

National Restaurant Association Educational Foundation

Financial Report
December 31, 2022

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RSM US LLP

Independent Auditor's Report

Board of Trustees
National Restaurant Association Educational Foundation

Opinion

We have audited the accompanying financial statements of National Restaurant Association Educational Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Chicago, Illinois
May 15, 2023

National Restaurant Association Educational Foundation

Statements of Financial Position December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 6,137,289	\$ 7,027,906
Contributions receivable	10,291,078	7,829,987
Contract receivable	1,050,712	614,793
Accrued investment income	17,208	13,930
Due from National Restaurant Association	496,469	531,076
Prepaid expenses and other assets	317,479	334,878
Investments	21,359,935	25,286,900
Property and equipment, net	2,733,814	2,437,882
	<u>\$ 42,403,984</u>	<u>\$ 44,077,352</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 1,246,232	\$ 1,427,835
Accrued expenses	1,968,018	1,789,179
Scholarships payable	94,000	52,250
Deferred revenue	123,500	104,500
	<u>3,431,750</u>	<u>3,373,764</u>
Net assets:		
Without donor restrictions	11,307,924	13,009,046
With donor restrictions	27,664,310	27,694,542
	<u>38,972,234</u>	<u>40,703,588</u>
	<u>\$ 42,403,984</u>	<u>\$ 44,077,352</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

Statement of Activities

Year Ended December 31, 2022 (With Comparative Totals for 2021)

	2022			2021 Total*
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
License fee revenue	\$ 6,271,825	\$ -	\$ 6,271,825	\$ 5,230,302
Contributions	2,388,228	7,775,229	10,163,457	9,095,288
Events	377,910	-	377,910	402,551
Department of Labor contracts	5,442,478	-	5,442,478	4,062,922
Net assets released from restrictions	5,034,761	(5,034,761)	-	-
	<u>19,515,202</u>	<u>2,740,468</u>	<u>22,255,670</u>	<u>18,791,063</u>
Expenses:				
Program activities	15,784,387	-	15,784,387	12,082,521
Scholarships awarded	977,644	-	977,644	1,119,334
Administrative	927,335	-	927,335	862,149
Fundraising activities	2,875,565	-	2,875,565	2,515,554
	<u>20,564,931</u>	<u>-</u>	<u>20,564,931</u>	<u>16,579,558</u>
(Decrease) increase in net assets before other changes	(1,049,729)	2,740,468	1,690,739	2,211,505
Other changes:				
Investment (loss) return	(651,393)	(2,755,200)	(3,406,593)	2,445,438
Gain on loan forgiveness	-	-	-	594,985
Other	-	(15,500)	(15,500)	(437,500)
	<u>-</u>	<u>(15,500)</u>	<u>(15,500)</u>	<u>(437,500)</u>
(Decrease) increase in net assets	(1,701,122)	(30,232)	(1,731,354)	4,814,428
Net assets:				
Beginning of year	<u>13,009,046</u>	<u>27,694,542</u>	<u>40,703,588</u>	<u>35,889,160</u>
End of year	<u>\$ 11,307,924</u>	<u>\$ 27,664,310</u>	<u>\$ 38,972,234</u>	<u>\$ 40,703,588</u>

See notes to financial statements.

*2021 information is provided for informational purposes only.

National Restaurant Association Educational Foundation

**Statement of Activities
Year Ended December 31, 2021**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
License fee revenue	\$ 5,230,302	\$ -	\$ 5,230,302
Contributions	3,033,942	6,061,346	9,095,288
Events	402,551	-	402,551
Department of Labor contracts	4,062,922		4,062,922
Net assets released from restrictions	5,129,872	(5,129,872)	-
	<u>17,859,589</u>	<u>931,474</u>	<u>18,791,063</u>
Expenses:			
Program activities	12,082,521	-	12,082,521
Scholarships awarded	1,119,334	-	1,119,334
Administrative	862,149	-	862,149
Fundraising activities	2,515,554	-	2,515,554
	<u>16,579,558</u>	<u>-</u>	<u>16,579,558</u>
Increase in net assets before other changes	1,280,031	931,474	2,211,505
Other changes:			
Investment gain return	432,867	2,012,571	2,445,438
Gain on loan forgiveness	594,985	-	594,985
Other	-	(437,500)	(437,500)
	<u>-</u>	<u>(437,500)</u>	<u>(437,500)</u>
Increase in net assets	2,307,883	2,506,545	4,814,428
Net assets:			
Beginning of year	10,701,163	25,187,997	35,889,160
	<u>10,701,163</u>	<u>25,187,997</u>	<u>35,889,160</u>
End of year	<u>\$ 13,009,046</u>	<u>\$ 27,694,542</u>	<u>\$ 40,703,588</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

**Statement of Functional Expenses
Year Ended December 31, 2022**

	2022				
	Program Activities	Scholarships Awarded	Administrative	Fundraising Activities	Total
Outsourced labor	\$ 3,567,448	\$ -	\$ 111,429	\$ 161,412	\$ 3,840,289
Salaries	2,545,127	-	89,212	1,240,418	3,874,757
Events	1,883,442	-	269,385	725,239	2,878,066
State implementation grants	1,670,941	-	-	-	1,670,941
Staff benefits	1,315,517	-	67,296	585,770	1,968,583
Shared services	1,368,531	-	118,731	(35,262)	1,452,000
Scholarships	-	977,644	-	-	977,644
Travel	243,581	-	21,566	82,082	347,229
Marketing	401,222	-	10,981	17,038	429,241
Depreciation	115,092	-	10,205	49,936	175,233
Charitable contributions	404,157	-	-	-	404,157
Federal sub-awards	1,971,096	-	-	-	1,971,096
Printing	18,188	-	913	6,959	26,060
Legal and professional fees	-	-	16,729	-	16,729
Tax assessments	-	-	34,673	-	34,673
Condominium fees	-	-	41,305	-	41,305
Supplies	144,220	-	556	16,112	160,888
Dues and subscriptions	89,104	-	22,448	1,875	113,427
Service and maintenance contracts	-	-	20,724	4,121	24,845
Credit card fees	-	-	26,293	-	26,293
Staff training and development	27,583	-	231	15,914	43,728
Telephone and utilities	6,725	-	13,016	1,539	21,280
Pick-up and delivery	10,352	-	12,447	2,385	25,184
Bank fees	-	-	15,219	-	15,219
Business licenses	-	-	23,717	-	23,717
Small equipment and software	1,790	-	-	-	1,790
Postage	271	-	259	27	557
	<u>\$ 15,784,387</u>	<u>\$ 977,644</u>	<u>\$ 927,335</u>	<u>\$ 2,875,565</u>	<u>\$ 20,564,931</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

**Statement of Functional Expenses
Year Ended December 31, 2021**

	2021				
	Program Activities	Scholarships Awarded	Administrative	Fundraising Activities	Total
Outsourced labor	\$ 2,492,500	\$ -	\$ 22,313	\$ 60,066	\$ 2,574,879
Salaries	2,689,641	-	147,170	875,839	3,712,650
Events	370,340	-	179,408	717,171	1,266,919
State implementation grants	2,092,633	-	-	-	2,092,633
Staff benefits	542,131	-	23,525	188,098	753,754
Shared services	1,334,890	-	140,622	562,488	2,038,000
Scholarships	-	1,119,334	-	-	1,119,334
Travel	68,190	-	13,131	30,021	111,342
Marketing	305,234	-	-	-	305,234
Depreciation	147,579	-	15,547	62,186	225,312
Charitable contributions	475,500	-	10,000	-	485,500
Federal sub-awards	1,388,152	-	-	-	1,388,152
Printing	44,500	-	307	18	44,825
Legal and professional fees	-	-	101,887	-	101,887
Tax assessments	-	-	43,246	-	43,246
Condominium fees	-	-	36,453	-	36,453
Supplies	45,843	-	1,580	939	48,362
Dues and subscriptions	32,579	-	435	4,276	37,290
Service and maintenance contracts	1,726	-	37,372	3,431	42,529
Credit card fees	1,025	-	28,754	-	29,779
Staff training and development	32,141	-	4,675	6,029	42,845
Telephone and utilities	8,778	-	10,917	3,619	23,314
Pick-up and delivery	1,243	-	5,995	764	8,002
Bank fees	255	-	33,138	-	33,393
Business licenses	6,514	-	5,288	-	11,802
Bad debt expense	-	-	67	-	67
Small equipment and software	1,116	-	304	609	2,029
Postage	11	-	15	-	26
	<u>\$ 12,082,521</u>	<u>\$ 1,119,334</u>	<u>\$ 862,149</u>	<u>\$ 2,515,554</u>	<u>\$ 16,579,558</u>

See notes to financial statements.

National Restaurant Association Educational Foundation

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (1,731,354)	\$ 4,814,428
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	175,233	225,312
Realized and unrealized loss (gain) on investments	3,998,147	(1,850,620)
Contributions restricted for investment in endowments	(386,050)	(560,850)
Gain on loan forgiveness	-	(594,985)
Changes in assets and liabilities:		
Contributions receivable	(2,461,091)	(1,173,136)
Contract receivable	(435,919)	(392,531)
Accrued investment income	(3,278)	1,936
Due from National Restaurant Association	34,607	172,765
Prepaid expenses and other assets	17,399	273,975
Accounts payable	(181,603)	1,049,858
Accrued expenses	178,839	146,240
Scholarships payable	41,750	(36,250)
Deferred revenue	19,000	(194,916)
Net cash (used in) provided by operating activities	(734,320)	1,881,226
Cash flows from investing activities:		
Purchases of property and equipment	(471,165)	(64,537)
Proceeds from the sale of investments	5,395,463	7,122,139
Purchase of investments	(5,466,645)	(7,320,508)
Net cash used in investing activities	(542,347)	(262,906)
Cash flows from financing activities:		
Contributions restricted for investment in endowments	386,050	560,850
Net cash provided by financing activities	386,050	560,850
Net (decrease) increase in cash and cash equivalents	(890,617)	2,179,170
Cash and cash equivalents:		
Beginning of year	7,027,906	4,848,736
End of year	\$ 6,137,289	\$ 7,027,906

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 (the Foundation), a nonprofit organization, was formed in 1987. The Foundation's mission is to serve as a philanthropic foundation of the National Restaurant Association (the 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). A majority of the Foundation's Board of Trustees is comprised of elected voting members of the Association's board of directors, as nominated by the Association. The Association has control and economic interest in the Foundation. 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 presentation: The Foundation is required to report information regarding its financial position and activities according to two classes of net assets:

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. 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 and cash equivalents: Cash and cash equivalents include money market accounts. 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 \$5,000 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 Customer (Topic 606)*.

Department of Labor contract revenue is similar to grant revenue for accounting and financial reporting purpose. Grant revenue is recognized in the period when requirements have been met as qualifying expenses are incurred. The Foundation has elected the simultaneous release option for grants, which allows the Foundation to recognize restricted contributions directly in net assets without donor restriction when the condition is met, which is generally when qualifying expenditures have been 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.

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 and recorded as a liability. Amounts determined to be uncollectible are written off as a reduction of net assets.

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 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 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 considers the need for 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 statement 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 statement of functional expenses relate to the activities taken to support the mission of the Foundation, to attract, empower and advance restaurant and foodservice leaders. This is done through ProStart, a nationwide, two-year high school program, and the apprenticeship programs with the U.S. Department of Labor (DOL). The Foundation also provides educational opportunities to members of the United States Armed Forces, as well as hosting industry award programs.

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

Outsourced labor and consultants: Outsourced labor and consultant expenses, which relate to various services contracted with a third-party company in areas such as IT consulting, design work and other technical assistance, are recorded as services are performed.

Federal sub-awards: Federal sub-award expenses, which represent pass-through awards made to subrecipients under federal awards received from the Department of Labor, and are recorded as services are performed.

National Restaurant Association Educational Foundation

Notes to Financial Statements

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

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 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.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation with no effect on previously reported net assets.

Adopted 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 2022 financial statements and had no impact on its financial statements.

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through May 15, 2023, the date these financial statements were available for issuance.

Note 2. Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or board restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2022	2021
Current financial assets at year end:		
Cash and cash equivalents	\$ 6,137,289	\$ 7,027,906
Contributions receivable	4,491,078	3,261,487
Contract receivables	1,050,712	614,793
Investments	21,359,935	25,286,900
	<u>33,039,014</u>	<u>36,191,086</u>
Less amount unavailable for general expenditures within one year:		
Donor restricted program funds	(13,014,776)	(10,143,858)
Donor restricted endowment funds	(14,649,534)	(17,550,684)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,374,704</u>	<u>\$ 8,496,544</u>

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 2. Availability and Liquidity (Continued)

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. Up to 3% of income from funds without donor restrictions can be used for operating expenses. Any requests exceeding 3% require Board approval.

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

Note 3. 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 (discount rate ranging from 5.16% to 5.99%). The Foundation records an allowance for uncollectibility if determined necessary by management.

Contributions receivable at December 31, 2022 and 2021, are as follows:

	2022	2021
Gross amounts due in:		
One year	\$ 4,491,078	\$ 3,261,487
One to five years	6,454,000	4,803,500
	<u>10,945,078</u>	<u>8,064,987</u>
Less discount to present value	(654,000)	(235,000)
	<u>\$ 10,291,078</u>	<u>\$ 7,829,987</u>

Due to the impact the pandemic had on some donors' finances, the Foundation released certain donors from their contribution commitments totaling \$15,500 and \$437,500, resulting in a loss which is included in other changes in net assets for 2022 and 2021, respectively.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 4. Investments

Investments comprised the following at December 31, 2022 and 2021:

	2022	2021
Money market funds	\$ 737,525	\$ 1,425,449
U.S. government securities	1,387,065	1,109,946
Corporate and other bonds	1,789,705	2,301,765
Common stocks	9,096,050	10,158,838
Mutual funds:		
U.S. corporate bond funds	1,576,627	1,562,677
Foreign bond funds	202,564	194,402
Equity funds	5,693,654	8,533,823
Alternative investments:		
Real estate funds	443,624	-
Hedge funds	433,121	-
	<u>\$ 21,359,935</u>	<u>\$ 25,286,900</u>

Investment return consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Interest and dividends	\$ 694,998	\$ 707,170
Realized and unrealized gains (loss), net	(3,998,147)	1,850,620
Less investment management fees	(103,444)	(112,352)
	<u>\$ (3,406,593)</u>	<u>\$ 2,445,438</u>

Note 5. 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.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 5. Fair Value of Financial Instruments (Continued)

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 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 5. Fair Value of Financial Instruments (Continued)

The following tables summarize investments according to the fair value hierarchy as of December 31, 2022 and 2021:

	2022				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value (a)
Money market funds	\$ 737,525	\$ 737,525	\$ -	\$ -	\$ -
U.S. government securities	1,387,065	1,291,657	95,408	-	-
Corporate and other bonds	1,789,705	-	1,789,705	-	-
Common stocks	9,096,050	9,096,050	-	-	-
Mutual funds:					
U.S. corporate bond funds	1,576,627	1,576,627	-	-	-
Foreign bond funds	202,564	202,564	-	-	-
Equity funds	5,693,654	5,693,654	-	-	-
Alternative investments:					
Real estate funds	443,624	-	-	-	443,624
Hedge funds	433,121	-	-	-	433,121
	<u>\$ 21,359,935</u>	<u>\$ 18,598,077</u>	<u>\$ 1,885,113</u>	<u>\$ -</u>	<u>\$ 876,745</u>
	2021				
Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value (a)	
Money market funds	\$ 1,425,449	\$ 1,425,449	\$ -	\$ -	\$ -
U.S. government securities	1,109,946	1,006,781	103,165	-	-
Corporate and other bonds	2,301,765	-	2,301,765	-	-
Common stocks	10,158,838	10,158,838	-	-	-
Mutual funds:					
U.S. corporate bond funds	1,562,677	1,562,677	-	-	-
Foreign bond funds	194,402	194,402	-	-	-
Equity funds	8,533,823	8,533,823	-	-	-
	<u>\$ 25,286,900</u>	<u>\$ 22,881,970</u>	<u>\$ 2,404,930</u>	<u>\$ -</u>	<u>\$ -</u>

- (a) Certain investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The Foundation's investments in real estate and hedge funds at fair value in the amounts of \$443,624 and \$433,121, respectively, as of December 31, 2022 have not been categorized in the fair value hierarchy as the Foundation has elected to measure these funds at NAV per share as the practical expedient.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 5. Fair Value of Financial Instruments (Continued)

The Foundation did not have any outstanding commitments to these funds as of December 31, 2022. Additional information is as follows:

	2022 Fair Value	Redemptions Frequency	Redemption Notice Period
Starwood Real Estate Income Trust	\$ 443,624	Monthly	60 days
Owl Rock Core Income Corp.	433,121	Quarterly	90 days

Note 6. Property and Equipment

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Building	\$ 2,859,217	\$ 2,859,216
Office furniture, equipment and software	1,667,590	1,196,426
	4,526,807	4,055,642
Less accumulated depreciation	(1,792,993)	(1,617,760)
	<u>\$ 2,733,814</u>	<u>\$ 2,437,882</u>

Depreciation expense for the years ended December 31, 2022 and 2021, was \$175,233 and \$225,312, respectively.

Note 7. Loan Payable

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) introduced the Paycheck Protection Program (PPP) to provide funding to small businesses with the goal of preventing job loss and business failure due to losses caused by the COVID-19 pandemic. A borrower of a PPP loan is eligible for loan forgiveness up to the full amount of the loan and any accrued interest for costs incurred and payments made during a defined period, subject to proper documentation.

The Foundation applied for and received a PPP loan dated April 14, 2020 through Chase Bank in the amount of \$594,985. The loan was forgiven on August 6, 2021 and is recorded as a gain on loan forgiveness in the 2021 statement of activities

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 8. 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 \$5,224,019 and \$4,733,649 for these salaries and staff benefits for the years ended December 31, 2022 and 2021, respectively, and are included on the statement of functional expense.

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, 2022 and 2021, totaled \$2,083,000 and \$2,038,000, respectively, and are reported on the statements of functional expenses.

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, 2022 and 2021, the amounts due from National Restaurant Association were \$496,469 and \$531,076, 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% of the net sales of these products. The agreement expires December 31, 2027. The Association paid the Foundation license fees of \$6,271,825 and \$5,230,302 in 2022 and 2021, respectively, recorded as revenue on the statements of activities.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions were as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose:		
Support of Foundation scholarship programs	\$ 1,297,698	\$ 1,993,698
Support of Foundation activities	8,243,828	5,749,660
Ted J. Balestreri Leadership Classic	2,623,250	1,025,500
Award programs	850,000	1,375,000
	<u>13,014,776</u>	<u>10,143,858</u>
Endowments:		
Subject to the Foundation's spending policy and appropriation:		
Scholarships	8,938,880	10,918,044
General use	5,710,654	6,632,640
	<u>14,649,534</u>	<u>17,550,684</u>
	<u>\$ 27,664,310</u>	<u>\$ 27,694,542</u>

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 9. Net Assets With Donor Restrictions (Continued)

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

	2022	2021
Satisfaction of purpose restrictions:		
Support of Foundation scholarship programs	\$ 1,045,000	\$ 744,100
Support of Foundation activities	2,471,511	2,593,172
Ted J. Balestreri Leadership Classic	1,068,250	1,049,700
Award programs	450,000	742,900
	<u>\$ 5,034,761</u>	<u>\$ 5,129,872</u>

Note 10. 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 majority of states. 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 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, 2022 and 2021, endowment assets only include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 10. Endowment Net Assets (Continued)

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, 2022 and 2021:

	2022	2021
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 11,663,995	\$ 11,277,945
Accumulated investment gains	2,985,539	6,272,739
Total donor-restricted endowment funds	<u>\$ 14,649,534</u>	<u>\$ 17,550,684</u>

Changes in endowment net assets for 2022 and 2021, were as follows:

	With Donor Restriction
Endowment net assets, January 1, 2021	\$ 15,157,263
Contributions	560,850
Investment return	2,012,571
Appropriation of endowment assets for expenditure	(180,000)
Endowment net assets, December 31, 2021	<u>17,550,684</u>
Contributions	386,050
Investment loss	(2,755,200)
Appropriation of endowment assets for expenditure	(532,000)
Endowment net assets, December 31, 2022	<u>\$ 14,649,534</u>

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 state UPMIFA requires the Foundation to retain as a fund of perpetual duration. At December 31, 2022, there were two funds with original gift value totaling \$1,168,488 whose fair value of assets associated with individual donor-restricted endowments funds fell below the level that the donor or state UPMIFA requires to retain for perpetual duration in the amount of \$147,175. At December 31, 2021, there were no funds with deficiencies.

National Restaurant Association Educational Foundation

Notes to Financial Statements

Note 10. Endowment Net Assets (Continued)

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% of the funds balance as long as spending does not exceed the accumulated earnings balance.

Note 11. Department of Labor Contracts

Over the years, the Foundation has been awarded various contracts with the DOL. Revenue on all DOL contracts is recognized as qualifying expenses are incurred. Below is a summary of those contracts and the revenue associated with them.

Apprenticeship contract: The Foundation, in partnership with the American Hotel & Lodging Association, secured a contract with the DOL to create and implement a registered apprenticeship initiative for the restaurant and hospitality industries. The program provided a definitive pathway to equip individuals with the knowledge, skills and confidence to advance to management-level positions. The Foundation utilized outsourced consulting management companies for certain event and other activities associated with the contract. The original contract began in November 2016 and was officially closed out as of December 31, 2020. The cumulative amount awarded totaled \$6,786,775.

A second contract was awarded in September 2020 to extend the program. At that time, the DOL awarded the Foundation \$1,800,000 and has the option of renewing the program annually, for up to five years, with potential contract amounts totaling up to \$9,200,000. In September 2022 and 2021, the DOL awarded the Foundation an additional \$1,800,000, bringing the total amount awarded to \$5,400,000.

Youth registered apprenticeship program: In June 2020, the Foundation, secured a \$5,000,000 contract with the DOL to create and implement a youth registered apprenticeship initiative for the restaurant and hospitality industries. The program equips individuals ages 17-24 with the knowledge, skills and confidence to advance to management-level positions.

Reintegration program for ex-offenders: 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. In July 2021, the Foundation, secured a \$4,000,000 contract with the DOL to expand its reintegration program for ex-offenders to find employment in the restaurant and hospitality industries.

DOL contract revenue consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Apprenticeship contract	\$ 1,816,255	\$ 1,902,223
Reintegration program for ex-offenders	2,683,750	1,248,860
Youth registered apprenticeship program	942,473	858,997
Other	-	52,842
	<u>\$ 5,442,478</u>	<u>\$ 4,062,922</u>