

NAF

Financial Statements

December 31, 2021

Independent Auditors' Report

Board of Directors NAF

Opinion

We have audited the accompanying financial statements of NAF, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NAF as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of NAF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 these 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 NAF's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 auditors' 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 generally accepted auditing standards 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 the 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 NAF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about NAF'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.

Report on Summarized Comparative Information

We have previously audited NAF's December 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

August 31, 2022

NAF

Statement of Financial Position
December 31, 2021
(with comparative amounts at December 31, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 6,827,869	\$ 5,767,631
Contributions and grants receivable, net	6,226,721	9,896,029
Other receivables, net of allowance of \$200,000 in 2021 and \$40,775 in 2020	546,196	468,449
Prepaid expenses and other assets	420,833	235,480
Investments	14,066,791	15,783,538
Equipment, furniture and fixtures, net	<u>6,358</u>	<u>543,063</u>
	<u>\$ 28,094,768</u>	<u>\$ 32,694,190</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,542,560	\$ 2,299,987
Deferred revenue	459,623	261,163
Deferred rent	545,625	483,074
Long-term debt - PPP Loan	-	1,365,100
PPP refundable advance	116,877	-
Total Liabilities	<u>3,664,685</u>	<u>4,409,324</u>
Net Assets		
Without donor restrictions	8,888,481	8,401,764
With donor restrictions	<u>15,541,602</u>	<u>19,883,102</u>
Total Net Assets	<u>24,430,083</u>	<u>28,284,866</u>
	<u>\$ 28,094,768</u>	<u>\$ 32,694,190</u>

See notes to financial statements

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Statement of Activities Year Ended December 31, 2021 (with summarized totals for year ended December 31, 2020)

	2021		Total	2020 Total
	Without Donor Restrictions	With Donor Restrictions		
SUPPORT AND REVENUE				
Contributions and grants	\$ 2,550,527	\$ 11,318,345	\$ 13,868,872	\$ 23,725,918
Membership fees	736,464	-	736,464	911,713
Registration fees	17,450	-	17,450	6,250
Contract revenue	173,483	-	173,483	302,483
Investment return	616,040	124,489	740,529	724,673
Special events	742,459	-	742,459	-
Other income	1,136	-	1,136	1,499
Loss on disposal of equipment, furniture and fixtures	-	-	-	(106,047)
Net assets released from restrictions	15,784,334	(15,784,334)	-	-
Total Support and Revenue	<u>20,621,893</u>	<u>(4,341,500)</u>	<u>16,280,393</u>	<u>25,566,489</u>
EXPENSES				
Program services	15,019,712	-	15,019,712	13,054,462
Supporting Services				
Management and general	5,379,942	-	5,379,942	4,312,100
Fundraising	2,983,745	-	2,983,745	2,424,723
Total Supporting Services	<u>8,363,687</u>	<u>-</u>	<u>8,363,687</u>	<u>6,736,823</u>
Total Expenses	<u>23,383,399</u>	<u>-</u>	<u>23,383,399</u>	<u>19,791,285</u>
(Deficiency) Excess of Support and Revenue Over Expenses	(2,761,506)	(4,341,500)	(7,103,006)	5,775,204
NONOPERATING ACTIVITY				
CARES Act stimulus revenue	3,248,223	-	3,248,223	-
Change in Net Assets	486,717	(4,341,500)	(3,854,783)	5,775,204
NET ASSETS				
Beginning of year	8,401,764	19,883,102	28,284,866	22,509,662
End of year	<u>\$ 8,888,481</u>	<u>\$ 15,541,602</u>	<u>\$ 24,430,083</u>	<u>\$ 28,284,866</u>

See notes to financial statements

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Statement of Functional Expenses
Year Ended December 31, 2021
(with summarized totals for the year ended December 31, 2020)

	Supporting Services			Total Supporting Services	2021 Total	2020 Total
	Program Services	Management and General	Fundraising			
Salaries and benefits	\$ 8,160,311	\$ 2,515,251	\$ 2,153,691	\$ 4,668,942	\$ 12,829,253	\$ 11,421,542
Travel	135,029	25,228	14,415	39,643	174,672	534,927
Consulting and professional fees	2,931,141	1,120,882	374,996	1,495,878	4,427,019	2,885,792
Rent	43,525	783,454	43,525	826,979	870,504	755,346
Scholarships and grants	1,896,246	14,522	10,249	24,771	1,921,017	895,000
Software licensing	514,631	445,185	135,481	580,666	1,095,297	1,296,468
Other expenses	874,675	425,269	224,319	649,588	1,524,263	1,428,051
Depreciation	464,154	50,151	27,069	77,220	541,374	574,159
Total Expenses	<u>\$ 15,019,712</u>	<u>\$ 5,379,942</u>	<u>\$ 2,983,745</u>	<u>\$ 8,363,687</u>	<u>\$ 23,383,399</u>	<u>\$ 19,791,285</u>

See notes to financial statements

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Statement of Cash Flows Year Ended December 31, 2021 (with comparative amounts for year ended December 31, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,854,783)	\$ 5,775,204
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	541,374	574,159
Discount on pledges	(218,563)	282,636
Loss on disposal of equipment, furniture and fixtures	-	106,047
Net realized and unrealized gains on investments	(456,656)	(309,593)
Deferred rent	62,551	78,477
Forgiveness of long-term debt - PPP Loan	(1,365,100)	-
Changes in assets and liabilities		
Contributions and grants receivable	3,887,871	(5,173,823)
Other receivables	(77,747)	137,736
Prepaid expenses and other assets	(185,353)	229,504
Accounts payable and accrued expenses	242,573	(371,753)
PPP refundable advance	116,877	-
Deferred revenue	198,460	(274,462)
Net Cash from Operating Activities	(1,108,496)	1,054,132
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, furniture and fixtures	(4,669)	-
Purchase of investments	(786,063)	(3,138,196)
Proceeds from sale of investments	2,959,466	3,564,971
Net Cash from Investing Activities	2,168,734	426,775
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt - PPP Loan	-	1,365,100
Net Change in Cash and Cash Equivalents	1,060,238	2,846,007
CASH AND CASH EQUIVALENTS		
Beginning of year	5,767,631	2,921,624
End of year	\$ 6,827,869	\$ 5,767,631
NONCASH FINANCING ACTIVITY		
Forgiveness of long-term debt - PPP Loan	\$ 1,365,100	\$ -

See notes to financial statements

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Notes to Financial Statements December 31, 2021

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 619 academies across 34 states which serve approximately 117,000 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 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.

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.

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Notes to Financial Statements
December 31, 2021

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

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 when earned and dividends are recorded on the ex-dividend date. Realized and unrealized gains 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. Technology costs are capitalized when the project is substantially complete and ready for their intended purpose. Leasehold improvements are amortized over the life of the lease and included in depreciation expense. 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.

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Notes to Financial Statements
December 31, 2021

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 2021 and 2020, 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 \$161,754 and \$203,039 for the years ended December 31, 2021 and 2020. Such donated services have been reflected on the accompanying statement of activities as part of 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. As of January 1, 2020, contract assets consisted of membership fees receivable of \$631,185. As of January 1, 2020, contract liabilities consisted of deferred revenue of \$535,625.

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Notes to Financial Statements
December 31, 2021

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.

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.

Reclassification

Certain information in the prior year's financial statements has been reclassified to conform the current year's presentation.

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, 2020, from which the summarized comparative information was derived.

CARES Act Stimulus Revenue

During fiscal year 2021, NAF recognized revenue associated with the Paycheck Protection Program first and second round of funding in the amount of \$3,248,223 and is included in CARES Act stimulus revenue in the 2021 statement of activities.

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Notes to Financial Statements
December 31, 2021

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

Measure of Operations

NAF has elected to present their activities as operating or non-operating in its statement of activities. Accordingly, items affecting operations are segregated from those not affecting operations. CARES Act stimulus revenue is treated as non-operating.

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 2018.

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 31, 2022.

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 78% of contributions and grants receivable and 22% of contributions and grants revenue in 2021, whereas one donor comprised 68% of contributions and grants receivable and 25% of contributions and grants revenue in 2020. 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:

	2021	2020
Amounts expected to be collected in		
Less than one year	\$ 3,782,542	\$ 4,270,206
One to five years	<u>2,603,587</u>	<u>6,003,794</u>
	6,386,129	10,274,000
Less discount to present value	<u>(159,408)</u>	<u>(377,971)</u>
	<u>\$ 6,226,721</u>	<u>\$ 9,896,029</u>

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Notes to Financial Statements December 31, 2021

4. Contributions and Grants Receivable *(continued)*

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 2.75% in both 2021 and 2020.

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:

	2021		
	Level 1	Level 2	Total
U.S. common stocks	\$ 3,285,480	\$ -	\$ 3,285,480
U.S. government obligations	1,343,570	-	1,343,570
Corporate bonds	-	4,327,085	4,327,085
Mutual Funds			
Corporate bonds	848,820	-	848,820
Index funds	11,418	-	11,418
Target date funds	27,698	-	27,698
Fixed income fund	355,020	-	355,020
Total Investment at Fair Value	\$ 5,872,006	\$ 4,327,085	10,199,091
Money market funds and temporary cash investments, at cost			3,867,700
Total Investments			\$ 14,066,791
	2020		
	Level 1	Level 2	Total
U.S. common stocks	\$ 2,570,852	\$ -	\$ 2,570,852
U.S. government obligations	1,349,665	-	1,349,665
Corporate bonds	-	7,795,444	7,795,444
Mutual Funds			
Corporate bonds	842,564	-	842,564
Index funds	10,203	-	10,203
Target date funds	11,564	-	11,564
Fixed income fund	350,475	-	350,475
Total Investments	\$ 5,135,323	\$ 7,795,444	12,930,767
Money market funds and temporary cash investments, at cost			2,852,771
Total Investments			\$ 15,783,538

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Notes to Financial Statements December 31, 2021

6. Equipment, Furniture and Fixtures

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

	2021	2020
Office equipment	\$ 262,032	\$ 262,032
Furniture and fixtures	208,256	208,256
Leasehold improvements	207,497	207,497
Technology	2,700,197	2,695,528
	3,377,982	3,373,313
Less: accumulated depreciation	(3,371,624)	(2,830,250)
	<u>\$ 6,358</u>	<u>\$ 543,063</u>

7. PPP Forgivable Loan

On April 20, 2020, NAF received loan proceeds in the amount of \$1,365,100 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the 2019 average monthly payroll expenses of the qualifying business. The PPP bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period").

The PPP loan that was received in April of 2020 was forgiven in full by the Small Business Administration (the "SBA") on August 27, 2021. The PPP loan forgiveness is recognized as revenue on the 2021 statement of activities within CARES Act stimulus revenue.

8. PPP Refundable Advance

On March 31, 2021, NAF received a second round of PPP funding in the amount of \$2,000,000. NAF has elected to report this round of PPP funding as a conditional grant under ASC 958-605, "Revenue Recognition – Contributions". Accordingly, NAF recognizes income as the conditions of the PPP funds are met. On February 25, 2022, NAF received partial forgiveness for the PPP loan for \$1,883,123 by the SBA. NAF recognized \$1,883,123 of the second round of PPP funding as CARES Act stimulus in the 2021 statement of activities. The remaining \$116,877 is reported as a refundable advance in the 2021 statement of financial position. On March 4, 2022, NAF paid in full the remaining portion of the unforgiven balance of the PPP refundable advance of \$116,877 and associated interest.

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Notes to Financial Statements December 31, 2021

9. Net Assets with Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose and time:		
Academy Development/STEM	\$ 7,377,034	\$ 5,580,577
Core operations	3,461,664	7,337,075
Future Ready/Work Based Learning	2,376,633	1,617,753
Other time and purpose restrictions	944,262	2,158,329
Grants/Scholarship/awards	386,731	1,059,326
Corporate relations/Engagement	465,278	1,600,042
Total Subject to Expenditure for Specified Purpose and Time	15,011,602	19,353,102
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	\$ 15,541,602	\$ 19,883,102

Endowment fund net assets as of December 31, 2021 and 2020 consist of investments held in perpetuity. NAF's endowment fund net assets comprised the following two funds as of December 31, 2021 and 2020:

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.

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Notes to Financial Statements December 31, 2021

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

Net assets were released from donor restrictions which satisfied the following restrictions for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Academy Development/STEM	\$ 4,076,226	\$ 4,720,417
Core operations	6,372,796	6,424,688
Future Ready/Work Based Learning	2,797,634	1,005,621
Other time and purpose restrictions	1,321,668	1,543,509
Grants/Scholarships/awards	1,107,910	886,378
Corporate relations/Engagement	108,100	625,270
	<u>\$ 15,784,334</u>	<u>\$ 15,205,883</u>

10. 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.

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Notes to Financial Statements December 31, 2021

10. 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:

	2021		
	With Donor Restrictions		
	Cumulative Earnings	Original Gift Amount	Total
Endowment net assets, beginning of year	\$ 52,953	\$ 530,000	\$ 582,953
Interest and dividends, net	13,042	-	13,042
Net realized and unrealized gain	111,447	-	111,447
Endowment net assets, end of year	\$ 177,442	\$ 530,000	\$ 707,442
	2020		
	With Donor Restrictions		
	Cumulative Earnings	Original Gift Amount	Total
Endowment net assets, beginning of year	\$ (14,135)	\$ 530,000	\$ 515,865
Interest and dividends, net	12,871	-	12,871
Net realized and unrealized gain	54,217	-	54,217
Endowment net assets, end of year	\$ 52,953	\$ 530,000	\$ 582,953

NAF

Notes to Financial Statements December 31, 2021

10. Endowments (*continued*)

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.

Funds with Deficiencies

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below historic dollar value of the donor's original contribution to be held in perpetuity. When this occurs, U.S. GAAP requires that such excess losses be absorbed by the net assets with donor restrictions of NAF. NAF is not aware of any funds with deficiencies as of December 31, 2021 and 2020.

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).

11. 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, 2021

11. Liquidity and Availability of Financial Assets *(continued)*

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

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 6,827,869	\$ 5,767,631
Contributions and grants receivable, net	6,226,721	9,896,029
Other receivables, net	546,196	468,449
Investments	14,066,791	15,783,538
Total Financial Assets Available Within One Year	27,667,577	31,915,647
Less: amounts unavailable for general expenditures due to:		
Contributions and grants receivable - Due in future years	2,603,587	6,003,794
Deferred compensation plans	394,136	372,242
Restricted by donor with time or purpose restrictions	11,709,348	13,296,355
Donor restricted endowment funds	707,442	582,953
	15,414,513	20,255,344
Financial Assets at Year End Available to Meet Cash Needs for General Expenditures Within One Year	\$ 12,253,064	\$ 11,660,303

12. Pension Plans

As of January 1, 2020, NAF administers one single qualified plan, a 403(b) savings plan, to which NAF contributes a fixed 9% or 13% of employees' compensation based on an employee achieving five or more years of credited service. The plan is funded on a semi-monthly basis. Employees are also permitted to make voluntary contributions to this same plan, without any additional employer match.

The related total expense under this plan for the years ended December 31, 2021 and 2020 was \$1,152,346 and \$924,482.

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 \$14,506 and \$22,633 for the years ended December 31, 2021 and 2020. At December 31, 2021 and 2020, the deferred compensation payable amounted to \$394,136 and \$372,242, and is reflected in investments and accounts payable and accrued expenses in the accompanying statement of financial position.

NAF

Notes to Financial Statements December 31, 2021

13. 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, 2021, future minimum lease payments were as follows:

2022	\$ 730,184
2023	748,439
2024	767,150
2025	814,129
2026	834,482
Thereafter	<u>2,630,717</u>
	<u>\$ 6,525,101</u>

Rent expense for the years ended December 31, 2021 and 2020 was \$870,504 and \$755,346.

14. Risks and Uncertainties

The ongoing Coronavirus pandemic has resulted in substantial volatility in the global economy. While management has implemented measures to mitigate the impact of the pandemic, including obtaining PPP funding under the CARES Act as detailed in Notes 7 and 8, the extent to which NAF's operations are impacted will depend on future developments.

As a result, management cannot reasonably estimate the overall impact of the coronavirus pandemic to NAF's future results of operations, cash flows, or financial condition.

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