

National Association of Investors Corporation

**Financial Report
with Additional Information
September 30, 2008**

National Association of Investors Corporation

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Independent Auditor's Report

To the Board of Directors
National Association of Investors
Corporation

We have audited the accompanying balance sheet of National Association of Investors Corporation as of September 30, 2008 and 2007 and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of National Association of Investors Corporation at September 30, 2008 and 2007 and the 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

December 5, 2008

National Association of Investors Corporation

Balance Sheet

| | September 30, 2008 | September 30, 2007 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents - Home office | \$ 1,663,785 | \$ 1,242,705 |
| Cash and cash equivalents - Chapters | 799,894 | 789,262 |
| Accounts receivable | 381,679 | 330,053 |
| Investments - Home office (Note 2) | 5,084 | 93,832 |
| Investments - Chapters (Note 2) | 232,870 | 242,783 |
| Inventories | 158,991 | 255,270 |
| Prepaid expenses and other current assets | 246,524 | 368,175 |
| Total current assets | 3,488,827 | 3,322,080 |
| Investments - Home office (Note 2) | 801,880 | 4,955,987 |
| Property and Equipment - Net (Note 3) | 3,730,103 | 4,375,947 |
| Total assets | \$ 8,020,810 | \$ 12,654,014 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 201,685 | \$ 629,142 |
| Deferred revenue | 1,812,528 | 1,813,789 |
| Accrued liabilities and other: | | |
| Accrued compensation | 249,645 | 358,427 |
| Current portion of deferred compensation (Note 1) | 77,498 | 504,165 |
| Other accrued liabilities | 42,465 | 97,707 |
| Total current liabilities | 2,383,821 | 3,403,230 |
| Long-term Liabilities | | |
| Deferred compensation (Note 1) | - | 2,121,593 |
| Deferred revenue | 800,542 | 871,122 |
| Total liabilities | 3,184,363 | 6,395,945 |
| Net Assets | | |
| Unrestricted | 4,816,442 | 6,211,624 |
| Temporarily restricted | 20,005 | 46,445 |
| Total net assets | 4,836,447 | 6,258,069 |
| Total liabilities and net assets | \$ 8,020,810 | \$ 12,654,014 |

National Association of Investors Corporation

Statement of Activities

| | Year Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2008 | September 30, 2007 |
| Changes in Net Assets | | |
| Revenue and gains: | | |
| Software sales | \$ 398,102 | \$ 937,642 |
| Publication, book, and other sales | 108,234 | 213,515 |
| National Convention and other conference sales | 362,745 | 295,817 |
| Chapter program sales | 485,471 | 580,975 |
| Low-cost investment plan sales | - | 13,474 |
| Other sales | 62,776 | 252,790 |
| Corporate membership dues | 236,149 | 317,444 |
| Club membership dues | 2,285,969 | 2,710,202 |
| Individual membership dues | 1,049,537 | 868,071 |
| Online premium service membership dues | 436,033 | 382,074 |
| Subscriptions and advertising | 431,880 | 446,124 |
| Grant revenues | 250,540 | 444,168 |
| Investment income | 18,736 | 1,076,317 |
| Royalty and other income | 243,760 | 202,160 |
| Settlement of deferred compensation liability (Note 1) | 749,098 | - |
| Total revenue and gains | 7,119,030 | 8,740,773 |
| Operating expenses | 8,540,652 | 12,653,463 |
| Decrease in Net Assets | \$ (1,421,622) | \$ (3,912,690) |

National Association of Investors Corporation

Statement of Changes in Net Assets

| | Year Ended | |
|--|----------------------------|----------------------------|
| | September 30, 2008 | September 30, 2007 |
| Changes in Unrestricted Net Assets | | |
| Revenue and gains | \$ 7,099,025 | \$ 8,694,328 |
| Net assets released from restrictions | 46,445 | 56,113 |
| Expenses, losses, and transfers | <u>(8,540,652)</u> | <u>(12,653,463)</u> |
| Decrease in Unrestricted Net Assets | (1,395,182) | (3,903,022) |
| Decrease in Temporarily Restricted Net Assets | <u>(26,440)</u> | <u>(9,668)</u> |
| Decrease in Net Assets | (1,421,622) | (3,912,690) |
| Net Assets - Beginning of year | <u>6,258,069</u> | <u>10,170,759</u> |
| Net Assets - End of year | <u>\$ 4,836,447</u> | <u>\$ 6,258,069</u> |

National Association of Investors Corporation

Statement of Cash Flows

| | Year Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2008 | September 30, 2007 |
| Cash Flows from Operating Activities | | |
| Decrease in net assets | \$ (1,421,622) | \$ (3,912,690) |
| Adjustments to reconcile decrease in net assets to net cash from operating activities: | | |
| Depreciation | 664,753 | 672,294 |
| Loss on sale of property and equipment | 274 | - |
| Deferred compensation | (1,799,162) | 110,944 |
| Settlement of deferred compensation liability | (749,098) | - |
| Net realized and unrealized investment loss (gain) | 247,465 | (651,139) |
| Changes in operating assets and liabilities which (used) provided cash: | | |
| Accounts receivable | (51,626) | 42,722 |
| Inventory | 96,279 | 109,313 |
| Prepaid expenses and other current assets | 121,651 | 63,455 |
| Accounts payable | (427,457) | (205,713) |
| Deferred revenue | (71,841) | (642,553) |
| Other accrued liabilities | (55,242) | (367,671) |
| Accrued compensation | (108,782) | (160,400) |
| Net cash used in operating activities | (3,554,408) | (4,941,438) |
| Cash Flows from Investing Activities | | |
| Purchase of property, buildings, and equipment | (19,183) | (788,174) |
| Purchases of investments | (278,917) | (246,074) |
| Proceeds from sales of investments | 4,284,220 | 4,681,550 |
| Net cash provided by investing activities | 3,986,120 | 3,647,302 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 431,712 | (1,294,136) |
| Cash and Cash Equivalents - Beginning of year | 2,031,967 | 3,326,103 |
| Cash and Cash Equivalents - End of year | <u>\$ 2,463,679</u> | <u>\$ 2,031,967</u> |

National Association of Investors Corporation

Notes to Financial Statements September 30, 2008 and 2007

Note I - Nature of Business and Significant Accounting Policies

Nature of Organization - National Association of Investors Corporation (NAIC) 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.

The 2007 financial statement amounts include the accounts of The 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.

Effective September 27, 2007, The National Association of Investment Clubs Trust, N.A.I.C. Holding Corporation, NAIC Services Corporation, and Growth Fund Advisor, Inc. were liquidated. All remaining assets of N.A.I.C. Holding Corporation, NAIC Services Corporation, and Growth Fund Advisor, Inc. were distributed to the Trust. NAIC was terminated and donated all of its remaining assets to the National Association of Investors Corporation (NAIC), a Michigan nonprofit corporation, and an exempt corporation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. NAIC is now the sole remaining legal entity.

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 - NAIC 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. The allowance for doubtful accounts was approximately \$24,000 and \$7,000 as of September 30, 2008 and 2007, respectively.

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.

National Association of Investors Corporation

Notes to Financial Statements September 30, 2008 and 2007

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

Property and Equipment - Property 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 - NAIC is a tax-exempt organization; however, federal taxes are payable on its unrelated business income, comprised solely of advertising income net of direct advertising expenses.

The remaining entities included in the accompanying financial statements prior to liquidating were subject to federal income taxes for the year ended September 30, 2007.

Profit-sharing Plan - NAIC 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 NAIC as a percentage of participants' wages. There was no profit-sharing expense for fiscal years 2008 or 2007.

Deferred Compensation and Employment Agreements - NAIC had two deferred compensation arrangements with a former officer and employment agreements with two executives. One of the deferred compensation arrangements was fully funded and provided for a lump-sum benefit at retirement. The other deferred compensation arrangement provided annual defined benefits for the former officer's lifetime. Effective May 27, 2008, NAIC and the former officer agreed to terminate the arrangements and cease all benefit payments. The funded portion of the agreement was transferred to the officer during September 2008. As of September 30, 2008, there is no longer any obligation under these agreements.

One employment agreement was in effect for an executive through June 30, 2007, at which point the executive terminated employment. In conjunction with the executive's termination, a severance agreement was entered into which provided for salary and various benefits through May 2008. As of September 30, 2008, there is no longer any obligation under this agreement.

Upon settlement of the agreements mentioned above, NAIC has recorded a gain totaling \$749,098.

The second employment agreement provides for salary and various benefits and expires in fiscal year 2009. In connection with this agreement, NAIC has recognized deferred compensation obligations totaling approximately \$78,000.

Deferred compensation expense for fiscal years ended September 30, 2008 and 2007 totaled \$127,372 and \$111,014, respectively.

National Association of Investors Corporation

Notes to Financial Statements September 30, 2008 and 2007

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

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, 2008 or 2007.

Advertising Costs - Advertising costs are charged to operations when incurred. Advertising expense for fiscal years 2008 and 2007 totaled \$29,360 and \$61,133, respectively.

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 expense of providing NAIC's program services totaled approximately \$7,189,000, and \$9,620,000, management and general expenses totaled \$1,170,000 and \$2,632,000, and membership development expenses totaled \$181,000 and \$401,000 for fiscal years 2008 and 2007, respectively.

Reclassification - Certain reclassifications were made to amounts in the 2007 financial statements to conform to the classifications used in 2008.

Accounting for Uncertainty in Income Taxes (FIN 48) - In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the guidance for the recognition and measurement of income tax benefits related to uncertain tax positions in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 will be effective for the fiscal year beginning October 1, 2009. NAIC is currently assessing the impact this interpretation will have on its financial statements.

National Association of Investors Corporation

Notes to Financial Statements September 30, 2008 and 2007

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

New Accounting Pronouncement - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the fiscal year beginning after November 15, 2007. NAIC does not anticipate that this standard will have any significant impact on the financial statements.

Note 2 - Investments

Investments consisted of the following at September 30:

| | 2008 | 2007 |
|--|---------------------|---------------------|
| U.S. government and municipal securities | \$ 99,438 | \$ 400,272 |
| Certificates of deposits | 237,954 | 336,615 |
| Corporate bonds | 46,595 | 122,765 |
| Equity securities | 508,008 | 4,232,829 |
| Mutual funds | 147,839 | 200,121 |
| Total | <u>\$ 1,039,834</u> | <u>\$ 5,292,602</u> |

Included in equity securities at September 30, 2007 is \$1,478,000 related to one of the deferred compensation arrangements described in Note 1. This agreement was terminated and all investments were liquidated and paid to the officer prior to September 30, 2008.

Investment income for the years ended September 30, 2008 and 2007 consists of the following:

| | 2008 | 2007 |
|---|------------------|---------------------|
| Dividends and interest | \$ 266,201 | \$ 425,178 |
| Net realized and unrealized (loss) gain | <u>(247,465)</u> | <u>651,139</u> |
| Total | <u>\$ 18,736</u> | <u>\$ 1,076,317</u> |

National Association of Investors Corporation

Notes to Financial Statements September 30, 2008 and 2007

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

| | <u>2008</u> | <u>2007</u> |
|--------------------------|---------------------|---------------------|
| Land | \$ 163,197 | \$ 163,197 |
| Building improvements | 2,535,851 | 2,535,851 |
| Machinery and equipment | 3,949,272 | 3,953,390 |
| Transportation equipment | 30,666 | 30,666 |
| Furniture and fixtures | <u>604,750</u> | <u>604,523</u> |
| Total cost | 7,283,736 | 7,287,627 |
| Accumulated depreciation | <u>(3,553,633)</u> | <u>(2,911,680)</u> |
| Net carrying amount | <u>\$ 3,730,103</u> | <u>\$ 4,375,947</u> |

Depreciation expense was \$664,753 for 2008 and \$672,294 for 2007.

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. As stated in Note 1, NAIC eliminated all of its for-profit entities during 2007. The remaining operations are all exempt under Section 501(c)(3) of the Internal Revenue Code.

There was no cash paid for income taxes for the years ended September 30, 2008 or 2007. There are no temporary differences between financial reporting and income tax accounting at September 30, 2008 or 2007.

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>2008</u> | <u>2007</u> |
|--|-------------|------------------|
| Tax, computed at 34 percent of pretax loss | \$ - | \$ (1,330,300) |
| Effect of nontaxable loss | <u>-</u> | <u>1,330,300</u> |
| Total | <u>\$ -</u> | <u>\$ -</u> |

National Association of Investors Corporation

Notes to Financial Statements September 30, 2008 and 2007

Note 5 - Related Party Transactions

The Trust paid expenses totaling \$129,957 in the fiscal year ended 2007, on behalf of NAIC Growth Fund, Inc., a related party through four common directors whose aggregate direct ownership percentage in NAIC Growth Fund, Inc. was approximately 3 percent as of September 30, 2007. All such expenditures were subsequently reimbursed by NAIC Growth Fund, Inc. As of May 1, 2007, NAIC Growth Fund, Inc. became managed by and received advisory services from an independent third party. As of September 30, 2007, NAIC Growth Fund, Inc. is no longer considered a related party with NAIC.

During the same period, Growth Fund Advisors, Inc. received fees for investment management services provided to this affiliate totaling \$153,098.

There were no related party activities for the year ended September 30, 2008.

Note 6 - Commitments

Effective February 15, 2006, NAIC 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. Effective October 1, 2008, the agreement was modified and the monthly fee was reduced to \$7,500 plus incentive compensation.

Note 7 - Employee Benefit Plan

NAIC has an employee 401(k) salary deferral plan. All employees who have completed six months of service are eligible to participate in the plan. NAIC matches 25 percent of a participant's elective deferral up to a maximum of 6 percent of gross pay. Maximum contributions are also limited by the Internal Revenue Service regulations. NAIC made contributions of approximately \$5,000 to the plan for the year ended September 30, 2008.

Additional Information



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To the Board of Directors
National Association of Investors
Corporation

We have audited the financial statements of National Association of Investors Corporation as of September 30, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of operating expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

December 5, 2008

National Association of Investors Corporation

Schedule of Operating Expenses

| | Year Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2008 | September 30, 2007 |
| Payroll and related expenses | \$ 2,241,867 | \$ 3,384,637 |
| Publications | 717,648 | 988,465 |
| Postage and shipping | 524,005 | 685,194 |
| Software | 589,693 | 855,885 |
| Repairs and maintenance | 99,941 | 119,773 |
| Depreciation | 664,753 | 672,294 |
| Professional fees | 1,007,424 | 1,993,502 |
| Profit sharing and 401(k) plan expenses | 4,371 | (452) |
| Advertising and promotion | 29,360 | 61,133 |
| Office supplies | 20,628 | 43,915 |
| Outside services | 158,935 | 547,395 |
| Utilities | 143,287 | 170,040 |
| Travel | 89,817 | 179,204 |
| Nicholson award | - | 6,278 |
| Property and other taxes | 134,519 | 162,769 |
| Insurance | 367,816 | 496,303 |
| Bank charges | 97,697 | 115,535 |
| Board and council expenses | 317,641 | 369,179 |
| National Convention and other conferences | 300,236 | 333,363 |
| Compufest expenses | - | 11,168 |
| Chapter program expenses | 331,136 | 408,997 |
| Contributions | 79 | - |
| Deferred compensation | 127,372 | 111,014 |
| Grant expenses | 196,403 | 213,756 |
| Legal expense | - | 265,000 |
| Other | 376,024 | 459,116 |
| Total operating expenses | <u>\$ 8,540,652</u> | <u>\$ 12,653,463</u> |