

Draft  
4/19/23

**NATIONAL AUCTIONEERS FOUNDATION**

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

**May 31, 2022 and 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Auctioneers Foundation as of May 31, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITOR'S REPORT (continued)

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To the Board of Trustees  
National Auctioneers Foundation

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Draft / No  
Signature*

Kansas City, Missouri  
April 17, 2022

NATIONAL AUCTIONEERS FOUNDATION

STATEMENTS OF FINANCIAL POSITION  
As of May 31, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 243,784	\$ 157,735
Contribution receivable from related party	0	118,219
Investments	1,935,219	1,964,723
Capital assets, net	2,092	3,414
Intangible assets - trademarks	48,650	48,650
Prepaid rent	<u>246,000</u>	<u>270,000</u>
 TOTAL ASSETS	 <u>\$ 2,475,745</u>	 <u>\$ 2,562,741</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ <u>113</u>	\$ <u>0</u>
Total liabilities	113	0
Net assets:		
Without donor restrictions:		
Board designated	1,715,762	1,860,263
Undesignated	<u>554,119</u>	<u>483,504</u>
Total Without donor restrictions	2,269,881	2,343,767
With donor restrictions	<u>205,751</u>	<u>218,974</u>
Total Net assets	<u>2,475,632</u>	<u>2,562,741</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,475,745</u>	 <u>\$ 2,562,741</u>

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

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## NATIONAL AUCTIONEERS FOUNDATION

STATEMENT OF ACTIVITIES  
For the Year Ended May 31, 2022

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>
<u>SUPPORT, REVENUE &amp; OTHER INCOME</u>			
Contributions	\$ 196,094	\$ 0	\$ 196,094
Auction proceeds	23,911	0	23,911
Net investment return	(134,502)	(13,223)	(147,725)
Miscellaneous income	<u>157</u>	<u>0</u>	<u>157</u>
Total Support, Revenue & Other Income	85,660	(13,223)	72,437
<u>EXPENSES</u>			
Program services	104,505	0	104,505
Supporting Activities:			
General and administrative	40,807	0	40,807
Fundraising	<u>14,234</u>	<u>0</u>	<u>14,234</u>
Total Supporting Activities	<u>55,041</u>	<u>0</u>	<u>55,041</u>
Total Expenses	<u>159,546</u>	<u>0</u>	<u>159,546</u>
Change in Net Assets	(73,886)	(13,223)	(87,109)
NET ASSETS, Beginning of Year	<u>2,343,767</u>	<u>218,974</u>	<u>2,562,741</u>
NET ASSETS, End of Year	\$ <u>2,269,881</u>	\$ <u>205,751</u>	\$ <u>2,475,632</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, 2021

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	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>
<u>SUPPORT, REVENUE &amp; OTHER INCOME</u>			
Contributions	\$ 143,949	\$ 0	\$ 143,949
Contributions from related party	181,850	0	181,850
Noncash contributions	3,300	0	3,300
Auction proceeds	12,150	0	12,150
Net investment return	251,586	26,969	278,555
Miscellaneous income	<u>785</u>	<u>0</u>	<u>785</u>
Total Support, Revenue & Other Income	593,620	26,969	620,589
<u>EXPENSES</u>			
Program services	113,751	0	113,751
Supporting Activities:			
General and administrative	37,275	0	37,275
Fundraising	<u>14,631</u>	<u>0</u>	<u>14,631</u>
Total Supporting Activities	<u>51,906</u>	<u>0</u>	<u>51,906</u>
Total Expenses	<u>165,657</u>	<u>0</u>	<u>165,657</u>
Change in Net Assets	427,963	26,969	454,932
NET ASSETS, Beginning of Year	<u>1,915,804</u>	<u>192,005</u>	<u>2,107,809</u>
NET ASSETS, End of Year	<u>\$ 2,343,767</u>	<u>\$ 218,974</u>	<u>\$ 2,562,741</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, 2022

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	<u>Supporting Activities</u>				<u>Total</u>
	<u>Program</u> <u>Services</u>	<u>General</u> <u>&amp; Admin</u>	<u>Fund-</u> <u>Raising</u>	<u>Supporting</u> <u>Activities</u>	
Management fees	\$ 16,037	\$ 15,475	\$ 3,238	\$ 18,713	\$ 34,750
Affiliate program funding	27,530	0	0	0	27,530
Conference and convention events	23,885	0	833	833	24,718
Fundraising special events	0	0	1,615	1,615	1,615
Scholarships paid	23,075	0	0	0	23,075
Occupancy rent	10,800	9,600	3,600	13,200	24,000
Liability insurance	0	750	0	750	750
Office and general supplies	0	585	2,343	2,928	2,928
Professional fees	0	12,789	0	12,789	12,789
Bank charges	0	0	2,407	2,407	2,407
Meetings and meals	50	729	0	729	779
Long-range planning	2,533	0	0	0	2,533
Depreciation	595	529	198	727	1,322
Miscellaneous	<u>0</u>	<u>350</u>	<u>0</u>	<u>350</u>	<u>350</u>
Total Expenses	<u>\$ 104,505</u>	<u>\$ 40,807</u>	<u>\$ 14,234</u>	<u>\$ 55,041</u>	<u>\$ 159,546</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, 2021

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	<u>Supporting Activities</u>				<u>Total</u>
	<u>Program</u> <u>Services</u>	<u>General</u> <u>&amp; Admin</u>	<u>Fund-</u> <u>Raising</u>	<u>Total</u> <u>Supporting</u> <u>Activities</u>	
Management fees	\$ 17,610	\$ 15,660	\$ 3,330	\$ 18,990	\$ 36,600
Affiliate program funding	73,378	0	0	0	73,378
Fundraising special events	0	0	4,500	4,500	4,500
Scholarships paid	8,713	0	0	0	8,713
Museum operations	0	475	0	475	475
Occupancy rent	10,800	9,600	3,600	13,200	24,000
Liability insurance	0	750	0	750	750
Postage	0	0	503	503	503
Office and general supplies	0	75	303	378	378
Professional fees	0	10,186	0	10,186	10,186
Bank charges	0	0	2,198	2,198	2,198
Long-range planning	2,655	0	0	0	2,655
Depreciation	<u>595</u>	<u>529</u>	<u>197</u>	<u>726</u>	<u>1,321</u>
Total Expenses	<u>\$ 113,751</u>	<u>\$ 37,275</u>	<u>\$ 14,631</u>	<u>\$ 51,906</u>	<u>\$ 165,657</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, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
<u>Cash Flows from Operating Activities</u>		
Change in Net Assets	\$ (87,109)	\$ 454,932
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	1,322	1,321
Unrealized (gain)/loss on investments	134,855	(289,824)
Changes in Assets and Liabilities:		
(Increase)/Decrease in:		
Contribution receivable from related party	118,219	(118,219)
Prepaid rent	24,000	24,000
Increase/(Decrease) in:		
Accounts payable	113	0
Accrued expenses	<u>0</u>	<u>(8,625)</u>
Net cash flows from Operating Activities	191,400	63,585
<u>Cash Flows from Investing Activities</u>		
Purchase of investments	(118,297)	0
Sale of investments	<u>12,946</u>	<u>11,270</u>
Net cash flows from Investing Activities	<u>(105,351)</u>	<u>11,270</u>
Net Increase in Cash	86,049	74,855
Cash and Cash Equivalents - Beginning of Year	<u>157,735</u>	<u>82,880</u>
Cash and Cash Equivalents - End of Year	\$ <u>243,784</u>	\$ <u>157,735</u>

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

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
May 31, 2022 and 2021

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# NATIONAL AUCTIONEERS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS May 31, 2022 and 2021

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### 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 (the “Association”) members and the general public.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. 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.

#### B. 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.

#### C. Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and demand deposit accounts with financial institutions believed by management to be creditworthy. Accounts at each depository institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, amounts on deposit may exceed insured limits. The Foundation had \$0 of bank balances in excess of federally insured limits as of May 31, 2022 and 2021, respectively. To date, the Foundation has not experienced any losses on such deposit accounts at the financial institution and believes it is not exposed to any significant credit risk on cash.

Investments are made by diversified investment managers whose performance is monitored by the Foundation and the Board of Trustees. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the statements of financial position. Although the fair value of investments are subject to fluctuation on a year-to-year basis, the Foundation believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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 market prices for identical assets in active markets as of the measurement date and have the highest priority. Level 2 inputs include other observable inputs, either directly or indirectly, including: quoted prices for similar assets in active markets, quoted prices for identical or similar assets in non-active markets, inputs other than quoted prices that are observable for the asset, or inputs that are derived principally from or corroborated by other observable market data. Level 3 inputs are unobservable that cannot be corroborated by observable market data and are given the lowest priority.

For purposes of financial reporting, the Foundation has determined that the fair value of its financial instruments approximate the carrying value as of May 31, 2022 and 2021, based on their short maturities and/or the terms available to the Foundation in financial markets. Equity funds, exchange-traded funds, mutual funds, and certificates of deposit are valued at the closing quoted price in an active market.

E. Contribution Receivable

Contribution receivable consists of amounts due from Association members and the Association for the support of the Foundation. The allowance method is used to recognize potentially uncollectible receivable and is determined by management based on the Foundation's past collection experience, and collections received subsequent to year-end. The Foundation determined that no allowance was necessary as of May 31, 2022 and 2021, as the Foundation considered all significant receivables fully collectible.

F. Investments

Investments consist principally of money market funds, exchange traded funds, mutual funds, and certificates of deposit. The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair value in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

# NATIONAL AUCTIONEERS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS May 31, 2022 and 2021

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### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### G. Collections

In accordance with FASB ASC 958-360-25-3, the Foundation elected not to capitalize 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.

#### H. 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, 2022 and 2021, depreciation expense was \$1,322 and \$1,321, respectively.

#### I. 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 2022 and 2021, the Foundation determined all previous certification trademarks remained active as of May 31 and an impairment loss was not incurred.

#### J. Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor) imposed restrictions or law. These net assets may be used at the discretion of the Foundation's management and the Board of Trustees. The Board of Trustees has designed, from net assets without donor restrictions, net assets for an operating reserve and for the following various purposes: long-term endowment and youth scholarships. These net assets can be undesignated through a board-approved action.

# NATIONAL AUCTIONEERS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS May 31, 2022 and 2021

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### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Net Assets (continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity and only the income is available or are restricted by the donor's intent as to usage. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service.

The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

#### K. Revenue and Revenue Recognition

The Foundation recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

#### L. Donated Services and In-Kind Contributions

Donated items and contributed professional services are reflected as contributions at their estimated fair values at date of receipt. Volunteers contribute time to the Foundation's program services, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

#### M. Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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 effort of personnel utilized from the Association.

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Income Taxes

The Foundation is organized as a Nebraska nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Internal Revenue Code Section (“IRC”) 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. The Foundation has been classified as a publicly supported entity under Section 509(a) of the IRC.

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, 2022 and 2021 and, accordingly, no liability has been accrued.

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to our exempt purposes. The Foundation has determined that it is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported balances of assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

P. Reclassifications

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.

Q. 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.

R. Subsequent Events

Foundation’s management has evaluated subsequent events through April 17, 2023, the date the financial statements were available to be issued.



NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
May 31, 2022 and 2021

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NOTE 3: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Cash and cash equivalents	\$ 243,784
Investments	<u>1,935,219</u>
Total financial assets	2,179,003
Less amounts not available to be used within one year:	
Net assets with designations	(1,715,762)
Net assets with donor restrictions	<u>(205,751)</u>
Total available for general expenditure	\$ <u>257,490</u>

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.

NOTE 4: FAIR VALUE MEASUREMENT

Fair values measurement of assets measured as of May 31, 2022, are as follows:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</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	\$ 150,592	\$ 150,592	\$ 0	\$ 0
Equity Securities:				
Exchange-traded funds	360,100	360,100	0	0
Mutual Funds	<u>633,962</u>	<u>633,962</u>	<u>0</u>	<u>0</u>
Total Equity Securities	994,062	994,062	0	0
Fixed Income Securities:				
Certificates of Deposit	15,170	0	15,170	0
Exchange-traded funds	255,038	255,038	0	0
Mutual Funds	<u>520,357</u>	<u>520,357</u>	<u>0</u>	<u>0</u>
Total Fixed Income Securities	<u>790,565</u>	<u>775,395</u>	<u>15,170</u>	<u>0</u>
Total Investments	\$ <u>1,935,219</u>	\$ <u>1,920,049</u>	\$ <u>15,170</u>	\$ <u>0</u>

NATIONAL AUCTIONEERS FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 4: FAIR VALUE MEASUREMENT (continued)

Fair values measurement of assets measured as of May 31, 2021, are as follows:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</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	\$ 125,165	\$ 125,165	\$ 0	\$ 0
Equity Securities:				
Exchange-traded funds	354,525	354,525	0	0
Mutual Funds	<u>645,176</u>	<u>645,176</u>	<u>0</u>	<u>0</u>
Total Equity Securities	999,701	999,701	0	0
Fixed Income Securities:				
Certificates of Deposit	48,983	0	48,983	0
Exchange-traded funds	255,950	255,950	0	0
Mutual Funds	<u>534,924</u>	<u>534,924</u>	<u>0</u>	<u>0</u>
Total Fixed Income Securities	<u>839,857</u>	<u>790,874</u>	<u>48,983</u>	<u>0</u>
Total Investments	\$ <u>1,964,723</u>	\$ <u>1,915,740</u>	\$ <u>48,983</u>	\$ <u>0</u>

NOTE 5: PREPAID EXPENSES - RENT

The Foundation entered into an operating lease agreement with 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. 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, 2022 and 2021, the prepaid rent expense was as follows:

	<u>2022</u>	<u>2021</u>
Current portion	\$ 24,000	\$ 24,000
Noncurrent portion	<u>222,000</u>	<u>246,000</u>
Total	\$ <u>246,000</u>	\$ <u>270,000</u>

Rent expense was \$24,000 for the years ended May 31, 2022 and 2021.

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NOTE 6: CAPITAL ASSETS

As of May 31, 2022 and 2021, the Foundation's capital assets were as follows:

	<u>2022</u>	<u>2021</u>
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>(92,286)</u>	<u>(90,964)</u>
Capital assets, net	<u>\$ 2,092</u>	<u>\$ 3,414</u>

NOTE 7: NET ASSETS

Net assets consisted of the following purposes as of May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Without donor restrictions:</u>		
Board-designated operating reserves	\$ 105,688	\$ 105,680
Board-designated for youth scholarships	95,154	114,514
Board-designated educational endowment	1,514,920	1,640,069
Undesignated and without restrictions	<u>554,119</u>	<u>483,504</u>
Total Net assets without donor restrictions	2,269,881	2,343,767
<u>With donor restrictions:</u>		
Museum operations fund	23,533	24,598
Scholarship funds	<u>182,218</u>	<u>194,376</u>
Total Net assets with donor restrictions	<u>205,751</u>	<u>218,974</u>
Total Net assets	<u>\$ 2,475,632</u>	<u>\$ 2,562,741</u>

Net assets with donor restrictions consist of investments as presented in the statements of financial position.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors. For the years ended May 31, 2022 and 2021, \$0 net assets were released from restrictions. However, the investments incurred a loss during the year ended May 31, 2022, and net assets with donor restrictions were reduced by \$13,223.

NOTE 8: NONCASH CONTRIBUTIONS

The Foundation received donated professional services to produce the virtual auction totaling \$0 and \$3,300 during the years ended May 31, 2022 and 2021, respectively. The services were reported in the statement of activities as fundraising activities and reported in the statement of functional expenses in the fundraising expense line item.

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NOTE 9: 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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 1,640,069	\$ 1,388,587
Contributions	0	0
Investment return, net	(125,149)	251,482
Appropriation for expenditure	<u>0</u>	<u>0</u>
Endowment net assets, end of year	\$ <u>1,514,920</u>	\$ <u>1,640,069</u>

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NOTE 10: RELATED PARTY TRANSACTIONS AND COMMITMENTS

The Foundation is controlled independently of the Association. The Foundation engages the Association to perform business and financial services concerning the Foundation's essential financial and operational aspects. The Foundation signed a management agreement in July 2019 at a cost of \$30,000 annually for two years effective June 2019 through May 2021. The Foundation renewed the management agreement in December 2021 at a cost of \$30,000 annually for two years effective June 2021 through May 2023. The services provided remained unchanged from the previous agreement. The Foundation also rents facility space and office equipment from the Association; however, the aggregate rental payments was fully prepaid in 2009 (see Note 5).

In April 2020, the Foundation's Board of Directors approved a financial commitment of \$146,755 to the Association to fund educational expenses remaining in calendar year 2020. The Foundation approved to pay the commitment over two installments of \$73,378 for each of the fiscal years ended May 31, 2020 and 2021.

Effective June 1, 2020, the Association's Auxiliary approved transferring \$181,850 from the Legacy Youth Scholarship (LYSC) program to the Foundation. One of the Auxiliary's bank accounts was successfully transferred in November 2020. The Auxiliary's remaining bank account balance of \$118,219 was officially transferred to the Foundation in August 2021.

For the years ending May 31, 2022 and 2021, payments made to the Association by the Foundation are as follows:

	<u>2022</u>	<u>2021</u>
Management agreement fees	\$ 30,000	\$ 30,000
NAA educational and program funding	<u>27,530</u>	<u>73,378</u>
	<u>\$ 57,530</u>	<u>\$ 103,378</u>

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.