

American Association of Woodturners

Financial Statements Together with Independent Auditors' Report

December 31, 2023

AMERICAN ASSOCIATION OF WOODTURNERS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Association of Woodturners
St. Paul, Minnesota

Opinion

We have audited the accompanying financial statements of American Association of Woodturners (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 American Association of Woodturners as of December 31, 2023 and 2022, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of American Association of Woodturners 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 the 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 American Association of Woodturners' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 American Association of Woodturners' 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 American Association of Woodturners' 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.

Olsen Thielens & Co., Ltd.

Roseville, Minnesota
July 22, 2024

AMERICAN ASSOCIATION OF WOODTURNERS

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2023 AND 2022

ASSETS		
	<u>2023</u>	<u>2022</u>
CURRENT ASSETS:		
Cash	\$ 596,131	\$ 371,807
Accounts Receivable	48,670	4,680
Inventories	25,726	25,947
Prepaid Expenses	46,336	92,322
Total Current Assets	<u>716,863</u>	<u>494,756</u>
INVESTMENTS	<u>1,292,859</u>	1,112,033
ART COLLECTION:		
Kaplan Art Collection	235,000	235,000
AAW Collection	213,690	213,690
Total Art Collection	<u>448,690</u>	<u>448,690</u>
PROPERTY AND EQUIPMENT:		
Computer Software/Website	79,999	79,999
Furniture and Equipment	201,875	201,875
Less Accumulated Depreciation	267,143	247,416
Net Property and Equipment	<u>14,731</u>	<u>34,458</u>
TOTAL ASSETS	<u>\$ 2,473,143</u>	<u>\$ 2,089,937</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 5,249	\$ 6,949
Accrued Expenses	52,529	48,794
Deferred Revenue - Membership Dues	383,397	348,942
Deferred Revenue - Symposium	159,046	23,334
Total Current Liabilities	<u>600,221</u>	<u>428,019</u>
DEFERRED REVENUE - MEMBERSHIP DUES	<u>138,515</u>	183,977
NET ASSETS:		
Net Assets without Donor Restrictions	1,240,184	1,088,455
Net Assets with Donor Restrictions	494,223	389,486
Total Net Assets	<u>1,734,407</u>	<u>1,477,941</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,473,143</u>	<u>\$ 2,089,937</u>

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

AMERICAN ASSOCIATION OF WOODTURNERS

STATEMENT OF ACTIVITIES YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES:						
Membership Dues	\$ 769,330	\$ -	\$ 769,330	\$ 757,641	\$ -	\$ 757,641
Symposium	546,053	-	546,053	500,644	-	500,644
Publications and Products	219,757	365	220,122	250,571	355	250,926
Contributions	194,246	104,618	298,864	78,604	55,462	134,066
Other	35,369	-	35,369	25,553	-	25,553
Investment Income (Loss)	154,837	37,847	192,684	(142,415)	(58,390)	(200,805)
Net Assets Released from Restrictions	38,093	(38,093)	-	62,750	(62,750)	-
Total Support and Revenues	<u>1,957,685</u>	<u>104,737</u>	<u>2,062,422</u>	<u>1,533,348</u>	<u>(65,323)</u>	<u>1,468,025</u>
EXPENSES:						
Program Services:						
Symposium	552,319	-	552,319	556,710	-	556,710
Publications and Products	525,348	-	525,348	483,168	-	483,168
Gallery and Exhibition	64,132	-	64,132	60,158	-	60,158
Scholarships	12,290	-	12,290	11,332	-	11,332
Professional Outreach Program	25,188	-	25,188	40,025	-	40,025
Other Programs	65,453	-	65,453	83,216	-	83,216
Total Program Services	<u>1,244,730</u>	<u>-</u>	<u>1,244,730</u>	<u>1,234,609</u>	<u>-</u>	<u>1,234,609</u>
Support Services:						
Management and General	257,034	-	257,034	260,096	-	260,096
Member Development	304,192	-	304,192	305,463	-	305,463
Total Support Services	<u>561,226</u>	<u>-</u>	<u>561,226</u>	<u>565,559</u>	<u>-</u>	<u>565,559</u>
Total Expenses	<u>1,805,956</u>	<u>-</u>	<u>1,805,956</u>	<u>1,800,168</u>	<u>-</u>	<u>1,800,168</u>
CHANGE IN NET ASSETS	151,729	104,737	256,466	(266,820)	(65,323)	(332,143)
NET ASSETS, Beginning of Year	<u>1,088,455</u>	<u>389,486</u>	<u>1,477,941</u>	<u>1,355,275</u>	<u>454,809</u>	<u>1,810,084</u>
NET ASSETS, End of Year	<u>\$ 1,240,184</u>	<u>\$ 494,223</u>	<u>\$ 1,734,407</u>	<u>\$ 1,088,455</u>	<u>\$ 389,486</u>	<u>\$ 1,477,941</u>

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

AMERICAN ASSOCIATION OF WOODTURNERS

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2023

	2023							2023				
	Program Services							Support Services				
	Symposium	Publication and Products	Gallery and Exhibition	Scholar- ships	Professional Outreach	Other Programs	Total Program	Management and General	Fund- raising	Member Develop- ment	Total Support	Total Expenses
Professional Fees	\$ 174,826	\$ 249,124	\$ 1,632	\$ -	\$ 23	\$ 278	\$ 425,883	\$ 32,734	\$ -	\$ 1,020	\$ 33,754	\$ 459,637
Salaries, Taxes and Benefits	55,453	15,844	27,727	-	3,961	47,532	150,517	71,298	-	174,282	245,580	396,097
Outside Printing	21,918	120,748	408	-	-	-	143,074	-	-	-	-	143,074
Rent	126,209	-	-	-	-	-	126,209	-	-	-	-	126,209
Travel	66,550	4,405	84	-	12	143	71,194	47,526	-	525	48,051	119,245
Postage	1,275	61,415	648	-	49	714	64,101	966	-	2,174	3,140	67,241
Insurance	11,948	2,354	4,120	-	589	7,063	26,074	10,595	-	25,899	36,494	62,568
Bank Charges	-	-	-	-	-	-	-	60,367	-	-	60,367	60,367
Computer Expenses	-	-	-	-	-	-	-	914	-	59,114	60,028	60,028
Supplies	27,334	5,636	2,622	-	238	3,310	39,140	5,024	-	10,485	15,509	54,649
Artist Payments	33,699	-	-	-	16,209	1,695	51,603	-	-	-	-	51,603
Advertising	18,532	29,373	-	-	-	-	47,905	840	-	-	840	48,745
Cost of Goods Sold	8,622	35,341	276	-	-	655	44,894	436	-	-	436	45,330
Occupancy	2,662	760	26,006	-	190	2,281	31,899	3,422	-	8,365	11,787	43,686
Depreciation	2,072	-	-	-	-	-	2,072	17,655	-	-	17,655	19,727
In Kind	-	-	-	-	-	-	-	-	-	18,498	18,498	18,498
Grants	-	-	-	12,290	-	738	13,028	-	-	-	-	13,028
Telephone	1,219	348	609	-	87	1,044	3,307	1,566	-	3,830	5,396	8,703
Awards	-	-	-	-	3,830	-	3,830	-	-	-	-	3,830
Dues and Subscriptions	-	-	-	-	-	-	-	2,575	-	-	2,575	2,575
Miscellaneous	-	-	-	-	-	-	-	1,116	-	-	1,116	1,116
Total Expenses	\$ 552,319	\$ 525,348	\$ 64,132	\$ 12,290	\$ 25,188	\$ 65,453	\$ 1,244,730	\$ 257,034	\$ -	\$ 304,192	\$ 561,226	\$ 1,805,956

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

AMERICAN ASSOCIATION OF WOODTURNERS
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
YEAR ENDED DECEMBER 31, 2022

	2022							2022				
	Program Services							Support Services				
	Symposium	Publication and Products	Gallery and Exhibition	Scholar- ships	Professional Outreach	Other Programs	Total Program	Management and General	Fund- raising	Member Develop- ment	Total Support	Total Expenses
Professional Fees	\$ 221,828	\$ 242,826	\$ 501	\$ -	\$ 16	\$ 9,676	\$ 474,847	\$ 27,881	\$ -	\$ 655	\$ 28,536	\$ 503,383
Salaries, Taxes and Benefits	64,025	12,805	25,610	-	4,268	46,952	153,660	98,172	-	175,001	273,173	426,833
Outside Printing	29,389	115,517	218	-	409	-	145,533	-	-	-	-	145,533
Travel	69,460	3,231	29	-	5	53	72,778	26,227	-	199	26,426	99,204
Postage	2,036	60,569	595	-	3,149	1,315	67,664	2,300	-	3,996	6,296	73,960
Rent	73,595	-	-	-	-	-	73,595	-	-	-	-	73,595
Computer Expenses	-	-	-	-	-	-	-	4,717	-	64,315	69,032	69,032
Artist Payments	18,628	-	-	-	28,062	12,433	59,123	-	-	-	-	59,123
Insurance	8,298	1,660	3,319	-	553	6,085	19,915	12,723	-	22,680	35,403	55,318
Advertising	21,255	29,051	-	-	-	-	50,306	2,382	-	-	2,382	52,688
Bank Charges	-	-	-	-	-	-	-	51,658	-	-	51,658	51,658
Supplies	26,315	980	2,531	-	206	3,116	33,148	5,985	-	9,863	15,848	48,996
Occupancy	2,852	570	26,951	-	190	2,091	32,654	4,373	-	7,795	12,168	44,822
Cost of Goods Sold	13,700	15,757	-	-	-	-	29,457	117	-	-	117	29,574
Depreciation	4,319	-	-	-	-	-	4,319	18,405	-	-	18,405	22,724
In Kind	-	-	-	-	-	-	-	-	-	18,200	18,200	18,200
Grants	-	-	-	11,332	-	755	12,087	-	-	-	-	12,087
Telephone	1,010	202	404	-	67	740	2,423	1,548	-	2,759	4,307	6,730
Awards	-	-	-	-	3,100	-	3,100	-	-	-	-	3,100
Dues and Subscriptions	-	-	-	-	-	-	-	2,301	-	-	2,301	2,301
Miscellaneous	-	-	-	-	-	-	-	1,307	-	-	1,307	1,307
Total Expenses	\$ 556,710	\$ 483,168	\$ 60,158	\$ 11,332	\$ 40,025	\$ 83,216	\$ 1,234,609	\$ 260,096	\$ -	\$ 305,463	\$ 565,559	\$ 1,800,168

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

AMERICAN ASSOCIATION OF WOODTURNERS

STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 256,466	\$ (332,143)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:		
Depreciation	19,727	22,724
Realized and Unrealized Investment (Gains) Losses	(159,682)	225,157
Changes in Assets and Liabilities:		
Accounts Receivable	(43,990)	(1,048)
Inventories	221	(181)
Prepaid Expenses	45,986	(44,693)
Accounts Payable	(1,700)	819
Accrued Expenses	3,735	(21,177)
Deferred Revenue - Membership Dues	(11,007)	17,867
Deferred Revenue - Symposium	135,712	(17,601)
Net Cash Flows From Operating Activities	<u>245,468</u>	<u>(150,276)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	71,537	275,731
Purchases of Investments	(59,567)	(264,622)
Reinvested Interest and Dividend Income	(33,114)	(22,764)
Purchases of Property and Equipment	-	(697)
Net Cash Flows From Investing Activities	<u>(21,144)</u>	<u>(12,352)</u>
NET CHANGE IN CASH	224,324	(162,628)
CASH at Beginning of Year	<u>371,807</u>	<u>534,435</u>
CASH at End of Year	<u>\$ 596,131</u>	<u>\$ 371,807</u>

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

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

American Association of Woodturners (the Association) is a non-profit corporation organized under the laws of the State of Minnesota. The Association was founded in 1986 and their mission is to provide education, information, and organization to those interested in turning wood. The Association's revenue is derived primarily from membership dues, symposium registrations, and revenue associated with videos, publications, and merchandise sales.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Association and related changes are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations which the Board of Directors has discretionary control.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Association must continue to use the resources in accordance with the donor's instructions.

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Association has evaluated for recognition or disclosure the events or transactions that occurred through July 22, 2024, the date the financial statements were available to be issued.

Accounts Receivable and Credit Losses

Receivables are reported at net realizable value. The Association monitors outstanding balances and periodically writes off balances that are determined to be uncollectible.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Credit Losses (Continued)

The Association recognizes an allowance for losses for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument. The expected credit losses on trade receivables are estimated based on historical credit loss experience, aging analysis, and management's assessment of current conditions and reasonable and supportable expectations of future conditions. The Association assesses collectability by pooling receivables where similar characteristics exist and evaluate receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk or uncollectible. Accounts receivable balances are charged off against the allowance for credit losses after recovery efforts have ceased. The Association has not established an allowance for credit losses at December 31, 2023 and 2022.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method (FIFO) for apparel and average cost method over the anticipated production for videos and printed materials. Net realizable value is the estimated selling price in the ordinary course of business.

AAW Collection and Kaplan Art Collection

Art collection items in the wood turned art collection are stated at cost, if purchased, or, at appraised or fair market value at the date of the donation. Gains and losses from disposal of collection items are reported as changes in net assets based on the existence or absence and nature of donor-imposed restrictions.

Property and Depreciation

Property and equipment are recorded at original cost. Additions, improvements, or major renewals are capitalized. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations. Donated property and equipment are carried at the approximate fair value at the date of donation.

Depreciation is computed using the straight-line method at rates based on the estimated service lives of the various assets as follows:

Computer Software/Website	3 Years
Furniture and Equipment	5-10 Years

Investments

Investment securities are stated at fair value, which is determined by quoted market prices in active markets. Realized and unrealized gains and losses are included in the statement of activities. Realized gains and losses are determined using the specific identification method. Interest and dividend income are reported as income when earned.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Membership Dues

The Association offers various classes of membership which provide the members with a package of benefits based on the class of membership they purchase. Currently the Association offers Business Premium, Digital and Individual and Family memberships. In general, membership in the Association provides the member with access to member's only content on their website, Networking opportunities, hard copy of their journal and access to the Symposium. The member dues revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing the member access to the requisite member benefits. The Association's membership dues are annually, and the period is one year from when they join. Members do register anywhere from one to seven years in advance and the advanced payments are recorded as a contract liability (deferred revenue) until earned. These revenues are recognized over a period of time which corresponds with the membership year. The Association recognizes revenue when payment is received and generally requires no collateral.

Symposium

The Association hosts an annual Symposium/conferences and meetings for turners from around the globe to learn, share, and celebrate the art and craft of woodturning. Registration fees for these events are billed to the participant at the time of registration. The event revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing the registrant access to the event and event materials. Revenue from these events are recognized at the point in time the event is held and the Association's performance obligation to hold the event is completed. Registration and exhibitor booths for the Association's events opens months before the events are scheduled to be held. Cash receipts for registrations and exhibitors collected in advance of the Symposium and meetings are deferred as contract liabilities until earned when the event is held at which point the revenue is recognized.

Publications

The Association produces a bi-monthly (6 x per year) journal, a quarterly digital publication and weekly e-Newsletters for its members. The Association primarily derives revenue from the sale of advertising space in their publication. They also sell these publications to non-members for \$8.95 an issue. The publication revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing advertising space in the Association's publication. This revenue is recognized at the point in time each issue is published. At times, the Association will provide a discount for an annual advertising package. In these cases, the receipts are reflected as contract liabilities and amortized into revenue as the requisite publications are published. Products are gift shop sales etc.

As a practical expedient, the Association groups similar contracts or similar performance obligations together into portfolios of contracts if doing so does not result in a significant difference from applying this accounting standard to the individual contracts.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Association's revenues disaggregated by the timing of such revenue recognized during the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Point in Time	\$ 801,544	\$ 777,123
Over Time	769,330	757,641
Revenue Not Subject to ASC 606	298,864	134,066
Ending Balance	\$ 1,869,738	\$ 1,668,830

Contract assets include deposits made and expenses incurred for future events, Symposium and meetings. Prepayments for the upcoming events are included in prepaid expenses on the statement of financial position.

Contract liabilities include deferred revenues related to advanced payments for membership dues and symposiums. These deposits are deferred until the performance obligation is completed.

The Association's receivables, contract assets and contract liabilities from contracts with customers are as follows:

	2023	2022
Accounts Receivable - Beginning	\$ 4,680	\$ 3,632
Accounts Receivable - Ending	48,670	4,680
Contract Assets - Beginning	\$ 93,075	\$ 45,050
Contract Assets - Ending	49,131	93,075
Contract Liabilities - Beginning	\$ 556,253	\$ 555,987
Contract Liabilities - Ending	680,958	556,253

Contributions and Grant Revenue

Contributions are not subject to ASC 606. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions are reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing various programs and services are summarized on a functional basis on the statement of activities. Accordingly, certain costs were allocated among the programs or services benefited based on best estimates by management.

The Association allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. General and administrative functions that are common to several functions are allocated based on the proportion of each program's direct and personnel expenses to the total program direct and personnel expenses.

Income Taxes

The Association is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, the statements do not include a provision for income taxes, but the Association is subject to income taxes on net unrelated business income. The Association generates unrelated business income from its publication. There was tax liability of \$0 for 2023 and 2022. Payment for income taxes were made for \$129 in 2023 and \$0 in 2022.

The Association reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Association recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Association has identified no income tax uncertainties.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses were \$48,745 and \$52,688 for 2023 and 2022.

Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash. The Association places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. As of December 31, 2023, the Association had a credit risk concentration as a result of depositing \$138,014 of funds in excess of insurance limits in a single bank.

Fair Value Measurements

Under generally accepted accounting principles fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3 - Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Association uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The Association holds certain assets that are required to be measured at fair value on a recurring basis. The fair value of the Associations investment securities were determined based on Level 1 and Level 2 inputs as presented in Note 3.

Endowments

The Association follows the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This provides guidance on the classification of endowment net assets and enhances disclosure for endowment funds. Under UPMIFA all unappropriated endowment funds are considered restricted.

Change in Accounting Principle

Adoption of FASB ASU 2016-13 and Related Standards

Effective January 1, 2023, the Association adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements* as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Association adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Association's financial statements but did change how the allowance for credit losses is determined.

NOTE 2 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Association maintains and manages adequate operating reserves per policies set by the board of directors. The Finance Committee reviews and recommends reserve policies to the board of directors for approval.

The Association has established a goal for maintaining an operating reserve of 90 days of budgeted operating expenses, less noncash items such as depreciation. The reserve consists of cash and cash equivalents and assets with donor restrictions that will likely be released within 90 days.

The Association has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$450,000. The Association structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management the Association invests cash in excess of daily requirements in various short-term investments, including certificates of deposit.

The Association's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

The Association's cash flows, and general expenditures have seasonal variations due to the annual cash receipts for memberships and receipts for attendance at its annual symposium and a concentration of contributions received near year-end.

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of December 31, 2023 and 2022 are as follows:

	2023	2022
Financial Assets:		
Cash	\$ 596,131	\$ 371,807
Accounts Receivable, Net	48,670	4,680
Inventories	25,726	25,947
Endowment and Long-Term Investments	1,292,859	1,112,033
Total Financial Assets	1,963,386	1,514,467
Less Financial Assets Held to Meet Donor Restrictions:		
Purpose Restricted-Net Assets	494,223	389,486
Total Financial Assets Available for General Expenditure Within One Year	\$ 1,469,163	\$ 1,124,981

NOTE 3 - INVESTMENTS

Investments at December 31, 2023 and 2022 consisted of the following:

	2023		2022	
	Cost	Market	Cost	Market
Mutual Funds:				
Equity Funds	\$ 1,127,697	\$ 1,097,996	\$ 1,099,577	\$ 925,676
Money Market	94,924	94,924	186,357	186,357
Certificates of Deposit	100,000	99,939	-	-
Total	\$ 1,322,621	\$ 1,292,859	\$ 1,285,934	\$ 1,112,033

The following tables, as of December 31, 2023 and 2022, provides information by level for assets that are measured at fair value, on a recurring basis.

Description	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2023				
Equity Funds	\$ 1,097,996	\$ 1,097,996	\$ -	\$ -
Money Market	94,924	94,924	-	-
Certificates of Deposit	99,939	-	99,939	-
Totals	\$ 1,292,859	\$ 1,192,920	\$ 99,939	\$ -
2022				
Equity Funds	\$ 925,676	\$ 925,676	\$ -	\$ -
Money Market	186,357	186,357	-	-
Totals	\$ 1,112,033	\$ 1,112,033	\$ -	\$ -

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS (Continued)

The fair value of the Association's mutual funds and money market are determined by reference to quoted market prices and other relevant information generated by market transactions. These investments are classified within Level 1 of the valuation hierarchy.

The fair value of the Association's Certificates of Deposit were determined based on Level 2 inputs and are estimated as the present value of expected future cash inflows, taking into account (1) the type of security, its term, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs including probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities.

Net investment income for the years ended December 31, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Interest and Dividend Income	\$ 33,002	\$ 24,352
Realized and Unrealized Gains (Losses)	<u>159,682</u>	<u>(225,157)</u>
Total Investment Income (Loss)	<u>\$ 192,684</u>	<u>\$ (200,805)</u>

The Association holds investments in a variety of investment funds. In general, their investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that those changes in the values of the investments will occur in the near term and that such changes could be material to the amounts reported in the statement of financial position.

NOTE 4 - ENDOWMENTS

The purpose of the endowment funds are to ensure financial stability by providing a steady stream of investment income which is available for restricted and unrestricted purposes. The Association's endowments consist of a donor-restricted endowment fund and a fund designated by the Board of Directors to function as an endowment. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of American Association of Woodturners has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the prudent expenditure of donor-restricted endowment funds. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Association. In making a determination to appropriate, an organization shall act in good faith with the care that a prudent person would exercise. As a result of this interpretation, the Association classifies as net assets with donor restrictions (perpetual endowments) (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual endowments is classified as term endowments until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - ENDOWMENTS (Continued)

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purpose of the Association and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Association.
- (7) The investment policies of the Association.

The Association has adopted an investment policy and philosophy that concentrates on maximizing total return within reasonable risk parameters. This is accomplished through a strategic plan that strives to maintain and grow the investment corpus and provide annual earnings to support the Association's mission. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that preserve the inflation-adjusted value of the fund and maximize total return. The Association targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Association considers an endowment fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Association has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. There are no funds currently underwater.

The management of the investment strategy is delegated to an endowment committee of three members who are designated by the board of directors. The endowment committee periodically reviews the investments and recommends the amount to be distributed from endowment assets for the next fiscal year. The Association has a target drawdown guideline of 5% of the fund's net assets per year.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - ENDOWMENTS (Continued)

Changes in endowment net assets for the years ended December 31, 2023 and 2022 were as follows:

	With Donor Restrictions		Total
	Term	Perpetual	
Endowment Net Assets			
December 31, 2021	\$ 142,846	\$ 181,492	\$ 324,338
Contribution	1,214	-	1,214
Investment Loss			
Dividends and Interest, Net of Fees	(58,390)	-	(58,390)
Appropriation of Endowment			
Assets for Expenditure	(14,595)	-	(14,595)
Endowment Net Assets			
December 31, 2022	71,075	181,492	252,567
Contribution	14,962	-	14,962
Investment Gain			
Dividends and Interest, Net of Fees	37,847	-	37,847
Appropriation of Endowment			
Assets for Expenditure	(25,961)	-	(25,961)
Endowment Net Assets			
December 31, 2023	\$ 97,923	\$ 181,492	\$ 279,415

NOTE 5 - NET ASSETS

Net assets with donor restrictions consist of the following at December 31, 2023 and 2022:

	2023	2022
Perpetual Restrictions:		
Memorial Fund Endowment	\$ 127,403	\$ 127,403
Osolnik Fund Endowment	54,089	54,089
Total Perpetual Restrictions	181,492	181,492
Purpose Restrictions:		
Education Programs	93,530	66,683
Educational Opportunity Grants	66,000	1,317
Professional Outreach Program	138,330	125,981
Women in Turning	14,871	14,013
Total Purpose Restrictions	312,731	207,994
Total Net Assets with Donor Restrictions	\$ 494,223	\$ 389,486

Net assets with donor restrictions released from restriction were \$38,093 and \$62,750 in December 31, 2023 and 2022. Net assets with donor restrictions were released from restriction due to satisfaction of program restrictions.

AMERICAN ASSOCIATION OF WOODTURNERS

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LEASE COMMITMENTS

The Association leases office space under a noncancelable lease expiring in December 2023 that has a 12-month term and does not fall under FASB ASC 842, *Leases*. In October 2023, the Association signed a new lease agreement for the same building beginning January 1, 2024 and running 24 months to December 31, 2025. This new lease falls under *FASB ASC 842, Leases*, and will be recorded as a Right-of-Use Asset on the balance sheet as of January 1, 2024.

Lease expense and future minimum commitments for this lease are as follows:

Lease Expense:	
2023	\$ 43,687
2022	44,822
Commitment:	
2024	\$ 47,418
2025	47,418

NOTE 7 - RETIREMENT PLAN

The Association has a defined contribution salary reduction simplified employee retirement plan that covers all employees. The Association had retirement contributions of \$2,158 and \$0 for 2023 and 2022.

NOTE 8 - COMMITMENTS

The Association has also entered into various contracts with national hotels and conference centers to host its 2024 through 2025 annual symposium. All contracts include cancellation clauses that would result in financial penalties to the Association upon cancellation of the events. Most financial penalties are derived from a percentage of the anticipated revenue the Associations expect to receive. The Association is liable for approximately \$300,479 for 2024, and \$29,344 for 2025 of the commitments if all of the agreements were cancelled as of December 31, 2023. The Association has purchased cancellation insurance to mitigate exposure for the 2024 and 2025 annual symposium from these penalties.