NAIFA

CONNECTIONS THAT COUNT

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

Consolidated Financial Statements

For the Years Ended August 31, 2013 and 2012

and
Report Thereon

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

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For the Years Ended August 31, 2013 and 2012

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the National Association of Insurance and Financial Advisors (NAIFA), Subsidiary and Affiliate (collectively referred to as the Association) which comprise the consolidated statements of financial position as of August 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the supplemental consolidating statements of financial position and activities 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 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, 2013

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS, SUBSIDIARY AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 3,696,475	$ 3,680,379
Accounts receivable, net of allowance for doubtful accounts of $15,000 for 2013 and 2012	73,932	118,262
Deferred rent receivable	-	493,434
Prepaid expenses	547,256	730,585
Investments	4,196,493	1,811,964
Pension asset	888,711	-
Deposits and other assets	285,935	722,352
Net property and equipment	350,702	12,237,590
TOTAL ASSETS	$ 10,039,504	$ 19,794,566
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,018,779	$ 1,060,168
Deferred dues	2,886,210	3,098,866
Deferred gain on sale-leaseback	3,477,401	-
Other deferred revenue	1,131,895	1,187,621
Accrued pension and medical benefits	105,081	3,209,815
Note payable	-	9,510,000
TOTAL LIABILITIES	8,619,366	18,066,470
Net Assets		
Unrestricted		
Undesignated	1,233,257	3,979,458
Board designated	4,523,353	2,819,979
Accumulated net unrecognized actuarial loss	(4,336,472)	(5,071,341)
TOTAL NET ASSETS	1,420,138	1,728,096
TOTAL LIABILITIES AND NET ASSETS	$ 10,039,504	$ 19,794,566

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, 2013 and 2012

	2013	2012
REVENUE AND OTHER SUPPORT		
Dues	$ 11,792,743	$ 11,990,911
Publications	259,483	268,301
Political and other contributions	1,639,551	1,621,585
Conferences and meetings	1,140,791	1,108,022
Rental income and service fees	470,202	1,100,359
Product sales, royalties and commissions	254,167	278,893
Awards, education and professional development	326,285	120,337
Investment gain (loss)	93,405	(137,786)
Other	129,160	92,454
TOTAL REVENUE AND OTHER SUPPORT	16,105,787	16,443,076
EXPENSES		
Program services		
Legislation, regulation and ethics	4,582,029	3,876,773
Support of state and local members	2,103,207	2,243,174
Publications and communication	972,055	926,440
Conference	1,158,359	1,090,279
Member benefits and professional development	1,141,515	906,270
Total program services	9,957,165	9,042,936
Supporting services		
Governance and administration	7,191,449	5,983,872
Total supporting services	7,191,449	5,983,872
TOTAL EXPENSES	17,148,614	15,026,808
Change in Unrestricted Net Assets Before Unrecognized Actuarial Gain (Loss)	(1,042,827)	1,416,268
Unrecognized actuarial gain (loss), net of amortization	734,869	(862,869)
Change in Net Assets	(307,958)	553,399
NET ASSETS, BEGINNING OF YEAR	1,728,096	1,174,697
NET ASSETS, END OF YEAR	$ 1,420,138	$ 1,728,096

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, 2013 and 2012
Increase (Decrease) in Cash and Cash Equivalents

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (307,958)	$ 553,399
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized gain on investments	(42,889)	(83,363)
Realized loss on sale of investments	5,605	231,322
Depreciation and amortization	598,137	657,686
Loss on disposal of fixed assets	6,766	-
Unrecognized actuarial (gain) loss	(734,869)	862,869
Amortization of deferred gain on sale-leaseback	(43,833)	-
Provision for doubtful accounts receivable	-	(2,300)
Changes in assets and liabilities:		
Accounts receivable	44,330	138,143
Deferred rent receivable	493,434	(290,250)
Prepaid expenses	183,329	(487)
Pension asset	(888,711)	-
Deposits and other assets	436,417	(7,861)
Accounts payable and accrued expenses	(41,389)	(179,514)
Deferred dues	(212,656)	(108,667)
Other deferred revenue	(55,726)	19,229
Accrued pension and medical benefits	(2,369,865)	(248,904)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,929,878)	1,541,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,772,245)	(1,790,654)
Proceeds from the sale of investments	1,425,000	1,738,412
Purchases of property and equipment	(1,196,781)	(410,422)
Proceeds from the sale-leaseback	16,000,000	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	12,455,974	(462,664)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	(9,510,000)	(299,111)
NET CASH USED IN FINANCING ACTIVITIES	(9,510,000)	(299,111)
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,096	779,527
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,680,379	2,900,852
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,696,475	$ 3,680,379
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for interest	$ 441,079	$ 519,459

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 615 state and local associations and approximately 42,000 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 Equivalents

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

Investments

Investments include various mutual funds, exchange traded funds (ETFs) and certificates of deposit with an original maturity date greater than ninety days. 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.

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

Fair Value Measurements

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.

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.

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, 2013 and 2012, 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. 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. As of August 31, 2013, the Association no longer owned its building so this pronouncement was not applicable.

Deferred Gain on Sale-leaseback

Deferred gain on sale-leaseback associated with the sale of the building transaction is recorded as a liability and is amortized on a straight-line basis over the lease term of ten years.

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.

Contributions

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

Continued

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

Revenue Recognition (continued)

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.

2. Investments

The Association's investments are summarized as follows:

	August 31, 2013		August 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	$ 1,350,000	$ 1,349,978	$ -	$ -
Mutual Funds and ETFs	2,782,329	2,846,515	1,790,689	1,811,964
Total Investments	$ 4,132,329	$ 4,196,493	$ 1,790,689	$ 1,811,964

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

	2013	2012
Interest and dividends	$ 56,121	$ 10,173
Realized loss	(5,605)	(231,322)
Unrealized gain	42,889	83,363
Total	$ 93,405	$ (137,786)

Continued

2. Investments (continued)

The following table summarizes the Association's investments measured at fair value on a recurring basis as of August 31, 2013:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Intermediate government funds	$ 276,224	$ 276,224	$ -	$ -
Short term bond funds	1,273,157	1,273,157	-	-
ETFs:				
Diversified emerging markets	56,354	56,354	-	-
Real estate	100,169	100,169	-	-
Large blend	939,515	939,515	-	-
Small cap	101,684	101,684	-	-
Small value	99,412	99,412	-	-
Certificates of deposit	1,349,978	-	1,349,978	-
Total	$ 4,196,493	$ 2,846,515	$ 1,349,978	$ -

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:				
Intermediate government funds	$ 502,581	$ 502,581	$ -	$ -
Short term bond funds	704,791	704,791	-	-
ETFs:				
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)

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.

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. A yield-based matrix system was used to arrive at an estimated market value for these instruments which are classified within Level 2 of the valuation hierarchy.

3. Property and Equipment

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

	2013	2012
Furniture and equipment	$ 2,187,842	$ 2,577,071
Building and building improvements	-	14,754,063
Leasehold improvements	50,228	-
Land	-	1,550,825
Subtotal	2,238,070	18,881,959
Less: Accumulated Depreciation and Amortization	(1,887,368)	(6,644,369)
Net Property and Equipment	$ 350,702	$ 12,237,590

Depreciation and amortization expense for the years ended August 31, 2013 and 2012, was $598,137 and $657,686, respectively.

In July 2013, NAIFA signed an agreement to sell its land and building in Falls Church, Virginia for $16,000,000. The gain on the sale was calculated by NAIFA as $3,521,234. Under FASB ASC Topic 840 *Sale-leaseback transactions,* the gain is deferred and recognized on a straight-line basis due to the fact that NAIFA is leasing back a substantial portion of the building for 10 years (Note 7). This resulted in a deferred gain on the sale-leaseback of the building in the same amount, with current year amortization totaling $43,833. The balance of the deferred gain of $3,477,401 as of August 31, 2013, is included in the consolidated statements of financial position. As part of the sale, NAIFA paid approximately $1 million in building improvements and transferred all of its lease agreements with the tenants of the building to the new owner. As a result, the deferred rent receivable that was associated with NAIFA's role as the landlord for the building was appropriately booked against the current year rental income and deferred brokerage commission expense was expensed as commission expense in conjunction with the sale of the building.

Continued

4. Note Payable

In December 2005, NAIFA obtained an $11,250,000 loan from an insurance company. The note was secured by the Association's land and building in Falls Church, Virginia. The note had a ten-year term which commenced in January 2006. Interest accrued at an annual rate of 5.37%. Payments of interest and principal were due monthly. The note was scheduled to mature December 1, 2015 with a balloon principal payment in the amount of $8,449,812 due at that time. As of August 31, 2012, the balance due was $9,510,000. NAIFA used a portion of the proceeds from the sale of the building discussed in Note 3 to repay the note payable and therefore there was no liability owed on the note payable as of August 31, 2013. Interest paid under this note for the years ended August 31, 2013 and 2012, was $441,037 and $519,459, respectively.

5. Net Assets

Undesignated

Undesignated net assets represent the unrestricted portion of the net assets of the Association as of August 31, 2013 and 2012.

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, 2013, the Board approved the use of $212,000 of board designated funds to sponsor a GAMA Foundation project, there was net investment income of $79,011, and the Board approved an addition of $1,830,363 to the fund.

The balance of the Reserve Fund as of August 31, 2013 and 2012 was $4,499,397 and $2,802,023, respectively and is included in board designated funds in the accompanying consolidated statements of financial position. The assets comprising the Reserve Fund include investments of NAIFA of $3,696,566 and $1,811,964, respectively, as of August 31, 2013 and 2012, plus $802,831 and $990,059, respectively, of cash and cash equivalents as of August 31, 2013 and 2012.

War Chest

These net assets totaling $23,956 and $17,956 as of August 31, 2013 and 2012, 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 include cash and cash equivalents as of August 31, 2013 and 2012.

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

	2013	2012
Projected benefit obligation	$ (9,526,679)	$(10,041,611)
Fair value of plan assets	10,415,390	6,951,357
Funded Status	$ 888,711	$ (3,090,254)

Because the Plan has been frozen, the accumulated benefit obligation as of August 31, 2013 and 2012 of $9,526,679 and $10,041,611, 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:

	2013	2012
Accrued benefit cost	$ -	$ 3,090,254
Pension asset	$ (888,711)	$ -

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

	2013	2012
Cumulative unrecognized actuarial loss	$ (4,336,472)	$ (5,071,341)

The unrecognized actuarial gain (loss), net of amortization, was a gain of $734,869 and a loss of $862,869 for the years ended August 31, 2013 and 2012, respectively.

The amount of the cumulative unrecognized actuarial loss of $4,336,472 as of August 31, 2013 expected to be included in net periodic benefit cost for the year ending August 31, 2014 is $336,537

Continued

6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Obligations and Funded Status (continued)

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

	2013	2012
Net periodic benefit cost	$ 392,009	$ 295,746

Contributions and benefits paid for the years ended August 31, 2013 and 2012, were as follows:

	2013	2012
Employer contribution	$ 3,636,105	$ 490,850
Benefits paid	$ 809,380	$ 313,506

Assumptions

Weighted average assumptions used in determining the benefit obligation and net periodic benefit cost as of August 31, 2013 and 2012, were as follows:

	2013	2012
Discount rate – benefit obligation	5.25%	4.25%
Discount rate – net periodic benefit cost	4.25%	4.25%
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).

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 asset allocation is reviewed and approved at least semi-annually by the Retirement Committee.

Continued

6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Plan Assets (continued)

As of August 31, 2013, the Association's target long term strategic asset allocation is for 54% equities, 45% fixed income and 1% cash. The overall Plan asset allocation has an expected average annual return of 7.5% over a five year period.

The Association's pension plan assets as of August 31, 2013, 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	$ 2,678,760	$ 2,678,760	$ -	$ -
Foreign large cap	523,602	523,602	-	-
U.S. small cap	820,150	820,150	-	-
U.S. mid cap	429,395	429,395	-	-
Diversified emerging markets	209,373	209,373	-	-
Fixed income mutual funds:				
Intermediate term bond	1,686,757	1,686,757	-	-
World bond	416,003	416,003	-	-
Inflation-protected bond	628,088	628,088	-	-
High yield bond	740,322	740,322	-	-
Commodity bond	325,689	325,689	-	-
Emerging market bond	207,604	207,604	-	-
Convertible securities bond	522,301	522,301	-	-
Floating rate bond	530,781	530,781	-	-
Global real estate mutual fund	624,708	624,708	-	-
Money market	71,857	71,857	-	-
Total	$ 10,415,390	$ 10,415,390	$ -	$ -

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	-	-
Global real estate mutual fund	142,297	142,297	-	-
Money market	39,535	39,535	-	-
Total	$ 6,951,357	$ 6,951,357	$ -	$ -

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.

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6. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Contributions

Generally, the Association's funding policy is to contribute annually the actuarially determined minimum funding amount in accordance with ERISA guidelines. However, during the year ended August 31, 2013, the Association used a portion of the cash proceeds received as a result of the sale-leaseback of its building (Note 3) to fund an additional contribution of $3,100,000 to the Plan in addition to the approximately $536,000 originally projected to be contributed in 2013. Management of the Association, based upon projections from its actuary using prior year information, expects to contribute approximately $117,012 to its pension plan during the year ending August 31, 2014.

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,	
2014	$ 447,141
2015	477,230
2016	490,267
2017	534,795
2018	581,943
Years 2019-2023	3,260,034

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 not yet paid and an estimate for future claims not yet incurred. As of August 31, 2013 and 2012, this amount was $105,081 and $119,561, 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 $129,611 and $124,986 for the years ended August 31, 2013 and 2012, respectively.

Continued

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. As of August 31, 2013 and 2012, the amount in excess of the amount guaranteed by federal agencies was $ 3,097,400 and $700,453, 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.

Operating Lease

In conjunction with the sale of building in July 2013, NAIFA entered into a ten-year noncancelable operating lease commencing on July 16, 2013 to leaseback its office space in the building in Falls Church, Virginia. NAIFA is entitled to extend the term of the lease for five years. This lease agreement contains a provision for an increase in rent of 3% per annum beginning on the first anniversary date.

Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

Continued

7. Commitments and Contingencies (continued)

Operating Lease (continued)

During the year ended August 31, 2013, NAIFA's total rent expense under this lease was $102,257.

As of August 31, 2013, total future minimum annual lease payments under the principal office lease are as follows:

For the Year Ending August 31,	
2014	$ 708,156
2015	729,401
2016	751,283
2017	773,821
2018	797,036
Thereafter	4,279,407
Total	$ 8,039,104

The Association leased office space in the building it owned to various related and unrelated entities. In July 2013, NAIFA signed an agreement to sell its land and building in Falls Church, Virginia and transferred all of its lease agreements with the tenants of the building to the new owner.

8. 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, 2013 and 2012, NAIFA represented one of LIFE's six members. During the years ended August 31, 2013 and 2012, the Association was billed $408,493 and $460,961 from LIFE for membership dues.

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.

Continued

8. Related Parties (continued)

GAMA (continued)

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. When NAIFA sold the building in July 2013, the lease agreement with GAMA was assigned to the new owner. NAIFA billed GAMA $169,527 and $181,001 during the years ended August 31, 2013 and 2012, respectively, under the terms of the lease. Additionally, GAMA owed NAIFA $3,330 and $3,306 as of August 31, 2013 and 2012, respectively, for service fees and miscellaneous office charges. These amounts are included in accounts receivable in the accompanying consolidated statements of financial position. During the year ended August 31, 2013, NAIFA also made a research grant of $212,000 to the GAMA Foundation, a 501(c)(3) charitable entity that is not related to NAIFA and that shares office space with GAMA and has a similar name. As of August 31, 2013, NAIFA owed the GAMA Foundation a balance of $107,000 on the grant which is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

9. 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 related to debt financed property. In addition, because NAIFA's building was debt financed, a portion of the gain from the sale of the building in July 2013 is also considered unrelated business 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 $945,000 as of August 31, 2012. As of August 31, 2013 and 2012, the related deferred tax asset was fully reserved by management due to uncertainty over the ability to recognize any future tax benefit based upon projections for taxable losses. In July 2013 when the building was sold (Note 3), the net operating tax loss carryforward was reduced to approximately $125,000 as of August 31, 2013 to offset the tax due related to the net gain on the sale of the building. The remaining operating loss carryforward expires in the year 2033.

Continued

9. 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, 2013 and 2012, 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 differences 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 $1,527,000 and $1,335,000 for the years ended August 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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, 2010 through the year ended August 31, 2012. 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, 2013 and 2012:

	2013	2012
Deferred tax assets:		
NAIFA	$ 42,300	$ 292,400
NAIFASC	519,180	453,900
Deferred tax liability	-	-
Subtotal	561,480	746,300
Deferred tax valuation allowance – NAIFA	(42,300)	(292,400)
Deferred tax valuation allowance – NAIFASC	(519,180)	(453,900)
Net deferred tax assets	$ -	$ -

10. Subsequent Events

In preparing these consolidated financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 11, 2013, 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, 2013

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
ASSETS						
Cash and cash equivalents	$ 2,231,649	$ 1,445,356	$ 19,470	$ 3,696,475	$ -	$ 3,696,475
Net accounts receivable	103,485	-	-	103,485	(29,553)	73,932
Deferred rent receivable	-	-	-	-	-	-
Prepaid expenses	527,379	-	19,877	547,256	-	547,256
Investments	4,196,493	-	-	4,196,493	-	4,196,493
Investment in NAIFASC	(29,019)	-	-	(29,019)	29,019	-
Pension asset	888,711	-	-	888,711	-	888,711
Deposits and other assets	285,935	-	-	285,935	-	285,935
Net property and equipment	350,702	-	-	350,702	-	350,702
TOTAL ASSETS	$ 8,555,335	$ 1,445,356	$ 39,347	$ 10,040,038	$ (534)	$ 10,039,504
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	$ 940,568	$ 100,374	$ 7,390	$ 1,048,332	$ (29,553)	$ 1,018,779
Deferred dues	2,886,210	-	-	2,886,210	-	2,886,210
Deferred gain on sale-leaseback	3,477,401	-	-	3,477,401	-	3,477,401
Other deferred revenue	1,070,919	-	60,976	1,131,895	-	1,131,895
Accrued medical benefits	105,081	-	-	105,081	-	105,081
TOTAL LIABILITIES	8,480,179	100,374	68,366	8,648,919	(29,553)	8,619,366
NET ASSETS						
Unrestricted						
Undesignated	(111,725)	1,344,982	-	1,233,257	-	1,233,257
Board Designated	4,523,353	-	-	4,523,353	-	4,523,353
Accumulated net unrecognized actuarial loss	(4,336,472)	-	-	(4,336,472)	-	(4,336,472)
TOTAL NET ASSETS	75,156	1,344,982	-	1,420,138	-	1,420,138
STOCKHOLDER'S EQUITY						
Common stock	-	-	1,000	1,000	(1,000)	-
Treasury stock	-	-	(10,000)	(10,000)	10,000	-
Additional paid-in capital	-	-	1,781,785	1,781,785	(1,781,785)	-
Retained earnings	-	-	(1,801,804)	(1,801,804)	1,801,804	-
TOTAL STOCKHOLDER'S EQUITY	-	-	(29,019)	(29,019)	29,019	-
TOTAL LIABILITIES AND NET ASSETS	$ 8,555,335	$ 1,445,356	$ 39,347	$ 10,040,038	$ (534)	$ 10,039,504

**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 ACTIVITIES
For the Year Ended August 31, 2013

	NAIFA	NAIFAPAC	NAIFASC	Total	Eliminations	Total
REVENUE AND OTHER SUPPORT						
Dues	$ 11,792,743	$ -	$ -	$ 11,792,743	$ -	$ 11,792,743
Publications	8,462	-	273,421	281,883	(22,400)	259,483
Political and other contributions	151,000	1,718,551	-	1,869,551	(230,000)	1,639,551
Conferences and meetings	1,140,791	-	-	1,140,791	-	1,140,791
Rental income and service fees	567,432	-	-	567,432	(97,230)	470,202
Product sales, royalties and commissions	322,461	-	4,107	326,568	(72,401)	254,167
Awards, education and professional development	326,285	-	-	326,285	-	326,285
Investment gain (loss)	93,405	-	-	93,405	-	93,405
Other	129,160	-	-	129,160	-	129,160
TOTAL REVENUE AND OTHER SUPPORT	14,531,739	1,718,551	277,528	16,527,818	(422,031)	16,105,787
EXPENSES						
Program services						
Legislation, regulation and ethics	3,278,931	1,534,218	-	4,813,149	(231,120)	4,582,029
Support of state and local members	2,109,927	-	-	2,109,927	(6,720)	2,103,207
Publications and communication	673,417	-	373,828	1,047,245	(75,190)	972,055
Conference	1,160,039	-	-	1,160,039	(1,680)	1,158,359
Member benefits and professional development	1,151,606	-	-	1,151,606	(10,091)	1,141,515
Total program services	8,373,920	1,534,218	373,828	10,281,966	(324,801)	9,957,165
Supporting services						
Governance and administration	7,189,135	-	99,544	7,288,679	(97,230)	7,191,449
Total supporting services	7,189,135	-	99,544	7,288,679	(97,230)	7,191,449
TOTAL EXPENSES	15,563,055	1,534,218	473,372	17,570,645	(422,031)	17,148,614
EQUITY IN EARNINGS OF SUBSIDIARY NAIFASC	(195,844)	-	-	(195,844)	195,844	-
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNRECOGNIZED ACTUARIAL GAIN	(1,227,160)	184,333	(195,844)	(1,238,671)	195,844	(1,042,827)
Unrecognized actuarial gain, net of amortization	734,869	-	-	734,869	-	734,869
CHANGE IN NET ASSETS	$ (492,291)	$ 184,333	$ (195,844)	$ (503,802)	$ 195,844	$ (307,958)

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