NAIFA

CONNECTIONS THAT COUNT

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

Consolidated Financial Statements

For the Years Ended August 31, 2012 and 2011

and

Report Thereon

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

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For the Years Ended August 31, 2012 and 2011

INDEPENDENT AUDITOR'S REPORT

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

To the Board of Trustees of the
National Association of Insurance and
Financial Advisors, Subsidiary and Affiliate

We have audited the accompanying consolidated statements of financial position of the National Association of Insurance and Financial Advisors (NAIFA), Subsidiary and Affiliate (collectively referred to as the Association) as of August 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association'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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 financial position of the Association as of August 31, 2012 and 2011, 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with

Continued

auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
December 11, 2012

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 3,680,379	$ 2,900,852
Accounts receivable, net of allowance for doubtful accounts of $15,000 and $17,300 for 2012 and 2011, respectively	118,262	254,105
Deferred rent receivable	493,434	203,184
Prepaid expenses	730,585	730,098
Investments	1,811,964	1,907,681
Deposits and other assets	722,352	714,491
Net property and equipment	12,237,590	12,484,854
TOTAL ASSETS	$ 19,794,566	$ 19,195,265
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,060,168	$ 1,239,682
Deferred dues	3,098,866	3,207,533
Other deferred revenue	1,187,621	1,168,392
Accrued pension and medical benefits	3,209,815	2,595,850
Note payable	9,510,000	9,809,111
TOTAL LIABILITIES	18,066,470	18,020,568
Net Assets		
Unrestricted		
Undesignated	3,979,458	2,366,942
Board designated	2,819,979	3,016,227
Accumulated net unrecognized actuarial loss	(5,071,341)	(4,208,472)
TOTAL NET ASSETS	1,728,096	1,174,697
TOTAL LIABILITIES AND NET ASSETS	$ 19,794,566	$ 19,195,265

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2012 and 2011

	2012	2011
REVENUE AND OTHER SUPPORT		
Dues	$ 11,990,911	$ 12,034,482
Publications	268,301	779,929
Political and other contributions	1,621,585	1,495,281
Conferences and meetings	1,108,022	1,155,833
Rental income and service fees	1,100,359	644,904
Product sales, royalties and commissions	278,893	287,343
Awards, education and professional development	120,337	289,046
Investment loss	(137,786)	(85,290)
Other	92,454	106,849
TOTAL REVENUE AND OTHER SUPPORT	16,443,076	16,708,377
EXPENSES		
Program services		
Legislation, regulation and ethics	3,876,773	4,011,009
Support of state and local members	2,243,174	2,040,320
Publications and communication	926,440	1,330,921
Conference	1,090,279	1,091,886
Member benefits and professional development	906,270	1,006,661
Total program services	9,042,936	9,480,797
Supporting services		
Governance and administration	5,983,872	5,950,041
Total supporting services	5,983,872	5,950,041
TOTAL EXPENSES	15,026,808	15,430,838
Change in Unrestricted Net Assets Before Unrecognized Actuarial Gain (Loss)	1,416,268	1,277,539
Unrecognized actuarial (loss) gain, net of amortization	(862,869)	311,396
Change in Net Assets	553,399	1,588,935
NET ASSETS (DEFICIT), BEGINNING OF YEAR	1,174,697	(414,238)
NET ASSETS, END OF YEAR	$ 1,728,096	$ 1,174,697

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2012 and 2011

Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 553,399	$ 1,588,935
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments	(83,363)	63,143
Realized loss on sale of investments	231,322	38,474
Depreciation and amortization	657,686	640,956
Gain on disposal of property and equipment	-	(6,638)
Provision for doubtful accounts receivable	(2,300)	(32,082)
Changes in assets and liabilities:		
Accounts receivable	138,143	(28,439)
Deferred rent receivable	(290,250)	(124,028)
Prepaid expenses	(487)	20,678
Deposits and other assets	(7,861)	(427,090)
Accounts payable and accrued expenses	(179,514)	(252,798)
Deferred dues	(108,667)	(137,177)
Other deferred revenue	19,229	(20,642)
Accrued pension and medical benefits	613,965	(298,394)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,541,302	1,024,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,790,654)	(3,665,994)
Proceeds from the sale of investments	1,738,412	3,128,222
Purchases of property and equipment	(410,422)	(286,908)
Proceeds from the disposal of property and equipment	-	16,706
NET CASH USED IN INVESTING ACTIVITIES	(462,664)	(807,974)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	(299,111)	(283,507)
NET CASH USED IN FINANCING ACTIVITIES	(299,111)	(283,507)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	779,527	(66,583)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,900,852	2,967,435
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,680,379	$ 2,900,852
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for interest	$ 519,459	$ 535,063

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The National Association of Insurance and Financial Advisors (NAIFA), Subsidiary and Affiliate (collectively referred to as the Association) is a national federation of state and local associations and individual insurance agents and financial advisors. The mission of the Association is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members. These activities are funded primarily through membership dues.

Principles of Consolidation

The consolidated financial statements of the Association have been prepared on the accrual basis of accounting and include the accounts of the National Association of Insurance and Financial Advisors (NAIFA); its wholly-owned subsidiary, NAIFA Service Corporation (NAIFASC) and its affiliate, the NAIFA Political Action Committee (NAIFAPAC). All material inter-company balances and transactions are reported separately in the supplemental consolidating schedules and have been eliminated in consolidation.

NAIFA was formed in 1890 as the National Association of Life Underwriters. NAIFA is comprised of 640 state and local associations and approximately 43,500 individual insurance agents and financial advisors nationwide.

NAIFASC was incorporated in 1996 to publish NAIFA's official publication, *NAIFA's Advisor Today*.

NAIFAPAC was created to provide an opportunity for individuals interested in the goals of NAIFA to contribute to worthy candidates for federal office.

Cash and Cash Equivalents

The Association considers all money market funds to be cash equivalents.

Included in cash and cash equivalents as of August 31, 2011, is $276,884 of cash held in escrow as described in Note 8 to these consolidated financial statements. There were no such escrow amounts as of August 31, 2012.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments as of August 31, 2012 include various mutual funds and exchange traded funds (ETFs). Investments as of August 31, 2011 consist of NAIFA's interest in a limited partnership which invests, reinvests, and trades in securities including long and short positions in common stock, ETFs, closed-end funds, and call and put options. Investments are recorded in the accompanying consolidated statements of financial position at fair value. 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. For disclosure of inputs and valuation techniques, see Note 2. Interest income is recorded as earned. Realized and unrealized gains (losses) on investments are reported as unrestricted gains (losses). Purchases and sales are reflected on a trade-date basis. The cost of securities sold is based on the average cost method.

Fair Value of Financial Instruments

In accordance with the fair value measurements and disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Association has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Association has the ability to access. This classification is applied to any investment of the Association that has a readily available quoted market price from an active market where there is significant transparency in the executed/quoted market price.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability, such as quoted prices for similarly structured securities in active markets. This classification is applied to investments of the Association that have evaluated prices received from fixed income vendors where the data inputs to these valuations do not represent quoted prices from an active market but do represent quoted prices of similarly structured securities. It also includes the limited partnership which can be redeemed in the near term. The fair value for the limited partnership is generally determined based on the fund's net asset value (NAV) as provided by the fund's management. Accounting Standards Update No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, permits, as a practical expedient, fair value of investments within its scope to be estimated using NAV or its equivalent.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions by management of the Association about the assumptions a market participant would use in pricing the asset or liability. This classification is applied to investments of the Association for which there is no established trading market. Fair value is generally determined based on the fund's net asset value (NAV) as provided by the fund's management.

As of August 31, 2012 and 2011, only the Association's investments as described in Note 2 of these consolidated financial statements and the investments of the Association's defined benefit plan as described in Note 6 of these consolidated financial statements were measured at fair value on a recurring basis.

1. Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consist primarily of amounts due for affinity programs and amounts due from the Industry Awards program as of August 31, 2012 and 2011, respectively. The Association uses the allowance method to record potentially uncollectible accounts.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is provided principally on a straight-line basis over the estimated useful lives of the respective assets, which range from three to ten years for furniture and equipment and forty years for the building and building improvements. Maintenance and repairs are charged to expense when incurred; major improvements are capitalized. Upon retirement or disposal of assets, the accounts are relieved of the cost and accumulated depreciation with any resulting gain or loss included in revenue or expense.

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic *Property, Plant and Equipment*, the Association reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss was required to be recognized as of August 31, 2012 and 2011.

Classification of Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for support of the Association's operations or have been designated by the Board for a particular purpose.

Revenue Recognition

Dues

Membership dues are recognized as revenue in the period to which the dues relate. Accordingly, dues paid by members in advance of the period to which they pertain are reflected in the accompanying consolidated statements of financial position as deferred dues.

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Publications

Publication revenue, which includes advertising revenue, is recorded when the publication is shipped and is reported net of any discounts in the accompanying consolidated statements of activities. Subscription revenue is recorded as deferred subscription revenue upon subscription order and is recognized as revenue ratably over the subscription period. Deferred subscription revenue is included in other deferred revenue in the accompanying consolidated statements of financial position. Effective January 1, 2011, the Association has outsourced the publication of NAIFA's official publication, *NAIFA's Advisor Today*, to a third party for an agreed upon monthly fee.

Contributions

Unrestricted contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made.

Conferences and Meetings

Conferences and meetings revenue consists of registrations and exhibit and sponsorship fees and is recognized in the year in which the conference takes place. Revenue from these activities received in advance of the meeting is reported as other deferred revenue in the accompanying consolidated statements of financial position.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates deemed to justify the benefits received by those programs and supporting services.

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 certain reported amounts and disclosures. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results could differ from those estimates.

Continued

2. Investments

The Association's investments are summarized as follows:

	August 31, 2012		August 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Limited partnership	$ -	$ -	$ 1,969,734	$ 1,907,681
Mutual Funds and ETFs	1,790,654	1,811,964	-	-
Total Investments	$ 1,790,654	$ 1,811,964	$ 1,969,734	$ 1,907,681

Investment returns, including the interest on cash and cash equivalents, are summarized as follows as of August 31:

	2012	2011
Interest and dividends	$ 10,173	$ 16,327
Realized loss	(231,322)	(38,474)
Unrealized gain (loss)	83,363	(63,143)
Total	$ (137,786)	$ (85,290)

The following table summarizes the Association's investments measured at fair value on a recurring basis as of August 31, 2012:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Fixed income:				
Intermediate government	$ 502,581	$ 502,581	$ -	$ -
Short term bonds	704,791	704,791	-	-
ETFs:				
Equity:				
Diversified emerging markets	18,891	18,891	-	-
Real estate	62,393	62,393	-	-
Large blend	462,864	462,864	-	-
Small cap	30,090	30,090	-	-
Small value	30,354	30,354	-	-
Total	$ 1,811,964	$ 1,811,964	$ -	$ -

2. Investments (continued)

The following table summarizes the Association's investments measured at fair value on a recurring basis as of August 31, 2011:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Limited partnership	$ 1,907,681	$ -	$ 1,907,681	$ -
Total	$ 1,907,681	$ -	$ 1,907,681	$ -

Mutual funds and Exchange traded funds – Level 1 investments include mutual funds and exchange traded funds and are valued at the NAV of shares held at year-end. The funds have readily available quoted market prices from an active market where there is significant transparency in the executed/quoted market price.

Limited partnership – Fair value of the limited partnership was estimated using the NAV per share provided by the partnership. As permitted under ASU No. 2009-12, the Association classified the limited partnership asset as Level 2 as the investment can be redeemed at NAV at the measurement date or in the near term.

The following represents a roll forward of the fair value measurements using significant unobservable inputs (Level 3) for the year ended August 31, 2011:

Balance as of September 1, 2010	$ 795,830
Unrealized losses	(57,906)
Purchases	1,200,000
Sales	-
Fees	(30,243)
Transfers in/out of Level 3	(1,907,681)
Balance as of August 31, 2011	$ -

The Association had no outstanding capital commitments as of August 31, 2011, related to the limited partnership. The limited partnership generally allows for quarterly redemptions, with a 30-day notification.

Continued

3. Property and Equipment

Property and equipment consist of the following as of August 31:

	2012	2011
Building and building improvements	$ 14,754,063	$ 14,622,093
Furniture and equipment	2,577,071	2,300,806
Land	1,550,825	1,550,825
Subtotal	18,881,959	18,473,724
Less: Accumulated Depreciation and Amortization	(6,644,369)	(5,988,870)
Net Property and Equipment	$ 12,237,590	$ 12,484,854

Depreciation and amortization expense for the years ended August 31, 2012 and 2011, was $657,686 and $640,956, respectively.

4. Note Payable

In December 2005, NAIFA obtained an $11,250,000 loan from an insurance company. The note is secured by the Association's land and building in Falls Church, Virginia. The note has a ten-year term which commenced in January 2006. Interest accrues at an annual rate of 5.37%. Payments of interest and principal are due monthly. The note matures December 1, 2015 with a balloon principal payment in the amount of $8,449,812 due at that time. As of August 31, 2012 and 2011, the balance due was $9,510,000 and $9,809,111, respectively. Interest paid under this note for the years ended August 31, 2012 and 2011, was $519,459 and $535,063, respectively.

The schedule of future principal payments under this note as of August 31, 2012, is as follows:

For the Year Ending August 31,	
2013	$ 315,575
2014	332,945
2015	351,271
2016	8,510,209
Total	$ 9,510,000

5. Net Assets

Undesignated

Undesignated net assets represent the unrestricted portion of the net assets of NAIFA and NAIFAPAC as of August 31, 2012 and 2011.

Board Designated

Reserve Fund

During the year ended August 31, 2005, the Board of Trustees of NAIFA voted to adopt a written reserve policy to provide emergency funds to meet unforeseen budget shortfalls, to provide seed money for new initiatives or programs, and to provide a means for funding future debt service requirements and the replacement of capital assets.

There was no activity in the reserve fund for the year ended August 31, 2012. During the year ended August 31, 2011, the Board approved the use of $500,000 of board designated funds to meet operating cash flow requirements. The Board also approved an addition of $52,500 to the reserve fund and a repayment of $1,099,403 to the reserve for previous borrowings by operations.

The balance of the Reserve Fund as of August 31, 2012 and 2011, was $2,802,023 and $2,955,076, respectively and is reflected as board designated funds in the accompanying consolidated statements of financial position. The assets comprising the Reserve Fund include investments of NAIFA of $1,811,964 and $1,907,681, respectively, as of August 31, 2012 and 2011, plus $990,059 and $1,047,395, respectively, of cash and cash equivalents as of August 31, 2012 and 2011, which amounts are included in the consolidated statements of financial position.

War Chest

These net assets totaling $17,956 and $61,151 as of August 31, 2012 and 2011, respectively, represent funds set aside by the Board of Trustees to respond to future legislative and regulatory initiatives, as needed. The assets comprising the War Chest reserve include cash and cash equivalents of $17,956 and $61,151, respectively, as of August 31, 2012 and 2011, which amounts are included in the consolidated statements of financial position.

Continued

6. Pension Plans

Defined Benefit Pension Plan

The Association maintains a noncontributory defined benefit pension plan (the Plan). Benefits are based upon years of service and employees' earnings during their years of employment. The Association's funding policy is to contribute annually based on actuarially determined funding amounts in accordance with ERISA guidelines. The Association adopted a resolution to freeze the defined benefit plan as of March 31, 2001, with the settlement date to be determined at a later date.

The measurement date for the following actuarial information was August 31st.

Obligations and Funded Status

	2012	2011
Projected benefit obligation	$(10,041,611)	$ (8,699,601)
Fair value of plan assets	6,951,357	6,277,112
Funded Status	$ (3,090,254)	$ (2,422,489)

Because the Plan has been frozen, the accumulated benefit obligation as of August 31, 2012 and 2011 of $10,041,611 and $8,699,601, respectively, is the same as the projected benefit obligation.

Amounts recognized in the accompanying consolidated statements of financial position consist of the following as of August 31st:

	2012	2011
Accrued benefit cost	$ 3,090,254	$ 2,422,489

Items not yet recognized as a component of net periodic pension cost and included in unrestricted net assets include the following:

	2012	2011
Cumulative unrecognized actuarial loss	$ (5,071,341)	$ (4,208,472)

The unrecognized actuarial gain (loss), net of amortization, was ($862,869) and $311,396 for the years ended August 31, 2012 and 2011, respectively.

Continued

6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Obligations and Funded Status (continued)

The amount of the cumulative unrecognized actuarial loss of $5,071,341 as of August 31, 2012 expected to be included in net periodic benefit cost for the year ending August 31, 2013 is $471,091.

Amounts recognized in the accompanying consolidated statements of activities consist of the following as of August 31st:

	2012	2011
Net periodic benefit cost	$ 295,746	$ 399,040

Contributions and benefits paid for the years ended August 31, 2012 and 2011, were as follows:

	2012	2011
Employer contribution	$ 490,850	$ 371,099
Benefits paid	$ 313,506	$ 503,127

Assumptions

Weighted average assumptions used in determining the benefit obligation and net periodic benefit cost as of August 31, 2012 and 2011, were as follows:

	2012	2011
Discount rate – benefit obligation	4.25%	5.50%
Discount rate – net periodic benefit cost	4.25%	5.50%
Expected long-term return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The Association's approach to determine the overall expected long-term rate of return is to determine a best estimate based upon the historical average of the real rate of return (net of inflation).

Continued

6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Plan Assets

As the Plan is frozen, the Association's investment objectives of the Plan's assets include an approach that seeks to achieve stable investment values in order to terminate the Plan at some future date rather than an investment appreciation approach aimed at maximizing returns over the long term.

The Association uses a long-term risk controlled approach using diversified investment options in a prudent manner to meet future benefit payment obligations. The Association's policy provides that the Plan's investments shall be diversified by asset class and by investment style. The investments of the Plan were held by Wilmington Trust. The asset allocation is reviewed and approved at least semi-annually by the Retirement Committee.

As of August 31, 2012, the Association's target long term strategic asset allocation is for 65% equities and 35% fixed income. The overall Plan asset allocation has an expected average annual return of 7.5% over a five year period. The average annual real rate of return, adjusted for inflation, is to be equal to or exceed 4.0% over a five year period.

Continued

6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Plan Assets (continued)

The Association's pension plan assets as of August 31, 2012 by asset category, using the fair value input measurements as outlined in Note 1 to these consolidated financial statements, were as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity mutual funds:				
U.S. large cap	$ 1,490,681	$ 1,490,681	$ -	$ -
Foreign large cap	634,907	634,907	-	-
U.S. small cap	823,700	823,700	-	-
U.S. mid cap	835,855	835,855	-	-
Diversified emerging markets	763,974	763,974	-	-
Fixed income mutual funds:				
Intermediate term bond	626,749	626,749	-	-
World bond	492,015	492,015	-	-
Inflation-protected bond	277,394	277,394	-	-
High yield bond	315,633	315,633	-	-
Commodity bond	221,735	221,735	-	-
Emerging market bond	286,882	286,882	-	-
Money market	39,535	39,535	-	-
Global real estate mutual fund	142,297	142,297	-	-
Total	$ 6,951,357	$ 6,951,357	$ -	$ -

6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Plan Assets (continued)

The Association's pension plan assets as of August 31, 2011 by asset category, using the fair value input measurements as outlined in Note 1 to these consolidated financial statements, were as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity mutual funds:				
U.S. large cap	$ 1,862,481	$ 1,862,481	$ -	$ -
Foreign large cap	534,576	534,576	-	-
U.S. small cap	485,109	485,109	-	-
U.S. mid cap	420,801	420,801	-	-
Diversified emerging markets	245,982	245,982	-	-
Fixed income mutual funds:				
Intermediate term bond	1,144,427	1,144,427	-	-
World bond	385,410	385,410	-	-
Inflation-protected bond	385,260	385,260	-	-
High yield bond	337,845	337,845	-	-
Money market	56,065	56,065	-	-
Global real estate mutual fund	419,156	419,156	-	-
Total	$ 6,277,112	$ 6,277,112	$ -	$ -

Equity, and fixed income and global real estate mutual funds – Level 1 investments include mutual funds which are valued at the NAV of shares held at year-end. The funds have readily available quoted market prices from an active market where there is significant transparency in the executed/quoted market price and the funds were redeemable at NAV as of August 31, 2012 and 2011.

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6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Plan Assets (continued)

The following represents a roll forward of the fair value measurements using significant unobservable inputs (Level 3) for the year ended August 31, 2011:

Balance as of August 31, 2010	$	64,591
Total net gains or losses (realized/unrealized)		1,995
Purchases		-
Sales		(66,586)
Transfers in/out of Level 3		-
Balance as of August 31, 2011	$	-

Contributions

Generally, the Association's funding policy is to contribute annually the actuarially determined minimum funding amount in accordance with ERISA guidelines. Management of the Association, based upon projections from its actuary using prior year information, expects to contribute approximately $536,000 to its pension plan during the year ending August 31, 2013.

Estimated Future Benefit Payments

Estimated future benefit payments over the next ten years are expected to be paid as follows:

For the Year Ending August 31,		
2013	$	410,682
2014		411,592
2015		443,410
2016		449,394
2017		492,583
Years 2018-2022		2,900,953

6. Pension Plans (continued)

Accrued Medical Benefits

The Association has a self-insured medical plan. As a result, the Association is required to accrue a liability related to claims that have been incurred but unpaid and an estimate for future claims that are not yet incurred. As of August 31, 2012 and 2011, this amount was $119,561 and $173,361, respectively, and is included in accrued pension and medical benefits in the accompanying consolidated statements of financial position.

Defined Contribution Plan

The Association also has a defined contribution 401(k) plan for employees meeting certain eligibility requirements. Under the terms of the defined contribution plan, eligible employees may elect to contribute up to the Federal tax limitation. The employer contribution is discretionary. Employees are fully vested after five years. The Association's contribution to the Plan was $124,986 and $102,932 for the years ended August 31, 2012 and 2011, respectively.

7. Commitments and Contingencies

Contractual Commitments

The Association has entered into various letters of agreement for commitments for hotel accommodations for its planned conferences through September 2016. In the event the Association were to cancel these reservations or fail to use a specified percentage of the total space reserved, the Association would be required to pay liquidated damages based upon the date the hotel was notified of the cancellation or reduction in requested rooms as well as the hotel's ability to fill the resulting vacancies. Management of the Association does not believe that any of these commitments will result in a loss due to liquidated damages. Accordingly, no amount for this potential liability has been reflected in the accompanying consolidated financial statements.

Concentration of Credit Risk

The cash and cash equivalents of the Association are comprised of amounts in accounts at various financial institutions. While the amounts at times exceed the amount guaranteed by federal agencies and therefore bear some risk, the Association places its cash and cash equivalents with high credit, quality financial institutions and seeks to limit the amount of credit exposure. The Association has not experienced, nor does it anticipate, any loss of funds.

Continued

7. Commitments and Contingencies (continued)

Concentration of Credit Risk (continued)

As of August 31, 2012 and 2011, the amount in excess of the amount guaranteed by federal agencies was $700,453 and $2,241,166, respectively.

Financial Support to Related Entities

Management of NAIFA has represented that it intends to provide financial support to NAIFASC sufficient to ensure the continued operations of NAIFASC.

Publication Contract

On October 8, 2010, the Association entered into a contract with a third party to provide publishing services starting with the January/February 2011 edition of the Association's magazine. Under the contract, the Association has agreed to pay a publishing fee of $18,000 per edition. If advertising sold exceeds 20 pages in any edition of the magazine, the third party shall reduce the publishing fee by $1,800 per advertising page in excess of 20 pages and if the third party sells more than 30 pages of advertising in any edition of the magazine, the third party will eliminate the publishing fee of $18,000 and will pay the Association $1,800 per advertising page sold and collected starting with the 31st page. The agreement has an initial term expiring on December 31, 2015.

8. Lease Agreements

The Association leases office space in the building it owns to various related and unrelated entities. Many of the leases contain a fixed escalation clause for increases in the annual minimum rent. Under accounting principles generally accepted in the United States of America, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this income and the required lease payments to be received is reflected as deferred rent receivable in the accompanying consolidated statements of financial position.

Continued

8. Lease Agreements (continued)

During the year ended August 31, 2008, one of the Association's building tenants terminated their lease early. The Association received a payment of $343,910 from this tenant in conjunction with the lease termination. The holder of the Association's note payable required this payment to be deposited in an interest bearing escrow account upon receipt and restricted for future use in offsetting certain costs associated with obtaining a replacement tenant. During the years ended August 31, 2012 and 2011, $275,483 and $68,427, respectively, of the funds were released from escrow. As of August 31, 2011, the proceeds from this lease termination are included in cash and cash equivalents in the accompanying consolidated statements of financial position. There was no amount in the escrow account as of August 31, 2012, as the Association fully leased the entire building.

As of August 31, 2012, future minimum rentals under all of these leases are as follows:

For the Years Ending August 31,	
2013	$ 1,014,113
2014	1,082,117
2015	1,105,246
2016	687,005
2017	638,834
Thereafter	3,058,921
Total	$ 7,586,236

9. Related Parties

Life and Health Insurance Foundation for Education (LIFE)

The board of directors of LIFE is appointed by LIFE's six members. For the years ended August 31, 2012 and 2011, NAIFA represented one of LIFE's six members. During the years ended August 31, 2012 and 2011, the Association was billed $460,961 and $447,554 from LIFE for membership dues.

Continued

9. Related Parties (continued)

GAMA

GAMA was an unincorporated conference of NAIFA. In January 2003 the board of NAIFA approved an agreement whereby GAMA would separately incorporate from NAIFA effective September 1, 2003. Under the terms of the agreement, NAIFA retains control over the approval of all bylaw amendments of GAMA and certain members of GAMA are required to be members of NAIFA.

Effective September 1, 2003, GAMA entered into a seven year office lease with NAIFA for space in the NAIFA headquarters building. In May 2008, an amendment to this lease agreement was entered into to extend the lease term through August 31, 2015. NAIFA billed GAMA $181,001 and $177,825 during the years ended August 31, 2012 and 2011, respectively, under the terms of the lease. Additionally, GAMA owed NAIFA $3,306 and $2,825 as of August 31, 2012 and 2011, respectively, for service fees and miscellaneous office charges. These amounts are included in accounts receivable in the accompanying consolidated statements of financial position.

10. Income Taxes

NAIFA is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. However, income from certain activities not directly related to NAIFA's tax-exempt purpose are subject to taxation as unrelated business income. NAIFA generates unrelated business income from commissions it receives from various affinity programs, advertising and rental income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

NAIFA had an accumulated federal net operating tax loss carryforward of approximately $860,000 and $730,000 as of August 31, 2012 and 2011, respectively. This tax loss carryforward begins to expire in the year 2025. The related deferred tax asset was fully reserved by management due to the uncertainty over the ability to recognize any future tax benefit based upon projections for taxable losses.

Continued

10. Income Taxes (continued)

NAIFAPAC is subject to federal and state income taxes on income other than exempt purpose income. For the years ended August 31, 2012 and 2011, no provision for income tax was required as NAIFAPAC did not generate any significant net taxable income.

NAIFASC is subject to federal and state income taxes and files separate federal and applicable state income tax returns. Temporary differences that give rise to the deferred tax assets are comprised of the difference between the financial statement carrying amount and the tax basis of net operating loss carryforwards, bad debt allowance reserves and payroll liabilities. NAIFASC had a net federal tax operating loss carryforward of approximately $1,335,000 and $1,175,000 for the years ended August 31, 2012 and 2011, respectively. This loss carryforward may be used to offset future taxable income and begins to expire in 2029.

The deferred tax asset of NAIFASC as of August 31, 2012 and 2011, has been fully reserved by management due to the uncertainty over the ability to recognize any future tax benefit based upon projections for operating and taxable losses.

The Association reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertain tax positions. For the years ended August 31, 2012 and 2011, management did not identify any uncertain tax positions requiring recognition or disclosure in these consolidated financial statements. Tax years reasonably considered open and subject to examination include returns for the years ended August 31, 2009 through the year ended August 31, 2011. It is the Association's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

The net deferred tax asset consists of the following as of August 31, 2012 and 2011:

	2012	2011
Deferred tax assets:		
NAIFA	$ 292,400	$ 248,000
NAIFASC	453,900	400,000
Deferred tax liability	-	-
Subtotal	746,300	648,000
Deferred tax valuation allowance – NAIFA	(292,400)	(248,000)
Deferred tax valuation allowance – NAIFASC	(453,900)	(400,000)
Net deferred tax assets	$ -	$ -

11. Reclassifications

Certain 2011 amounts have been reclassified to conform with the 2012 consolidated financial statement presentation.

12. Subsequent Events

In preparing these consolidated financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 11, 2012, the date the consolidated financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL CONSOLIDATING INFORMATION

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2012

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
ASSETS						
Cash and cash equivalents	$ 2,404,914	$ 1,267,499	$ 7,966	$ 3,680,379	$ -	$ 3,680,379
Net accounts receivable	149,343	-	-	149,343	(31,081)	118,262
Deferred rent receivable	494,802	-	-	494,802	(1,368)	493,434
Prepaid expenses	713,292	-	17,293	730,585	-	730,585
Investments	1,811,964	-	-	1,811,964	-	1,811,964
Investment in NAIFASC	(41,500)	-	-	(41,500)	41,500	-
Deposits and other assets	722,352	-	6,031	728,383	(6,031)	722,352
Net property and equipment	12,237,590	-	-	12,237,590	-	12,237,590
TOTAL ASSETS	$ 18,492,757	$ 1,267,499	$ 31,290	$ 19,791,546	$ 3,020	$ 19,794,566
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	$ 984,474	$ 106,850	$ 5,956	$ 1,097,280	$ (37,112)	$ 1,060,168
Deferred dues	3,098,866	-	-	3,098,866	-	3,098,866
Other deferred revenue	1,122,155	-	66,834	1,188,989	(1,368)	1,187,621
Accrued pension and medical benefits	3,209,815	-	-	3,209,815	-	3,209,815
Note payable	9,510,000	-	-	9,510,000	-	9,510,000
TOTAL LIABILITIES	17,925,310	106,850	72,790	18,104,950	(38,480)	18,066,470
NET ASSETS						
Unrestricted						
Undesignated	2,818,809	1,160,649	-	3,979,458	-	3,979,458
Board Designated	2,819,979	-	-	2,819,979	-	2,819,979
Accumulated net unrecognized actuarial loss	(5,071,341)	-	-	(5,071,341)	-	(5,071,341)
TOTAL NET ASSETS	567,447	1,160,649	-	1,728,096	-	1,728,096
STOCKHOLDER'S EQUITY						
Common stock	-	-	1,000	1,000	(1,000)	-
Treasury stock	-	-	(10,000)	(10,000)	10,000	-
Additional paid-in capital	-	-	1,573,460	1,573,460	(1,573,460)	-
Retained earnings	-	-	(1,605,960)	(1,605,960)	1,605,960	-
TOTAL STOCKHOLDER'S EQUITY	-	-	(41,500)	(41,500)	41,500	-
TOTAL LIABILITIES AND NET ASSETS	$ 18,492,757	$ 1,267,499	$ 31,290	$ 19,791,546	$ 3,020	$ 19,794,566

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2011

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
ASSETS						
Cash and cash equivalents	$ 1,950,199	$ 859,425	$ 91,228	$ 2,900,852	$ -	$ 2,900,852
Net accounts receivable	282,508	-	3,276	285,784	(31,679)	254,105
Deferred rent receivable	203,184	-	-	203,184	-	203,184
Prepaid expenses	712,096	-	18,002	730,098	-	730,098
Investments	1,907,681	-	-	1,907,681	-	1,907,681
Investment in NAIFASC	33,947	-	-	33,947	(33,947)	-
Deposits and other assets	714,491	-	6,030	720,521	(6,030)	714,491
Net property and equipment	12,484,854	-	-	12,484,854	-	12,484,854
TOTAL ASSETS	$ 18,288,960	$ 859,425	$ 118,536	$ 19,266,921	$ (71,656)	$ 19,195,265
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	$ 1,081,862	$ 182,483	$ 13,046	$ 1,277,391	$ (37,709)	$ 1,239,682
Deferred dues	3,207,533	-	-	3,207,533	-	3,207,533
Other deferred revenue	1,096,849	-	71,543	1,168,392	-	1,168,392
Accrued pension and medical benefits	2,595,850	-	-	2,595,850	-	2,595,850
Note payable	9,809,111	-	-	9,809,111	-	9,809,111
TOTAL LIABILITIES	17,791,205	182,483	84,589	18,058,277	(37,709)	18,020,568
NET ASSETS						
Unrestricted						
Undesignated	1,690,000	676,942	-	2,366,942	-	2,366,942
Board Designated	3,016,227	-	-	3,016,227	-	3,016,227
Accumulated net unrecognized actuarial loss	(4,208,472)	-	-	(4,208,472)	-	(4,208,472)
TOTAL NET ASSETS	497,755	676,942	-	1,174,697	-	1,174,697
STOCKHOLDER'S EQUITY						
Common stock	-	-	1,000	1,000	(1,000)	-
Treasury stock	-	-	(10,000)	(10,000)	10,000	-
Additional paid-in capital	-	-	1,487,410	1,487,410	(1,487,410)	-
Retained earnings	-	-	(1,444,463)	(1,444,463)	1,444,463	-
TOTAL STOCKHOLDER'S EQUITY	-	-	33,947	33,947	(33,947)	-
TOTAL LIABILITIES AND NET ASSETS	$ 18,288,960	$ 859,425	$ 118,536	$ 19,266,921	$ (71,656)	$ 19,195,265

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2012

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
REVENUE AND OTHER SUPPORT						
Dues	$ 11,990,911	$ -	$ -	$ 11,990,911	$ -	$ 11,990,911
Publications	6,735	-	281,726	288,461	(20,160)	268,301
Political and other contributions	60,000	1,761,585	-	1,821,585	(200,000)	1,621,585
Conferences and meetings	1,108,022	-	-	1,108,022	-	1,108,022
Rental income and service fees	1,198,135	-	-	1,198,135	(97,776)	1,100,359
Product sales, royalties and commissions	352,330	-	11,386	363,716	(84,823)	278,893
Awards, education and professional development	120,337	-	-	120,337	-	120,337
Investment (loss) income	(137,806)	20	-	(137,786)	-	(137,786)
Other	92,454	-	-	92,454	-	92,454
TOTAL REVENUE AND OTHER SUPPORT	14,791,118	1,761,605	293,112	16,845,835	(402,759)	16,443,076
EXPENSES						
Program services						
Legislation, regulation and ethics	2,798,875	1,277,898	-	4,076,773	(200,000)	3,876,773
Support of state and local members	2,249,894	-	-	2,249,894	(6,720)	2,243,174
Publications and communication	655,550	-	356,833	1,012,383	(85,943)	926,440
Conference	1,091,959	-	-	1,091,959	(1,680)	1,090,279
Member benefits and professional development	916,910	-	-	916,910	(10,640)	906,270
Total program services	7,713,188	1,277,898	356,833	9,347,919	(304,983)	9,042,936
Supporting services						
Governance and administration	5,983,872	-	97,776	6,081,648	(97,776)	5,983,872
Total supporting services	5,983,872	-	97,776	6,081,648	(97,776)	5,983,872
TOTAL EXPENSES	13,697,060	1,277,898	454,609	15,429,567	(402,759)	15,026,808
EQUITY IN EARNINGS OF SUBSIDIARY NAIFASC	(161,497)	-	-	(161,497)	161,497	-
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNRECOGNIZED ACTUARIAL LOSS	932,561	483,707	(161,497)	1,254,771	161,497	1,416,268
Unrecognized actuarial loss, net of amortization	(862,869)	-	-	(862,869)	-	(862,869)
CHANGE IN NET ASSETS	$ 69,692	$ 483,707	$ (161,497)	$ 391,902	$ 161,497	$ 553,399

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2011

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
REVENUE AND OTHER SUPPORT						
Dues	$ 12,034,482	$ -	$ -	$ 12,034,482	$ -	$ 12,034,482
Publications	5,068	-	798,536	803,604	(23,675)	779,929
Political and other contributions	58,000	1,657,281	-	1,715,281	(220,000)	1,495,281
Conferences and meetings	1,155,833	-	-	1,155,833	-	1,155,833
Rental income and service fees	924,362	-	-	924,362	(279,458)	644,904
Product sales, royalties and commissions	368,005	-	10,252	378,257	(90,914)	287,343
Awards, education and professional development	289,046	-	-	289,046	-	289,046
Investment (loss) income	(85,337)	47	-	(85,290)	-	(85,290)
Other	106,434	-	415	106,849	-	106,849
TOTAL REVENUE AND OTHER SUPPORT	14,855,893	1,657,328	809,203	17,322,424	(614,047)	16,708,377
EXPENSES						
Program services						
Legislation, regulation and ethics	2,710,623	1,522,366	-	4,232,989	(221,980)	4,011,009
Support of state and local members	2,047,480	-	-	2,047,480	(7,160)	2,040,320
Publications and communication	522,502	-	899,333	1,421,835	(90,914)	1,330,921
Conference	1,096,246	-	-	1,096,246	(4,360)	1,091,886
Member benefits and professional development	1,018,816	-	-	1,018,816	(12,155)	1,006,661
Total program services	7,395,667	1,522,366	899,333	9,817,366	(336,569)	9,480,797
Supporting services						
Governance and administration	5,950,041	-	277,478	6,227,519	(277,478)	5,950,041
Total supporting services	5,950,041	-	277,478	6,227,519	(277,478)	5,950,041
TOTAL EXPENSES	13,345,708	1,522,366	1,176,811	16,044,885	(614,047)	15,430,838
EQUITY IN EARNINGS OF SUBSIDIARY NAIFASC	(367,608)	-	-	(367,608)	367,608	-
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNRECOGNIZED ACTUARIAL GAIN	1,142,577	134,962	(367,608)	909,931	367,608	1,277,539
Unrecognized actuarial gain, net of amortization	311,396	-	-	311,396	-	311,396
CHANGE IN NET ASSETS	$ 1,453,973	$ 134,962	$ (367,608)	$ 1,221,327	$ 367,608	$ 1,588,935