



NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

**Financial Statements
For the Years Ended December 31, 2018 and 2017
With Independent Auditor's Report**

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.
Financial Statements
For the Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
National Minority Supplier Development Council, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of National Minority Supplier Development Council, Inc. (the Council), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 National Minority Supplier Development Council, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, the Council adopted Accounting Standards Update No. 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.

Mitchell Titus, LLP

May 13, 2019

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statements of Financial Position

As of December 31, 2018 and 2017

	December 31,	
	2018	2017
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,120,760	\$ 1,204,264
Short-term investments	3,412,692	3,115,128
Accounts receivable, net	977,728	1,139,550
Prepaid expenses	124,357	119,305
Total current assets	5,635,537	5,578,247
Retricted cash - collateral	169,195	169,161
Long-term investments	4,881,398	4,902,297
Furniture, fixtures, equipment and leasehold improvements, net	542,064	761,626
Security deposits	4,395	-
Total assets	\$ 11,232,589	\$ 11,411,331
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 496,743	\$ 625,468
Due to regional councils	1,369,240	1,200,533
Deferred revenue	1,615,570	1,886,945
Total current liabilities	3,481,553	3,712,946
Deferred compensation	423,940	438,396
Deferred rent credits	120,581	169,953
Total liabilities	4,026,074	4,321,295
Commitment and contingencies		
<i>Net assets</i>		
Without donor restrictions	7,101,515	6,985,036
With donor restrictions	105,000	105,000
Total net assets	7,206,515	7,090,036
Total liabilities and net assets	\$ 11,232,589	\$ 11,411,331

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statement of Activities

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2018
REVENUE			
Special event	\$ 746,100	\$ -	\$ 746,100
<i>Less: Direct benefit to donor costs</i>	<u>174,800</u>	<u>-</u>	<u>174,800</u>
	571,300	-	571,300
Membership dues	8,495,200	-	8,495,200
Seminar registration, trade show, and meeting fees	3,553,413	-	3,553,413
Contributions	1,971,552	194,395	2,165,947
In-kind contributions	84,877	-	84,877
Investment income	234,336	-	234,336
Other income	107,476	381,438	488,914
<i>Net assets released from restrictions</i>			
Purpose restrictions satisfied	<u>575,833</u>	<u>(575,833)</u>	<u>-</u>
Total revenue	<u>15,593,987</u>	<u>-</u>	<u>15,593,987</u>
EXPENSES			
<i>Program services</i>			
Field operations	6,661,853	-	6,661,853
Member services	886,832	-	886,832
Annual conference	3,265,204	-	3,265,204
Business opportunity exchange	479,519	-	479,519
Programs and enterprise learning	527,291	-	527,291
Other program services	<u>56,657</u>	<u>-</u>	<u>56,657</u>
Total program services	<u>11,877,356</u>	<u>-</u>	<u>11,877,356</u>
<i>Supporting services</i>			
General administration	2,969,636	-	2,969,636
Fund development	<u>630,516</u>	<u>-</u>	<u>630,516</u>
Total supporting services	<u>3,600,152</u>	<u>-</u>	<u>3,600,152</u>
Total expenses	<u>15,477,508</u>	<u>-</u>	<u>15,477,508</u>
Change in net assets	116,479	-	116,479
Net assets, beginning of year	<u>6,985,036</u>	<u>105,000</u>	<u>7,090,036</u>
Net assets, end of year	<u><u>\$ 7,101,515</u></u>	<u><u>\$ 105,000</u></u>	<u><u>\$ 7,206,515</u></u>

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statement of Activities

For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total 2017
REVENUE			
Special event	\$ 933,500	\$ -	\$ 933,500
<i>Less: Direct benefit to donor costs</i>	<u>214,600</u>	<u>-</u>	<u>214,600</u>
	718,900	-	718,900
Membership dues	8,983,542	-	8,983,542
Seminar registration, trade show, and meeting fees	3,900,158	11,600	3,911,758
Contributions	2,208,121	220,350	2,428,471
In-kind contributions	21,791	-	21,791
Investment income	117,871	-	117,871
Other income	212,762	380,894	593,656
<i>Net assets released from restrictions</i>			
Purpose restrictions satisfied	<u>612,844</u>	<u>(612,844)</u>	<u>-</u>
Total revenue	<u>16,775,989</u>	<u>-</u>	<u>16,775,989</u>
EXPENSES			
<i>Program services</i>			
Field operations	7,292,373	-	7,292,373
Member services	1,144,695	-	1,144,695
Annual conference	2,819,180	-	2,819,180
Business opportunity exchange	421,320	-	421,320
Programs and enterprise learning	832,849	-	832,849
Other program services	<u>245,894</u>	<u>-</u>	<u>245,894</u>
Total program services	<u>12,756,311</u>	<u>-</u>	<u>12,756,311</u>
<i>Supporting services</i>			
General administration	3,221,289	-	3,221,289
Fund development	<u>576,138</u>	<u>-</u>	<u>576,138</u>
Total supporting services	<u>3,797,427</u>	<u>-</u>	<u>3,797,427</u>
Total expenses	<u>16,553,738</u>	<u>-</u>	<u>16,553,738</u>
Change in net assets	222,251	-	222,251
Net assets, beginning of year	<u>6,762,785</u>	<u>105,000</u>	<u>6,867,785</u>
Net assets, end of year	<u><u>\$ 6,985,036</u></u>	<u><u>\$ 105,000</u></u>	<u><u>\$ 7,090,036</u></u>

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2018

	Program Services						Total	Supporting Services				Total Expenses 2018
	Field Operations	Member Services	Annual Conference	Business Opportunity Exchange	Programs & Enterprise Learning	Other Program Services		General Administration	Fund Development	Direct Benefit to Donor Costs	Total	
Payments to regional councils	\$ 6,412,421	\$ -	\$ 125,000	\$ -	\$ -	\$ -	\$ 6,537,421	\$ -	\$ -	\$ -	\$ -	\$ 6,537,421
Salaries	16,494	353,025	170,069	109,464	22,586	31,440	703,078	1,069,829	292,721	-	1,362,550	2,065,628
Employee benefits	4,582	85,434	52,608	35,096	28,294	9,557	215,571	240,605	62,984	-	303,589	519,160
Administrative	7,437	29,277	606,658	8,105	5,135	472	657,084	121,790	40,558	-	162,348	819,432
Consultant and contractual services	97,315	251,749	553,365	150,750	455,487	940	1,509,606	294,654	57,519	-	352,173	1,861,779
Occupancy	-	-	50,850	40,542	-	-	91,392	870,091	-	-	870,091	961,483
Travel	11,678	24,781	289,626	603	831	7,317	334,836	168,851	23,829	-	192,680	527,516
Meetings and conferences	39,233	35,025	1,015,468	7,955	8,723	520	1,106,924	9,967	69,087	174,800	253,854	1,360,778
Printing and supplies	458	9,450	40,037	49,839	2,225	1,169	103,178	17,122	10,842	-	27,964	131,142
Other	12,331	12,261	342,812	74,785	814	5,048	448,051	58,818	54,881	-	113,699	561,750
Puerto Rico Relief Fund	-	41,074	-	-	-	-	41,074	-	-	-	-	41,074
Depreciation and amortization	59,904	44,756	18,711	2,380	3,196	194	129,141	117,909	18,095	-	136,004	265,145
Subtotal	6,661,853	886,832	3,265,204	479,519	527,291	56,657	11,877,356	2,969,636	630,516	174,800	3,774,952	15,652,308
Direct benefit to donor costs	-	-	-	-	-	-	-	-	-	(174,800)	(174,800)	(174,800)
Total expenses	\$ 6,661,853	\$ 886,832	\$ 3,265,204	\$ 479,519	\$ 527,291	\$ 56,657	\$ 11,877,356	\$ 2,969,636	\$ 630,516	\$ -	\$ 3,600,152	\$ 15,477,508

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2017

	Program Services						Supporting Services				Total Expenses 2017	
	Field Operations	Member Services	Annual Conference	Business Opportunity Exchange	Programs & Enterprise Learning	Other Program Services	Total	General Administration	Fund Development	Direct Benefit to Donor Costs		Total
Payments to regional councils	\$ 6,599,247	\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ 6,899,247	\$ -	\$ -	\$ -	\$ -	\$ 6,899,247
Salaries	244,006	548,695	188,849	98,562	357,239	39,389	1,476,740	1,254,926	252,079	-	1,507,005	2,983,745
Employee benefits	42,134	127,668	50,901	29,144	75,817	11,460	337,124	249,916	50,489	-	300,405	637,529
Administrative	22,079	99,170	478,198	8,283	13,759	38,583	660,072	154,045	56,591	-	210,636	870,708
Consultant and contractual services	34,367	200,836	281,160	197,836	255,891	141,425	1,111,515	368,896	62,660	-	431,556	1,543,071
Occupancy	11,015	-	30,400	5,000	-	-	46,415	828,379	-	-	828,379	874,794
Travel	68,796	26,005	206,348	850	13,470	-	315,469	98,350	27,293	-	125,643	441,112
Meetings and conferences	72,793	67,168	897,499	12,963	27,100	237	1,077,760	7,288	38,078	214,600	259,966	1,337,726
Printing and supplies	2,513	6,365	45,733	23,736	1,898	-	80,245	7,330	14,603	-	21,933	102,178
Other	14,103	26,489	317,784	40,066	84,478	14,800	497,720	49,900	56,515	-	106,415	604,135
Depreciation and amortization	181,320	42,299	22,308	4,880	3,197	-	254,004	202,259	17,830	-	220,089	474,093
Subtotal	7,292,373	1,144,695	2,819,180	421,320	832,849	245,894	12,756,311	3,221,289	576,138	214,600	4,012,027	16,768,338
Direct benefit to donor costs	-	-	-	-	-	-	-	-	-	(214,600)	(214,600)	(214,600)
Total expenses	\$ 7,292,373	\$ 1,144,695	\$ 2,819,180	\$ 421,320	\$ 832,849	\$ 245,894	\$ 12,756,311	\$ 3,221,289	\$ 576,138	\$ -	\$ 3,797,427	\$ 16,553,738

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

	Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 116,479	\$ 222,251
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	265,145	474,093
Amortization of deferred rent credits	(49,372)	(49,372)
Unrealized depreciation on investments	2,628	124,232
<i>Change in assets/liabilities</i>		
Decrease in accounts receivable, net	161,822	83,702
(Increase) decrease in prepaid expenses	(5,052)	13,667
(Increase) decrease in security deposits	(4,395)	860
Decrease in accounts payable and accrued expenses	(128,726)	(234,193)
Increase (decrease) in due to regional councils	168,707	(151,236)
(Decrease) increase in deferred revenue	(271,375)	83,395
(Decrease) increase in deferred compensation	(14,456)	64,325
Net cash provided by operating activities	<u>241,405</u>	<u>631,724</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(419,717)	(371,691)
Proceeds from maturity/sale of investments	140,424	188,349
Purchases of furniture, fixtures, and equipment, and leasehold improvements	<u>(45,582)</u>	<u>(208,168)</u>
Net cash used in investing activities	<u>(324,875)</u>	<u>(391,510)</u>
Net (decrease) increase in cash and cash equivalents	(83,470)	240,214
Restricted and unrestricted cash and cash equivalents, beginning of year	<u>1,373,425</u>	<u>1,133,211</u>
Restricted and unrestricted cash and cash equivalents, end of year	<u><u>\$ 1,289,955</u></u>	<u><u>\$ 1,373,425</u></u>

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

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 1 ORGANIZATION

National Minority Supplier Development Council, Inc. (the Council) advances business opportunities for certified minority business enterprises (MBEs) and connects them to corporate members.

The Council, a not-for-profit organization incorporated in Illinois, is a publicly supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

As of and for the years ended December 31, 2018 and 2017, the Council had 23 regional councils across the country, respectively. The regional councils certify and match minority-owned businesses with member corporations that want to purchase their products and services. Effective January 1, 2014, a new funding model was adopted that allocates a portion of the national dues collected as follows: a) 70% is divided equally among all regional councils; (b) 10% is allocated as a headquarter stipend based on national member headquarter locations; and (c) 20% is allocated as a performance bonus according to performance metrics agreed upon by the Council and the regional councils. A percentage of the membership renewal dues is set aside to provide fringe benefits and training for regional council staff and technology tools and software upgrades. In addition, selected regional councils share in the profits earned from the annual conference and business opportunity exchange.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Net Asset Classifications

The Council reports information regarding its financial position and activities according to two net asset classes: without donor restrictions and with donor restrictions.

Without donor restrictions: Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by actions on behalf of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Undesignated net assets can be utilized to carry out any purpose of the Council.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classifications *(continued)*

With donor restrictions: Net assets used by the Council and subject to donor-imposed stipulations that can be fulfilled by actions of the Council pursuant to those stipulations or that expire with the passage of time.

The Council maintained an annuity investment account, which includes the endowment, to earn a minimum return of 3% for its scholarships program.

Contributions

Contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions, depending on the existence and/or nature of any donor restrictions.

When a donor's restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

In-kind contributions, donated services, and materials are recorded at the fair value on the date of donation.

Membership Dues

Certain firms in private industry that desire membership in the Council are required to pay annual membership dues in amounts determined by the Council's Board of Directors. Dues are deferred until recognized as income based on the fiscal period for which they are assessed.

Furniture, Fixtures, Equipment, and Leasehold Improvements

Furniture, fixtures, and equipment are carried at cost and are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the term of the lease. Equipment and furniture and fixtures are capitalized if they cost \$500 or more and have a useful life when acquired of more than one year. Estimated useful lives are as follows:

Leasehold improvements	6–12.5 years (or the remaining lease term, if shorter)
Equipment	5 years
Furniture and fixtures	7 years

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash Equivalents

For purposes of the statements of cash flows, the Council considers all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

Investments

Investments are in certificates of deposit, annuities, mutual funds, money market funds, real estate investment trusts and artwork. Investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). See Note 5 for further discussion and disclosures related to fair value measurements.

Purchase and sale of securities are recorded on a trade-date bases. Interest income, including unrealized appreciation/depreciation earned on investments, is recognized as revenue without donor restrictions unless specifically restricted for use by the donor in the accompanying financial statements as investment income or loss.

Functional Allocations of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the programs and supporting services benefited.

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, the 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.

Accounting Pronouncement Adopted in the Current Year

In 2018, the Council adopted Accounting Standards Update (ASU) 2017-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes 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. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounting Pronouncements Not Yet Adopted

The Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires additional disclosures pertaining to qualitative and quantitative (for public entities) disaggregation of revenue into categories that explain how revenue and cash flows are impacted by economic factors, information about contract balances and discussion of remaining performance obligations. The scope of this ASU excludes contributions and collaborative arrangements since they are not viewed to be contracts with customers. The key principle of the guidance is to recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for the Council's fiscal year ending December 31, 2019, with early adoption permitted. This ASU will impact the accounting for the Council's revenue other than contributions and investment income when it is adopted.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flow – Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Council's management is currently evaluating the impact on its financial statements.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounting Pronouncements Not Yet Adopted *(continued)*

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*. This ASU provides clarifying guidance on accounting for the grants and contracts of nonprofit organizations as they relate to the new revenue standard (ASU 2014-09 *Revenue from Contracts with Customers*). The ASU also aims to minimize diversity in the classification of grants and contracts that exists under current guidance with regards to exchange transactions and unconditional and conditional contributions. The ASU is to be applied on a modified prospective basis and is effective for contributions received for annual periods beginning after December 15, 2018. The ASU is effective for contributions made for annual periods beginning after December 15, 2019. The Council is currently evaluating the impact of the adoption of this ASU on its financial statements and accompanying notes.

The FASB also issued ASU 2016-02, *Leases (Topic 842)*, which requires recognition of (a) a lease asset (right of use) and lease liability, initially measured at the present value of the least payments, in the statement of financial position and (b) a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis. All cash payments are to be classified within operating activities in the statement of cash flows. The amendments are effective for the Council's fiscal year ending December 31, 2020, with early adoption permitted. This ASU will impact the accounting for the Council's lease arrangements when it is adopted.

NOTE 3 CONCENTRATION OF RISK

At December 31, 2018 and 2017, cash balances at financial banking institutions exceeded the federally insured limit of \$250,000. Management regularly monitors the financial condition of the banking institutions, along with their cash balances, and endeavors to keep the potential risk to a minimum.

The Council's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Council's financial position and the level of risk inherent in most investments, it is reasonably possible that the changes in the values of these investments could occur in the near term. The changes could materially affect the amounts reported in the financial statements. Management believes that the diversification of its investments among the various asset classes (see Note 4) should mitigate the impact of changes in any one asset class.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 4 INVESTMENTS

Investments held at December 31, 2018 and 2017, consisted of the following:

	2018	2017
	<u>Fair Value</u>	<u>Fair Value</u>
Certificates of deposit	\$ 251,624	\$ 350,145
Annuities	6,073,996	5,726,589
Mutual funds	339,971	383,988
Money market funds	83,969	54,409
Real estate investment trusts	1,518,608	1,476,372
Artwork	<u>25,922</u>	<u>25,922</u>
	<u>\$ 8,294,090</u>	<u>\$ 8,017,425</u>
<i>Statement of financial position reconciliation</i>		
Short-term investments	\$ 3,412,692	\$ 3,115,128
Long-term investments	<u>4,881,398</u>	<u>4,902,297</u>
Total investments	<u>\$ 8,294,090</u>	<u>\$ 8,017,425</u>

Certificates of deposit at December 31, 2018 and 2017 consisted of amounts on deposit at financial institutions, with interest rates ranging from 0.02% to 1.25% and with various maturity dates.

Annuities represent (i) a \$1,000,000 seven-year, fixed annuity with New York Life Insurance Company, with a guaranteed principal provision, a 5.6% guaranteed interest rate to July 22, 2010, and a 3% minimum guaranteed interest rate after July 22, 2010; (ii) two five-year annuities of \$500,000 each with Allstate Insurance Company of New York, with a guaranteed principal provision and a 2.5% minimum guaranteed interest return on both annuities; (iii) a \$500,000 five-year, fixed annuity with Valic Insurance Company, with a guaranteed principal provision, a 4% guaranteed interest rate for the first year, and a 3% minimum guaranteed interest rate after the first year. An additional \$1,200,000 investment was added to this policy since the initial investment with a guaranteed interest rate of 3%; (iv) a \$500,000 10-year, variable annuity with Allianz Life Insurance Company of New York with a guaranteed principal provision; (v) a \$400,000 seven-year, fixed annuity with Genworth Life Insurance Company with a guaranteed principal provision, a 3.6% guaranteed interest rate for the first three years and a 1% minimum guaranteed interest rate thereafter; and (vi) a \$400,000 seven-year, fixed indexed annuity with Integrity Life Insurance Company with a guaranteed principal provision and guaranteed interest based on positive changes in market indexes never to be less than zero. The balances recorded include the accrued interest that has been reinvested into the respective annuity.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 4 INVESTMENTS *(continued)*

Investment income for the years ended December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
<i>Investment income</i>		
Interest and dividends	\$ 236,964	\$ 242,103
Net unrealized and realized losses	<u>(2,628)</u>	<u>(124,232)</u>
	<u>\$ 234,336</u>	<u>\$ 117,871</u>

NOTE 5 FAIR VALUE MEASUREMENT

Investments are stated at fair value.

The Council values its investments in accordance with a hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement) when market prices are not readily available or reliable.

The three levels of the hierarchy under fair value measurements are described below:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs, which are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, credit risk, and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Council's own assumptions and would be based on the best information available.

Changes in valuation techniques could result in transfers in or out of an assigned level within the hierarchy.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 5 FAIR VALUE MEASUREMENT *(continued)*

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Certificates of deposit (traditional) and money market funds: Valued at carrying value, which approximates fair value.

Artwork: Value is based on fair value at date of gift.

Market-linked certificates of deposits: Valued on the basis of the performance of the underlying assets.

Annuities: Valued at contract value, which approximates fair value, which represents deposits and reinvested interest, less any withdrawals plus accrued interest.

Mutual funds: Valued at the daily closing price reported in the active market in which the individual securities are traded. The open-ended mutual funds are registered with the Securities and Exchange Commission. These mutual funds are required to publish their daily Net Asset Value (NAV) and transact at that price. The mutual funds held by the Council are deemed to be actively traded.

Real estate investment trusts (REITs): REITs are valued based on the latest NAV received using NAV as a practical expedient. The estimated values are determined by the management of the REITs and independent third parties using common methodologies used in the commercial real estate industry, including discounted cash flow analyses and reviews of current, historical, and projected capitalization rates for comparable properties.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 5 FAIR VALUE MEASUREMENT *(continued)*

REITs are valued using NAV as a practical expedient. The following table provide further information about the REITs at December 31, 2018 and 2017, respectively:

<u>Name of REIT</u>	<u>Investment Strategy</u>	<u>Fair Value at 12/31/18</u>	<u>Fair Value at 12/31/17</u>	<u>Unfunded Commitments at 12/31/18</u>	<u>Unfunded Commitments at 12/31/17</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Preferred Apartment Communities Inc.	Real estate	\$ 200,000	\$ 200,000	\$ -	\$ -	5 years	None
Preferred Apartment Communities Inc.	Real estate	100,000	100,000	-	-	5 years	None
Preferred Apartment Communities Inc.	Real estate	100,000	100,000	-	-	5 years	None
Preferred Apartment Communities Inc.	Real estate	100,000	100,000	-	-	5 years	None
Computershare-American Realty Capital Hospitality Trust	Real estate	190,335	181,000	-	-	N/A	None
AR Global-American Realty Capital NYC REIT	Real estate	304,233	300,595	-	-	N/A	None
Benefit Street Partners formerly American Realty Finance Trust	Real estate	225,717	212,265	-	-	N/A	None
Hines Global REIT	Real estate	133,300	129,987	-	-	N/A	None
Phillips Edison Shopping Center REIT	Real estate	165,023	155,384	-	-	N/A	None
		<u>\$ 1,518,608</u>	<u>\$ 1,476,372</u>	<u>\$ -</u>	<u>\$ -</u>		

The preceding methods described may produce a fair value calculation that may not indicate net realizable value or reflect future fair values. Furthermore, although the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments may result in a different fair value measurement at the reporting date.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.
Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 5 FAIR VALUE MEASUREMENT (continued)

The following tables set forth by level, within the fair value hierarchy, the Council's investments at fair value on a recurring basis, as of December 31, 2018 and 2017:

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<i>Mutual funds</i>				
Equity and income funds	\$ 250,495	\$ -	\$ -	\$ 250,495
Other funds	89,476	-	-	89,476
	<u>339,971</u>	<u>-</u>	<u>-</u>	<u>339,971</u>
Money market funds	-	83,969	-	83,969
Certificates of deposit	-	251,624	-	251,624
Annuities	-	6,073,996	-	6,073,996
Artwork	-	-	25,922	25,922
Total assets in fair value	\$ 339,971	\$ 6,409,589	\$ 25,922	6,775,482
Real estate investment trust*				<u>1,518,608</u>
Total investments				\$ 8,294,090

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
<i>Mutual funds</i>				
Equity and income funds	\$ 198,886	\$ -	\$ -	\$ 198,886
Income and growth funds	61,192	-	-	61,192
Other funds	123,910	-	-	123,910
	<u>383,988</u>	<u>-</u>	<u>-</u>	<u>383,988</u>
Money market funds	-	54,409	-	54,409
Certificates of deposit	-	350,145	-	350,145
Annuities	-	5,726,589	-	5,726,589
Artwork	-	-	25,922	25,922
Total assets at fair value	\$ 383,988	\$ 6,131,143	\$ 25,922	6,541,053
Real estate investment trust valued at NAV*				<u>1,476,372</u>
Total investments				\$ 8,017,425

* Fair value valued at NAV not applicable for fair value hierarchy in accordance with ASU 2015-17.

Transfers between level categories may occur due to changes in the availability of market observable inputs, which are usually caused by changes in market conditions such as availability of market observable quoted prices, liquidity, trading volume, or bid-ask spreads. Transfers in and out of level categories are reported as having occurred at the beginning of the year in which the transfer occurred. There were no transfers in 2018.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 5 FAIR VALUE MEASUREMENT (continued)

The following table represents the Council's Level 3 assets, the valuation techniques used to measure the fair value of those assets, and the significant unobservable inputs used in the fair value measurement as of December 31, 2018:

Asset	Fair Value	2018	
		Principal Valuation Technique	Unobservable Inputs
Artwork	\$ 25,922	Appraisals	Lack of marketability

The significant unobservable inputs used in the fair value measurement of the artwork the significant unobservable input used was discount for lack of marketability. Significant changes in those inputs in isolation would result in a significant change in the fair value measurement.

There was no activity or change in the value of level 3 investments between 2018 and 2017.

NOTE 6 FURNITURE, FIXTURES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, fixtures, equipment, and leasehold improvements consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 4,576,547	\$ 4,530,964
Furniture and fixtures	600,523	600,523
Leasehold improvements	881,761	881,761
	<u>6,058,831</u>	<u>6,013,248</u>
Less: Accumulated depreciation and amortization	<u>5,516,767</u>	<u>5,251,622</u>
	<u>\$ 542,064</u>	<u>\$ 761,626</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 amounted to \$265,145 and \$474,093, respectively.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 7 OFFICE LEASE

On November 15, 2008, the Council entered into a new lease agreement for office space set to expire on May 31, 2021, which has provisions for future rent increases and rent-free periods. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. As security for the lease, the lease agreement requires the Council to have a \$168,036 letter of credit as of December 31, 2018 and 2017, respectively, which is collateralized by a certificate of deposit owned by the Council.

During 2018 and 2017, the Council incurred \$870,091 and \$828,379, respectively, in rent and related occupancy expenses under the lease. As of December 31, 2018, minimum future annual rents under the terms of the leases are as follows:

<u>Years</u>	<u>Amounts</u>
2019	\$ 672,144
2020	672,144
2021	<u>280,060</u>
	<u>\$ 1,624,348</u>

NOTE 8 NET ASSETS

The Council's net assets are as follows:

Without Donor Restrictions

Net assets without donor restrictions consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ <u>7,101,516</u>	\$ <u>6,985,036</u>
Total net assets without donor restriction	\$ <u>7,101,516</u>	\$ <u>6,985,036</u>

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 8 NET ASSETS (continued)With Donor Restrictions

Net assets with donor restrictions were available to support the following program activities as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Advance Management Education Program	\$ 5,000	\$ 5,000
Endowment Funds	<u>100,000</u>	<u>100,000</u>
Total net assets with donor restrictions	<u>\$ 105,000</u>	<u>\$ 105,000</u>

Endowment funds was received from the James H. O'Neal/PepsiCo Foundation/NMSDC Endowed Scholarship Fund. The income earned will be used to support scholarships for minority business owners who participate in the Advanced Management Education Program. Funds are invested in a seven-year annuity.

Net Assets Released from Restrictions

Net assets released from restriction based on satisfaction of purpose and/or time restriction were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Tuition	\$ -	\$ 11,600
Minority Business Development Agency	234,903	245,894
Corporate grants for education and MBE development	139,035	135,000
Scholarships and contributions	<u>201,895</u>	<u>220,350</u>
	<u>\$ 575,833</u>	<u>\$ 612,844</u>

NOTE 9 ENDOWMENT

The Council's endowment assets include those assets of Board-designated and donor-restricted funds that it must hold in perpetuity or for donor-specified periods.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 9 ENDOWMENT *(continued)*

The Council's Board of Directors has interpreted the applicable state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, if any, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment funds as of December 31, 2018 are composed as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment fund	1,411,305	-	1,411,305
Total	\$ 1,411,305	\$ 100,000	\$ 1,511,305

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 1,367,286	\$ 100,000	\$ 1,467,286
<i>Investment return</i>			
Investment income	41,019	3,000	44,019
Appropriation of endowment assets for expenditure	3,000	(3,000)	-
Endowment net assets, December 31, 2018	\$ 1,411,305	\$ 100,000	\$ 1,511,305

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 9 ENDOWMENT *(continued)*

Endowment funds as of December 31, 2017 are composed as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment fund	1,367,286	-	1,367,286
Total	<u>\$ 1,367,286</u>	<u>\$ 100,000</u>	<u>\$ 1,467,286</u>

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2017	\$ 1,324,550	\$ 100,000	\$ 1,424,550
<i>Investment return</i>			
Investment income	39,736	3,000	42,736
Appropriation of endowment assets for expenditure	3,000	(3,000)	-
Endowment net assets, December 31, 2017	<u>\$ 1,367,286</u>	<u>\$ 100,000</u>	<u>\$ 1,467,286</u>

The Council has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while maintaining their purchasing power. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to preserve the assets of donor-restricted funds that the Council intends hold in perpetuity, while assuming a low level of investment risk. The Council expects its endowment funds, over time, to provide a rate of return of approximately 3% to 4%.

Therefore, the investment objectives require disciplined and consistent management philosophies to accommodate all those relevant, reasonable, and probable events. Consequently, a periodic review of total rate of return and spending rate objectives is performed. The spending rate established by the Council is currently 3% per year.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 10 DEFERRED COMPENSATION PLANS

The Council established a deferred compensation plan under Section 457 of the IRC and a nonqualified deferred compensation plan (the Plans). The nonqualified deferred compensation plan is offered to select executives. The Plans are a vehicle to save for retirement on a tax-efficient basis. Employees may elect to defer compensation (salary/bonus) under the Plans. The Council may, at its discretion, make contributions on a selective basis. The contributions are invested in a trust and are reflected in the accompanying financial statements as long-term investments. At December 31, 2018 and 2017, the Plans' balance was \$423,940 and \$438,397, respectively. The deferred compensation plan had deposits of \$7,200, withdrawals of \$-0-; and a net loss of \$21,656 for the year ended December 31, 2018, and had deposits of \$24,000; withdrawals of \$9,003; and a net gain of \$49,329 for the year ended December 31, 2017.

NOTE 11 DEFINED CONTRIBUTION PLAN

The Council has a defined contribution plan, the National Minority Supplier Development Council, Inc. Retirement Plan and Trust, for which it provides an amount equal to 5% of the base salary for eligible, full-time employees. In addition, employees are permitted to make contributions on their own behalf. The Council's contributions amounted to \$113,837 and \$149,500 for 2018 and 2017, respectively. The value of the fund was equal to the vested benefits therein at December 31, 2018.

NOTE 12 IN-KIND CONTRIBUTIONS

In-kind contributions, which are reflected in the accompanying financial statements at fair value at the date of gift, included the following amounts for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Loaned equipment—annual conference	\$ 29,877	\$ 4,511
Meeting expenses—network leadership meetings	-	5,000
Social media/advertising—annual conference	55,000	-
Meeting expenses—annual conference	-	4,860
Printing services—annual conference	-	7,420
Total in-kind contributions	<u>\$ 84,877</u>	<u>\$ 21,791</u>

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 13 LEADERSHIP AWARDS

The Council sponsored its annual leadership award gala (a special event) in New York City in May 2018 and 2017.

At December 31, total revenue and expenses related to the events were as follows:

	<u>2018</u>	<u>2017</u>
NMSDC—annual leadership awards revenue	\$ 746,100	\$ 933,500
Direct donor benefits costs	<u>(174,800)</u>	<u>(214,600)</u>
Net special event—revenue	<u>\$ 571,300</u>	<u>\$ 718,900</u>

NOTE 14 LIQUIDITY AND AVAILABLE RESOURCES

The Council's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,120,760	\$ 1,204,264
Short-term investments	3,412,692	3,115,128
Accounts receivable, net	<u>977,728</u>	<u>1,139,550</u>
Total financial assets available within one year	5,511,180	5,458,942
<i>Less:</i>		
<i>Amounts unavailable for general expenditures within one year, due to:</i>		
Restricted by donors with purpose restrictions	<u>(105,000)</u>	<u>(105,000)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 5,406,180</u>	<u>\$ 5,353,942</u>

The Council maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations are due. In addition, the Council maintains a money market savings account and invests cash in excess of weekly requirements in short-term investments.

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 15 INCOME TAXES

U.S. GAAP requires management to evaluate uncertain tax positions taken by the Council. The financial statement effects of a tax position are recognized when the position is more-likely-than-not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management analyzed the Council's tax positions, and it concluded that as of December 31, 2018, there are no uncertain positions taken or expected to be taken. The Council is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. Management believes the Council is no longer subject to income tax examinations for years prior to 2015.

NOTE 16 RELATED-PARTY TRANSACTIONS

As of and for the years ended December 31, 2018 and 2017, the Council had 23 regional councils across the country, respectively. Payments to the regional councils were \$6,537,421 and \$6,899,247 for the years ended December 31, 2018 and 2017, respectively. Amounts due to the regional councils were \$1,369,240 and \$1,200,533 as of December 31, 2018 and 2017, respectively.

NOTE 17 SUBSEQUENT EVENTS

The Council has evaluated subsequent events through May 13, 2019, which is the date the financial statements were available to be issued, and has determined that there were no subsequent events to be recognized in these financial statements.

