

NAF

Financial Statements

December 31, 2018

Independent Auditors' Report

The Board of Directors **NAF**

We have audited the accompanying financial statements of NAF, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of NAF as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended December 31, 2018, NAF adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited NAF's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent in all material respects, with the audited financial statement from which it has been derived.

PKF O'Connor Davies, LLP

June 28, 2019

NAF

Statement of Financial Position
December 31, 2018
(with comparative amounts at December 31, 2017)

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 606,024 | \$ 1,125,830 |
| Contributions and grants receivable, net | 6,122,025 | 9,656,219 |
| Other receivables, net of allowance of \$129,037 in 2018 and \$118,652 in 2017 | 702,166 | 931,532 |
| Prepaid expenses and other assets | 379,276 | 640,726 |
| Investments | 11,183,098 | 8,839,646 |
| Equipment, furniture and fixtures, net | <u>2,072,635</u> | <u>2,289,550</u> |
| | <u>\$ 21,065,224</u> | <u>\$ 23,483,503</u> |
| | | |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,263,194 | \$ 1,663,411 |
| Refundable advance | - | 748,002 |
| Deferred revenue | 615,349 | 609,203 |
| Deferred rent | 138,879 | 143,976 |
| Amounts held for others | <u>85,785</u> | <u>21,085</u> |
| Total Liabilities | <u>2,103,207</u> | <u>3,185,677</u> |
| | | |
| Net Assets | | |
| Without donor restrictions | 4,607,505 | 4,388,026 |
| With donor restrictions | <u>14,354,512</u> | <u>15,909,800</u> |
| Total Net Assets | <u>18,962,017</u> | <u>20,297,826</u> |
| | <u>\$ 21,065,224</u> | <u>\$ 23,483,503</u> |

See notes to financial statements

NAF

Statement of Activities
Year Ended December 31, 2018
(with summarized totals for year ended December 31, 2017)

| | 2018 | | | 2017 Total |
|---------------------------------------|----------------------------------|-------------------------------|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| SUPPORT AND REVENUE | | | | |
| Contributions and grants | \$ 2,348,731 | \$ 12,465,696 | \$ 14,814,427 | \$ 19,247,624 |
| Membership fees | 1,297,254 | - | 1,297,254 | 1,180,213 |
| Registration fees | 617,139 | - | 617,139 | 693,536 |
| Special events | 1,500,996 | - | 1,500,996 | 1,448,572 |
| Contract revenue | 532,135 | - | 532,135 | 705,035 |
| Investment return | 36,137 | 17,145 | 53,282 | 226,045 |
| Other income | 22,984 | - | 22,984 | 18,060 |
| Net assets released from restrictions | <u>14,038,129</u> | <u>(14,038,129)</u> | <u>-</u> | <u>-</u> |
| Total Support and Revenue | <u>20,393,505</u> | <u>(1,555,288)</u> | <u>18,838,217</u> | <u>23,519,085</u> |
| EXPENSES | | | | |
| Program services | <u>15,430,734</u> | <u>-</u> | <u>15,430,734</u> | <u>14,486,528</u> |
| Supporting Services | | | | |
| Management and general | 3,337,938 | - | 3,337,938 | 3,612,073 |
| Fundraising | <u>1,405,354</u> | <u>-</u> | <u>1,405,354</u> | <u>1,429,969</u> |
| Total Supporting Services | <u>4,743,292</u> | <u>-</u> | <u>4,743,292</u> | <u>5,042,042</u> |
| Total Expenses | <u>20,174,026</u> | <u>-</u> | <u>20,174,026</u> | <u>19,528,570</u> |
| Change in Net Assets | 219,479 | (1,555,288) | (1,335,809) | 3,990,515 |
| NET ASSETS | | | | |
| Beginning of year | <u>4,388,026</u> | <u>15,909,800</u> | <u>20,297,826</u> | <u>16,307,311</u> |
| End of year | <u>\$ 4,607,505</u> | <u>\$ 14,354,512</u> | <u>\$ 18,962,017</u> | <u>\$ 20,297,826</u> |

See notes to financial statements

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Statement of Functional Expenses

Year Ended December 31, 2018

(with summarized totals for the year ended December 31, 2017)

| | Supporting Services | | | Total Supporting Services | 2018 Total | 2017 Total |
|----------------------------------|--------------------------|---------------------------|-------------------------|---------------------------------|--------------------------|--------------------------|
| | Program Services | Management and General | Fundraising | | | |
| Salaries and related expenses | \$ 6,534,005 | \$ 2,011,184 | \$ 952,490 | \$ 2,963,674 | \$ 9,497,679 | \$ 9,184,609 |
| Staff travel | 1,096,726 | 100,760 | 19,210 | 119,970 | 1,216,696 | 1,005,425 |
| Curriculum and assessment | 11,829 | - | - | - | 11,829 | 140,964 |
| Consulting and professional fees | 3,444,550 | 655,599 | 17,438 | 673,037 | 4,117,587 | 2,944,083 |
| Rent and occupancy | 522,638 | 151,409 | 52,950 | 204,359 | 726,997 | 572,438 |
| Scholarships and grants | 318,950 | - | - | - | 318,950 | 536,843 |
| Conferences | 1,870,515 | - | - | - | 1,870,515 | 1,904,210 |
| Special events | - | - | 216,692 | 216,692 | 216,692 | 260,337 |
| Other expenses | 1,048,535 | 392,641 | 137,361 | 530,002 | 1,578,537 | 2,353,841 |
| Depreciation | <u>582,986</u> | <u>26,345</u> | <u>9,213</u> | <u>35,558</u> | <u>618,544</u> | <u>625,820</u> |
| Total Expenses | <u>\$ 15,430,734</u> | <u>\$ 3,337,938</u> | <u>\$ 1,405,354</u> | <u>\$ 4,743,292</u> | <u>\$ 20,174,026</u> | <u>\$ 19,528,570</u> |

See notes to financial statements

NAF

Statement of Cash Flows
Year Ended December 31, 2018
(with comparative amounts for year ended December 31, 2017)

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (1,335,809) | \$ 3,990,515 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 618,544 | 625,820 |
| Net realized and unrealized (gain) loss on investments | (220,252) | 45,137 |
| (Recovery) provision for uncollectable accounts | (21,657) | 82,280 |
| Deferred rent | (5,097) | (54,250) |
| Changes in assets and liabilities | | |
| Contributions and grants receivable | 3,534,194 | (2,800,857) |
| Other receivables | 251,023 | (229,915) |
| Prepaid expenses and other assets | 261,450 | (125,579) |
| Accounts payable and accrued expenses | (400,217) | 267,608 |
| Refundable advance | (748,002) | 748,002 |
| Deferred revenue | 6,146 | 24,334 |
| Amounts held for others | 64,700 | - |
| Net Cash from Operating Activities | <u>2,005,023</u> | <u>2,573,095</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment, furniture and fixtures | (401,629) | (118,754) |
| Purchase of investments | (5,100,034) | (6,630,576) |
| Proceeds from sale of investments | <u>2,976,834</u> | <u>3,604,310</u> |
| Net Cash from Investing Activities | <u>(2,524,829)</u> | <u>(3,145,020)</u> |
| Net Change in Cash and Cash Equivalents | (519,806) | (571,925) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>1,125,830</u> | <u>1,697,755</u> |
| End of year | <u>\$ 606,024</u> | <u>\$ 1,125,830</u> |

See notes to financial statements

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Notes to Financial Statements December 31, 2018

1. **Organization and Tax Status**

NAF was incorporated in July 1988 and began operations in 1989 as an educational organization. The purpose of NAF is to strengthen and expand the pool of high school graduates prepared for college and careers. NAF serves over 100,000 students located in school districts nationwide, specializing in hospitality and tourism (Academy of Hospitality and Tourism), finance (Academy of Finance), information technology (Academy of Information Technology), engineering (Academy of Engineering), and health sciences (Academy of Health Sciences). NAF establishes program goals and produces curriculum and assessments for national distribution to the academies and provides teacher training and on-site assistance to the academies, with a specialization in connecting academies to the business world through a model that offers paid internships to students and advisory boards made up of local professionals.

NAF operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose.

2. **Summary of Significant Accounting Policies**

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Change in Accounting Principle

On January 1, 2018, NAF adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires NAF to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires NAF to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

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Notes to Financial Statements December 31, 2018

2. Summary of Significant Accounting Policies *(continued)*

Change in Accounting Principle (continued)

The changes have the following effect on net assets at December 31, 2017:

| <u>Net Asset Classifications</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total Net Assets</u> |
|-----------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| As Previously Presented: | | | |
| Unrestricted net assets | \$ 4,388,026 | \$ - | \$ 4,388,026 |
| Temporarily restricted net assets | - | 15,379,800 | 15,379,800 |
| Permanently restricted net assets | - | 530,000 | 530,000 |
| Total Net Assets | <u>\$ 4,388,026</u> | <u>\$ 15,909,800</u> | <u>\$ 20,297,826</u> |

Cash and Cash Equivalents

Cash and cash equivalents represent highly liquid debt instruments with maturities of three months or less at time of purchase, except for those cash equivalents invested for long-term purposes.

Fair Value Measurements

NAF follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation and Income Recognition

Investments are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets.

Equipment, Furniture and Fixtures

NAF has established a \$500 threshold at which assets are capitalized. Equipment, furniture and fixtures are capitalized at cost. Web site costs are capitalized when the project is substantially complete and ready for their intended purpose. Depreciation is provided on a straight-line basis over estimated useful lives ranging from 3 to 10 years.

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Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies *(continued)*

Deferred Rent

NAF leases real property under an operating lease which was extended in 2018 through 2029. The lease calls for escalating rent payments over time, and accordingly, NAF records an adjustment to rent expense each year to reflect the recording of rent on a straight-line basis in accordance with U.S. GAAP. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent liability in the accompanying statement of financial position.

Refundable Advance

Amounts received related to conditional contributions are reported as a refundable advance until the conditions have been substantially met.

Amounts Held for Others

Amounts held for others consist of funds held by NAF for several academies that are available to pay for related activities.

Net Asset Presentation

NAF reports information regarding financial position and activities according to two classes of net assets: without and with donor restrictions.

Without donor restrictions – consist of resources available for the general support of NAF's operations. Net assets without donor restrictions may be used at the discretion of NAF's management and Board of Directors.

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require NAF to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Income and gains earned on endowment fund investments are available to be used in the "without donor restrictions" or "with donor restrictions" net asset classes based upon stipulations by the donors.

Allowance for Doubtful Accounts

NAF determines whether an allowance for uncollectible balances should be provided for receivables. Such estimates are based on, but not limited to, historical collection experience, management's estimates of the credit-worthiness of its borrowers and current economic conditions.

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Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies *(continued)*

Contributions and Grants

Contributions and grants, which include unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give are recognized as grants and contributions revenue in the period such promises are made by donors. Net realizable value is estimated by giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discount is recorded as additional grants and contributions revenue.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

In-Kind Contributions

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized.

During 2018 and 2017, NAF received contributed services primarily in the form of donated course development, consulting services, and legal services. The value of such in-kind contributions, based upon information provided by the third party providing the services was \$295,199 and \$331,749 for the years ended December 31, 2018 and 2017. Such donated services have been reflected on the accompanying statement of activities as contributions and grants revenue.

Membership Fees and Registration Fees

Membership fees consist of a onetime fee for new programs within a school district and an annual fee. Registration fees consist of fees for conferences. These fees are recorded as revenue when the program or conference takes place. Amounts received in advance are recorded as deferred revenue.

Contract Revenue

NAF enters into agreements with school districts to provide additional support for the implementation of NAF's academy model in the year of planning. This most often takes the form of supplemental training and consulting. These agreements are recorded as revenue when the training and consulting is provided. Amounts received in advance are recorded as deferred revenue.

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Notes to Financial Statements December 31, 2018

2. Summary of Significant Accounting Policies *(continued)*

Special Events

Special event revenue is recognized when the event takes place. Amounts received in advance are reported as deferred revenue. For the years ended December 31, 2018 and 2017, NAF incurred expenses for special events in the amount of \$216,692 and \$260,337.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis. Therefore, expenses require allocation on a reasonable basis that is consistently applied. NAF allocated direct costs to program services. Supporting services include management and general and fundraising. Allocated expenses among program services and management and general and fundraising include salaries and related expenses, staff travel, consulting and professional fees, rent and occupancy, other expenses, and depreciation which are allocated based on time and costs where efforts are made.

Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with NAF's financial statements as of and for the year ended December 31, 2017, from which the summarized comparative information was derived.

Reclassifications

Certain amounts from the 2017 financial statements were reclassified to conform to the 2018 presentation.

Accounting for Uncertainty in Income Taxes

NAF recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that NAF has no uncertain tax positions that would require financial statement recognition or disclosure. NAF is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2015.

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Notes to Financial Statements December 31, 2018

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 28, 2019.

3. Concentration of Credit Risk

Financial instruments that potentially subject NAF to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. NAF does not believe that a significant risk of loss, due to the failure of a financial institution presently exists. One donor comprised 46% of contribution receivable and two donors comprised 40% of contribution revenue in 2018, whereas one donor comprised 39% and 22% of contributions receivable and contribution revenue in 2017. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of credit risk.

4. Contributions and Grants Receivable

Contributions and grants receivable consisted of the following as of December 31:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Amounts expected to be collected in | | |
| Less than one year | \$ 3,634,961 | \$ 5,087,925 |
| One to five years | <u>2,550,000</u> | <u>4,714,745</u> |
| | 6,184,961 | 9,802,670 |
| Less discount to present value of 2.82% | <u>(62,936)</u> | <u>(146,451)</u> |
| | <u>\$ 6,122,025</u> | <u>\$ 9,656,219</u> |

Based on its prior experience with donors and grantors, management expects the contributions and grants receivables to be fully collectible. Accordingly, no allowance for doubtful accounts has been provided.

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Notes to Financial Statements December 31, 2018

5. Investments

The following are the classes and major categories of investments at December 31, grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis:

| | 2018 | | |
|--|--------------|--------------|--------------|
| | Level 1 | Level 2 | Total |
| U.S. common stocks | \$ 1,364,944 | \$ - | \$ 1,364,944 |
| U.S. government obligations | 43,662 | - | 43,662 |
| Corporate bonds | - | 8,727,913 | 8,727,913 |
| Mutual Funds | | | |
| Corporate bonds | 14,943 | - | 14,943 |
| Government bonds | 689,143 | - | 689,143 |
| Fixed income funds | 9,749 | - | 9,749 |
| Total Investments | \$ 2,122,441 | \$ 8,727,913 | 10,850,354 |
| Money market funds and temporary cash investments, at cost | | | 332,744 |
| Total Investments | | | \$11,183,098 |
| | | | |
| | 2017 | | |
| | Level 1 | Level 2 | Total |
| U.S. common stocks | \$ 1,235,410 | \$ - | \$ 1,235,410 |
| U.S. government obligations | 46,065 | - | 46,065 |
| Corporate bonds | - | 6,785,975 | 6,785,975 |
| Mutual Funds | | | |
| Corporate bonds | 16,061 | - | 16,061 |
| Government bonds | 698,716 | - | 698,716 |
| Fixed income funds | 10,243 | - | 10,243 |
| Total Investment at Fair Value | \$ 2,006,495 | \$ 6,785,975 | 8,792,470 |
| Money market funds and temporary cash investments, at cost | | | 47,176 |
| Total Investments | | | \$ 8,839,646 |

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Notes to Financial Statements
December 31, 2018

6. Equipment, Furniture and Fixtures

As of December 31, equipment, furniture and fixtures consisted of the following:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Office equipment | \$ 996,415 | \$ 594,786 |
| Furniture and fixtures | 208,256 | 208,256 |
| Leasehold improvements | 207,497 | 207,497 |
| Data center, web site, and software development costs | <u>3,614,189</u> | <u>3,614,189</u> |
| | 5,026,357 | 4,624,728 |
| Less: accumulated depreciation | <u>(2,953,722)</u> | <u>(2,335,178)</u> |
| | <u>\$ 2,072,635</u> | <u>\$ 2,289,550</u> |

7. Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes and time restrictions as of December 31:

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Subject to expenditure for specified purpose and time: | | |
| Academy Development/STEM | \$ 2,963,474 | \$ 1,804,002 |
| Core operations | 4,222,901 | 4,976,276 |
| Disaster relief | 10,000 | 7,211 |
| Future Ready/Work Based Learning | 5,602,674 | 6,756,612 |
| NAFTrack Certification | 30,000 | 78,850 |
| Professional developments | 25,000 | 55,169 |
| Other time and purpose restrictions | 124,229 | 494,229 |
| Regional development | 464,000 | 612,361 |
| Scholarship/awards | <u>382,234</u> | <u>595,090</u> |
| Total Subject to Expenditure for Specified Purpose and Time | <u>13,824,512</u> | <u>15,379,800</u> |
| Held as endowment and subject to NAF's spending policy and appropriation: | | |
| Aldo Papone Endowment | 500,000 | 500,000 |
| Jesse Blackman Endowment | <u>30,000</u> | <u>30,000</u> |
| | 530,000 | 530,000 |
| Total Net Assets with Donor Restrictions | <u>\$ 14,354,512</u> | <u>\$ 15,909,800</u> |

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Notes to Financial Statements December 31, 2018

7. Net Assets with Donor Restrictions *(continued)*

Endowment fund net assets as of December 31, 2018 and 2017 consist of investments held in perpetuity. NAF's endowment fund net assets comprised the following two funds as of December 31, 2018 and 2017.

The Aldo Papone Endowment was established by the American Express Company in 1991 to provide funds for grant awards to outstanding U.S. academy programs.

The Jesse Blackman Endowment was established in 1994 with a contribution from the American Express Company. The purpose of the Jesse Blackman Endowment is to provide funds for a scholarship to an outstanding student in the Hospitality and Tourism program.

Net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows for the years ended December 31:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------------|----------------------|
| Academy Development/STEM | \$ 1,998,028 | \$ 2,344,093 |
| Core operations | 4,101,570 | 3,513,823 |
| Disaster relief | 7,211 | 6,611 |
| Future Ready/Work Based Learning | 6,407,940 | 5,969,460 |
| NAFTrack Certification | 290,850 | 263,150 |
| Other time and purpose restrictions | 370,000 | 5,771 |
| Professional developments | 35,169 | 144,831 |
| Regional development | 567,361 | 550,000 |
| Scholarship/awards | 260,000 | 511,667 |
| | <u>\$ 14,038,129</u> | <u>\$ 13,309,406</u> |

8. Endowments

General

NAF maintains donor-restricted funds whose purpose is to provide long term support for its programs. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors looks to the explicit direction of the donor and provisions of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") when classifying such funds.

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Notes to Financial Statements December 31, 2018

8. Endowments *(continued)*

Interpretation of Law

NAF has interpreted NYPMIFA as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary or except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, NAF classifies as investments held in perpetuity (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the investments held in perpetuity, and (c) accumulations of investment returns to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as held in perpetuity is subject to expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Investment Strategy and Procedure

Investments held in perpetuity are those given to NAF with a donor-imposed restriction that the funds are not to be expended but are to be invested for the purpose of generating investment income (as defined by each gift instrument) for the support of NAF. The principal of the funds is to be maintained in perpetuity. The donor may place restrictions on the purpose(s) for which the investment income may be expended. NAF's Board of Directors has a fiduciary responsibility to comply with the restrictions imposed by the donors of these funds.

NAF's investment and spending procedure for endowment assets are in accordance with the request of the donor. Endowment assets include those assets of donor-restricted funds that NAF must hold in perpetuity.

In accordance with these procedures, as approved by the Board of Directors, the endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in high-quality diversified manner and adhere to established guidelines.

NAF

Notes to Financial Statements December 31, 2018

8. Endowments *(continued)*

Investment Strategy and Procedure (continued)

Changes in endowment net assets for the years ended December 31, are as follows:

| | 2018 | | |
|--|--|-----------------------------------|------------|
| | Time or Purpose Restricted | Investments Held in Perpetuity | Total |
| | Endowment net assets, beginning of year | \$ 104,404 | \$ 530,000 |
| Interest and dividends, net | 12,924 | - | 12,924 |
| Net realized and unrealized loss | (10,052) | - | (10,052) |
| Appropriation for expenditures | (220,000) | - | (220,000) |
| Endowment net assets, end of year | \$ (112,724) | \$ 530,000 | \$ 417,276 |
| | 2017 | | |
| | Time or Purpose Restricted | Investments Held in Perpetuity | Total |
| Endowment net assets, beginning of year | \$ 98,657 | \$ 530,000 | \$ 628,657 |
| Interest and dividends, net | 63,177 | - | 63,177 |
| Net realized and unrealized gain | 37,570 | - | 37,570 |
| Appropriation for expenditures | (95,000) | - | (95,000) |
| Endowment net assets, end of year | \$ 104,404 | \$ 530,000 | \$ 634,404 |

Underwater Endowment 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 NYPMIFA requires NAF to retain as fund of perpetual duration.

A deficiency of this nature affected the Aldo Papone endowment fund, which has an original gift value of \$500,000, a current fair value of \$380,601, and a deficiency of \$119,399 as of December 31, 2018. This deficiency resulted from an unusually high number of distinguished awards granted to NAF academies in 2018. NAF has interpreted NYPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Spending Policy

NAF has a policy of appropriating endowment assets for distribution each year in accordance with the endowment donor specifications. Such appropriated assets are granted to students as part of the scholarship program guidelines established by the donors.

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Notes to Financial Statements December 31, 2018

8. Endowments *(continued)*

Return Objectives and Risk Parameters

NAF has adopted investment and spending policies that attempt to provide a predictable stream of funding programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that NAF must hold in perpetuity or for a donor-specified period(s). To satisfy its long-term rate-of-return objectives, NAF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

9. Liquidity and Availability of Financial Assets

As part of NAF's liquidity management strategy, NAF structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. NAF's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of contributions and grants, and membership fees.

The following reflects NAF's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions. Amounts available include the appropriations from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year.

Financial Assets:

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 606,024 |
| Contributions and grants receivable, net | 6,122,025 |
| Other receivables, net | 702,166 |
| Investments | <u>11,183,098</u> |
| Total Financial Assets | <u>18,613,313</u> |
| Less: Contractual or donor imposed restrictions amounts | |
| Contributions and grants receivable - Due in future years | 2,550,000 |
| Restricted by donor with time or purpose restrictions | 11,274,512 |
| Donor restricted endowment funds | <u>530,000</u> |
| | <u>14,354,512</u> |
| Financial Assets Available to Meet General Expenditures over the Next Twelve Months | <u>\$ 4,258,801</u> |

NAF

Notes to Financial Statements December 31, 2018

10. Pension Plans

NAF has a defined contribution pension plan covering all eligible employees. The plan qualifies as a 401(k) pension plan under the Code. NAF funds the plan on a monthly basis and contributes up to 11% of employees' compensation up to the Social Security wage base. NAF contributes 5% in years one and two of employment, 8% in years three and four, and 11% in year five and thereafter. Compensation paid above the Social Security wage base ceiling is funded by an additional 2%. NAF also has a 403(b) thrift plan under the Code. Employees are permitted to make voluntary contributions to the plan, and NAF matches the employees' contribution at the rate of 50% up to 6% of the employees' compensation. The expense under these plans for the years ended December 31, 2018 and 2017 was \$730,011 and \$662,751.

NAF also maintains a 457 Deferred Compensation Plan (the 457 Plan) for certain senior members of management. The 457 Plan is a nonqualified deferred compensation plan subject to the provisions of the Code Section 457. The expense under this plan was \$18,000 for both years ended December 31, 2018 and 2017.

11. Lease Commitment

In June 2018, NAF executed an extension of the lease agreement commencing in January 2020 for ten years with annual rent payments escalating each year.

At December 31, 2018, future minimum lease payments were as follows:

| Year Ending December 31 | |
|-------------------------|---------------------|
| 2019 | \$ 449,843 |
| 2020 | 695,000 |
| 2021 | 712,375 |
| 2022 | 730,184 |
| 2023 | 748,439 |
| Thereafter | <u>5,046,478</u> |
| | <u>\$ 8,382,319</u> |

Rent expense for the years ended December 31, 2018 and 2017 was \$433,127 and \$337,155.

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