

TACO BELL FOUNDATION, INC.
FINANCIAL REPORT
DECEMBER 31, 2019

TACO BELL FOUNDATION, INC.
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December 31, 2019 and 2018

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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, 2019, 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, 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 the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 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.

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

August 13, 2020

TACO BELL FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2019
(with Comparative Totals as of December 31, 2018)

ASSETS		
	2019	2018
Current assets		
Cash and cash equivalents	\$ 19,525,913	\$ 12,005,865
Contributions receivable	2,099,461	516,935
Contributions receivable - related parties	54,351	19,212
Inventory	2,400	2,400
Total current assets	21,682,125	12,544,412
Software		
Computer software	271,050	268,500
Less accumulated amortization	(267,206)	(243,663)
Total software	3,844	24,837
Other assets	130,358	138,476
Total assets	\$ 21,816,327	\$ 12,707,725

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 696,680	\$ 121,997
Accounts payable - related party	897,499	404,214
Total current liabilities	1,594,179	526,211
Net assets without donor restrictions	20,222,148	12,181,514
Total liabilities and net assets	\$ 21,816,327	\$ 12,707,725

See notes to financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019
(with Comparative Totals for the Year Ended December 31, 2018)

	2019	2018
Revenue and support		
Round up fundraiser	\$ 10,085,996	\$ 130
Contributions	4,498,255	4,362,931
Back to school fundraiser	3,863,038	4,876,139
Graduation season fundraiser	3,855,484	5,010,614
Canister collections	593,799	1,078,505
Other	552,517	171,463
Special event	227,565	250,346
Total revenue and support	23,676,654	15,750,128
Expenses		
Program services	13,006,523	11,438,233
Fundraising	1,168,660	1,163,818
General and administrative	1,460,837	1,133,133
Total expenses	15,636,020	13,735,184
Change in net assets	8,040,634	2,014,944
Net assets without donor restrictions, beginning of year	12,181,514	10,166,570
Net assets without donor restrictions, end of year	\$ 20,222,148	\$ 12,181,514

See notes to financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019
(with Comparative Totals for the Year Ended December 31, 2018)

	Program Services	Supporting Services			2019 Total	2018 Total
		Fundraising	General and Administrative	Total		
Functional expenses						
Advertising	\$ 1,761,321	\$ -	\$ -	\$ -	\$ 1,761,321	\$ 723,886
Amortization	-	-	23,543	23,543	23,543	91,786
Boys and Girls Club of America - National	-	-	-	-	-	600,000
Canister collection fees	-	293,086	-	293,086	293,086	334,981
District management account grant expense	5,385,319	-	-	-	5,385,319	5,078,280
Fundraising incentives	-	235,647	-	235,647	235,647	319,262
Miscellaneous	5,960	2,484	1,490	3,974	9,934	7,193
Office supplies	143,273	59,697	35,818	95,515	238,788	173,023
Outside services	126,237	-	-	-	126,237	1,119,328
Payroll taxes	53,705	22,378	13,427	35,805	89,510	78,036
Professional fees	-	63,388	1,113,882	1,177,270	1,177,270	825,355
Rent	118,424	49,343	29,606	78,949	197,373	197,373
Scholarship expense	4,440,000	-	-	-	4,440,000	2,882,398
Salaries and benefits	873,334	363,890	218,334	582,224	1,455,558	1,150,047
Travel	98,950	78,747	24,737	103,484	202,434	154,236
Total expenses by function	\$ 13,006,523	\$ 1,168,660	\$ 1,460,837	\$ 2,629,497	\$ 15,636,020	\$ 13,735,184

See notes to financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019
(with Comparative Totals for the Year Ended December 31, 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 8,040,634	\$ 2,014,944
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Amortization	23,543	91,786
(Increase) decrease in		
Contributions receivable	(1,582,526)	301,878
Contributions receivable - related parties	(35,139)	13,381
Other assets	8,118	(138,476)
Increase (decrease) in		
Accounts payable and accrued expenses	574,683	(153,250)
Accounts payable - related party	493,285	158,216
Net change in cash from operating activities	7,522,598	2,288,479
Cash flows from investing activities		
Purchase of computer software	(2,550)	-
Net change in cash from investing activities	(2,550)	-
Net change in cash and cash equivalents	7,520,048	2,288,479
Cash and cash equivalents, beginning of year	12,005,865	9,717,386
Cash and cash equivalents, end of year	\$ 19,525,913	\$ 12,005,865

See notes to financial statements.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 and in canisters 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, 2019 and 2018.

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, 2018, from which the summarized information was derived.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, and Revenue Recognition

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, 2019 and 2018.

Inventory

Inventory consists of gift cards and other rewards to be distributed to qualifying youth, for fundraising incentives to be distributed to employees at Taco Bell Corporation and Taco Bell Franchisee restaurants, and for use as raffle prizes for charity events. Certain inventory items are considered donated assets and are valued at fair market value. There were no donated assets as of December 31, 2019 and 2018.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018, the Foundation recorded no estimated fair market value of goods and services received from unrelated third parties. See Note 5 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, amortization, 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 \$78,747 and \$61,874 for the years ended December 31, 2019 and 2018, respectively. These special event activities consist of ongoing annual events and, as such, related revenues are not presented net of direct benefits to donors.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Foundation expenses advertising costs as incurred.

Software

Software is stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the various classes of software, as follows:

Computer software	3 years
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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. As of December 31, 2019 and 2018, management believes no indicators existed that would require an impairment to be recorded.

Reclassifications

Certain reclassifications have been made to the prior year's balances in order to conform to the current year's presentations. Such reclassifications or title changes had no effect on net income as previously reported.

Change in Accounting Principles

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. ASU 2018-08 also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The Foundation has adopted ASU 2018-08 on January 1, 2019 on a prospective basis to all contributions received after the date of adoption. The adoption of ASU 2018-08 did not materially impact the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The FASB has also issued several updates to ASU 2014-09. In June 2020, the FASB issued ASU 2020-05 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2019. The Foundation's management is in the process of evaluating the impact of this new guidance on the Foundation's financial statements.

NOTE 3 - CONCENTRATION OF RISK

Cash and cash equivalents

The Foundation maintains its cash and cash equivalent balances in two financial institutions that from time to time exceeds amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). Deposits held in non-interest-bearing transaction accounts are aggregated with any interest-bearing deposits the Foundation may hold at the same financial institution, and the combined total is insured up to at least \$250,000. As of December 31, 2019 and 2018, the Foundation maintained \$19,025,086 and \$11,788,281, respectively, in deposits in excess of federally insured amounts. 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.

NOTE 4 - COMMITMENTS

Service Agreement

The Foundation had a contract with a third-party vendor for maintenance and coin collection services for the Foundation's fundraising canisters. The contract states that the vendor shall receive a flat fee of \$28 per collection visit as a service charge, plus a fuel surcharge. As stated in the agreement, the Foundation bears responsibility for repair and replacement costs for canisters. The contract was terminated in 2019.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5 - RELATED PARTY TRANSACTIONS AND CONTRIBUTIONS

The Foundation's canisters are located at the Corporation and Franchisee locations throughout the United States. 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, 2019 and 2018, approximately \$897,499 and \$404,214, respectively, was due to the Corporation for accrued expenses. The Corporation also occasionally receives Round Up and canister contributions on behalf of the Foundation. As of December 31, 2019 and 2018, \$54,351 and \$19,212, respectively, was due to the Foundation for such contributions.

For the years ended December 31, 2019 and 2018, the Foundation recorded estimated fair market value of free rent of \$197,373, paid on behalf of the Foundation, advertising and professional service expenses of \$1,415,959 and \$1,375,617, respectively, paid on behalf of the Foundation, and office expenses of \$23,100, paid on behalf of the Foundation as contributions in the accompanying statement of activities.

NOTE 6 - AVAILABLE RESOURCES AND LIQUIDITY

The following table reflects the Foundation's financial assets as of December 31, 2019 and 2018, 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.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 19,525,913	\$ 12,005,865
Contributions receivable	2,099,461	516,935
Contributions receivable – related parties	<u>54,351</u>	<u>19,212</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 21,679,725</u>	<u>\$ 12,542,012</u>

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 6 - 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 and Canister 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. In 2019, Round Up program replaced Canister Collections as the Foundation's store level donation mechanism.
- 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 7 - SUBSEQUENT EVENTS

January 30, 2020, the World Health Organization declared the COVID-19 outbreak a public health emergency of international concern, and declared it to be a pandemic on March 11, 2020. The disruption resulting from the COVID-19 pandemic is currently expected to be temporary, but there is considerable uncertainty around the duration and the Foundation expects this matter to negatively impact its operating results. The Corporation and Franchisees have experienced significant store closures and instances of reduced store-level operations, including reduced operating hours and dining-room closures. In markets where governments have imposed restrictions on travel outside of the home, or where customers are practicing social distancing, restaurant traffic has also been significantly negatively impacted, with a significant portion of stores providing only delivery and takeaway services. The negative impacts on the businesses of the Corporation and Franchisees are expected to continue to lead to negative impacts on the Foundation. The related financial impact and duration cannot be reasonably estimated at this time; see Note 6 for additional detail on the Foundation's available resources and liquidity to meet general expenditures within one year of the date of the statement of financial position.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 7 - SUBSEQUENT EVENTS (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law and includes changes to the Internal Revenue Code for refundable payroll tax credits, deferment of employer payments for social security tax, net operating loss carryback periods, alternative minimum tax credits, net interest deduction limitations, and depreciation of certain leasehold improvements. U.S. GAAP requires the effect of the CARES Act to be recognized in the period the law is enacted and, accordingly, the effect of the CARES Act is not recognized in these financial statements. The Foundation is currently evaluating the impact of the CARES Act.

Management evaluated all activity through August 13, 2020 (the date financial statements were available for issuance) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.