

National Association of Investment Clubs Trust and Affiliates

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

National Association of Investment Clubs Trust and Affiliates

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

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, 2006	September 30, 2005
Assets		
Current Assets		
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
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Total current assets	4,819,487	4,959,992
Investments (Note 2)	8,752,543	11,930,298
Property, Buildings, and Equipment - Net (Note 3)	4,260,067	3,723,344
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Total assets	\$ 17,832,097	\$ 20,613,634
Liabilities and Net Assets		
Current Liabilities		
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
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Total current liabilities	4,262,488	4,363,806
Other Long-term Liabilities		
Deferred compensation	2,478,552	2,187,318
Deferred revenue	920,298	917,095
	<hr/>	<hr/>
Total liabilities	7,661,338	7,468,219
Net Assets		
Unrestricted	10,114,646	13,112,915
Temporarily restricted	56,113	32,500
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Total net assets	10,170,759	13,145,415
	<hr/>	<hr/>
Total liabilities and net assets	\$ 17,832,097	\$ 20,613,634

National Association of Investment Clubs Trust and Affiliates

Consolidated Statement of Activities

	Year Ended	
	September 30, 2006	September 30, 2005
Changes in Net Assets		
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
Decrease in Net Assets	\$ (2,974,656)	\$ (2,602,633)

National Association of Investment Clubs Trust and Affiliates

Consolidated Statement of Changes in Net Assets

	Year Ended	
	September 30, 2006	September 30, 2005
Changes in Unrestricted Net Assets		
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)
Decrease in Unrestricted Net Assets	(2,998,269)	(2,635,133)
Increase in Temporarily Restricted Net Assets	23,613	32,500
Decrease in Net Assets	(2,974,656)	(2,602,633)
Net Assets - Beginning of year	13,145,415	15,748,048
Net Assets - End of year	\$ 10,170,759	\$ 13,145,415

National Association of Investment Clubs Trust and Affiliates

Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2006	September 30, 2005
Cash Flows from Operating Activities		
Decrease in net assets	\$ (2,974,656)	\$ (2,602,633)
Adjustments to reconcile decrease in net assets to net cash 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 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)
Cash Flows from Investing Activities		
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
Net Increase (Decrease) in Cash and Cash Equivalents	118,297	(302,064)
Cash and Cash Equivalents - Beginning of year	3,442,744	3,744,808
Cash and Cash Equivalents - End of year	\$ 3,561,041	\$ 3,442,744

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	<u>160,764</u>	<u>147,308</u>
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	<u>680,613</u>	<u>41,086</u>
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

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



Plante & Moran, PLLC
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P.O. Box 307
Southfield, MI 48037-0307
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Fax: 248.352.0018
plantemoran.com

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, 2006	September 30, 2005
Sales		
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
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Other sales	408,604	541,517
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Subscriptions and Advertising	972,024	975,529
Other		
Investment income	1,132,582	607,160
Royalty and other income	258,553	235,968
Total revenue	\$ 11,960,143	\$ 12,992,726

National Association of Investment Clubs Trust and Affiliates

Consolidated Schedule of Operating Expenses

	Year Ended	
	September 30, 2006	September 30, 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	\$ 14,934,799	\$ 15,595,359