

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

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**Consolidated Financial Report  
with Additional Information  
September 30, 2005**

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# 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 as of September 30, 2005 and 2004 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, 2005 and 2004 and the consolidated changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

November 18, 2005

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Balance Sheet

	September 30, 2005	September 30, 2004
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,442,744	\$ 3,744,808
Accounts receivable	185,925	379,494
Investments (Note 2)	311,313	1,015,778
Inventories	579,366	838,857
Refundable income taxes	-	6,422
Prepaid expenses and other current assets	440,644	322,984
Total current assets	4,959,992	6,308,343
Investments (Note 2)	11,930,298	14,173,969
Property, Buildings, and Equipment - Net (Note 3)	3,723,344	2,878,547
Total assets	<b>\$ 20,613,634</b>	<b>\$ 23,360,859</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 769,621	\$ 757,766
Deferred revenue	3,038,959	3,150,896
Accrued liabilities and other:		
Accrued compensation	436,325	514,852
Other accrued liabilities	118,901	143,031
Total current liabilities	4,363,806	4,566,545
<b>Other Long-term Liabilities</b>		
Deferred compensation	2,187,318	2,116,897
Deferred revenue	917,095	929,369
Total liabilities	7,468,219	7,612,811
<b>Net Assets</b>		
Unrestricted	13,112,915	15,748,048
Temporarily restricted	32,500	-
Total net assets	13,145,415	15,748,048
Total liabilities and net assets	<b>\$ 20,613,634</b>	<b>\$ 23,360,859</b>

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Activities

	Year Ended	
	September 30, 2005	September 30, 2004
<b>Changes in Net Assets</b>		
Revenue:		
Software sales	\$ 3,023,895	\$ 3,711,140
Publication, book, and other sales	448,842	536,659
National Congress and other conference sales	457,696	390,999
Chapter program sales	1,076,536	1,261,520
Low-cost investment plan sales	28,326	24,400
Other sales	541,517	401,399
Corporate membership dues	495,083	424,469
Club membership dues	3,521,550	3,557,721
Individual membership dues	1,079,115	1,097,377
On-line premium service membership dues	501,509	420,108
Subscriptions and advertising	975,529	1,212,360
Investment income	607,160	1,156,647
Royalty and other income	235,968	256,119
	<u>12,992,726</u>	<u>14,450,918</u>
Operating expenses	<u>15,595,359</u>	<u>16,370,282</u>
<b>Loss from Operating Activities - Before taxes</b>	(2,602,633)	(1,919,364)
<b>Income Tax Recovery (Note 4)</b>	<u>-</u>	<u>8,000</u>
<b>Decrease in Net Assets</b>	<u>\$ (2,602,633)</u>	<u>\$ (1,911,364)</u>

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Changes in Net Assets

	Year Ended	
	September 30, 2005	September 30, 2004
<b>Unrestricted Net Assets</b>		
Revenue and gains	\$ 12,960,226	\$ 14,458,918
Expenses, losses, and transfers	(15,595,359)	(16,370,282)
<b>Decrease in Unrestricted Net Assets</b>	(2,635,133)	(1,911,364)
<b>Temporarily Restricted Net Assets</b>	32,500	-
<b>Decrease in Net Assets</b>	(2,602,633)	(1,911,364)
<b>Net Assets - Beginning of year</b>	15,748,048	17,659,412
<b>Net Assets - End of year</b>	<b>\$ 13,145,415</b>	<b>\$ 15,748,048</b>

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2005	September 30, 2004
<b>Cash Flows from Operating Activities</b>		
Net decrease in net assets	\$ (2,602,633)	\$ (1,911,364)
Adjustments to reconcile net decrease in net assets to net cash from operating activities:		
Depreciation	337,525	306,368
Net realized loss on sale of fixed assets	-	3,543
Deferred compensation	252,766	249,504
Net realized and unrealized investment gains	(41,086)	(526,574)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	193,569	48,993
Inventories	259,491	(576,311)
Refundable income taxes	6,422	3,178
Prepaid expenses and other current assets	(117,660)	15,089
Accounts payable	11,855	225,663
Deferred revenue	(124,211)	397,105
Other accrued liabilities	(206,475)	(15,741)
Accrued compensation	(78,527)	(41,349)
Net cash used in operating activities	(2,108,964)	(1,821,896)
<b>Cash Flows from Investing Activities</b>		
Purchases of property, buildings, and equipment	(1,182,322)	(264,412)
Proceeds from sales of equipment	-	27,816
Purchases of investments	(2,877,665)	(1,869,482)
Proceeds from sales of investments	5,866,887	4,335,534
Net cash provided by investing activities	1,806,900	2,229,456
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(302,064)	407,560
<b>Cash and Cash Equivalents - Beginning of year</b>	3,744,808	3,337,248
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,442,744</b>	<b>\$ 3,744,808</b>



# National Association of Investment Clubs Trust and Affiliates

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## Notes to Consolidated Financial Statements September 30, 2005 and 2004

### Note 1 - 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.

**Inventories** - 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, Buildings, 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, 2005 and 2004

### Note 1 - 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 2005 and 2004 totaled \$76,694 and \$161,143, 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 2006 (with automatic renewals thereafter) and the other in fiscal 2009. In connection with these agreements, the Trust has recognized deferred compensation obligations totaling approximately \$44,000.

Deferred compensation expense for fiscal 2005 and 2004 totaled \$252,766 and \$249,504, 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, 2005 or 2004.

**Advertising Costs** - Advertising costs are charged to operations when incurred. Advertising expense for fiscal 2005 and 2004 totaled \$278,161 and \$323,857, respectively.

# National Association of Investment Clubs Trust and Affiliates

## Notes to Consolidated Financial Statements September 30, 2005 and 2004

### 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 member services totaled approximately \$12,271,000 and \$13,431,000, management and general costs totaled \$2,717,000 and \$2,436,000, and membership development costs totaled \$607,000 and \$503,000 for 2005 and 2004, respectively.

**Reclassification** - Certain reclassifications were made to amounts in the 2004 financial statements to conform to the classifications used in 2005.

### Note 2 - Investments

Investments consisted of the following at September 30:

	2005	2004
U.S. government and municipal securities	\$ 1,473,442	\$ 1,980,907
Certificates of deposits	311,313	1,015,778
Corporate bonds	2,050,344	4,045,593
Equity securities	8,259,204	8,016,354
Mutual funds	147,308	131,115
Total	<u>\$ 12,241,611</u>	<u>\$ 15,189,747</u>

# National Association of Investment Clubs Trust and Affiliates

## Notes to Consolidated Financial Statements September 30, 2005 and 2004

### Note 3 - Property, Buildings, and Equipment

Properties, buildings, and equipment are summarized as follows:

	2005	2004
Land	\$ 163,197	\$ 163,197
Building improvements	2,535,851	2,535,851
Machinery and equipment	2,697,941	1,979,031
Vehicles	24,218	24,218
Furniture and fixtures	645,878	628,003
Total cost	6,067,085	5,330,300
Accumulated depreciation	(2,343,741)	(2,451,753)
Net carrying amount	\$ 3,723,344	\$ 2,878,547

Depreciation expense was \$337,525 for 2005 and \$306,368 for 2004.

### 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, 2005 or 2004. There are no temporary differences between financial reporting and income tax accounting at September 30, 2005 or 2004.

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:

	2005	2004
Tax, computed at 34 percent of pretax loss	\$ (884,895)	\$ (652,584)
Effect of nontaxable loss	884,895	644,584
Total	\$ -	\$ (8,000)

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

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## **Notes to Consolidated Financial Statements September 30, 2005 and 2004**

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

The Trust paid expenses totaling \$216,824 and \$198,853 in fiscal 2005 and 2004, 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 \$197,492 and \$184,421, respectively.

In addition, the Trust paid legal and consulting fees to one member of its board of trustees in the amount of \$0 and \$60,000 in fiscal years 2005 and 2004, respectively.

### **Note 6 - Subsequent Event**

On October 20, 2005, the NASD Foundation awarded a grant to NAIC in an amount not to exceed \$354,500 for a pilot project which would provide investment education to union members. This award is subject to certain conditions including completion of a grant agreement and the commitment of a union with at least 250,000 members to participate in the pilot program.

## **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, 2005 and 2004. 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. Such information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Plante & Moran, PLLC*

November 18, 2005

# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Revenue

	Year Ended September 30	
	2005	2004
<b>Sales</b>		
Software sales	\$ 3,023,895	\$ 3,711,140
Publication, book, and other sales	448,842	536,659
National Congress and other conference sales	457,696	390,999
Chapter program sales	1,076,536	1,261,520
Low-cost investment plan sales	28,326	24,400
Other sales	541,517	401,399
<b>Membership Dues</b>		
Corporate membership dues	495,083	424,469
Club membership dues	3,521,550	3,557,721
Individual membership dues	1,079,115	1,097,377
On-line premium service membership dues	501,509	420,108
<b>Subscriptions and Advertising</b>	975,529	1,212,360
<b>Other</b>		
Investment income	607,160	1,156,647
Royalty and other income	235,968	256,119
<b>Total revenue</b>	<b>\$ 12,992,726</b>	<b>\$ 14,450,918</b>



# National Association of Investment Clubs Trust and Affiliates

## Consolidated Statement of Operating Expenses

	Year Ended September 30	
	2005	2004
Payroll and related expenses	\$ 3,577,143	\$ 3,260,759
Publications	1,760,880	1,987,809
Postage	1,156,871	1,391,073
Software	2,554,675	3,025,099
Repairs and maintenance	201,691	289,732
Depreciation	337,525	306,368
Professional services	1,787,588	1,530,053
Profit-sharing	76,694	161,143
Advertising and promotion	278,161	323,857
Office supplies	78,374	84,596
Outside services	366,317	234,655
Utilities	172,676	167,163
Travel	190,255	148,384
Nicholson Award	6,162	5,515
Property and other taxes	244,021	336,714
Insurance	639,174	675,610
Bank charges	155,133	178,637
Board and council expenses	329,132	449,068
National Congress and other conferences	338,055	354,627
Compufest expense	132,471	104,148
Chapter program expenses	600,038	774,553
Contributions	50	1,355
Deferred compensation	252,766	249,504
Other	359,507	329,860
Total operating expenses	<u>\$ 15,595,359</u>	<u>\$ 16,370,282</u>