

TACO BELL FOUNDATION, INC.
FINANCIAL REPORT
DECEMBER 31, 2020

TACO BELL FOUNDATION, INC.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Taco Bell Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Taco Bell Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of December 31, 2020, 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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2020, 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 the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 13, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Singer Lewak LLP". The signature is written in a cursive, flowing style.

August 12, 2021

TACO BELL FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2020

(with Comparative Totals as of December 31, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,961,934	\$ 19,525,913
Contributions receivable	11,092,046	2,099,461
Contributions receivable – related parties	236,603	54,351
Inventory	<u>2,400</u>	<u>2,400</u>
Total current assets	<u>28,292,983</u>	<u>21,682,125</u>
Software		
Computer software	284,820	271,050
Less accumulated amortization	<u>(271,357)</u>	<u>(267,206)</u>
Total software	<u>13,463</u>	<u>3,844</u>
Other assets	<u>64,472</u>	<u>130,358</u>
Total assets	<u>\$ 28,370,918</u>	<u>\$ 21,816,327</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 184,164	\$ 696,680
Accounts payable – related party	<u>204,492</u>	<u>897,499</u>
Total current liabilities	388,656	1,594,179
Net assets without donor restrictions	<u>27,982,262</u>	<u>20,222,148</u>
Total liabilities and net assets	<u>\$ 28,370,918</u>	<u>\$ 21,816,327</u>

See notes to financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF ACTIVITIES
December 31, 2020
(with Comparative Totals as of December 31, 2019)

	2020	2019
Revenue and support		
Back to school fundraiser	\$ 12,042,672	\$ 3,863,038
Round up fundraiser	7,188,539	10,085,996
Contributions	3,308,311	4,498,255
Special event	243,063	227,565
Other	86,634	552,517
Canister collections	296	593,799
Graduation season fundraiser	-	3,855,484
Total revenue and support	22,869,515	23,676,654
Expenses		
Program services	13,845,583	13,006,523
Fundraising	800,141	1,168,660
General and administrative	463,677	1,460,837
Total expenses	15,109,401	15,636,020
Change in net assets	7,760,114	8,040,634
Net assets without donor restrictions, beginning of year	20,222,148	12,181,514
Net assets without donor restrictions, end of year	\$ 27,982,262	\$ 20,222,148

See notes to financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
December 31, 2020
(with Comparative Totals as of December 31, 2019)

	Program Services	Supporting Services			2020 Total	2019 Total
		Fundraising	General and Administrative	Total		
Advertising	\$ 387,065	\$ -	\$ -	\$ -	\$ 387,065	\$ 1,761,321
Amortization	-	-	4,151	4,151	4,151	23,543
Canister collection fees	-	-	-	-	-	293,086
District management account grant expense	8,351,336	-	-	-	-	5,385,319
Fundraising incentives	-	272,461	-	272,461	272,461	235,647
Miscellaneous	5,233	2,181	1,308	3,489	8,722	9,934
Office supplies	56,482	23,534	14,121	37,655	94,137	238,788
Outside services	137,886	-	-	-	137,886	126,237
Payroll taxes	51,496	21,457	12,874	34,331	85,827	89,510
Professional fees	-	65,886	192,826	258,712	258,712	1,177,270
Rent	110,970	46,238	27,743	73,981	184,951	197,373
Scholarship expense	3,902,500	-	-	-	3,902,500	4,440,000
Salaries and benefits	823,345	343,062	205,836	548,898	1,372,243	1,455,558
Travel	19,270	25,322	4,818	30,140	49,410	202,434
Total expenses by function	\$ 13,845,583	\$ 800,141	\$ 463,677	\$ 1,263,818	\$ 15,109,401	\$ 15,636,020

See notes to financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF CASH FLOWS
December 31, 2020
(with Comparative Totals as of December 31, 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 7,760,114	\$ 8,040,634
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Amortization	4,151	23,543
(Increase) decrease in:		
Contributions receivable	(8,992,585)	(1,582,526)
Contributions receivable – related parties	(182,252)	(35,139)
Other assets	65,886	8,118
Increase (decrease) in:		
Accounts payable and accrued expenses	(512,516)	574,683
Accounts payable – related party	(693,007)	493,285
	(2,550,209)	7,522,598
Net change in cash from operating activities		
Cash flows from investing activities		
Purchase of computer software	(13,770)	(2,550)
	(13,770)	(2,550)
Net change in cash and cash equivalents	(2,563,979)	7,520,048
Cash and cash equivalents, beginning of year	19,525,913	12,005,865
Cash and cash equivalents, end of year	\$ 16,961,934	\$ 19,525,913

See notes to financial statements.

TACO BELL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION ACTIVITY

Taco Bell Foundation, Inc. (the “Foundation”) is a nonprofit California corporation established in September 1992 to receive and disburse or maintain funds to be expended for community, hospital, religious, charitable or educational purposes as determined by the Board of Directors. The Foundation’s revenues are derived from donations from Taco Bell Corporation (the “Corporation”) and Taco Bell Franchisees (the “Franchisees”), fundraisers at various Taco Bell Corporation and Taco Bell Franchise locations throughout the United States, and contributions collected through the Round Up program at various Taco Bell Corporation and Taco Bell Franchise locations throughout the United States.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The accompanying financial statements include a statement of financial position that presents the amounts for each of the two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. These net assets are classified based on the existence or absence of donor-imposed restrictions and a statement of activities that reflects the changes in those categories of net assets.

Net assets with donor restrictions include those assets whose use by the Foundation has been limited by donors to later periods of time, for specified purposes, or restricted in perpetuity. When a donor 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. There were no net assets with donor restrictions for the years ended December 31, 2020 and 2019.

Prior-year Comparative Information

The financial statements include certain prior-year summarized comparative information in total. 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 the Foundation’s financial statements for the year ended December 31, 2019, from which the summarized information was derived.

TACO BELL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributions, Promises to Give, Revenue Recognition and Change in Accounting Principle

On January 1, 2020, the Foundation adopted Financial Accounting Standards Board (FASB) ASC 606, “Revenue from Contracts with Customers (Topic 606),” using the modified retrospective method applied to those contracts which were not completed as of January 1, 2020. The adoption of ASC 606 did not have an impact on the Foundation’s statements of financial position and statements of activities; therefore, no cumulative adjustment to beginning net assets was required as a result of adoption. Prior years have not been restated.

The Foundation records as revenue the following types of contributions under FASB ASC 958-605 when they are received unconditionally at their estimated fair value: cash, promises to give (pledges), and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. Conditional contributions are recorded as support in the period the condition is met. Such contributions are required to be reported as net assets with donor restrictions and are then reclassified to net assets without donor restrictions upon expiration of the restriction, usually when the funds are spent.

Future promises to give are recognized and recorded as receivables at their estimated realizable value in the year during which they are promised to the Foundation.

Contributions Receivable

Contributions receivable are amounts contributed prior to year end that were not submitted to the Foundation until after year end. All contributions are expected to be collected within one year. The Foundation provides an allowance, as necessary, for uncollectible promises, based on management’s evaluation of potential uncollectible contributions receivable at year end. No allowance was recorded as of December 31, 2020 and 2019.

TACO BELL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

Donated goods and other non-cash contributions are reflected in the accompanying statements at their estimated fair market value at the date of receipt. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet the criteria are not recognized in the financial statements, as there is no objective basis of deriving their value. The Foundation received donated services from a substantial number of volunteers who donated their time to the Foundation's programs and fundraising activities. For the years ended December 31, 2020 and 2019, the Foundation recorded no estimated fair market value of goods and services received from unrelated third parties. See Note 4 for related party contributions.

Income Taxes

The Foundation has been designated as tax-exempt under Internal Revenue Code Section 501(c)(3) and is also exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code and is not generally subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as, in the opinion of management, the net income, if any, from any unrelated trade or business is not material to the basic financial statements taken as a whole.

The Foundation will recognize the impact of tax positions in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. To date, the Foundation has not recorded any uncertain tax positions.

Functional Allocation of Expenses

The costs of providing the Foundation's various programs and the Foundation's administration have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. The expenses that are allocated include rent, travel, salaries and benefits, payroll taxes, office supplies and miscellaneous expenses are allocated on the basis of estimates of time and effort. Additionally, fundraising expenses included in the accompanying statement of functional expenses include the Foundation's special event expenses that amount to \$25,322 and \$78,747 for the years ended December 31, 2020 and 2019, respectively. These special event activities consist of ongoing annual events and, as such, related revenues are not presented net of direct benefits to donors.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Foundation expenses advertising costs as incurred.

Software

Software is stated at cost. Amortization of computer software is provided using the straight-line method over the estimated useful life of three years.

Impairment of Long-lived Assets

Impairment losses are recorded on long-lived assets and intangible assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Any loss would be recognized in change in net assets in the period in which the determination is made. Management determined that no impairment of long-lived assets existed as of December 31, 2020 and 2019.

NOTE 3 – RISKS AND UNCERTAINTIES

The Foundation manages deposit concentration risk by placing cash, money market accounts and certificates of deposit with financial institutions believed by the Foundation to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market accounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or cash equivalents.

Credit risk associated with contribution receivables is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from the Corporation and Franchisees.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – RELATED PARTY TRANSACTIONS AND CONTRIBUTIONS

The Corporation and Franchisees provide support by way of the use of facilities and certain services at no charge and facilitate the collection of the contributions for the Foundation. During the normal course of business, the Foundation reimburses the Corporation for the use of administrative personnel. As of December 31, 2020 and 2019, approximately \$204,492 and \$897,499, respectively, was due to the Corporation for accrued expenses. The Corporation also occasionally receives Round Up contributions on behalf of the Foundation. As of December 31, 2020 and 2019, \$236,603 and \$54,351, respectively, was due to the Foundation for such contributions.

For the years ended December 31, 2020 and 2019, the Foundation recorded the following expenses, paid on behalf of the Foundation, as contributions in the accompanying statement of activities:

	2020	2019
Payroll, taxes, and payroll-related benefits	\$ 225,090	\$ -
Estimated fair market value of free rent	184,951	197,373
Advertising and professional service expenses	174,026	1,415,959
Office expenses	21,916	23,100
Total	\$ 605,983	\$ 1,636,432

NOTE 5 – AVAILABLE RESOURCES AND LIQUIDITY

The following table reflects the Foundation's financial assets as of December 31, 2020 and 2019, that are without donor or other contractual restrictions limiting their use and are available to meet general expenditures within one year of the date of the statement of financial position.

	2020	2019
Cash and cash equivalents	\$ 16,961,934	\$ 19,525,913
Contributions receivable	11,092,046	2,099,461
Contributions receivable – related parties	236,603	54,351
Financial assets available to meet cash needs for general expenditures within one year	\$ 28,290,583	\$ 21,679,725

TACO BELL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – AVAILABLE RESOURCES AND LIQUIDITY (Continued)

When establishing the business plan and annual budget each year, the Foundation's management and directors evaluate financial assets available to meet general expenditures over the year and predictable sources of earned revenue. When determining available resources for a year, the Foundation supplements the financial assets available in the next year with revenues from certain earned income sources.

- Round Up Collections – expected restaurant donations are reasonably predicted based on historical owner and store participation, limited release food and beverage items, ambassador training and advertising, in-store sales trends, and on historical donation rates.
- National Fundraisers – expected restaurant donations are reasonably predicted based on historical owner and store participation, limited release food and beverage items, ambassador training and advertising, in-store sales trends, and on historical donation rates.
- Contributions – expected gifts and contributions are reasonably predicted based on invitations for proposals, annual giving programs and history and on-site giving (based on attendance per capita budgeted).

Comparing these cash inflow sources to budgeted expenses reveals funding that may or may not be required to be raised to meet the budget year to achieve a balanced budget.

NOTE 6 – SUBSEQUENT EVENTS

Management evaluated all activity through August 12, 2021 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.