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 2021 financial statements.

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

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through May 1, 2020, the date these financial statements were available for issuance.

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 2.05%). The Foundation maintains an allowance for uncollectibility if determined necessary by management.

Contributions receivable at December 31, 2019 and 2018, are as follows:

	2019	2018
Gross amounts due in:		
One year	\$ 4,264,494	\$ 2,985,302
One to five years	2,097,000	2,946,000
More than five years	-	-
	<u>6,361,494</u>	<u>5,931,302</u>
Less:		
Discount to present value	<u>(48,900)</u>	<u>(169,000)</u>
	<u>\$ 6,312,594</u>	<u>\$ 5,762,302</u>

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 3. Investments

Investments comprised the following at December 31, 2019 and 2018:

	2019	2018
Money market funds	\$ 861,272	\$ 1,082,081
U.S. Government securities	1,271,987	1,020,010
Corporate and other bonds	2,587,931	2,608,491
Common stocks	7,466,916	6,011,524
Mutual funds:		
U.S. corporate bond funds	1,952,540	1,848,829
Foreign bond funds	356,975	376,380
Equity funds	6,196,206	5,082,471
	<u>\$ 20,693,827</u>	<u>\$ 18,029,786</u>

Investment return (loss) consisted of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 573,557	\$ 539,007
Realized and unrealized gains (loss), net	2,847,627	(1,782,102)
Less investment management fees	(109,614)	(121,366)
	<u>\$ 3,311,570</u>	<u>\$ (1,364,461)</u>

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.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 4. Fair Value of Financial Instruments (Continued)

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 and other bonds.
- 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.

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 and are classified as Level 1. Corporate bonds are generally classified in Level 2 on the fair value hierarchy, as prices are not always available from active markets.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 4. Fair Value of Financial Instruments (Continued)

The following tables summarize investments according to the fair value hierarchy as of December 31, 2019 and 2018:

	2019			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market funds	\$ 861,272	\$ 861,272	\$ -	\$ -
U.S. Government securities	1,271,987	1,119,648	152,339	-
Corporate and other bonds	2,587,931	-	2,587,931	-
Common stocks	7,466,916	7,466,916	-	-
Mutual funds:				
U.S. corporate bond funds	1,952,540	1,952,540	-	-
Foreign bond funds	356,975	356,975	-	-
Equity funds	6,196,206	6,196,206	-	-
	<u>\$ 20,693,827</u>	<u>\$ 17,953,557</u>	<u>\$ 2,740,270</u>	<u>\$ -</u>
	2018			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market funds	\$ 1,082,081	\$ 1,082,081	\$ -	\$ -
U.S. Government securities	1,020,010	878,139	141,871	-
Corporate and other bonds	2,608,491	-	2,608,491	-
Common stocks	6,011,524	6,011,524	-	-
Mutual funds:				
U.S. corporate bond funds	1,848,829	1,848,829	-	-
Foreign bond funds	376,380	376,380	-	-
Equity funds	5,082,471	5,082,471	-	-
	<u>\$ 18,029,786</u>	<u>\$ 15,279,424</u>	<u>\$ 2,750,362</u>	<u>\$ -</u>

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Building	\$ 2,859,216	\$ 2,859,216
Office furniture, equipment and software	1,082,175	766,718
Capital project costs	-	235,043
	<u>3,941,391</u>	<u>3,860,977</u>
Less accumulated depreciation	<u>(1,167,208)</u>	<u>(920,691)</u>
	<u>\$ 2,774,183</u>	<u>\$ 2,940,286</u>

Capital project costs include costs incurred to develop the Foundation website and other software related projects. Capital project costs were capitalized but not amortized at December 31, 2018, because development was still in progress. As the capital projects were completed in 2019, the costs were transferred to the applicable depreciable asset category, at which time depreciation over the estimated useful life began.

Depreciation expense for the years ended December 31, 2019 and 2018, was \$246,517 and \$234,979, 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 \$3,762,456 and \$3,954,866 for these salaries and staff benefits for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, were \$1,086,000 and \$863,000, respectively.

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 reimbursable operating expenses. At December 31, 2019 and 2018, the amounts due from related parties were \$521,660 and \$491,876, 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 \$5,292,277 and \$5,043,943 in 2019 and 2018, respectively.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 7. Net Assets With Donor Restrictions

Net assets with donor restrictions were as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Subject to expenditure for specified purpose:		
Support of Foundation scholarship programs	\$ 2,709,083	\$ 1,774,412
Support of Foundation activities	7,118,644	3,889,205
Ted J. Balestreri Leadership Classic	1,329,555	1,093,500
Award programs	1,127,900	1,127,900
	<u>12,285,182</u>	<u>7,885,017</u>
Endowments:		
Subject to the Foundation's spending policy and appropriation:		
Scholarships	6,602,422	6,204,664
General use	3,914,673	3,914,673
	<u>10,517,095</u>	<u>10,119,337</u>
	<u>\$ 22,802,277</u>	<u>\$ 18,004,354</u>

Net assets released from net assets with donor restrictions are as follows:

	2019	2018
Satisfaction of purpose restrictions:		
Support of Foundation scholarship programs	\$ 340,650	\$ 228,200
Support of Foundation activities	2,393,527	2,364,950
Ted J. Balestreri Leadership Classic	878,000	732,800
Award programs	300,000	222,500
	<u>\$ 3,912,177</u>	<u>\$ 3,548,450</u>

Note 8. Endowment Net Assets

Endowment net assets are included in net assets with donor restrictions and are endowment funds which are restricted in perpetuity. Net assets with donor restrictions 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.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 8. Endowment Net Assets (Continued)

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 net assets with donor restrictions (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.

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, 2019 and 2018, 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.

The Foundation's endowment composition is as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 10,517,095	\$ 10,119,337
Accumulated investment gains	<u>2,805,947</u>	<u>573,187</u>
Total donor-restricted endowment funds	<u><u>\$ 13,323,042</u></u>	<u><u>\$ 10,692,524</u></u>

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 8. Endowment Net Assets (Continued)

Changes in endowment net assets for 2019 and 2018, were as follows:

	<u>With Donor Restriction</u>
Endowment net assets, January 1, 2018	\$ 11,708,844
Contributions	350,000
Investment return (loss)	(986,520)
Appropriation of endowment assets for expenditure	<u>(379,800)</u>
Endowment net assets, December 31, 2018	10,692,524
Contributions	397,758
Investment return (loss)	2,453,760
Appropriation of endowment assets for expenditure	<u>(221,000)</u>
Endowment net assets, December 31, 2019	<u><u>\$ 13,323,042</u></u>

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. At December 31, 2019, there were no fair value of assets associated with individual donor-restricted endowments funds that fell below the level that the donor or Illinois UPMIFA requires to retain for perpetual duration. At December 31, 2018, funds with original gift values of \$1,392,334, fair values of \$1,356,015 and deficiencies of \$36,319 were reported in net assets with donor restrictions. The Foundation's policy states that expenditures cannot exceed the accumulated earnings balance. All scholarships were awarded prior to a fund having a deficiency. There were no such deficiencies at December 31, 2019.

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.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 9. 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 is designed to provide a definitive pathway to equip individuals with the knowledge, skills and confidence to advance to management-level positions. The Foundation utilizes outsourced consulting management companies for certain event and other activities associated with the contract. The Department of Labor contract revenue is recognized as qualifying expenses are incurred.

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 2018, the DOL renewed year three of the contract for an additional \$1,500,000, bringing the total amount awarded to \$4,875,000. In September 2019, the DOL renewed year four of the contract for an additional \$2,000,000, bringing the total amount awarded to \$6,875,000. During the years ended December 31, 2019 and 2018, the Foundation recognized revenue of \$1,558,654 and \$1,405,969, respectively, from this contract.

In July 2019, the Foundation, secured a \$4,500,000 contract with the DOL to create and implement a reintegration program for ex-offenders to find employment in the restaurant and hospitality industries. During the year ended December 31, 2019, the Foundation recognized revenue of \$141,085 from this contract.

Note 10. Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or board restrictions limiting their use, within one year of the years ended December 31, 2019 and 2018, comprise the following:

	2019	2018
Current financial assets at year end:		
Cash	\$ 2,048,777	\$ 1,726,093
Contributions receivable, net of allowance	4,264,494	2,985,302
Grant receivable	312,300	101,983
Investments	20,693,827	18,029,786
Total financial assets	<u>27,319,398</u>	<u>22,843,164</u>
Less amount unavailable for general expenditures within one year, due to:		
Donor restricted program funds	(12,285,182)	(7,885,017)
Donor restricted endowment funds	<u>(10,517,095)</u>	<u>(10,119,337)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,517,121</u>	<u>\$ 4,838,810</u>

Certain investments of the Foundation consist of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specific periods. Income from donor-restricted funds is restricted for scholarship and mentoring programs. The Board approves the use of funds without donor restrictions, not to exceed 3 percent of total funds without donor restrictions per the approved policy, for operating expenses.

As part of its liquidity management plan, the Foundation invests excess cash in short-term investments, including money market funds and short-term investments.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 11. Subsequent Events

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a public health emergency and subsequently declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economy and financial markets. It is unknown how long these conditions will last and what the complete financial effect will be to the Foundation. The Foundation has postponed or cancelled various fundraising and other events which could result in reductions to certain 2020 revenue from previous years' levels.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely affected in the near term because of these conditions, including decreases in the fair market value of investments. The collectability of contributions receivable could also be affected.

In an effort to help employees experiencing extraordinary hardship in the wake of the pandemic, the Foundation created the Restaurant Employee Relief Fund (RERF). Through the RERF, grants will be made to restaurant industry employees who have been impacted by COVID-19 and are experiencing a decrease in wages or loss of employment that results in a lack of resources to pay for essential expenses. Grants will be awarded as soon as possible to those individuals that meet the prescribed eligibility criteria, as reviewed and verified by the Foundation. A one-time grant of \$500 will be disbursed directly to the applicant pending the Foundation's review and verification that their submitted application meets the prescribed guidelines. Awards will be based on available funds and will be limited to one per individual. All grant approvals are at the discretion of the Foundation. The Foundation expects to receive \$15,000,000 to \$20,000,000 in relief funds.

Supplementary Information

National Restaurant Association Educational Foundation

**Schedules of Expenses
Years Ended December 21, 2019 and 2018**

	2019		2018	
	Amount	%	Amount	%
Outsource labor and consultants	\$ 3,134,853	21.27 %	\$ 2,923,315	22.74 %
Salaries	2,563,793	17.37	2,245,838	17.47
Events	2,605,060	17.65	2,180,435	16.96
State implementation grants	1,355,675	9.19	1,337,292	10.40
Staff benefits	1,198,663	8.12	956,870	7.44
Shared services	1,086,000	7.36	863,000	6.71
Scholarships	783,965	5.31	785,731	6.11
Travel	473,507	3.21	399,889	3.11
Marketing	304,463	2.06	313,899	2.44
Depreciation	246,517	1.67	234,979	1.83
Charitable contributions	518,079	3.51	174,400	1.36
Printing	56,454	0.38	101,650	0.74
Legal and professional fees	97,357	0.66	46,641	0.36
Tax assessments	38,287	0.26	40,800	0.32
Condominium fees	38,999	0.26	35,373	0.28
Supplies	28,651	0.19	34,962	0.27
Dues and subscriptions	45,671	0.31	31,156	0.24
Service and maintenance contracts	26,979	0.18	28,774	0.17
Credit card fees	37,634	0.26	24,939	0.20
Staff training and development	36,010	0.24	24,218	0.20
Telephone and utilities	20,594	0.14	20,005	0.17
Pick-up and delivery	17,738	0.12	15,877	0.13
Bank fees	12,746	0.09	15,399	0.13
Tradeshows	7,543	0.05	10,374	0.09
Business licenses	5,884	0.04	5,174	0.05
Bad debt expense	4,319	0.03	2,388	0.03
Small equipment and software	10,527	0.07	2,047	0.03
Postage	656	0.00	1,455	0.02
	\$ 14,756,624	100.00 %	\$ 12,856,880	100.00 %