

**NATIONAL AUCTIONEERS ASSOCIATION
FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORT
AS OF DECEMBER 31, 2008**

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Purinton, Chance & Mills, LLC

Certified Public Accountants

Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Auctioneers Association
Overland Park, Kansas

We have audited the accompanying statement of financial position of the National Auctioneers Association (a nonprofit organization) as of December 31, 2008, and the related statements of activities and cash flows for the seven months then ended. These financial statements are the responsibility of the National Auctioneers Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient documentary evidence to support the balances in the Donor Permanently Restricted Life Membership Fund and the Board Designated Life Membership Fund accounts of \$266,830 and \$176,891 respectively. We also were not able to satisfy ourselves as to the carrying value of the aforementioned accounts for the year ended December 31, 2008 by other auditing procedures.

In our opinion, except for the possible effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the Donor Permanently Restricted Life Membership Fund and the Board Designated Life Membership Fund accounts explained in Note 12 of the notes to the financial statements, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the National Auctioneers Association as of December 31, 2008 and the changes in its net assets and its cash flows for the seven months ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the accompanying statement of unrestricted and restricted net assets, statement of other expenses, and statement of other income are presented only for supplementary analysis purposes. Such information has been subjected to the procedures applied in the audit of the basic financial statements, and we are not aware of any material modifications that should be made thereto in order for them to be in conformity with generally accepted accounting principles.

Purinton, Chance & Mills, LLC
Purinton, Chance & Mills, LLC

Overland Park, Kansas

April 2, 2009

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Phone: (913) 491-8200 • Facsimile: (913) 491-5525

Financial Plaza I • 6900 College Boulevard, Suite 350 • Overland Park, Kansas 66211

**National Auctioneers Association
Statement of Financial Condition
As of December 31, 2008**

Assets

	<u>Audited 12/31/2008</u>
Current assets:	
Cash and cash equivalents:	\$ 367,197
Accounts receivable:	
Auctioneer (less allowance for doubtful accounts of \$2,942)	18,905
Prepaid expenses	<u>44,941</u>
Total current assets	<u>431,043</u>
Property and equipment:	
Equipment	487,485
Land	271,561
Furniture and Fixtures	134,516
Building	<u>1,285,789</u>
Total property and equipment	<u>2,179,351</u>
Less: accumulated depreciation	<u>(1,291,982)</u>
Net property and equipment	<u>887,369</u>
Other Assets:	
Life restricted cash and cash equivalents	266,830
Intangible assets	15,000
Less: accumulated amortization	<u>(7,333)</u>
Total other assets	<u>274,497</u>
Total assets	<u><u>\$ 1,592,909</u></u>

See Independent Auditor's Report.
The accompanying notes are an integral part of these financial statements.

**National Auctioneers Association
Statement of Financial Condition
As of December 31, 2008**

Liabilities and Net Deficit

	<u>Audited 12/31/2008</u>
Liabilities:	
Current liabilities:	
Trade accounts payable	\$ 44,064
Accrued liabilities	19,788
Current portion capital leases	1,195
Current portion deferred income:	2,020
Current portion deferred rent	<u>24,000</u>
Total current liabilities	<u>91,067</u>
Long term debt:	
Long term portion of notes payable	<u>181,850</u>
Other Liabilities:	
Deferred income - membership	732,956
Deferred income - lifetime membership	42,979
Deferred income - learning center membership	7,723
Deferred income - conference & show	18,234
Deferred income - AARE seminar	10,500
Deferred income - CES seminar	545
Deferred income - CAI session	163,185
Deferred income - ATS	1,440
Deferred income - USPAP	3,750
Total deferred income	<u>981,312</u>
Less current portion	<u>(2,020)</u>
Total long term deferred income	<u>979,292</u>
Deferred rents	443,036
Less current portion	<u>(24,000)</u>
Total long term deferred rents	<u>419,036</u>
Total other liabilities	<u>1,398,328</u>
Total liabilities	<u>1,671,245</u>
Unrestricted net deficit:	
Undesignated deficit	(522,057)
Board designated life membership fund	176,891
Donor permanently restricted life membership fund	266,830
Unrestricted net deficit in excess of total assets	<u>(78,336)</u>
Total liabilities and net deficit	<u>\$ 1,592,909</u>

See Independent Auditor's Report.

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

National Auctioneers Association
Statement of Activities
For the Seven Months Ended December 31, 2008

	<u>Audited</u> <u>12/31/2008</u>
Revenues:	
Dues	\$ 950,458
Designation programs	156,639
Conference	837,302
Advertising	143,530
Investment income	6,839
Lease income	14,000
Other	116,073
Total revenues	<u>2,224,841</u>
Expenses	
Publications	133,634
Salaries and benefits	558,813
Conference	657,743
Designation programs	134,331
Board travel	34,519
Membership development	18,572
Professional and consultant fees	50,414
Public relations	44,418
Utilities	14,212
Repairs and maintenance	26,322
Taxes and insurance	13,868
Computer Expenses	107,365
Interest Expense	15,461
Loss on Sale of Asset	9,517
Other	64,577
Total expenses before depreciation	<u>1,883,766</u>
Change in net assets before depreciation	341,075
Depreciation expense	<u>(63,902)</u>
Change in unrestricted deficit	<u>\$ 277,173</u>

See Independent Auditor's Report.
The accompanying notes are an integral part of these financial statements.

National Auctioneers Association
Statement of Cash Flows
For the Seven Months Ended December 31, 2008

	Audited <u>12/31/2008</u>
Cash flows from operating activities:	
Changes in net assets	\$ 277,173
Adjustments to reconcile changes in net assets to net cash flows from operating activities:	
Depreciation	(63,902)
Loss on sale of Asset	9,517
Bad debt expense	5,878
Recognition of Deferred Lease Income	(14,000)
Non-cash transactions	116,213
Restricted life time member funds	(266,830)
Decrease (increase) in operating assets:	
Accounts receivable	35,601
Write off of bad debt	(5,496)
Prepaid expenses and other assets	73,317
Increase (decrease) in other liabilities:	
Accounts payable	(3,769)
Accrued expenses	(59,220)
Deferred revenue	(329,469)
Net cash provided (used) by operating activities	<u>(224,987)</u>
Cash flows from investing activities:	
Proceeds from sale of asset	6,050
Purchase of Investments	349,268
Net cash provided (used) by investing activities	<u>355,318</u>
Cash flows from financing activities:	
Repayment of long term debt	(284,538)
Net cash provided (used) by financing activities	<u>(284,538)</u>
Net change in cash and cash equivalents	(154,207)
Cash and cash equivalents:	
Beginning of year	<u>521,404</u>
Cash and cash equivalents end of year	<u><u>\$ 367,197</u></u>
Interest Paid	14,156
Taxes Paid	45,516

See Independent Auditor's Report.

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

National Auctioneers Association
Notes To Financial Statements
December 31, 2008

Note 1. Summary of Significant Accounting Policies

a. Operations

The company is a not-for-profit corporation, which provides educational services and information regarding the auctioneering profession. Magazines are published as part of the member's annual dues investment, a convention is presented annually, and several seminars are presented throughout the year.

b. Cash Equivalents

For purposes of the statement of cash flows, the company considers cash and cash equivalents to consist of undesignated cash on hand and undesignated checking accounts as well as all short term debt securities purchased with a maturity of three months or less.

c. Accounts Receivable

Accounts receivable is recorded at the amount the Company expects to collect on balances outstanding at year-end. Management has established an allowance for uncollectible accounts as of December 31, 2008 of \$2,942, which consists of accounts over sixty days past due.

d. Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is computed utilizing the straight-line, modified asset cost recovery system, and modified asset cost recovery system straight line methods at rates based on the following estimated useful lives of the assets.

	<u>Years</u>
Automobiles	5
Buildings	10-30
Equipment	3-7
Furniture and Fixtures	5-7
Intangible Assets	15

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization expense for the seven months ended December 31, 2008 was \$63,902.

e. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets

National Auctioneers Association
Notes To Financial Statements
December 31, 2008

Note 1. Summary of Significant Accounting Policies (continued)

e. Estimates (continued)

and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

f. Advertising

The Company utilizes its company created publications to satisfy the advertising needs of the organization. Therefore, the advertising expenses are accounted for indirectly as a portion of the publishing expenses of these publications.

g. Compensated Absences

Compensated absences of \$19,788 have been accrued as of December 31, 2008. The Company's policy is to accrue for personal time off. The policy states that upon termination accrued personal time off be paid, at a rate of fifty percent of the value earned, up to a maximum determined by the number of years the employee has worked at NAA. The company recognizes these costs as they are accrued.

Note 2. Income Taxes

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c) (6) and from state income tax under applicable Kansas state law.

Note 3. Long-Term Debt

The company executed a note payable with UMB Bank in the amount of \$600,000 payable in one payment of the outstanding principle and accrued interest on March 1, 2010. Interest payments, at the rate of 7.125% per annum, are due on a monthly basis, starting April 1, 2007, until the note is paid in full. The borrower can make voluntary prepayments of principle without incurring any penalties. The note is secured as the first mortgage on the company's building located at 8880 Ballentine in Overland Park, Kansas. The outstanding balance due as of December 31, 2008 is \$181,850.

Note 4. Capital Lease Obligations

The company acquired equipment through the use of long-term leases. For financial reporting purposes, the assets and liabilities are recorded at the present value of the minimum lease payments. Minimum monthly lease payments are \$532. The assets are amortized over their estimated useful lives with the amortization included in depreciation. Leases are secured by the equipment.

National Auctioneers Association
Notes To Financial Statements
December 31, 2008

Note 4. Capital Lease Obligations (continued)

Mail Machine – monthly payments of
\$171 with principle payments due

at December 31, 2008 of	<u>\$1,195</u>
Total Capital Lease Obligations	\$1,195
Less current portion	<u>(1,195)</u>
Net Capital Lease Obligation	\$ - 0 --

Minimum future lease payments under capital lease obligations are:

Year	Amount
2009	\$1,195

Note 5. Lease Commitments

The Association has entered into a facility lease agreement on September 1, 2007 with the National Auctioneers Association Foundation, a related organization, in which the Foundation will lease the portion of the building located at 8880 Ballentine Rd., Overland Park, KS 66214 covering the entire mezzanine area (museum), second floor walled office space and additional office space based on availability, lower level storage area and existing climate controlled room with access and use to shelving outside of climate controlled rooms as required and one walled office space in the lower level of the building as well as the nonexclusive use of the common areas of the building and the parking lot surrounding the building. The lease is for the term of 25 years with a monthly rate of \$2,000. This lease will expire on August 31, 2032, unless sooner terminated in accordance with the provisions of the lease agreement. Should the landlord (National Auctioneers Association) terminate the agreement, both parties will agree to a pro-rated settlement for the prepaid rents. Should the tenant cancel there would be no consideration for a refund of prepaid rent. At December 31, 2008, \$418,150 has been paid on the lease which represents payments through December 31, 2024 and is being carried as deferred rent. A balance due of \$181,850 due as of December 31, 2008 is the amount due on the mortgage.

National Auctioneers Association
Notes To Financial Statements
December 31, 2008

Note 6. Contractual Obligations

The Association entered into a contract, as of June 12, 2007, with Content Management Corporation, entitling CMC to the first \$60,000 in revenue earned from the annual conference hosted by the Association, payment of any additional production costs exceeding \$60,000, and 50% of all revenues earned in excess of the production costs incurred by CMC for the span of five years ending May of 2012. If the revenue from the conference was not enough to cover at least \$60,000 in production costs, the Association is obligated to pay CMC the difference, thus guaranteeing that CMC would recoup \$60,000 in production costs. This contract was in effect on 12/31/08, and the Association still owed \$10,000 for the production costs incurred in 2008. Subsequent to the balance sheet date, management opened negotiations with CMC to release the Association from the guarantee of \$60,000 in production costs. The contract was amended February 5, 2009 to reflect the cancellation of the guarantee. The amended contract now entitles CMC to the first \$60,000 in revenue from the Annual Meeting, up to production costs incurred. However, if the Annual Meeting does not generate at least \$60,000 in revenue, CMC will only receive 100% of the revenue generated. The contract was also amended to reflect that the Association will begin to make monthly payments, starting February 15, of \$5,000 to CMC instead of semi-annual payments of \$30,000.

Note 7. Defined Contribution Plan

All full time members are eligible to receive a matching contribution from the Company to their 401(k) contribution after one year of employment. All participants may elect to defer up to 20% of their salary on a pre-tax basis, but cannot exceed the amount of allowable contributions established by the Internal Revenue Service for a given calendar year. Participants are fully vested in both their salary deferral and the employers matching contributions.

The Board of Directors will determine the annual Company match to the 401(k) during the fourth quarter of the preceding year. The match for the seven months ending December 31, 2008 was a dollar for dollar match up to five percent of the participants salary. During the fiscal year ended December 31, 2008 the Company matched \$22,132 in employee contributions to the plan.

Note 8. Lifetime membership funds

The members of the Association have the ability to purchase life memberships. Upon purchasing a life membership, the funds received are permanently restricted, and the interest earned is used to pay for the membership dues of the member for the period of 18 years. The life membership funds are maintained separately from the association's operating account, in a certificate of deposit account at Capital Federal Bank.

National Auctioneers Association
Notes To Financial Statements
December 31, 2008

Note 9. Sale of Auction World

During the 59th International Auctioneers Conference and Show, in Nashville, TN on July 11, 2008, the leadership of the National Auctioneers Association announced the intended sale of its publication, *Auction World*, at auction. The winning bidder will own the name and trademark rights to the publication, as well as the advertising contracts and subscription database. The winning bid was submitted by New KAJ, Inc. Unfortunately, several disputes have arisen while finalizing the sale, and the association and New KAJ, Inc. are currently litigating these disputes. While the litigation is pending, the bid deposit is being held in a trust account with the Association's legal counsel. Because of the uncertainty surrounding the outcome of the litigation, an estimate of the gain or loss on the sale of Auction World cannot currently be made.

Note 10. Change in Fiscal Year End

As a part of the strategic review of operations performed in June 2008, the leadership of the association decided to change the Association's fiscal year. In prior years, May 31 was used as the fiscal year, in order to start the fiscal year with the annual conference and show. Management has now decided that a calendar year end more properly reflects the operating cycle of the association. The by-laws have been changed and ratified to reflect the change in the fiscal year end.

Note 11. Related Parties and Affiliated Organizations

The Association sells advertising space in its publication, *The Auctioneer*, on account. Several members of the board of directors purchase advertising space in the publication for their outside businesses. The amount of advertising fees owed by these related parties as of December 31, 2008 was \$11,251.

During the fiscal year ended December 31, 2008, the association managed the books of seventeen state auctioneer associations. The association has dissolved this relationship on 12/31/08 with all of the state organizations except for the Oregon State Auctioneers Association. As a part of this affiliation, the National Auctioneers Association made payments and collected receipts for these organizations. The total amount due to these affiliated organizations as of December 31, 2008 was \$5,046.

The Association currently has an agreement with the National Auctioneers Association Foundation to handle the processing and payment of the Foundation's semi-monthly payroll at the same time as the association's regular payroll. The Foundation then reimburses the Association for the portion of the payroll expenses incurred by the Association for those employees.

National Auctioneers Association
Notes To Financial Statements
December 31, 2008

Note 12. Subsequent Events

Subsequent to the balance sheet date events have occurred that are material to the financial statements and footnote disclosures when taken as a whole. As of the balance sheet date the company did not have the required funds in restricted use accounts to meet the Life Membership Fund obligation of \$266,830. As of March 20, 2009, The Company has met the obligation of having \$266,830 in restricted use accounts titled National Auctioneers Association Life Membership Fund.

SUPPLEMENTAL INFORMATION

National Auctioneers Association
Statement of Unrestricted and Restricted Assets
For the Seven Months Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning Balance, May 31, 2008	\$ (523,163)	-	\$ 266,830	\$ (256,333)
Change in Net Assets, Dec. 31, 2008	277,173	-	-	277,173
Prior Period Adjustment - Lease	(2,389)	-	-	(2,389)
Prior Period Adjustment - Deferred Income	(96,787)	-	-	(96,787)
Prior Period Adjustment to properly classify permanently restricted life membership funds received at 12/31	(176,891)	176,891	-	-
Interest on permanently restricted funds	(2,021)	2,021	-	-
Funds released from temporary restriction	2,021	(2,021)	-	-
Ending Balance, December 31, 2008	<u>\$ (522,057)</u>	<u>176,891</u>	<u>\$ 266,830</u>	<u>\$ (78,336)</u>

See independent auditor's report.
The accompanying notes are an integral part of these financial statements

National Auctioneers Association
Schedule of Other Expenses
For the Seven Months Ended December 31, 2008

	<u>12/31/2008</u>
Other Expenses	
NAA representatives - state conventions	\$ 7,694
Staff travel	7,847
Executive Committee	1,980
General Postage	15,848
General Printing	10,009
General Office Supplies	8,814
Bank Charges	1,881
Dues and Subscriptions	115
Security System Expense	217
Staff Training Expense	3,905
Bad Debt Expense	5,878
Other Expenses	389
	<u>\$ 64,577</u>

See independent auditor's report.
The accompanying notes are an integral part of these financial statements.

National Auctioneers Association
Schedule of Other Revenues
For the Seven Months Ended December 31, 2008

	<u>12/31/2008</u>
Other Revenues	
State Management Services	\$ 55,140
Affinity	21,825
Governmental Affairs	3,675
Other Income	35,433
	<u>\$ 116,073</u>

See independent auditor's report.
The accompanying notes are an integral part of these financial statements.