

TACO BELL FOUNDATION, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

TACO BELL FOUNDATION, INC.
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December 31, 2018 and 2017

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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, 2018, 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Corporation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

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

 Singer Lewak LLP

June 26, 2019

TACO BELL FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018
(with Comparative Totals as of December 31, 2017)

ASSETS		
	2018	2017
Current assets		
Cash and cash equivalents	\$ 12,005,865	\$ 9,717,386
Contributions receivable	516,935	818,813
Contributions receivable - related parties	19,212	32,593
Inventory	2,400	2,400
Total current assets	12,544,412	10,571,192
Software		
Computer software	268,500	268,500
Less accumulated amortization	(243,663)	(151,877)
Total software	24,837	116,623
Other assets	138,476	-
Total assets	\$ 12,707,725	\$ 10,687,815

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 121,997	\$ 275,247
Accounts payable - related party	404,214	245,998
Total current liabilities	526,211	521,245
Net assets without donor restrictions	12,181,514	10,166,570
Total liabilities and net assets	\$ 12,707,725	\$ 10,687,815

The accompanying notes are an integral part of these financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
(with Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
Revenue and support		
Graduation season fundraiser	\$ 5,010,614	\$ 4,540,143
Back to school fundraiser	4,876,139	3,393,874
Grants and contributions	4,377,157	5,560,067
Canister collections	1,078,505	1,381,428
Special event	250,346	222,605
Other	157,367	635,128
Total revenue and support	15,750,128	15,733,245
Expenses		
Program services	11,438,233	10,740,381
Fundraising	1,163,818	1,129,267
General and administrative	1,133,133	842,979
Total expenses	13,735,184	12,712,627
Change in net assets	2,014,944	3,020,618
Net assets without donor restrictions, beginning of year	10,166,570	7,145,952
Net assets without donor restrictions, end of year	\$ 12,181,514	\$ 10,166,570

The accompanying notes are an integral part of these financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(with Comparative Totals for the Year Ended December 31, 2017)

	Program Services	Supporting Services			2018 Total	2017 Total
		Fundraising	General and Administrative	Total		
Functional expenses						
Advertising	\$ 700,601	\$ 23,285	\$ -	\$ 23,285	\$ 723,886	\$ 735,738
Amortization	-	42,177	49,609	91,786	91,786	90,049
Boys and Girls Club of America - National	600,000	-	-	-	600,000	600,000
Canister collection fees	-	334,981	-	334,981	334,981	406,300
District management account grant expense	5,078,280	-	-	-	5,078,280	4,517,513
Fundraising incentives	-	319,262	-	319,262	319,262	252,006
Miscellaneous	4,316	1,798	1,079	2,877	7,193	7,341
Office supplies	103,814	43,256	25,953	69,209	173,023	182,213
Outside services	1,119,328	-	-	-	1,119,328	2,489,335
Payroll taxes	46,822	19,509	11,705	31,214	78,036	61,204
Professional fees	-	6,236	819,119	825,355	825,355	580,403
Rent	118,424	49,343	29,606	78,949	197,373	161,487
Scholarship expense	2,882,398	-	-	-	2,882,398	1,460,158
Salaries and benefits	690,028	287,512	172,507	460,019	1,150,047	953,310
Travel	94,222	36,459	23,555	60,014	154,236	215,570
Total functional expenses	\$ 11,438,233	\$ 1,163,818	\$ 1,133,133	\$ 2,296,951	\$ 13,735,184	\$ 12,712,627

The accompanying notes are an integral part of these financial statements.

TACO BELL FOUNDATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018
(with Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 2,014,944	\$ 3,020,618
Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities		
Amortization	91,786	90,049
(Increase) decrease in		
Contributions receivable	301,878	(34,996)
Contributions receivable - related parties	13,381	29,710
Inventory	-	26,993
Other assets	(138,476)	-
Increase (decrease) in		
Accounts payable and accrued expenses	(153,250)	12,781
Accounts payable - related party	158,216	165,704
	2,288,479	3,310,859
Cash flows from investing activities		
Purchase of computer software	-	(12,500)
	-	(12,500)
Net change in cash and cash equivalents	2,288,479	3,298,359
Cash and cash equivalents, beginning of year	9,717,386	6,419,027
Cash and cash equivalents, end of year	\$ 12,005,865	\$ 9,717,386

The accompanying notes are an integral part of these financial statements.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 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, 2018 and 2017.

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, 2017, from which the summarized information was derived.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017.

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, 2018 and 2017.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017, 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 \$61,874 and \$89,230 for the years ended December 31, 2018 and 2017, 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
December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Foundation expenses advertising costs as incurred. For the years ended December 31, 2018 and 2017, advertising costs amounted to \$723,886 and \$735,738, respectively.

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, 2018 and 2017, 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.

Changes in Accounting Principles

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expands disclosures about the nature and amount of any donor restrictions. The Foundation has adopted ASU 2016-14 for the year ended December 31, 2018, using a retrospective transition method. As part of the adoption of ASU 2016-14, the Foundation changed its presentation of net asset classes and expanded the footnote disclosures as required by the ASU. There were no changes to classifications between net assets with donor restrictions and net assets without donor restrictions as there were no net assets with donor restrictions as of December 31, 2018 and 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in Accounting Principles (Continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The Foundation has adopted ASU 2016-15 for the year ended December 31, 2018, using a retrospective transition method. The adoption of ASU 2016-15 did not materially impact the financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, which clarifies how to treat costs related to internal-use software. The Foundation adopted ASU 2018-15 on January 1, 2018 on a prospective basis to all implementation costs incurred after the date of adoption. The adoption of ASU 2016-15 did not materially impact the financial statements.

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 August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Foundation's management is in the process of evaluating the impact of this new guidance on the Foundation's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Foundation for years beginning after December 15, 2018. The Foundation's management does not believe the adoption of the new financial instruments standard will have a material impact on the Foundation's financial statements. The Foundation's management elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Issued Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use (“ROU”) asset for all leases. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU No. 2016-02 is effective for annual and interim reporting periods within those years beginning after December 15, 2018 and early adoption is permitted. This update should be applied through a modified retrospective transition approach for leases existing at, or entered into after evaluating, the beginning of the earliest comparative period presented in the financial statements. The Foundation’s management is in the process of evaluating the impact of this new guidance on the Foundation’s financial statements.

In June 2018, the FASB issued 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. ASU 2018-08 is effective for annual and interim reporting periods within those years beginning after June 15, 2018. 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 one financial institution 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, 2018 and 2017, the Foundation maintained \$11,788,281 and \$9,215,796, 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.

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4 - COMMITMENTS

Service Agreement

The Foundation has 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 can be terminated at any time with 90 days' notice.

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, 2018 and 2017, approximately \$404,214 and \$245,998, respectively, was due to the Corporation for accrued expenses. The Corporation also occasionally receives canister contributions on behalf of the Foundation. As of December 31, 2018 and 2017, \$19,212 and \$32,593, respectively, was due to the Foundation for such contributions.

For the years ended December 31, 2018 and 2017, the Foundation recorded estimated fair market value of free rent of \$197,373 and \$161,487, respectively, paid on behalf of the Foundation, professional service expenses of \$1,375,617 and \$2,513,333, respectively, paid on behalf of the Foundation, and office expenses of \$23,100 and \$33,800, respectively, 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 Organization's financial assets as of December 31, 2018 and 2017, 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.

	2018	2017
Cash and cash equivalents	\$ 12,005,865	\$ 9,717,386
Contributions receivable	516,935	818,813
Contributions receivable – related parties	19,212	32,593
Financial assets available to meet cash needs for general expenditures within one year	\$ 12,542,012	\$ 10,568,792

TACO BELL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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.

- 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.
- 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

Management evaluated all activity through June 26, 2019 (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.