

National Consumers League, Inc.

Financial Statements

For the Years Ended December 31, 2019 and 2018 (as Restated)



HERTZBACH
certified public accountants • consultants

National Consumers League, Inc.

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For the Years Ended December 31, 2019 and 2018 (as Restated)

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Independent Auditor's Report

To the Board of Directors
National Consumers League, Inc.
1701 K Street, NW, Suite 1200
Washington, DC 20006

We have audited the accompanying financial statements of National Consumers League, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 audits 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.

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 Consumers League, Inc. 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.

Emphasis of Matter – Accounting Pronouncements Adopted

As discussed in Note 2 of the financial statements, during the year ended December 31, 2019, National Consumers League, Inc. adopted Financial Accounting Standards Board Update (ASU) No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Prior Period Financial Statements

The financial statements of National Consumers League, Inc. as of December 31, 2018 were audited by other auditors, whose report dated August 19, 2019 expressed an unmodified opinion on those statements. As discussed in Note 3 of the financial statements, National Consumers League, Inc. has restated its 2018 financial statements. The other auditors reported on the financial statements before the restatement.

As part of our audit of the 2018 financial statements, we also audited the prior period adjustment of the 2018 financial statements as described in Note 3. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to National Consumers League, Inc.'s 2018 financial statements other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Hertzbach & Company, P.A.

Potomac, Maryland
July 9, 2020

National Consumers League, Inc.

Statements of Financial Position

As of December 31, 2019 and 2018 (as Restated)

	<u>2019</u>	<u>2018</u>
Assets		
Assets		
Cash and cash equivalents	\$ 3,773,471	\$ 3,874,636
Investments	1,123,425	1,000,085
Accounts receivable	429,809	599,654
Prepaid expenses	26,654	43,652
Deposits	6,744	6,744
Other assets	8,854	8,854
Property and equipment, net	112,396	17,310
Total assets	<u>\$ 5,481,353</u>	<u>\$ 5,550,935</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 152,035	\$ 159,964
Deferred rent	153,649	73,009
Total liabilities	<u>305,684</u>	<u>232,973</u>
Net assets		
Without donor restrictions	4,829,781	5,089,398
With donor restrictions	345,888	228,564
Total net assets	<u>5,175,669</u>	<u>5,317,962</u>
Total liabilities and net assets	<u>\$ 5,481,353</u>	<u>\$ 5,550,935</u>

See independent auditor's report and notes to financial statements.

National Consumers League, Inc.

Statement of Activities
For the Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and other support			
Grants and contributions	\$ 439,022	\$ 1,432,100	\$ 1,871,122
Membership dues	292,468	-	292,468
Trumpeter special event	881,066	-	881,066
Investment income, net	118,626	-	118,626
Sublease income	22,602	-	22,602
Other income	6,171	-	6,171
Net assets released from donor restrictions	1,314,776	(1,314,776)	-
Total revenue, gains, and other support	3,074,731	117,324	3,192,055
Expenses			
Program services:			
Public education	584,495	-	584,495
Consumer health education	602,534	-	602,534
LifeSmarts program	601,623	-	601,623
Fraud center	359,270	-	359,270
Fair labor	162,469	-	162,469
Total program services	2,310,391	-	2,310,391
Supporting services:			
Management and general	576,453	-	576,453
Fundraising	447,504	-	447,504
Total supporting services	1,023,957	-	1,023,957
Total expenses	3,334,348	-	3,334,348
Change in net assets	(259,617)	117,324	(142,293)
Net assets, beginning of year	5,089,398	228,564	5,317,962
Net assets, end of year	\$ 4,829,781	\$ 345,888	\$ 5,175,669

See independent auditor's report and notes to financial statements.

National Consumers League, Inc.

Statement of Activities
For the Year Ended December 31, 2018 (as Restated)

	Without donor restrictions	With donor restrictions	Total
Revenue, gains (losses), and other support			
Grants and contributions	\$ 1,164,838	\$ 594,493	\$ 1,759,331
Membership dues	372,185	-	372,185
Trumpeter special event	884,650	-	884,650
Investment loss, net	(14,299)	-	(14,299)
Sublease income	32,344	-	32,344
Other income	21,056	-	21,056
Net assets released from donor restrictions	1,022,322	(1,022,322)	-
Total revenue, gains (losses), and other support	<u>3,483,096</u>	<u>(427,829)</u>	<u>3,055,267</u>
Expenses			
Program services:			
Public education	463,020	-	463,020
Consumer health education	313,711	-	313,711
LifeSmarts program	582,838	-	582,838
Fraud center	356,553	-	356,553
Fair labor	187,516	-	187,516
Total program services	<u>1,903,638</u>	<u>-</u>	<u>1,903,638</u>
Supporting services:			
Management and general	431,014	-	431,014
Fundraising	411,265	-	411,265
Total supporting services	<u>842,279</u>	<u>-</u>	<u>842,279</u>
Total expenses	<u>2,745,917</u>	<u>-</u>	<u>2,745,917</u>
Change in net assets	737,179	(427,829)	309,350
Net assets, beginning of year	<u>4,352,219</u>	<u>656,393</u>	<u>5,008,612</u>
Net assets, end of year	<u>\$ 5,089,398</u>	<u>\$ 228,564</u>	<u>\$ 5,317,962</u>

See independent auditor's report and notes to financial statements.

National Consumers League, Inc.

Statement of Functional Expenses For the Year Ended December 31, 2019

	Program Services					Supporting Services				Total
	Public education	Consumer health education	LifeSmarts program	Fraud center	Fair labor	Total program services	Management and general	Fundraising	Total supporting services	
Salaries	\$ 386,278	\$ 184,379	\$ 214,367	\$ 263,013	\$ 119,947	\$ 1,167,984	\$ 212,275	\$ 189,470	\$ 401,745	\$ 1,569,729
Professional fees	19,683	328,297	69,096	5,312	-	422,388	261,098	81,073	342,171	764,559
Hotel, catering, and events	13,848	6,261	134,598	358	94	155,159	3,864	99,113	102,977	258,136
Employee benefits	61,818	29,452	35,674	43,421	19,627	189,992	34,534	30,078	64,612	254,604
Rent	52,261	24,486	28,900	35,754	16,262	157,663	26,631	25,350	51,981	209,644
Office expenses	31,598	13,932	40,007	807	2,096	88,440	25,443	11,309	36,752	125,192
Scholarships and stipends	-	5,230	48,437	-	-	53,667	638	334	972	54,639
Travel	4,856	3,847	20,378	1,043	69	30,193	2,296	3,886	6,182	36,375
Telecommunications	6,032	2,732	5,099	3,969	1,836	19,668	3,982	3,047	7,029	26,697
Insurance	5,679	2,681	3,694	3,889	1,756	17,699	4,183	2,584	6,767	24,466
Depreciation and amortization	2,442	1,237	1,373	1,704	782	7,538	1,509	1,260	2,769	10,307
Total expenses	\$ 584,495	\$ 602,534	\$ 601,623	\$ 359,270	\$ 162,469	\$ 2,310,391	\$ 576,453	\$ 447,504	\$ 1,023,957	\$ 3,334,348

See independent auditor's report and notes to financial statements.

National Consumers League, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2018 (as Restated)

	Program Services					Supporting Services				Total
	Public education	Consumer health education	LifeSmarts program	Fraud center	Fair labor	Total program services	Management and general	Fundraising	Total supporting services	
Salaries	\$ 265,327	\$ 198,869	\$ 218,391	\$ 226,278	\$ 123,439	\$ 1,032,304	\$ 249,641	\$ 152,641	\$ 402,282	\$ 1,434,586
Professional fees	48,876	29,082	93,211	45,586	13,200	229,955	85,274	90,056	175,330	405,285
Hotel, catering, and events	6,566	6,286	132,067	4,312	5,748	154,979	12,626	103,284	115,910	270,889
Employee benefits	40,646	30,717	33,498	34,552	18,870	158,283	35,310	23,308	58,618	216,901
Rent	30,894	23,156	25,429	26,348	14,373	120,200	28,940	17,774	46,714	166,914
Office expenses	50,142	10,619	24,286	8,239	5,114	98,400	7,807	17,113	24,920	123,320
Scholarships and stipends	-	5,242	33,004	20	-	38,266	20	-	20	38,286
Travel	7,997	2,099	12,306	2,322	2,095	26,819	1,895	877	2,772	29,591
Telecommunications	6,097	3,534	5,944	4,000	2,117	21,692	4,395	2,663	7,058	28,750
Insurance	4,639	3,177	3,670	3,615	1,972	17,073	3,971	2,602	6,573	23,646
Depreciation and amortization	1,836	930	1,032	1,281	588	5,667	1,135	947	2,082	7,749
Total expenses	<u>\$ 463,020</u>	<u>\$ 313,711</u>	<u>\$ 582,838</u>	<u>\$ 356,553</u>	<u>\$ 187,516</u>	<u>\$ 1,903,638</u>	<u>\$ 431,014</u>	<u>\$ 411,265</u>	<u>\$ 842,279</u>	<u>\$ 2,745,917</u>

See independent auditor's report and notes to financial statements.

National Consumers League, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018 (as Restated)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (142,293)	\$ 309,350
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	10,307	7,749
Net unrealized (gain) loss on investments	(88,814)	37,171
Loss on disposal of property and equipment	230	-
Change in operating assets:		
Accounts receivable	169,845	(389,141)
Prepaid expenses	16,998	(17,766)
Other assets	-	(2,200)
Change in operating liabilities:		
Accounts payable and accrued expense	(7,929)	(24,405)
Deferred revenue	-	(25,000)
Deferred rent	80,640	37,815
Net cash and cash equivalents provided by (used in) operating activities	<u>38,984</u>	<u>(66,427)</u>
Cash flows from investing activities		
Proceeds from sales of investments	-	18,383
Purchases of investments	(34,526)	-
Purchases of property and equipment	<u>(105,623)</u>	<u>(12,554)</u>
Net cash and cash equivalents (used in) provided by investing activities	<u>(140,149)</u>	<u>5,829</u>
Net change in cash and cash equivalents	(101,165)	(60,598)
Cash and cash equivalents, beginning of year	<u>3,874,636</u>	<u>3,935,234</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,773,471</u></u>	<u><u>\$ 3,874,636</u></u>

See independent auditor's report and notes to financial statements.

National Consumers League, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018 (as Restated)

1) Nature of Organization and Summary of Significant Accounting Policies

The National Consumers League, Inc. (the League) is a nonprofit organization founded in 1899 and originally incorporated under the laws of New York in 1902. In 1982, the League reincorporated under the laws of Maryland. The purpose of the League is to educate and assist the public in improving the conditions and protecting their rights in the market and work environments.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Revenues are recognized in the period in which they are earned, and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

Management considers all money market funds and highly liquid investments with original maturity dates of three months or less, to be cash equivalents.

Investments

Investments are reported at fair value. Fair value is 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. See Note 5 for discussion of fair value measurements. Realized and unrealized gains and losses and investment expenses are included in investment income (loss), net, in the statements of activities.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect. In reviewing receivables, management considers their knowledge of customers and historical activity in establishing an allowance for doubtful accounts. Management is of the opinion that all accounts receivable are fully collectible and therefore no allowance for doubtful accounts is provided.

Property and Equipment

Property and equipment are recorded at cost, or if donated, the assets are capitalized at the estimated fair value at the date of receipt. Property and equipment expenditures in excess of \$1,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of three to seven years. Expenditures for maintenance and repairs, which do not extend the lives of assets beyond their original estimated useful lives, are charged to expense. Major expenditures for betterments which extend the lives of assets are capitalized.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the League are classified in the following two classes:

Net assets without donor restrictions represents funds that are available for support of the operations of the League, and that are not subject to donor stipulation.

Net assets with donor restrictions consist of contributions that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources are to be maintained in perpetuity, but permit the League to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

1) Nature of Organization and Summary of Significant Accounting Policies (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets. Donor-imposed restrictions are initially reported in the net assets with donor restrictions class, even if it is anticipated such restrictions will be met in the current reporting period.

Board-designated net assets are net assets without donor restrictions that are used only for the specific purpose by Board resolution (see Note 8).

Revenue Recognition

Contributions and grants, membership dues and special event sponsorships are recognized as revenues when they are received or unconditionally promised (pledged). The League reports gifts of cash and other assets as donor restricted support if they are received with donor stipulations that limit the use of the donated assets as to a particular purpose or to future periods. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Restrictions expire when a stipulated time restriction ends, or a purpose restriction is accomplished.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the League. Those expenses include salaries, employee benefits, rent, office expenses, telecommunications, insurance and depreciation and amortization. All such costs are allocated based on estimates and specific utilization.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Income Taxes

The League qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. As a result, the League is not subject to federal income taxes, except for taxes on unrelated business income. There was no unrelated business income during the years ended December 31, 2019 and 2018. The League is not a private foundation.

Reclassifications

Certain amounts in 2018 have been reclassified to conform to the 2019 presentation. There was no effect on the 2018 change in net assets as a result of these reclassifications.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

2) Accounting Pronouncements Adopted

In 2019, the League adopted ASU No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The core guidance in ASU 2018-08 is to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Adoption of ASU 2018-08 resulted in no changes in presentation of financial statements.

3) Prior Period Adjustment

During the year ended December 31, 2019, errors were identified in the December 31, 2018 financial statements which materially misstated the financial position, statement of activities and changes in net assets as of December 31, 2018, and for the year then ended and required restatement. The errors identified were the result of failure to record revenue and expenses in the proper period. The prior period adjustments had the following effect on assets, net assets and revenue of the League as of December 31, 2018 and for the year then ended.

As of December 31, 2018	Originally reported	As restated	Net change
Total assets	\$ 5,450,685	\$ 5,550,935	\$ 100,250
Net assets			
Net assets without donor restrictions	\$ 5,039,148	\$ 5,089,398	\$ 50,250
Net assets with donor restrictions	\$ 178,564	\$ 228,564	\$ 50,000

For the year ended December 31, 2018	Originally reported	As restated	Net change
Total change in net assets without donor restrictions	\$ 694,678	\$ 737,179	\$ 42,501
Total change in net assets with donor restrictions	\$ (477,829)	\$ (427,829)	\$ 50,000
Net assets without donor restrictions, beginning of year	\$ 4,344,470	\$ 4,352,219	\$ 7,749
Net assets without donor restrictions, end of year	\$ 5,039,148	\$ 5,089,398	\$ 50,250
Net assets with donor restrictions, end of year	\$ 178,564	\$ 228,564	\$ 50,000

4) Concentrations

Concentration of Credit Risk

The League maintains cash and cash equivalent balances at various financial institutions. These balances may, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation. The League has never experienced any losses with respect to its bank balances in excess of federally insured amounts and management believes that there is no significant concentration of credit risk as a result of maintaining these accounts. At December 31, 2019, cash balances exceeded federal insurance limits by approximately \$3,213,890.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

4) Concentrations (Continued)

Concentration of Market Risk

The League maintains investment balances at financial institutions. The League is exposed to equity securities price risk in quoted shares classified at fair value. The League diversifies its portfolio for the purposes of minimizing exposure in this area and management believes the significant decline in value of the investments subsequent to the year-end is temporary.

5) Investments and Fair Value Measurements

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value for assets and liabilities subject to fair value measurement. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the League has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodology used for assets measured at fair value is noted below. There have been no changes in the methodology used at December 31, 2019 and 2018.

Mutual Funds and Exchange Traded Funds

Valued at quoted market prices in an active market.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

5) Investments and Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the League's investments at fair value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 489,804	\$ -	\$ -	\$ 489,804
Exchange traded funds	<u>633,621</u>	<u>-</u>	<u>-</u>	<u>633,621</u>
Total investments, at fair value	<u>\$ 1,123,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,123,425</u>

The following table sets forth by level, within the fair value hierarchy, the League's investments at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 429,617	\$ -	\$ -	\$ 429,617
Exchange traded funds	<u>570,468</u>	<u>-</u>	<u>-</u>	<u>570,468</u>
Total investments, at fair value	<u>\$ 1,000,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,085</u>

6) Property and Equipment

The League held the following property and equipment as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 155,691	\$ 103,949
Software	<u>85,415</u>	<u>36,506</u>
	241,106	140,455
Less: accumulated depreciation and amortization	<u>(128,710)</u>	<u>(123,145)</u>
Property and equipment, net	<u>\$ 112,396</u>	<u>\$ 17,310</u>

During the years ended December 31, 2019 and 2018, the League recorded depreciation and amortization expense related to property and equipment of \$10,307 and \$7,749, respectively.

7) Commitments and Contingencies

The League has a noncancelable operating lease agreement for its office space in Washington, DC which expires in February 2030. The League records rent expense on the straight-line method over the term of the lease and includes cash paid for rent plus amortization of deferred rent. Rent expense for the years ended December 31, 2019 and 2018 was \$209,644 and \$166,914, respectively.

The League also leases certain office equipment under a non-cancelable operating lease which terminates in 2020.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

7) Commitments and Contingencies (Continued)

Future minimum rent payments under the leases are as follows.

For the years ending December 31,	Amount
2020	\$ 201,034
2021	206,060
2022	211,211
2023	216,491
2024	221,903
Thereafter	<u>1,237,918</u>
Total future minimum lease payments	<u>\$ 2,294,617</u>

The League has entered into a contract for the future use of hotel rooms and convention space. In the event of cancellation, the League is required to pay a cancellation fee as stipulated in the contract, the amount of which is dependent upon the date of cancellation. As of December 31, 2019, the maximum possible amount of liquidated damages is \$8,750.

8) Board Designated Net Assets

As of December 31, 2019 and 2018, \$500,000 of net assets have been designated by the Board of Directors for an operating reserve.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

9) Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2019:

	Beginning balance	Additions	Released from restriction	Ending balance
LifeSmarts	\$ -	\$ 382,100	\$ (382,100)	\$ -
Consumer health education	-	685,000	(437,676)	247,324
Fraud center	-	85,000	(85,000)	-
Public education	116,207	80,000	(110,000)	86,207
Fair labor	-	10,000	(10,000)	-
Vaccine support program	50,000	25,000	(75,000)	-
Taxpayer service standards	-	25,000	(25,000)	-
Counterfeit drug education campaign	-	65,000	(65,000)	-
White paper on intel CPU	-	25,000	(25,000)	-
Content shifting project	-	25,000	(25,000)	-
Medication awareness adherence campaign	-	25,000	(25,000)	-
Endowments to be invested in perpetuity	12,357	-	-	12,357
Time restricted	50,000	-	(50,000)	-
Total	<u>\$ 228,564</u>	<u>\$ 1,432,100</u>	<u>\$ (1,314,776)</u>	<u>\$ 345,888</u>

Net assets with donor restrictions consisted of the following at December 31, 2018:

	Beginning balance	Additions	Released from restriction	Ending balance
LifeSmarts	\$ 55,000	\$ 184,344	\$ (239,344)	\$ -
Consumer health education	100,000	195,149	(295,149)	-
Fraud center	165,000	25,000	(190,000)	-
Public education	324,036	60,000	(267,829)	116,207
Fair labor	-	30,000	(30,000)	-
Vaccine support program	-	50,000	-	50,000
Endowments to be invested in perpetuity	12,357	-	-	12,357
Time restricted	-	50,000	-	50,000
Total	<u>\$ 656,393</u>	<u>\$ 594,493</u>	<u>\$ (1,022,322)</u>	<u>\$ 228,564</u>

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

10) Endowment

The League's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the League classifies as net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the League in a manner consistent with the standard of prudence prescribed by UPMIFA.

The League's endowment fund was donor-created to provide income to support the League's mission and purposes. The board chairperson and board treasurer are endowment trustees responsible for the management of the funds and for regular reporting to the board. The trustees evaluate any potential investments based on return, risk, liquidity and the League's mission. In accordance with UPMIFA, the League considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the League and the donor-restricted endowment fund;
- General economic conditions and the possible effect on inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the League.

The use of income generated from such funds is subject to board approval through the normal budgeting process. The League has adopted investment and spending policies that seek to maintain the purchasing power of the endowment assets. The donor-restricted endowment net asset balance was \$12,357 and reported as cash equivalents at December 31, 2019 and 2018. The interest earned was immaterial and was classified as net assets without donor restrictions. There were no distributions or releases from restriction during the years ending December 31, 2019 and 2018.

11) Retirement Plan

The League sponsors a 401(k) plan for eligible employees who have attained the age of 18 years old and completed three months of service. Employees are fully vested in salary deferrals, employer nonelective contributions. The League's contribution and related expenses for the years ended December 31, 2019 and 2018 were \$42,529 and \$35,464, respectively.

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National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

12) Liquidity Analysis

The following reflects the League's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year because of donor-imposed restrictions:

Financial assets as of December 31, 2019

Cash and cash equivalents	\$ 3,773,471
Investments	1,123,425
Accounts receivable	<u>429,809</u>
Total financial assets	5,326,705

Less those unavailable for general expenditure
within one year due to:

Donor-imposed restrictions	(345,888)
Board designations	<u>(500,000)</u>

Financial assets available to meet cash needs
for general expenditure within one year

\$ 4,480,817

As part of the League's liquidity management, the League has a policy to structure its financial assets to be available and liquid as its obligations become due. The League has no debt on the statement of financial position and typically pays its obligations using cash. The League invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the board established an operating reserve. The balance of the operating reserve as of December 31, 2019 was \$500,000. As of December 31, 2019, the League has financial assets equal to approximately 16 months of operating expenses.

13) Business Risk Factor

The League could potentially be affected by natural disasters, public health crisis, such as pandemics and epidemics, or other events outside of their control, which could cause their business and operating results to suffer.

14) Subsequent Events

Management has evaluated subsequent events and transactions for potential recognition or disclosure through July 9, 2020, the date the financial statements were available to be issued. There were no events that required recognition or disclosure in the financial statements, except as noted below.

COVID-19 Outbreak

Beginning in late January 2020, the League began to suffer a disruption in business as a result of the outbreak of COVID-19. Given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time.

See independent auditor's report.

National Consumers League, Inc.

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2019 and 2018 (as Restated)

14) Subsequent Events (Continued)

Paycheck Protection Program

The passage of the CAREs Act created the Paycheck Protection Program (PPP), a new loan package designed to provide funding to small businesses for use in paying employee wages and other critical expenses during the COVID-19 pandemic. Under the terms of the PPP loans, once a borrower receives the funds, the amount spent over the covered period weeks on payroll, mortgage interest, rent and utilities is eligible to be completely forgiven tax free. Any portion of a PPP loan that is not forgiven must be repaid over two or five years after the deferral period ending on the date which the amount of forgiveness is determined at an interest rate of 1%.

Subsequent to the statement of financial position date, the Organization applied for an was approved for a PPP loan in the amount of \$293,500. The funds were received on April 15, 2020.

See independent auditor's report.