

**NAF**

Financial Statements

December 31, 2019

## 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, 2019, 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, 2019 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.

***Report on Summarized Comparative Information***

We have previously audited NAF's December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

August 25, 2020

## NAF

Statement of Financial Position  
December 31, 2019  
(with comparative amounts at December 31, 2018)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,921,624	\$ 606,024
Contributions and grants receivable, net	5,004,842	6,122,025
Other receivables, net of allowance of \$25,000 in 2019 and \$129,037 in 2018	606,185	702,166
Prepaid expenses and other assets	464,983	379,276
Investments	15,900,721	11,183,098
Equipment, furniture and fixtures, net	<u>1,223,269</u>	<u>2,072,635</u>
	<u>\$ 26,121,624</u>	<u>\$ 21,065,224</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,671,740	\$ 1,263,194
Deferred revenue	535,625	615,349
Deferred rent	404,597	138,879
Amounts held for others	<u>-</u>	<u>85,785</u>
Total Liabilities	<u>3,611,962</u>	<u>2,103,207</u>
 Net Assets		
Without donor restrictions	6,759,066	4,607,505
With donor restrictions	<u>15,750,596</u>	<u>14,354,512</u>
Total Net Assets	<u>22,509,662</u>	<u>18,962,017</u>
	<u>\$ 26,121,624</u>	<u>\$ 21,065,224</u>

See notes to financial statements

**NAF**

Statement of Activities  
Year Ended December 31, 2019  
(with summarized totals for year ended December 31, 2018)

	2019		Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions		
<b>SUPPORT AND REVENUE</b>				
Contributions and grants	\$ 3,602,883	\$ 20,908,933	\$ 24,511,816	\$ 16,315,423
Membership fees	1,409,614	-	1,409,614	1,297,254
Registration fees	526,487	-	526,487	617,139
Contract revenue	435,731	-	435,731	532,135
Investment return	631,945	98,589	730,534	53,282
Other income	250	-	250	22,984
Net assets released from restrictions	19,611,438	(19,611,438)	-	-
Total Support and Revenue	<u>26,218,348</u>	<u>1,396,084</u>	<u>27,614,432</u>	<u>18,838,217</u>
<b>EXPENSES</b>				
Program services	<u>16,729,581</u>	<u>-</u>	<u>16,729,581</u>	<u>15,430,734</u>
Supporting Services				
Management and general	5,857,555	-	5,857,555	3,337,938
Fundraising	<u>1,479,651</u>	<u>-</u>	<u>1,479,651</u>	<u>1,405,354</u>
Total Supporting Services	<u>7,337,206</u>	<u>-</u>	<u>7,337,206</u>	<u>4,743,292</u>
Total Expenses	<u>24,066,787</u>	<u>-</u>	<u>24,066,787</u>	<u>20,174,026</u>
Change in Net Assets	2,151,561	1,396,084	3,547,645	(1,335,809)
<b>NET ASSETS</b>				
Beginning of year	<u>4,607,505</u>	<u>14,354,512</u>	<u>18,962,017</u>	<u>20,297,826</u>
End of year	<u>\$ 6,759,066</u>	<u>\$ 15,750,596</u>	<u>\$ 22,509,662</u>	<u>\$ 18,962,017</u>

See notes to financial statements

**NAF**

Statement of Functional Expenses  
Year Ended December 31, 2019  
(with summarized totals for the year ended December 31, 2018)

	Supporting Services			Total Supporting Services	2019 Total	2018 Total
	Program Services	Management and General	Fundraising			
Salaries and benefits	\$ 7,517,752	\$ 2,407,101	\$ 1,075,752	\$ 3,482,853	\$ 11,000,605	\$ 9,497,679
Travel	1,981,869	298,824	34,924	333,748	2,315,617	2,907,511
Consulting and professional fees	3,104,725	1,491,392	89,869	1,581,261	4,685,986	3,941,135
Rent and occupancy	638,397	277,229	95,982	373,211	1,011,608	726,997
Scholarships and grants	732,943	-	-	-	732,943	318,950
Software licensing	1,429,500	206,961	11,055	218,016	1,647,516	431,272
Other expenses	788,385	943,281	91,480	1,034,761	1,823,146	1,731,938
Depreciation	536,010	232,767	80,589	313,356	849,366	618,544
 Total Expenses	 <u>\$ 16,729,581</u>	 <u>\$ 5,857,555</u>	 <u>\$ 1,479,651</u>	 <u>\$ 7,337,206</u>	 <u>\$ 24,066,787</u>	 <u>\$ 20,174,026</u>

See notes to financial statements

## NAF

Statement of Cash Flows  
Year Ended December 31, 2019  
(with comparative amounts for year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,547,645	\$ (1,335,809)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	849,366	618,544
Discount on pledges	32,399	209,387
Net realized and unrealized (gain) loss on investments	(382,326)	220,252
Provision (recovery) for uncollectable accounts	-	(21,657)
Deferred rent	265,718	(5,097)
Changes in assets and liabilities		
Contributions and grants receivable	1,084,784	3,324,807
Other receivables	95,981	251,023
Prepaid expenses and other assets	(85,707)	261,450
Accounts payable and accrued expenses	1,408,546	(400,217)
Refundable advance	-	(748,002)
Deferred revenue	(79,724)	6,146
Amounts held for others	(85,785)	64,700
Net Cash from Operating Activities	<u>6,650,897</u>	<u>2,445,527</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment, furniture and fixtures	-	(401,629)
Purchase of investments	(7,884,025)	(5,100,034)
Proceeds from sale of investments	<u>3,548,728</u>	<u>2,536,330</u>
Net Cash from Investing Activities	<u>(4,335,297)</u>	<u>(2,965,333)</u>
Net Change in Cash and Cash Equivalents	2,315,600	(519,806)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>606,024</u>	<u>1,125,830</u>
End of year	<u>\$ 2,921,624</u>	<u>\$ 606,024</u>

See notes to financial statements

# NAF

## Notes to Financial Statements December 31, 2019

### 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's network consists of 617 academies across 35 states which serve approximately 109,800 students. NAF academies specialize 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). Through NAF's commitment, 99% of affiliated seniors graduated high school with 87% of those graduates college bound. 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.

#### ***Adoption of New Accounting Policies***

##### ***Revenue from Contracts with Customers***

Effective January 1, 2019, NAF adopted ASU 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

## NAF

Notes to Financial Statements  
December 31, 2019

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

#### ***Adoption of New Accounting Policies (continued)***

##### *Revenue from Contracts with Customers (continued)*

Analysis of the various provisions of this standard resulted in no significant changes in the way NAF recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. When revenue is earned over a period that spans the year end, it is recognized in the applicable period in which it is earned (i.e. membership and registration fees, contract revenue). The new guidance requires NAF to not recognize revenue until it is probable of collection. Based on NAF's strong collection experience, NAF has concluded that all revenue recognized is probable of collection.

##### *Recognition of Contributions*

Effective January 1, 2019, NAF adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions.

Analysis of the various provisions of this standard resulted in no significant changes in the way NAF recognizes contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

##### ***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.

## NAF

Notes to Financial Statements  
December 31, 2019

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

#### ***Investments Valuation and Income Recognition (continued)***

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

#### ***Equipment, Furniture and Fixtures***

NAF has established a \$2,500 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.

#### ***Deferred Rent***

NAF leases real property under an operating lease which extends 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, if any, are reported as a refundable advance until the conditions have been substantially met.

#### ***Net Asset Presentation***

NAF's financial statements distinguish between net assets without donor restrictions and net assets with donor restrictions.

*Net assets 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.

*Net assets 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.

## NAF

Notes to Financial Statements  
December 31, 2019

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

#### ***Allowance for Doubtful Accounts***

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

#### ***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 2019 and 2018, 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 \$433,617 and \$295,199 for the years ended December 31, 2019 and 2018. 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 one-time lump-sum fee for new programs within a school district during the initial year of planning and an annual sliding scale membership fee thereafter based on the number of academies in a district. Registration fees consist of fees for NAF hosted conferences. These fees are recorded as revenue when NAF's performance obligation is satisfied, when the program or conference takes place. Amounts received in advance are recorded as deferred revenue.

## NAF

### Notes to Financial Statements December 31, 2019

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

##### ***Contract Revenue***

NAF enters into agreements with school districts to provide additional support in the form of extended services for the implementation of NAF's academy model as requested. 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.

##### ***Special Events***

NAF hosts a limited number of special fundraising events, such as an annual gala and a Chairman's dinner. Related revenues are recognized when such events take place and are recorded within contributions and grants revenue in the statement of activities. Amounts received in advance (if any) are reported as deferred revenue. For the year ended December 31, 2019, NAF incurred direct benefit to donor related expenses in the amount of \$82,906, which has been recorded within other expenses in the statement of functional expenses.

##### ***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 benefits, travel, consulting and professional fees, rent and occupancy, software licensing, 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, 2018, from which the summarized comparative information was derived.

##### ***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 2016.

## NAF

### Notes to Financial Statements December 31, 2019

#### 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 August 25, 2020.

#### 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. Two donors comprised 65% of contributions and grants receivable and four donors comprised 53% of contributions and grants revenue in 2019, whereas one donor comprised 46% of contributions receivable and 40% of contributions revenue in 2018. 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>2019</u>	<u>2018</u>
Amounts expected to be collected in		
Less than one year	\$ 2,925,177	\$ 3,634,961
One to five years	<u>2,175,000</u>	<u>2,550,000</u>
	5,100,177	6,184,961
Less discount to present value	<u>(95,335)</u>	<u>(62,936)</u>
	<u>\$ 5,004,842</u>	<u>\$ 6,122,025</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. Future years' payments have been discounted to present value at an annual rate of 3.25% and 2.82% in 2019 and 2018.

## NAF

### Notes to Financial Statements December 31, 2019

#### 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:

	2019		
	Level 1	Level 2	Total
U.S. common stocks	\$ 2,280,947	\$ -	\$ 2,280,947
U.S. government obligations	44,742	-	44,742
Corporate bonds	-	11,634,193	11,634,193
Mutual Funds			
Corporate bonds	4,740	-	4,740
Fixed income funds	<u>26,879</u>	-	<u>26,879</u>
Total Investment at Fair Value	<u>\$ 2,357,308</u>	<u>\$11,634,193</u>	13,991,501
Money market funds and temporary cash investments, at cost			<u>1,909,220</u>
Total Investments			<u>\$15,900,721</u>
	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	<u>9,749</u>	-	<u>9,749</u>
Total Investments	<u>\$ 2,122,441</u>	<u>\$ 8,727,913</u>	10,850,354
Money market funds and temporary cash investments, at cost			<u>332,744</u>
Total Investments			<u>\$11,183,098</u>

## NAF

### Notes to Financial Statements December 31, 2019

#### 6. Equipment, Furniture and Fixtures

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

	2019	2018
Office equipment	\$ 678,273	\$ 678,273
Furniture and fixtures	208,256	208,256
Leasehold improvements	207,497	207,497
Data center, web site, and software development costs	3,932,330	3,932,330
	5,026,356	5,026,356
Less: accumulated depreciation	(3,803,087)	(2,953,721)
	\$ 1,223,269	\$ 2,072,635

#### 7. Net Assets with Donor Restrictions

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

	2019	2018
Subject to expenditure for specified purpose and time:		
Academy Development/STEM	\$ 3,354,277	\$ 3,046,612
Core operations	4,421,120	4,015,600
Future Ready/Work Based Learning	5,503,986	4,999,142
Other time and purpose restrictions	807,500	733,433
Grants/Scholarship/awards	448,718	505,118
Corporate relations/Engagement	709,043	644,006
Underwater endowment	(24,048)	(119,399)
Total Subject to Expenditure for Specified Purpose and Time	15,220,596	13,824,512
Held as endowment and subject to NAF's spending policy and appropriation:		
Aldo Papone Endowment	500,000	500,000
Jesse Blackman Endowment	30,000	30,000
	530,000	530,000
Total Net Assets with Donor Restrictions	\$ 15,750,596	\$ 14,354,512

Endowment fund net assets as of December 31, 2019 and 2018 consist of investments held in perpetuity. NAF's endowment fund net assets comprised the following two funds as of December 31, 2019 and 2018.

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### Notes to Financial Statements December 31, 2019

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

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 which satisfied the following restrictions for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Academy Development/STEM	\$ 4,321,920	\$ 2,565,389
Core operations	5,696,526	4,101,570
Future Ready/Work Based Learning	7,091,778	6,273,621
Other time and purpose restrictions	1,040,448	377,211
Grants/Scholarships/awards	547,181	260,000
Corporate relations/Engagement	913,585	460,338
	<u>\$ 19,611,438</u>	<u>\$ 14,038,129</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.

##### *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 and 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.

## NAF

### Notes to Financial Statements December 31, 2019

#### 8. Endowments (continued)

##### *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 a high-quality diversified manner and adhere to established guidelines.

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

	2019			
	Without Donor Restriction	With Donor Restrictions		Total
		Cumulative Earnings	Original Gift Amount	
Endowment net assets, beginning of year	\$ -	\$ (112,724)	\$ 530,000	\$ 417,276
Interest and dividends, net	-	13,199	-	13,199
Net realized and unrealized gain	-	85,390	-	85,390
Endowment net assets, end of year	\$ -	\$ (14,135)	\$ 530,000	\$ 515,865
	2018			
	Without Donor Restriction	With Donor Restrictions		Total
		Cumulative Earnings	Original Gift Amount	
Endowment net assets, beginning of year	\$ -	\$ 104,404	\$ 530,000	\$ 634,404
Interest and dividends, net	-	12,924	-	12,924
Net realized and unrealized loss	-	(10,052)	-	(10,052)
Appropriation for operations	220,000	(220,000)	-	-
Expenditures for operations	(220,000)	-	-	(220,000)
Endowment net assets, end of year	\$ -	\$ (112,724)	\$ 530,000	\$ 417,276

## NAF

### Notes to Financial Statements December 31, 2019

#### 8. Endowments (*continued*)

##### ***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 a fund of perpetual duration.

A deficiency of this nature first affected the Aldo Papone endowment fund in 2018, which has an original gift value of \$500,000, a current fair value of \$475,952, and a remaining deficiency of \$24,048 as of December 31, 2019. This deficiency resulted from unfavorable market conditions in 2018. NAF has interpreted NYPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. In order to reduce the deficit, NAF elected to defer endowment appropriations until 2021 and fund these expenses from their general funds.

##### ***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.

##### ***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.

## NAF

### Notes to Financial Statements December 31, 2019

#### 9. Liquidity and Availability of Financial Assets *(continued)*

The following reflects NAF's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions:

Financial assets:	
Cash and cash equivalents	\$ 2,921,624
Contributions and grants receivable, net	5,004,842
Other receivables, net	606,185
Investments	<u>15,900,721</u>
Total Financial Assets Available Within One Year	<u>24,433,372</u>
Less: amounts unavailable for general expenditures due to:	
Contributions and grants receivable - Due in future years	2,175,000
Restricted by donor with time or purpose restrictions	13,045,596
Donor restricted endowment funds	<u>530,000</u>
	<u>15,750,596</u>
Financial Assets at Year End Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 8,682,776</u>

#### 10. Pension Plans

NAF has a defined contribution pension plan covering all eligible employees. The plan qualifies as a 401(a) retirement plan under the Internal Revenue Code. NAF funds the plan on a bi-weekly 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% at each respective service level. NAF also has a qualified 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 related expense under these plans for the years ended December 31, 2019 and 2018 was \$870,030 and \$730,011.

NAF also maintains a 457(b) non-Governmental 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 Internal Revenue Service (IRS) Section 457. The related expenses under this plan was approximately \$25,000 and \$18,000, for the years ended December 31, 2019 and 2018.

## NAF

### Notes to Financial Statements December 31, 2019

#### 11. Lease Commitment

In 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, 2019, future minimum lease payments were as follows:

2020	\$ 695,000
2021	712,375
2022	730,184
2023	748,439
2024	767,150
Thereafter	<u>4,279,328</u>
	<u>\$ 7,932,476</u>

Rent expense for the years ended December 31, 2019 and 2018 was \$1,011,608 and \$726,997.

#### 12. Subsequent Events

NAF's operations and financial performance may be affected by the recent COVID-19 pandemic which has spread globally and is expected to adversely affect economic condition throughout the world. If the outbreak continues and conditions worsen, NAF may experience a disruption in operations. The pandemic is likely to adversely affect NAF's business, financial conditions and results of operations on an interim basis. As a result of the pandemic, NAF applied for and received a \$1,350,000 loan through the Small Business Administration related to the Paycheck Protection Program at a fixed interest rate of 1%. NAF may apply for forgiveness of this loan in accordance with the requirement of the Paycheck Protection Program, including the provisions of Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

The COVID-19 pandemic has resulted in substantial volatility in the global financial markets. Because the value of NAF's individual investments has and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

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