

# **National Association of Investment Clubs Trust and Affiliates**

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**Consolidated Financial Report  
with Additional Information  
September 30, 2006**

# **National Association of Investment Clubs Trust and Affiliates**

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## Independent Auditor's Report

To the Trustees  
National Association of Investment Clubs  
Trust and Affiliates

We have audited the accompanying consolidated balance sheet of National Association of Investment Clubs Trust and Affiliates (the "Trust") as of September 30, 2006 and 2005 and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Association of Investment Clubs Trust and Affiliates at September 30, 2006 and 2005 and the consolidated changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

November 22, 2006

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Balance Sheet

|  | September 30,<br>2006 | September 30,<br>2005 |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| <b>Current Assets</b>                                    |                       |                       |
| Cash and cash equivalents                                | \$ 3,561,041          | \$ 3,442,744          |
| Accounts receivable                                      | 372,775               | 185,925               |
| Investments (Note 2)                                     | 89,458                | 311,313               |
| Inventories  | 364,583               | 579,366               |
| Prepaid expenses and other current assets                | 431,630               | 440,644               |
| Total current assets                                     | 4,819,487             | 4,959,992             |
| <b>Investments (Note 2)</b>                              | 8,752,543             | 11,930,298            |
| <b>Property, Buildings, and Equipment - Net (Note 3)</b> | 4,260,067             | 3,723,344             |
| Total assets   | <b>\$ 17,832,097</b>  | <b>\$ 20,613,634</b>  |
| <b>Liabilities and Net Assets</b>                        |                       |                       |
| <b>Current Liabilities</b>                               |                       |                       |
| Accounts payable   | \$ 834,855            | \$ 769,621            |
| Deferred revenue   | 2,407,166             | 3,038,959             |
| Accrued liabilities and other:                           |                       |                       |
| Accrued compensation                                     | 518,827               | 436,325               |
| Other accrued liabilities                                | 501,640               | 118,901               |
| Total current liabilities                                | 4,262,488             | 4,363,806             |
| <b>Other Long-term Liabilities</b>                       |                       |                       |
| Deferred compensation                                    | 2,478,552             | 2,187,318             |
| Deferred revenue   | 920,298               | 917,095               |
| Total liabilities  | 7,661,338             | 7,468,219             |
| <b>Net Assets</b>  |                       |                       |
| Unrestricted   | 10,114,646            | 13,112,915            |
| Temporarily restricted                                   | 56,113                | 32,500                |
| Total net assets   | 10,170,759            | 13,145,415            |
| Total liabilities and net assets                         | <b>\$ 17,832,097</b>  | <b>\$ 20,613,634</b>  |

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Activities

|  | Year Ended            |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 |
| <b>Changes in Net Assets</b>                 |                       |                       |
| Revenue:                                     |                       |                       |
| Software sales                               | \$ 1,802,680          | \$ 3,023,895          |
| Publication, book, and other sales           | 333,397               | 448,842               |
| National Congress and other conference sales | 700,524               | 457,696               |
| Chapter program sales                        | 952,836               | 1,076,536             |
| Low-cost investment plan sales               | 9,260                 | 28,326                |
| Other sales                                  | 408,604               | 541,517               |
| Corporate membership dues                    | 470,370               | 495,083               |
| Club membership dues                         | 3,371,772             | 3,521,550             |
| Individual membership dues                   | 1,014,833             | 1,079,115             |
| Online premium service membership dues       | 532,708               | 501,509               |
| Subscriptions and advertising                | 972,024               | 975,529               |
| Investment income                            | 1,132,582             | 607,160               |
| Royalty and other income                     | 258,553               | 235,968               |
| Total revenue                                | 11,960,143            | 12,992,726            |
| Operating expenses                           | 14,934,799            | 15,595,359            |
| <b>Decrease in Net Assets</b>                | <b>\$ (2,974,656)</b> | <b>\$ (2,602,633)</b> |

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Changes in Net Assets

|  | Year Ended            |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 |
| <b>Changes in Unrestricted Net Assets</b>            |                       |                       |
| Revenue and gains                                    | \$ 11,904,030         | \$ 12,960,226         |
| Net assets released from restrictions                | 32,500                | -                     |
| Expenses, losses and transfers                       | (14,934,799)          | (15,595,359)          |
| <b>Decrease in Unrestricted Net Assets</b>           | (2,998,269)           | (2,635,133)           |
| <b>Increase in Temporarily Restricted Net Assets</b> | 23,613                | 32,500                |
| <b>Decrease in Net Assets</b>                        | (2,974,656)           | (2,602,633)           |
| <b>Net Assets - Beginning of year</b>                | 13,145,415            | 15,748,048            |
| <b>Net Assets - End of year</b>                      | <b>\$ 10,170,759</b>  | <b>\$ 13,145,415</b>  |

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Cash Flows

|   | Year Ended            |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2006 | September 30,<br>2005 |
| <b>Cash Flows from Operating Activities</b>   |                       |                       |
| Decrease in net assets  | \$ (2,974,656)        | \$ (2,602,633)        |
| Adjustments to reconcile decrease in net assets to net cash<br>from operating activities: |                       |                       |
| Depreciation  | 488,060               | 337,525               |
| Deferred compensation   | 420,402               | 252,766               |
| Net realized and unrealized investment gains  | (680,613)             | (41,086)              |
| Changes in operating assets and liabilities which<br>provided (used) cash:                |                       |                       |
| Accounts receivable   | (186,850)             | 193,569               |
| Inventory   | 214,783               | 259,491               |
| Refundable income taxes   | -                     | 6,422                 |
| Prepaid expenses and other current assets   | 9,014                 | (117,660)             |
| Accounts payable  | 65,234                | 11,855                |
| Deferred revenue  | (628,590)             | (124,211)             |
| Other accrued liabilities   | 253,571               | (206,475)             |
| Accrued compensation  | 82,502                | (78,527)              |
| Net cash used in operating activities   | (2,937,143)           | (2,108,964)           |
| <b>Cash Flows from Investing Activities</b>   |                       |                       |
| Purchase of property, buildings, and equipment  | (1,024,783)           | (1,182,322)           |
| Purchases of investments  | (6,176,285)           | (2,877,665)           |
| Proceeds from sales of investments  | 10,256,508            | 5,866,887             |
| Net cash provided by investing activities   | 3,055,440             | 1,806,900             |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                               | 118,297               | (302,064)             |
| <b>Cash and Cash Equivalents - Beginning of year</b>                                      | 3,442,744             | 3,744,808             |
| <b>Cash and Cash Equivalents - End of year</b>  | <b>\$ 3,561,041</b>   | <b>\$ 3,442,744</b>   |

# National Association of Investment Clubs Trust and Affiliates

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note I - Nature of Business and Significant Accounting Policies

**Nature of Organization** - The financial statements include the accounts of National Association of Investment Clubs Trust and entities affiliated through common control, N.A.I.C. Holding Corporation, NAIC Services Corporation, Growth Fund Advisor, Inc., National Association of Investors Corporation, and investment club chapters throughout the United States (collectively, the "Trust"). All significant intercompany transactions have been eliminated in consolidation.

The Trust is engaged in investment education, providing members with instruction, methods, and tools to make informed investment decisions. Revenue consists primarily of membership dues, subscriptions, and sales of publications and market analysis tools to members throughout the country.

Significant accounting policies are as follows:

**Revenue Recognition** - Membership dues and publication subscriptions are deferred and recognized ratably over the applicable term. Advertising revenue is recognized at the time of publication. Sales revenue is recognized at the time of shipment to members.

**Cash Equivalents** - The Trust considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Investments** - Investments are recorded at fair value based on quoted market prices.

**Accounts Receivable** - Accounts receivable are stated at invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

**Inventory** - Inventories consist of investment software, books, and publications for sale to members recorded at the lower of cost or market determined using the first-in, first-out (FIFO) method of valuation.

**Property and Equipment** - Property, buildings, and equipment are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

**Federal Income Taxes** - National Association of Investors Corporation and the investment club chapters are tax-exempt organizations; however, federal taxes are payable on their unrelated business income, comprised solely of advertising income net of direct advertising expenses.

# National Association of Investment Clubs Trust and Affiliates

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note I - Nature of Business and Significant Accounting Policies (Continued)

The remaining entities included in the accompanying consolidated financial statements are subject to federal income taxes.

**Profit-sharing Plan** - The Trust has a defined contribution profit-sharing plan covering substantially all employees with more than six months of service. The benefits are based on years of service and discretionary employer contributions are based on net profit of the Trust as a percentage of participants' wages. Profit-sharing expense for fiscal years 2006 and 2005 totaled \$128,854 and \$76,694, respectively.

**Deferred Compensation and Employment Agreements** - The Trust has two deferred compensation arrangements with an officer and employment agreements with two executives. One of the deferred compensation arrangements provides for a lump-sum benefit at retirement and the other provides annual defined benefits for the officer's lifetime. The estimated present value of the Trust's obligations under these deferred compensation arrangements is reflected as a liability in the accompanying consolidated balance sheet.

The employment agreements provide for salaries and various benefits, with one agreement expiring in fiscal year 2006 (with automatic renewals thereafter) and the other in fiscal year 2009. In connection with these agreements, the Trust has recognized deferred compensation obligations totaling approximately \$255,000.

Deferred compensation expense for fiscal years 2006 and 2005 totaled \$420,402 and \$252,766, respectively.

**Contributions** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets. There were no permanently restricted assets at September 30, 2006 or 2005.

**Advertising Costs** - Advertising costs are charged to operations when incurred. Advertising expense for fiscal years 2006 and 2005 totaled \$83,023 and \$278,161, respectively.

# National Association of Investment Clubs Trust and Affiliates

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Functional Allocation of Expenses** - The costs of providing the Trust's program services totaled approximately \$11,693,000 and \$12,271,000, management and general costs totaled \$2,700,000 and \$2,717,000, and membership development costs totaled \$542,000 and \$607,000 for 2006 and 2005, respectively.

### Note 2 - Investments

Investments consisted of the following at September 30:

|   | <u>2006</u>         | <u>2005</u>          |
|---|---------------------|----------------------|
| U.S government and municipal securities | \$ 863,155          | \$ 1,473,442         |
| Certificates of deposits                | 89,458              | 311,313              |
| Corporate bonds                         | 703,440             | 2,050,344            |
| Equity securities                       | 7,025,184           | 8,259,204            |
| Mutual funds                            | 160,764             | 147,308              |
| Total                                   | <u>\$ 8,842,001</u> | <u>\$ 12,241,611</u> |

Investment income for the years ended September 30, 2006 and 2005 consists of the following:

|                                   | <u>2006</u>         | <u>2005</u>       |
|-----------------------------------|---------------------|-------------------|
| Dividends and interest            | \$ 451,969          | \$ 566,074        |
| Net realized and unrealized gains | 680,613             | 41,086            |
| Total                             | <u>\$ 1,132,582</u> | <u>\$ 607,160</u> |

# National Association of Investment Clubs Trust and Affiliates

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

|                          | <u>2006</u>         | <u>2005</u>         |
|--------------------------|---------------------|---------------------|
| Land                     | \$ 163,197          | \$ 163,197          |
| Building improvements    | 2,535,851           | 2,535,851           |
| Machinery and equipment  | 3,657,032           | 2,697,941           |
| Transportation equipment | 30,666              | 24,218              |
| Furniture and fixtures   | <u>645,878</u>      | <u>645,878</u>      |
| Total cost               | 7,032,624           | 6,067,085           |
| Accumulated depreciation | <u>(2,772,557)</u>  | <u>(2,343,741)</u>  |
| Net carrying amount      | <u>\$ 4,260,067</u> | <u>\$ 3,723,344</u> |

Depreciation expense was \$488,060 for 2006 and \$337,525 for 2005.

### Note 4 - Income Taxes

During the year ended September 30, 1999, National Association of Investors Corporation was granted exemption from income taxes under Section 501(a), as described in Section 501(c)(3) of the Internal Revenue Code, effective May 20, 1998, with retroactive application under Section 501(c)(4) to inception.

There was no cash paid for income taxes for the years ended September 30, 2006 or 2005. There are no temporary differences between financial reporting and income tax accounting at September 30, 2006 or 2005.

A reconciliation of the provision for income taxes from continuing operations to income taxes computed by applying the statutory United States federal tax rate to income before taxes is as follows:

|  | <u>2006</u>      | <u>2005</u>    |
|--|------------------|----------------|
| Tax, computed at 34 percent of pretax loss | \$ (1,011,400)   | \$ (884,895)   |
| Effect of nontaxable loss                  | <u>1,011,400</u> | <u>884,895</u> |
| Total                                      | <u>\$ -</u>      | <u>\$ -</u>    |

# **National Association of Investment Clubs Trust and Affiliates**

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## **Notes to Consolidated Financial Statements September 30, 2006 and 2005**

### **Note 5 - Related Party Transactions**

The Trust paid expenses totaling \$203,314 and \$216,824 in fiscal years 2006 and 2005, respectively, on behalf of NAIC Growth Fund, Inc., a related party through four common directors whose aggregate direct ownership percentage in NAIC Growth Fund, Inc. is 2.9 percent. All such expenditures were subsequently reimbursed by NAIC Growth Fund, Inc. During the same periods, Growth Fund Advisors, Inc. received fees for investment management services provided to this affiliate totaling \$202,124 and \$197,492, respectively.

### **Note 6 - Commitments**

Effective February 15, 2006, the Trust entered into a contract for professional services related to business and membership development through February 28, 2009. The terms of the agreement include a monthly fee of \$12,500 plus incentive compensation based on certain business retention and new business development measures. The agreement is cancellable with written notice.

## **Additional Information**

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To the Trustees  
National Association of Investment Clubs  
Trust and Affiliates

We have audited the consolidated financial statements of National Association of Investment Clubs Trust and Affiliates as of September 30, 2006 and 2005. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated schedules of revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. The consolidated information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Plante & Moran, PLLC*

November 22, 2006

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Schedule of Revenue

|  | Year Ended            |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 |
| <b>Sales</b>                                 |                       |                       |
| Software sales                               | \$ 1,802,680          | \$ 3,023,895          |
| Publication, book, and other sales           | 333,397               | 448,842               |
| National Congress and other conference sales | 700,524               | 457,696               |
| Chapter program sales                        | 952,836               | 1,076,536             |
| Low-cost investment plan sales               | 9,260                 | 28,326                |
| Other sales                                  | 408,604               | 541,517               |
| <b>Membership Dues</b>                       |                       |                       |
| Corporate membership dues                    | 470,370               | 495,083               |
| Club membership dues                         | 3,371,772             | 3,521,550             |
| Individual membership dues                   | 1,014,833             | 1,079,115             |
| Online premium service membership dues       | 532,708               | 501,509               |
| <b>Subscriptions and Advertising</b>         | 972,024               | 975,529               |
| <b>Other</b>                                 |                       |                       |
| Investment income                            | 1,132,582             | 607,160               |
| Royalty and other income                     | 258,553               | 235,968               |
| <b>Total revenue</b>                         | <b>\$ 11,960,143</b>  | <b>\$ 12,992,726</b>  |

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Schedule of Operating Expenses

|   | Year Ended            |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2006 | September 30,<br>2005 |
| Payroll and related expenses            | \$ 3,949,423          | \$ 3,577,143          |
| Publications                            | 1,469,186             | 1,760,880             |
| Postage                                 | 883,235               | 1,156,871             |
| Software                                | 1,512,462             | 2,554,675             |
| Repairs and maintenance                 | 156,674               | 201,691               |
| Depreciation                            | 488,060               | 337,525               |
| Professional services                   | 2,029,491             | 2,031,940             |
| Profit sharing                          | 128,854               | 76,694                |
| Advertising and promotion               | 83,023                | 278,161               |
| Office supplies                         | 131,943               | 78,374                |
| Outside services                        | 317,855               | 121,965               |
| Utilities                               | 191,764               | 172,676               |
| Travel                                  | 205,737               | 190,255               |
| Nicholson award                         | 6,302                 | 6,162                 |
| Property and other taxes                | 182,458               | 244,021               |
| Insurance                               | 599,476               | 639,174               |
| Bank charges                            | 116,333               | 155,133               |
| Board and council expenses              | 315,104               | 329,132               |
| National Congress and other conferences | 846,512               | 338,055               |
| Compufest expense                       | 124,670               | 132,471               |
| Chapter program expenses                | 522,522               | 600,038               |
| Other taxes                             | 1,301                 | -                     |
| Contributions                           | 50                    | 50                    |
| Deferred compensation                   | 420,402               | 252,766               |
| Other                                   | 251,962               | 359,507               |
|   | <u>\$ 14,934,799</u>  | <u>\$ 15,595,359</u>  |
| Total operating expenses                | <b>\$ 14,934,799</b>  | <b>\$ 15,595,359</b>  |