

NATIONAL AUCTIONEERS FOUNDATION

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

May 31, 2020 and 2019 (Restated)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
National Auctioneers Foundation
Overland Park, Kansas

We have audited the accompanying financial statements of the National Auctioneers Foundation (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of May 31, 2020 and 2019, 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.

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

INDEPENDENT AUDITOR'S REPORT (continued)

To the Board of Trustees
National Auctioneers Foundation
Overland Park, Kansas

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Auctioneers Foundation as of May 31, 2020 and 2019, 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.

Correction of Net Assets Classification

As discussed in Note 13 to the financial statements, the classification of the endowment fund resulting in a presentation change and reclassification of amounts previously reported for net assets as of May 31, 2019, was discovered by management of the Foundation during the current year. Accordingly, amounts reported for net assets without donor restrictions and net asset with donor restrictions and related revenues have been restated in the 2019 financial statements now presented, and an adjustment has been made to net assets as of May 31, 2019 to correct the reclassification. Our opinion is not modified with respect to that matter.



Marr and Company, P.C.
Certified Public Accountants

Kansas City, Missouri
October 26, 2020

NATIONAL AUCTIONEERS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of May 31, 2020 and 2019 (Restated)

	<u>2020</u>	<u>(Restated)</u> <u>2019</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 81,985	\$ 221,208
Restricted cash	895	895
Investments	192,005	181,012
Prepaid rent	<u>24,000</u>	<u>24,000</u>
Total Current Assets	298,885	427,115
Noncurrent Assets:		
Long-term investments	1,494,164	1,289,765
Collections (Note 2.I.)	0	0
Capital assets, net	4,735	6,057
Intangible assets - trademarks	48,650	48,650
Prepaid rent - noncurrent portion	<u>270,000</u>	<u>294,000</u>
Total Noncurrent Assets	<u>1,817,549</u>	<u>1,638,472</u>
TOTAL ASSETS	\$ <u>2,116,434</u>	\$ <u>2,065,587</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued expenses	\$ <u>8,625</u>	\$ <u>0</u>
Total Current Liabilities	8,625	0
Net Assets:		
Without donor restrictions:		
Board designated	1,494,164	1,289,765
Undesignated	<u>421,640</u>	<u>594,810</u>
Total Without donor restrictions	1,915,804	1,884,575
With donor restrictions	<u>192,005</u>	<u>181,012</u>
Total Net Assets	<u>2,107,809</u>	<u>2,065,587</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>2,116,434</u>	\$ <u>2,065,587</u>

See accompanying Independent Auditor's Report and notes to these financial statements.

NATIONAL AUCTIONEERS FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2020

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>
<u>SUPPORT, REVENUE & OTHER INCOME</u>			
Contributions	\$ 137,554	\$ 0	\$ 137,554
Contributions for scholarships and education	12,625	0	12,625
Auction proceeds	1,523	0	1,523
Investment return	83,192	10,993	94,185
Miscellaneous income	<u>10,986</u>	<u>0</u>	<u>10,986</u>
Total Support, Revenue & Other Income	245,880	10,993	256,873
<u>EXPENSES</u>			
Program services	151,544	0	151,544
Supporting Activities:			
General and administrative	52,025	0	52,025
Fundraising	<u>11,082</u>	<u>0</u>	<u>11,082</u>
Total Supporting Activities	<u>63,107</u>	<u>0</u>	<u>63,107</u>
Total Expenses	214,651	0	214,651
Net assets released from restrictions	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Assets	31,229	10,993	42,222
NET ASSETS, Beginning of Year	<u>1,884,575</u>	<u>181,012</u>	<u>2,065,587</u>
NET ASSETS, End of Year	<u>\$ 1,915,804</u>	<u>\$ 192,005</u>	<u>\$ 2,107,809</u>

See accompanying Independent Auditor's Report and notes to these financial statements.

NATIONAL AUCTIONEERS FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2019 (Restated)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
<u>SUPPORT, REVENUE & OTHER INCOME</u>			
Contributions	\$ 155,547	\$ 0	\$ 155,547
Contributions for scholarships and education	1,700	0	1,700
Auction proceeds	4,197	0	4,197
Investment income	<u>29,705</u>	<u>3,066</u>	<u>32,771</u>
Total Support, Revenue & Other Income	191,149	3,066	194,215
<u>EXPENSES</u>			
Program services	63,868	0	63,868
Supporting Activities:			
General and administrative	46,618	0	46,618
Fundraising	<u>11,159</u>	<u>0</u>	<u>11,159</u>
Total Supporting Activities	<u>57,777</u>	<u>0</u>	<u>57,777</u>
Total Expenses	121,645	0	121,645
Net assets released from restrictions	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Assets	69,504	3,066	72,570
NET ASSETS, Beginning of Year	655,919	1,337,098	1,993,017
Restatement (Note 13)	<u>1,159,152</u>	<u>(1,159,152)</u>	<u>0</u>
NET ASSETS, Beginning of Year (restated)	<u>1,815,071</u>	<u>177,946</u>	<u>1,993,017</u>
NET ASSETS, End of Year (restated)	<u>\$ 1,884,575</u>	<u>\$ 181,012</u>	<u>\$ 2,065,587</u>

See accompanying Independent Auditor's Report and notes to these financial statements.

NATIONAL AUCTIONEERS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2020

	Supporting Activities				<u>Total</u>
	<u>Program</u> <u>Services</u>	<u>General</u> <u>& Admin</u>	<u>Fund-</u> <u>Raising</u>	<u>Supporting</u> <u>Activities</u>	
Bank Charges	\$ 0	\$ 0	\$ 2,767	\$ 2,767	\$ 2,767
Board Meetings	0	1,070	0	1,070	1,070
Children's Auction	0	0	405	405	405
Affiliate Funding	118,378	0	0	0	118,378
Insurance	0	750	0	750	750
Legal & Professional	0	10,732	0	10,732	10,732
Museum Operations	0	475	0	475	475
Depreciation	330	860	132	992	1,322
Office Supplies	0	16	63	79	79
Occupancy Rent	6,000	15,600	2,400	18,000	24,000
Postage	0	0	1,100	1,100	1,100
Printing	0	22	175	197	197
Promotional	0	0	1,040	1,040	1,040
Scholarships Paid	22,336	0	0	0	22,336
Management Fees Expense	<u>4,500</u>	<u>22,500</u>	<u>3,000</u>	<u>25,500</u>	<u>30,000</u>
Total Expenses	<u>\$ 151,544</u>	<u>\$ 52,025</u>	<u>\$ 11,082</u>	<u>\$ 63,107</u>	<u>\$ 214,651</u>

See accompanying Independent Auditor's Report and notes to these financial statements.

NATIONAL AUCTIONEERS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2019

	Supporting Activities				Total
	Program <u>Services</u>	General & Admin	Fund- <u>Raising</u>	Supporting <u>Activities</u>	
Bank Charges	\$ 0	\$ 0	\$ 3,745	\$ 3,745	\$ 3,745
Board Meetings	0	1,383	0	1,383	1,383
Children's Auction	0	0	1,124	1,124	1,124
Conventions & Conferences	0	0	338	338	338
Affiliate Funding	28,625	0	0	0	28,625
Insurance	0	750	0	750	750
Legal & Professional	0	9,292	0	9,292	9,292
Museum Operations	0	475	0	475	475
Depreciation	138	358	55	413	551
Occupancy Rent	6,000	15,600	2,400	18,000	24,000
Postage	0	0	905	905	905
Printing	0	10	92	102	102
Scholarships Paid	25,355	0	0	0	25,355
Management Fees Expense	<u>3,750</u>	<u>18,750</u>	<u>2,500</u>	<u>21,250</u>	<u>25,000</u>
Total Expenses	<u>\$ 63,868</u>	<u>\$ 46,618</u>	<u>\$ 11,159</u>	<u>\$ 57,777</u>	<u>\$ 121,645</u>

See accompanying Independent Auditor's Report and notes to these financial statements.

NATIONAL AUCTIONEERS FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows from Operating Activities</u>		
Change in Net Assets	\$ 42,222	\$ 72,570
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,322	551
Unrealized gain on investments	(103,507)	(42,256)
Changes in Assets and Liabilities:		
(Increase)/Decrease in:		
Prepaid rent	24,000	24,000
Increase/(Decrease) in:		
Accrued expenses	<u>8,625</u>	<u>0</u>
Net cash flows from Operating Activities	(27,338)	54,865
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	0	(6,608)
Purchase of investments	(121,207)	0
Sale of investments	<u>9,322</u>	<u>9,485</u>
Net cash flows from Investing Activities	(111,885)	2,877
Net Increase/(Decrease) in Cash	(139,223)	57,742
Cash and Cash Equivalents - Beginning of Year	<u>221,208</u>	<u>163,466</u>
Cash and Cash Equivalents - End of Year	\$ <u>81,985</u>	\$ <u>221,208</u>

See accompanying Independent Auditor's Report and notes to these financial statements.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

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NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

May 31, 2020 and 2019 (Restated)

NOTE 1: NATURE OF ORGANIZATION

National Auctioneers Foundation (the “Foundation”) was formed as a not-for-profit organization on April 26, 1984, in Lincoln, Nebraska for the purpose of acquiring and exhibiting historical and educational materials, providing education and instruction on the auction method of marketing real and personal property and on the historic, present and future roles of auctioneers. The Foundation was previously doing business as the National Auctioneers Association Foundation and officially changed its operating name to National Auctioneers Foundation in 2014. The primary source of funds for the Foundation is contributions through fund raising efforts from the National Auctioneers Association members and the general public.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The Foundation implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (“ASU”) 2016-14 as it relates to FASB’s Accounting Standards Codification (“ASC”) Topic 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*. FASB ASC 958-205 requires disclosing the amounts of expenses by both their natural classification and their functional classification. The Foundation is required to report information regarding its financial position and activities according to two classes of net assets, which is as follows.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time. Contributions restricted by donors whose restrictions are met in the same reporting periods are recorded as net assets without donor restrictions. Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation’s actions are restricted. Restrictions stipulate that resources must be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed (or certain grantor) restrictions or law. These included those net assets that have been designed by the Board of Trustees for a specific purpose and can be undesignated through a board-approved action.

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

B. Basis of Accounting

The financial statements are presented on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting recognizes revenues and assets when earned and liabilities and expenses when incurred.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fair Value Measurements

The Foundation follows guidance issued by the FASB on fair value measurements, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. This guidance establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair values into Levels 1, 2, and 3.

Level 1 inputs consist of unadjusted quoted prices in active markets for identical instruments and have the highest priority. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are directly or indirectly observable. Level 3 inputs are unobservable and are given the lowest priority.

For purposes of financial reporting, the Foundation has determined that the fair values of its financial instruments, which include cash equivalents, accounts receivable and accounts payable, approximate the carrying values at May 31, 2020 and 2019, based on their short maturities and/or the terms available to the Foundation in financial markets.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all demand deposit accounts and highly liquid money market investments with an original maturity of three months or less to be cash and cash equivalent.

E. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained at high-quality financial institutions and accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At May 31, 2020 and 2019, the Foundation did not hold any uninsured balances at these institutions. The Foundation has not experienced any losses on its cash or cash equivalents.

F. Capital Assets

Capital assets are stated at cost if purchased or at the fair value at the date of donation in the case of donated assets. The Foundation's policy is to capitalize equipment and fixtures with a cost of \$1,000 or more per item and a multi-year useful life. The Foundation provides for depreciation of equipment and fixtures by use of the straight-line method over the estimated useful lives as follows:

Furniture and fixtures	10 years
Office and technology equipment	5 to 7 years

For the years ended May 31, 2020 and 2019, depreciation expense was \$1,322 and \$551, respectively.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Intangible Assets

Intangible assets are recorded at cost and will be amortized over their estimated useful lives. The Foundation capitalizes the costs of creating and registering trademarks and the costs of trademarks obtained through acquisition. However, the trademarks are renewable indefinitely and thus no amortization has been recorded as of statement of financial position date.

The Foundation periodically reviews the carrying value of its trademarks to determine whether an impairment exists. The Foundation considers relevant cash flow and profitability information for the related products in assessing whether the carrying value of trademarks can be recovered. During fiscal years 2020 and 2019, the Foundation determined all previous certification trademarks remained active as of May 31 and an impairment loss was not incurred.

H. Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restrictions are reclassified to contributions without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without restrictions.

Donated items and contributed services are reflected as contributions at their estimated values at date of receipt. Items received by the Foundation to be sold in an auction or other similar event are recorded at the time of donation. The sale price is recorded as a contribution at the time of the event. Individuals and businesses making donations are asked to estimate the value of the items contributed.

I. Collections

In accordance with FASB ASC 958-360-25-3, the Foundation elected no capitalization of its collections. The collections are made up of artifacts of historical significance that are held for educational, research and curatorial purposes. Each of the items is preserved and cared for, and activities verifying their existence and assessing their condition is performed. The collections are subject to a policy that requires proceeds from their sale to be used to acquire other items for collections.

J. Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the Statements of Activities. The Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, facility rent, administrative supplies, printing, and the related party management fee (see Note 10). Depreciation and facility rent are allocated based on estimated square footage, administrative supplies and printing are allocated based on estimated project usage, and the management fee is allocated based on estimates of time and costs of personnel utilized from the Association.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Income Taxes

The Foundation is exempt from income tax under Section 501(C)(3) of the Internal Revenue Code. The Foundation has been classified as a publicly-supported entity which is not a private foundation under Section 509(a) of the Code.

The Foundation has complied with the provisions of the FASB ASC 740-10 as it might apply to the Foundation's financial transactions. The Foundation's policy is to record a liability for any tax position that is beneficial to the Foundation, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of May 31, 2020 and 2019 and, accordingly, no liability has been accrued.

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from these estimates.

M. Risk Management

The Foundation is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruptions, errors and omissions, and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

N. Subsequent Events

ASC 855-10 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events. As a result of this guidance, management has evaluated subsequent events to October 26, 2020, which is the date the financial statements were available to be issued.

NOTE 3: RESTRICTED CASH

As of May 31, 2020 and 2019, the Foundation held restricted cash for the following purposes:

	<u>2020</u>	<u>2019</u>
Cash for scholarships	\$ <u>895</u>	\$ <u>895</u>

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS
May 31, 2020 and 2019 (Restated)

NOTE 4: FAIR VALUE MEASUREMENT

Fair values of assets measured at May 31, 2020, are as follows:

	<u>Fair Value Measurements at the End of the Reporting Period Using:</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Recurring fair value measurements:</u>				
Money Market	\$ 27,471	\$ 27,471	\$ 0	\$ 0
Equities Funds: Mutual Funds	666,127	666,127	0	0
Fixed Income Securities:				
Certificates of Deposit	135,107	0	135,107	0
Mutual Funds	<u>591,136</u>	<u>591,136</u>	<u>0</u>	<u>0</u>
Total Fixed Income Securities	726,443	591,136	135,107	0
Alternatives: Mutual Funds	<u>266,128</u>	<u>266,128</u>	<u>0</u>	<u>0</u>
Total Investments	<u>\$ 1,686,169</u>	<u>\$ 1,551,062</u>	<u>\$ 135,107</u>	<u>\$ 0</u>

Fair values of assets measured at May 31, 2019, are as follows:

	<u>Fair Value Measurements at the End of the Reporting Period Using:</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Recurring fair value measurements:</u>				
Money Market	\$ 655	\$ 655	\$ 0	\$ 0
Equities Funds: Mutual Funds	549,490	549,490	0	0
Fixed Income Securities:				
Certificates of Deposit	153,695	0	153,695	0
Mutual Funds	<u>509,166</u>	<u>509,166</u>	<u>0</u>	<u>0</u>
Total Fixed Income Securities	662,861	509,166	153,695	0
Alternatives: Mutual Funds	<u>257,771</u>	<u>257,771</u>	<u>0</u>	<u>0</u>
Total Investments	<u>\$ 1,470,777</u>	<u>\$ 1,317,082</u>	<u>\$ 153,695</u>	<u>\$ 0</u>

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 5: CAPITAL ASSETS

As of May 31, 2020 and 2019, the Foundation's capital assets were as follows:

	2020	2019
Information technology	\$ 6,608	\$ 6,608
Hall of History fixtures	<u>87,770</u>	<u>87,770</u>
	94,378	94,378
Accumulated depreciation	<u>(89,643)</u>	<u>(89,643)</u>
Capital assets, net	<u>\$ 4,735</u>	<u>\$ 6,057</u>

NOTE 6: PREPAID EXPENSES - RENT

The Foundation entered into an operating lease agreement with the National Auctioneers Association (the "Association") in September 2007 to rent office and administrative space from the Association. The Foundation uses the space to fulfill and achieve the Foundation's defined mission. The terms of the agreement were 25 years with monthly lease payments of \$2,000 and the right to prepay the rent and any cancellation prior to the end of the lease term would require an agreement between the Foundation and the Association to a pro-rated settlement amount. The Foundation prepaid the full lease obligation by November 2009. As of May 31, 2020 and 2019, the prepaid rent expense was as follows:

	2020	2019
Current portion	\$ 24,000	\$ 24,000
Noncurrent portion	<u>270,000</u>	<u>294,000</u>
Total	<u>\$ 294,000</u>	<u>\$ 318,000</u>

Rent expense was \$24,000 for the years ended May 31, 2020 and 2019.

NOTE 7: INVESTMENTS

As of May 31, 2020 and 2019, the Foundation held investments with the following purposes:

	2020	2019
Board-designated operating reserves	\$ 105,577	\$ 102,041
Board-designated educational endowment	1,388,587	1,187,724
Restricted for museum operations	22,346	21,081
Restricted for scholarships	<u>169,659</u>	<u>159,931</u>
Total Investments	<u>\$ 1,686,169</u>	<u>\$ 1,470,777</u>

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

May 31, 2020 and 2019 (Restated)

NOTE 8: BOARD-DESIGNATED ENDOWMENT

In 2006, the Foundation initiated an \$8,000,000 campaign to raise funds for the purpose of an endowment for research (\$4,000,000), for public relations to promote the auction industry (\$2,500,000), to create a new and virtual museum (\$1,000,000), and for renovations to the headquarters' building (\$500,000). The campaign was to continue through 2011 and was premised upon the ability of the Foundation to raise the \$8,000,000. The Foundation was only able to raise \$2,820,000 in pledges and that amount was not totally collected.

The Foundation Board of Trustees determined that all projects that could be funded, had been funded and that the remaining funds should be placed in an endowment as a source of future income to further the exempt purposes of the Foundation. The Foundation Board mailed letters to all campaign donors to inform them of the shortfall and the change. The donors were asked for comments and concerns and the Foundation did not receive any from the solicited donors. To further clarify its position, in August 2012 the Board petitioned the District Court of Johnson County, Kansas to approve the modification of the purpose for which the remaining funds were to be used. The Court ruled in favor of the Foundation.

The Foundation has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while ensuring that the purchasing powers of the endowment assets do not decline over time. To satisfy its long-term rate of return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Foundation desires a portfolio of investments having moderate relative volatility and moderate level of risk as outlined in the Foundation's investment policy. These earnings are classified as net assets without donor restrictions as designated by the Board until exported for their intended use. The Foundation did not establish a formal spending policy because the Board of Trustees intends to grow the Endowment fund to \$2,000,000 by reinvesting the earnings and contributions without required disbursements. Once the fund reaches the desired goal, the Board plans to evaluate a spending policy at that time.

Changes in endowment net assets as of May 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 1,187,724	\$ 1,159,152
Contributions	0	0
Investment return, net	79,556	26,249
Appropriation for expenditure	0	0
Other changes:		
Transfer to board designated fund	<u>121,207</u>	<u>2,323</u>
Endowment net assets, end of year	<u>\$ 1,388,587</u>	<u>\$ 1,187,724</u>

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 9: NET ASSETS

Net assets consisted of the following purposes as of May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<u>Without donor restrictions:</u>		
Board-designated operating reserves	\$ 105,577	\$ 102,041
Board-designated educational endowment	1,388,587	1,187,724
Undesignated and without restrictions	<u>421,640</u>	<u>594,810</u>
Total Net assets without donor restrictions	1,915,804	1,884,575
<u>With donor restrictions:</u>		
Museum operations fund	22,346	21,081
Scholarship funds	<u>169,659</u>	<u>159,931</u>
Total Net assets with donor restrictions	<u>192,005</u>	<u>181,012</u>
Total Net assets	\$ <u>2,107,809</u>	\$ <u>2,065,587</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors were as follows for the years ended May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Museum operations fund	\$ 0	\$ 0
Scholarship funds	<u>0</u>	<u>0</u>
Total Net assets released from restrictions	\$ <u>0</u>	\$ <u>0</u>

NOTE 10: RELATED PARTY TRANSACTIONS AND COMMITMENTS

The Foundation engages the National Auctioneers Association (the “Association”) to perform business and financial services concerning the Foundation’s essential financial and operational aspects. The Foundation also rents facility and equipment space from the Association; however, the aggregate rental payments was fully prepaid in 2009 (see Note 6). The Foundation is controlled independently of the Association. The Foundation signed a management agreement in July 2016 at a cost of \$25,000 annually for three years effective August 2016 through July 2019. The Foundation renewed the management agreement in July 2019 at a cost of \$30,000 annually for two years effective June 2019 through May 2021. The services provided remained unchanged from the previous agreement.

In December 2017, the Foundation Board of Directors approved a two-year commitment to the Association for the development of an online software game at a cost of \$20,000 annually for two years through the fiscal year ending May 31, 2019.

In November 2018, the Foundation Board of Directors approved an annual commitment to the Association to underwrite up to \$30,000 of the new member education vouchers issued by the Association during each calendar year as billed to the Foundation quarterly for the amount used during the period.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 10: RELATED PARTY TRANSACTIONS AND COMMITMENTS (continued)

For the years ending May 31, 2020 and 2019, payments made to the Association by the Foundation are as follows:

	<u>2020</u>	<u>2019</u>
Management Fees	\$ 30,000	\$ 25,000
Development of online software game	0	20,000
Summit keynote speaker and badges	15,000	0
NAA Educational expenses for 2020	73,378	0
Education vouchers used during the period	<u>30,000</u>	<u>8,625</u>
	<u>\$ 148,378</u>	<u>\$ 53,625</u>

Future minimum payments under the agreements listed above for the years ended May 31 are as follows:

2021	\$ <u>30,000</u>
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NOTE 11: CONCENTRATION

The Foundation is related to the Association that shares a membership base. In the event the related party is terminated, the Foundation's ability to continue as a going concern would be greatly diminished.

NOTE 12: LIQUIDITY RESOURCE MANAGEMENT

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As of May 31, 2020 and 2019, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ <u>81,985</u>	\$ <u>221,208</u>

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS May 31, 2020 and 2019 (Restated)

NOTE 13: RESTATEMENT OF FINANCIAL STATEMENTS

During the fiscal year ended May 31, 2020, the Foundation performed additional analysis and identified and reclassified \$1,187,724 and \$1,159,152 of board-designed net assets that had been previously reported as of May 31, 2019 and 2018, respectively, as net assets with donor restrictions. The endowment fund balance was previously classified as donor restricted. Following the court judgment to rescind the restrictions, the endowment fund should be reported as a board-designated fund and classified as net assets without donor restrictions. This correction had no effect on total net assets at May 31, 2019 or May 31, 2018, or on total change in net assets for the years then ended. However, the effect of the correction on change in net assets without donor restrictions was an increase of \$1,187,724 and \$1,159,152 for the years ended May 31, 2019 and 2018, respectively, with a corresponding decrease in net assets with donor restrictions.