

INTERNATIONAL ASSOCIATION OF FIREFIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

for the year ended September 30, 2013

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
International Association of Fire Fighters and its Subsidiary and Affiliates
Washington, DC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of International Association of Fire Fighters (a nonprofit organization) and its subsidiary and affiliates (the Association), which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Association of Fire Fighters and its subsidiary and affiliates (the Association) as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Renner and Company, CPA, P. C.

January 27, 2014

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2013

ASSETS

LIABILITIES AND NET ASSETS

| | Unrestricted | Pension | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|---------------------|------------------------|------------------------|----------------------|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 10,455,730 | - | \$ 5,338,427 | - | \$ 15,794,157 |
| Investments | 13,054,780 | - | - | - | 13,054,780 |
| Accounts receivable, net | 2,232,176 | - | - | - | 2,232,176 |
| Grants receivable | 2,166,559 | - | - | - | 2,166,559 |
| Financial assistance loans, net | 190,679 | - | - | - | 190,679 |
| Prepaid expenses | 542,276 | - | - | - | 542,276 |
| Inventories | 69,219 | - | - | - | 69,219 |
| TOTAL CURRENT ASSETS | \$ 28,711,419 | \$ - | \$ 5,338,427 | \$ - | \$ 34,049,846 |
| PROPERTY, net | \$ 1,731,954 | \$ - | \$ - | \$ - | \$ 1,731,954 |
| OTHER ASSETS | | | | | |
| Financial assistance loans, net | \$ 307,054 | - | - | - | \$ 307,054 |
| Other investments - United Unions, Inc. | 2,088,645 | - | - | - | 2,088,645 |
| Collections - Memorials | - | - | - | 423,953 | 423,953 |
| Deferred compensation investments | 3,005,741 | - | - | - | 3,005,741 |
| Rabbi Trust assets | - | 4,049,189 | - | - | 4,049,189 |
| TOTAL OTHER ASSETS | \$ 5,401,440 | \$ 4,049,189 | \$ - | \$ 423,953 | \$ 9,874,582 |

| | Unrestricted | Pension | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|----------------------|------------------------|------------------------|----------------------|
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ 3,290,247 | - | - | - | \$ 3,290,247 |
| Accrued expenses | 257,560 | - | - | - | 257,560 |
| Salaries and benefits | 3,009,602 | - | - | - | 3,009,602 |
| Leave and severance | - | 3,129,102 | - | - | 3,129,102 |
| Accrued pension liability | - | - | - | - | - |
| Deferred rent | 119,675 | - | - | - | 119,675 |
| Deferred revenue | 449,368 | - | - | - | 449,368 |
| Capital lease obligation | 110,640 | - | - | - | 110,640 |
| TOTAL CURRENT LIABILITIES | \$ 7,237,092 | \$ 3,129,102 | \$ - | \$ - | \$ 10,366,194 |
| LONG-TERM LIABILITIES | | | | | |
| Accrued pension liability, net of current | \$ - | \$ 20,395,357 | - | - | \$ 20,395,357 |
| Deferred rent, net of current | 1,124,778 | - | - | - | 1,124,778 |
| Capital lease obligation, net of current | 336,379 | - | - | - | 336,379 |
| Deferred compensation liability | 3,005,741 | - | - | - | 3,005,741 |
| Rabbi Trust liability | - | 4,049,189 | - | - | 4,049,189 |
| TOTAL LONG-TERM LIABILITIES | \$ 4,466,898 | \$ 24,444,546 | \$ - | \$ - | \$ 28,911,444 |
| TOTAL LIABILITIES | \$ 11,703,990 | \$ 27,573,648 | \$ - | \$ - | \$ 39,277,638 |

COMMITMENTS

NET ASSETS

| | | | | | |
|---|----------------------|------------------------|---------------------|-------------------|----------------------|
| Unrestricted | \$ 24,140,823 | \$ (23,524,459) | \$ - | \$ - | \$ 616,364 |
| Temporarily Restricted | - | - | 5,338,427 | - | 5,338,427 |
| Permanently Restricted | - | - | - | 423,953 | 423,953 |
| TOTAL NET ASSETS | \$ 24,140,823 | \$ (23,524,459) | \$ 5,338,427 | \$ 423,953 | \$ 6,378,744 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 35,844,813 | \$ 4,049,189 | \$ 5,338,427 | \$ 423,953 | \$ 45,656,382 |

See accompanying Independent Auditors' Report and Notes.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended September 30, 2013

| | Unrestricted | | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|------------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Pension | | | |
| <u>SUPPORT AND REVENUE</u> | | | | | |
| Per capita tax | \$ 35,914,662 | \$ - | \$ 5,516,429 | \$ - | \$ 41,431,091 |
| Conference and seminar registration fees | 2,349,266 | - | - | - | 2,349,266 |
| Contributions | 1,288,714 | - | 2,106,796 | - | 3,395,510 |
| Royalties | 2,843,998 | - | - | - | 2,843,998 |
| Grants | 7,167,544 | - | - | - | 7,167,544 |
| Reimbursed legal expenses | 42,605 | - | - | - | 42,605 |
| Initiation, reinstatement and charter fees | 149,458 | - | - | - | 149,458 |
| Proceeds from sales | 58,010 | - | - | - | 58,010 |
| Investment income | (291,926) | - | 3,092 | - | (288,834) |
| Other revenues | 314,588 | - | - | - | 314,588 |
| Net assets released from restrictions | 7,848,580 | - | (7,848,580) | - | - |
| <u>TOTAL SUPPORT AND REVENUE</u> | <u>\$ 57,685,499</u> | <u>\$ -</u> | <u>\$ (222,263)</u> | <u>\$ -</u> | <u>\$ 57,463,236</u> |
| <u>EXPENSES</u> | | | | | |
| Program | \$ 39,528,331 | \$ 4,019,190 | \$ - | \$ - | \$ 43,547,521 |
| Management and general | 11,814,043 | 1,255,337 | - | - | 13,069,380 |
| Fundraising | 42,275 | - | - | - | 42,275 |
| <u>TOTAL EXPENSES</u> | <u>\$ 51,384,649</u> | <u>\$ 5,274,527</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 56,659,176</u> |
| CHANGE IN NET ASSETS BEFORE CHANGE IN CUMULATIVE FOREIGN CURRENCY TRANSLATION AND INCOME TAXES | | | | | |
| | \$ 6,300,850 | \$ (5,274,527) | \$ (222,263) | \$ - | \$ 804,060 |
| <u>INCOME TAXES</u> | (224,470) | - | - | - | (224,470) |
| CHANGE IN CUMULATIVE FOREIGN CURRENCY TRANSLATION | | | | | |
| | (183,066) | - | - | - | (183,066) |
| CHANGE IN NET ASSETS BEFORE INCREMENTAL EFFECT OF DEFINED BENEFIT PLAN | | | | | |
| | \$ 5,893,314 | \$ (5,274,527) | \$ (222,263) | \$ - | \$ 396,524 |
| INCREMENTAL EFFECT ON NET ASSETS OF DEFINED BENEFIT PLAN | | | | | |
| | - | 4,354,288 | - | - | 4,354,288 |
| <u>CHANGE IN NET ASSETS</u> | | | | | |
| Unrestricted | \$ 5,893,314 | \$ (920,239) | \$ - | \$ - | \$ 4,973,075 |
| Temporarily restricted | - | - | (222,263) | - | (222,263) |
| Permanently restricted | - | - | - | - | - |
| <u>TOTAL CHANGE IN NET ASSETS</u> | <u>\$ 5,893,314</u> | <u>\$ (920,239)</u> | <u>\$ (222,263)</u> | <u>\$ -</u> | <u>\$ 4,750,812</u> |
| <u>NET ASSETS, beginning of year</u> | 22,308,977 | (26,665,688) | 5,560,690 | 423,953 | 1,627,932 |
| <u>EQUITY TRANSFERS</u> | (4,061,468) | 4,061,468 | - | - | - |
| <u>NET ASSETS, end of year</u> | <u>\$ 24,140,823</u> | <u>\$ (23,524,459)</u> | <u>\$ 5,338,427</u> | <u>\$ 423,953</u> | <u>\$ 6,378,744</u> |

See accompanying Independent Auditors' Report and Notes.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended September 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|-----------------------------------|----------------------|
| Cash received from operations | |
| Support and revenue | \$ 57,641,057 |
| Investment income | 496,317 |
| Total cash received by operations | <u>\$ 58,137,374</u> |

| | |
|--|----------------------|
| Cash used in operations | |
| Payments to program recipients, employees, and suppliers | \$ 55,119,743 |
| Interest paid | 17,331 |
| Income taxes paid | 224,470 |
| Total cash disbursed by operations | <u>\$ 55,361,544</u> |

| | |
|--|---------------------|
| <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u> | <u>\$ 2,775,830</u> |
|--|---------------------|

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|------------------|
| Financial assistance loans repayments received | \$ 377,401 |
| New financial assistance loans made | (84,504) |
| Purchase of investments | (1,328,587) |
| Proceeds from redemption of investments | 1,649,994 |
| Purchase of property and leasehold improvements | <u>(805,047)</u> |

| | |
|--|---------------------|
| <u>NET CASH USED BY INVESTING ACTIVITIES</u> | <u>\$ (190,743)</u> |
|--|---------------------|

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|----------------------------|--------------------|
| Payments on capital leases | <u>\$ (60,810)</u> |
|----------------------------|--------------------|

| | |
|-----------------------------|--------------|
| <u>NET INCREASE IN CASH</u> | \$ 2,524,277 |
|-----------------------------|--------------|

| | |
|---|-------------------|
| <u>CASH AND CASH EQUIVALENTS, beginning of year</u> | <u>13,269,880</u> |
|---|-------------------|

| | |
|---|----------------------|
| <u>CASH AND CASH EQUIVALENTS, end of year</u> | <u>\$ 15,794,157</u> |
|---|----------------------|

NON-CASH INVESTING ACTIVITIES

| | |
|--|-------------|
| Unrealized loss in market value of investments | \$ 720,065 |
| (Decrease) in investment value | (720,065) |
| | <u>\$ -</u> |

See accompanying Independent Auditors' Report and Notes.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended September 30, 2013

RECONCILIATION OF CHANGE IN NET ASSETS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

CHANGE IN NET ASSETS \$ 4,750,812

ADJUSTMENTS TO RECONCILE CHANGE IN NET
ASSETS TO NET CASH PROVIDED BY
OPERATING ACTIVITIES

| | |
|--|-----------------|
| Depreciation and amortization | \$ 266,928 |
| Unrealized gains on investments | 720,065 |
| Loss on sale of property and equipment | 65,086 |
| Incremental effect of defined benefit plan | (4,354,288) |
| Non-cash occupancy costs | <u>(55,144)</u> |

NET ADJUSTMENTS \$ (3,357,353)

CHANGES IN ASSETS AND LIABILITIES AFFECTING
OPERATIONS PROVIDING (USING) CASH

ASSETS

| | |
|---------------------|-------------------|
| Accounts receivable | \$ (217,723) |
| Grants receivable | 246,018 |
| Prepaid expense | (72,826) |
| Inventories | 38,060 |
| | <u>\$ (6,471)</u> |

LIABILITIES

| | |
|-----------------------------|---------------------|
| Accounts payable | \$ 659,990 |
| Accrued expenses | (9,366) |
| Accrued pension liabilities | 877,526 |
| Deferred revenue | (139,308) |
| | <u>\$ 1,388,842</u> |

NET CHANGES IN ASSETS AND LIABILITIES \$ 1,382,371

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 2,775,830

See accompanying Independent Auditors' Report and Notes.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The International Association of Fire Fighters (IAFF) is a labor union whose primary mission is to represent its members in disputes and negotiations with the state and local governments for which the members are employed. Primary sources of revenue are per capita tax paid by members, grants and contributions.

The IAFF Financial Corporation is a wholly-owned subsidiary of the Association organized and incorporated as of December 10, 2001 under the laws of the State of Delaware. It is primarily engaged in working through service vendors to provide financial services, investment options, college finance programs, and insurance protection to professional fire fighters and government employees. It is located in Washington, DC.

The W.H. "Howie" McClennan Scholarship Fund was organized as a trust by the International Association of Fire Fighters on December 23, 1977. The Fund is recognized as a private foundation for tax purposes. It provides education-related financial aid to the children of fire fighters killed in the line of duty.

The IAFF FIREPAC Educational-Treasury was organized as a Political Action Committee on April 30, 2001. The Committee was formed to raise the federal government's conscience level about fire fighter staffing, labor issues, safety, and equipment. Its contributions have helped prevent station closings, secure federal funding for fire fighting, and train members to become active in local government policies.

The International Association of Fire Fighters Foundation was organized on August 2, 2010. Its mission is to support IAFF members and their families in their time of need, promote fire and burn prevention, advocate for fire fighter health and safety and provide public education on how to prevent and recover from traumatic events.

E Street Productions, LLC is a wholly-owned subsidiary of the IAFF Financial Corporation and was incorporated on September 28, 2012. The Company's purpose is to produce educational and promotional videos and media in support of causes relevant to fire fighting and emergency response professionals. The Company is currently developing its facilities and will begin production during 2014.

Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of IAFF, its wholly-owned subsidiary, and its affiliates. All material inter-entity accounts, transactions, and profits or losses are eliminated in consolidation.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. Revenues are recognized in the period in which they are earned; expenses are recognized in the period in which they are incurred.

Translation Costs

All amounts in the consolidated financial statements are stated in U.S. dollars. The Association has substantial activity denominated in Canadian dollars. Accordingly, all amounts denominated in Canadian dollars have been translated to U.S. dollars by applying the translation rate for assets and liabilities at September 30, 2013 of 96.98% and by applying the average translation rate for revenue and expenses for the year ended September 30, 2013 of 98.50%. Changes in the foreign currency translation rate subsequent to September 30, 2013 may materially affect unsettled foreign currency transactions as of that date. The Association does not reflect those effects in these financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid debt instruments with original maturities of three months or less.

Investments

Investments consist of certificates of deposit having initial maturities of more than three months and an open-ended mutual fund that invests primarily in construction loans, mortgages, or mortgage-backed securities. These investments are carried at fair value. Fair values are based on quoted market prices in active markets. Changes in fair value are included in investment income.

The open-ended mutual fund is exposed to various risks such as market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable for the Association arise primarily from per capita tax due from local affiliates located in the U.S. and Canada, registrations and supply sales revenue that have been earned but not received as of September 30, 2013. Management reviews accounts receivable to determine collectability. An amount of \$119,162 has been estimated as an allowance for doubtful accounts as of September 30, 2013. This estimate is based on historical collectability of accounts receivable.

Financial Assistance Loans

Financial assistance are unsecured loans to provide members and locals financial assistance in conjunction with job actions, disciplinary actions against union officers for union-related activities, employer's refusal to implement an arbitration award, and such other occurrences as may be considered bona fide emergencies by the Executive Board of the Association. The loans are noninterest-bearing with repayments made primarily over thirty-six to sixty (36 - 60) months. The Executive Board reviews loans to members and locals to determine collectability. As of September 30, 2013, \$4,627 was estimated as an allowance for doubtful accounts, based on historical analysis of loans not collected in previous years.

Other Investments

The investment in United Unions, Inc., of which the Association owns 13.433%, is accounted for under the cost method.

The investment in the IAFF Financial Corporation and its subsidiary, E Street Productions, LLC, of which the Association owns 100% and over which it exercises complete influence of operating and accounting policies, is consolidated.

Deferred Compensation Investments

Deferred compensation funds are invested in equity and debt securities which are carried at fair market value.

Inventories

Inventories consist of items held for sale to the Association's affiliates and are valued at the lower of cost or market value. Cost is determined using the first-in, first-out method. Cost of goods sold includes shipping and handling charges. Profits on sales of certain specialty inventory items are contributed to the Association's Firepac Education Fund unless otherwise specified by the local making the purchase.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Depreciation

Property and equipment are recorded at cost. All of the Association's acquisitions with a cost greater than \$5,000 are capitalized at cost; similarly, all acquisitions made by the Association's subsidiary and affiliates with a cost greater than \$500 are capitalized at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or, where applicable, the terms of the leases, whichever are shorter. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in income. Significant renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred.

Collections - Memorials

The IAFF Fallen Fire Fighter Memorial Fund, Inc. capitalizes its collections. Acquisitions are capitalized at cost if purchased, or at appraised or fair value at date of acquisition if received by donations. All maintenance costs incurred in relation to these collections and in excess of \$1,000 are capitalized. Gains and losses on disposals of donated collections are recorded based on the presence or absence of donor restrictions placed on items at the date of donation.

Classes of Assets

To ensure the observance of limitations and restrictions placed on the use of resources available to the Association, the Association has divided its resources available for various purposes into classes established according to their nature and purpose. The net assets of the Association are classified as follows:

Unrestricted Net Assets include operating net assets which are available for the general operations of the Association, as well as Board designated net assets set aside for future use.

Temporarily Restricted Net Assets include net assets which are subject to donor-imposed restrictions for support of a particular program activity. The Association has established eight Political Action Committees for the purpose of contributing funds to state and federal candidates. The use of these funds is restricted to purposes described in Federal Election Commission regulations and various state statutes, and the Association has no immediate or future claims to these assets.

Permanently Restricted Net Assets include net assets related to the collections owned by the Association. The corpus of the fund is to be maintained at the cost of these collections.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Association recognizes per capita tax as revenue during the period in which it accrues. Actual receipts in advance of the period to which they relate are reflected as deferred revenue. Interest and other revenue are recognized as accrued to the Association.

Grants and contracts are reported as revenue as allowable expenses are incurred. Funds received prior to being expended are reported as refundable advances and expenses incurred for which reimbursement has not been received are reported as receivables.

Advertising costs

Advertising costs are expensed as they are incurred. Total advertising expense for the year ended September 30, 2013 was \$383,981.

Income Taxes

IAFF is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code. However, the Association is subject to tax on net income generated by activities considered to be unrelated business income. As of September 30, 2013, the Association has no accrued tax liability.

The IAFF Financial Corporation, a for profit subsidiary of the Association, and its wholly owned subsidiary, E Street Productions, LLC are subject to federal income and District of Columbia franchise taxes. Income taxes are provided on income regardless of when such taxes are payable. Current tax and deferred tax assets and liabilities are recorded in accordance with enacted tax laws and rates. The amounts of deferred tax assets and liabilities at the end of each period are determined using the tax rates expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. As of September 30, 2013, IAFF Financial Corporation and its subsidiary has no deferred tax asset or liability. Income tax expense for the year ended September 30, 2013 was \$224,470.

The International Association of Fire Fighters Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a publicly-supported organization. However, it is subject to tax on income generated by unrelated business activities as provided for in the tax law. To date, this organization has not engaged in such activities.

The W.H. "Howie" McClennan Scholarship Fund is a Section 501(c)(3) exempt private foundation under the Internal Revenue Code and is subject to excise tax based on investment income.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The IAFF FIREPAC Educational Treasury is a section 527 exempt political organization under the Internal Revenue Code and is subject to excise tax based on investment income. The committee is subject to tax on income generated by unrelated business activities as outlined in the tax law. To date, the committee has not engaged in such activities.

The Association's and its subsidiary's and affiliates' Business Income Tax returns (Form 990 and Form 1120) for 2010, 2011, and 2012 are subject to examination by the Internal Revenue Service (IRS), generally for three years after they are filed.

Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Government Contracts and Grants

The Association participates in federal grant programs which are subject to financial and compliance audits by the federal agencies or their representatives. As such, there is a possibility that questioned costs might result from such an audit in the future. Management estimates that there are no material unallowable costs.

Accounts Receivable and Financial Assistance Loans Receivable

Management's estimate of the collectability of receivables is based on their understanding of the facts and circumstances of each account.

Translation Costs

Management estimates that there are no material foreign currency translation rate change that could materially affect unsettled foreign currency transactions after year end based on understanding of exchange rate between U.S. dollars and Canadian dollars.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

1. ORGANIZATION, PURPOSE AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Expenses are charged directly to programs in general categories based on specific identification. Indirect expenses have been allocated to programs, general and administrative, and fundraising expenses based on level of effort.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at September 30, 2013 consisted of the following:

| | |
|--------------------|----------------------|
| Checking - U.S. | \$ 10,164,229 |
| Checking - Canada | 4,132,438 |
| Money market funds | 1,496,255 |
| Petty cash | 1,235 |
| | <u>\$ 15,794,157</u> |

The Association maintains its cash and cash equivalent balances at several different financial institutions in the United States and Canada. As of September 30, 2013, cash and cash equivalents not insured by FDIC or CDIC were \$15,334,881.

3. INVESTMENTS

Investments at September 30, 2013 consisted of the following:

| | |
|---|----------------------|
| AFL-CIO Housing Trust - United Unions reserve | \$ 1,181,227 |
| AFL-CIO Housing Trust accounts - Other | 10,109,272 |
| Certificates of deposit - U.S. | 1,764,281 |
| | <u>\$ 13,054,780</u> |

Investment income for the year ended September 30, 2013 consisted of the following:

| | |
|---------------------------|---------------------|
| Interest and dividends | \$ 496,317 |
| Realized gains (losses) | (65,086) |
| Unrealized gains (losses) | (720,065) |
| | <u>\$ (288,834)</u> |

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

4. FAIR VALUE MEASUREMENTS

The Association records investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standards emphasize that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the standards established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Association's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities.

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INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

4. FAIR VALUE MEASUREMENTS (Continued)

The following summarizes investments, measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of September 30, 2013 and 2012:

| | September 30, 2013 | | | Fair Value |
|--------------------------------|--------------------|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | |
| AFL-CIO Housing Trust | | | | |
| United Unions reserve | \$ - | \$ 1,181,227 | \$ - | \$ 1,181,227 |
| AFL-CIO Housing Trust | | | | |
| Other | - | 10,109,272 | - | 10,109,272 |
| Certificates of deposit - U.S. | - | 1,764,281 | - | 1,764,281 |
| | \$ - | \$ 13,054,780 | \$ - | \$ 13,054,780 |

| | September 30, 2012 | | | Fair Value |
|--------------------------------|--------------------|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | |
| AFL-CIO Housing Trust | | | | |
| United Unions reserve | \$ - | \$ 1,209,766 | \$ - | \$ 1,209,766 |
| AFL-CIO Housing Trust | | | | |
| Other | - | 10,351,873 | - | 10,351,873 |
| Certificates of deposit - U.S. | - | 2,534,613 | - | 2,534,613 |
| | \$ - | \$ 14,096,252 | \$ - | \$ 14,096,252 |

5. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2013 consisted of the following:

| | |
|---------------------------------------|--------------|
| Per capita tax - U.S. | \$ 1,204,036 |
| Per capita tax - Canada | 59,879 |
| Royalty | 498,297 |
| Other | 589,377 |
| | \$ 2,351,589 |
| Less: Provision for doubtful accounts | (119,162) |
| | \$ 2,232,176 |

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

6. PROPERTY AND EQUIPMENT

A summary of information related to property and depreciation for the year ended September 30, 2013 is as follows:

| | Cost | Depreciation expense | Accumulated depreciation | Book value | Estimated useful life (years) |
|-----------------------------------|---------------------|-------------------------|-----------------------------|---------------------|-------------------------------------|
| Furniture and equipment | \$ 1,072,521 | \$ 140,491 | \$ 543,892 | \$ 528,629 | 5 - 10 |
| Equipment under capital leases | 700,452 | 59,154 | 259,435 | 441,017 | 4 - 5 |
| Leasehold improvements | 1,361,500 | 67,283 | 599,192 | 762,308 | 10 |
| | <u>\$ 3,134,473</u> | <u>\$ 266,928</u> | <u>\$ 1,402,519</u> | <u>\$ 1,731,954</u> | |

7. COLLECTIONS - MEMORIALS

The IAFF Fallen Fire Fighter Memorial Fund, Inc. has title to and maintains two memorial statues and two memorial walls-of-honor. All memorials are held for public exhibition and are preserved by the IAFF Fallen Fire Fighter Memorial Fund. The cost of these collections is as follows:

| | |
|-------------------------|-------------------|
| Memorial statues | \$ 313,355 |
| Memorial walls-of-honor | 110,598 |
| | <u>\$ 423,953</u> |

8. PENSION PLANS

The Association has pension plans covering substantially all employees. All current and future retirement contributions on behalf of principal officers are now made pursuant to an Officer's Non-Qualified Retirement Plan and Officers' Supplemental Benefits Plan (Rabbi Trust). The assets of the Rabbi Trust Fund are subject to the general creditors of the Association.

In addition to the non-qualified Rabbi Trust Fund, which is the plan for principal officers, the Association also maintains two qualified defined benefit plans, the Staff Representatives' Pension Plan and the Employees' Pension Plan. Plan benefits are based on years of service and employees' compensation. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

8. PENSION PLANS (Continued)

In accordance with accounting principles generally accepted in the United States of America, the Association recognizes the funding position of its plans (the difference between the fair value of plan assets and the projected benefit obligation) in the accompanying consolidated statement of financial position. The Association recognized a non-operating gain of \$4,354,288, which has been separately reported in the consolidated statements of activities as an increase in unrestricted net assets.

It is the Association's policy to invest pension plan assets in a diversified portfolio consisting of an array of stocks, debt securities, and money market funds through the use of Alliance Investments commingled pools.

The following is a summary of the defined benefit plans as of September 30, 2013 as provided by the Association's consulting actuary.

| | Rabbi Trust | Staff Representatives | Employees | Total |
|--|---------------------|--------------------------|----------------------|----------------------|
| Change in projected benefit obligation | | | | |
| Projected benefit obligation, beginning of the year | \$ 6,699,533 | \$ 54,404,140 | \$ 27,108,106 | \$ 88,211,779 |
| Service cost | 393,587 | 1,958,995 | 1,766,364 | 4,118,946 |
| Interest cost | 294,676 | 2,397,597 | 1,208,513 | 3,900,786 |
| Benefits paid | (298,968) | (2,267,975) | (571,128) | (3,138,071) |
| Expenses paid | (9,703) | (235,279) | (122,545) | (367,527) |
| Transfer of funds | - | 67,996 | (67,996) | - |
| Actuarial (gain) loss | (434,176) | 894,384 | (194,094) | 266,114 |
| Projected benefit obligation, end of the year | <u>\$ 6,644,949</u> | <u>\$ 57,219,858</u> | <u>\$ 29,127,220</u> | <u>\$ 92,992,027</u> |
| Change in plan assets | | | | |
| Fair value of plan assets, beginning of the year | \$ 4,157,910 | \$ 41,262,814 | \$ 15,789,834 | \$ 61,210,558 |
| Actual return on plan assets | (100,050) | 5,384,900 | 2,080,757 | 7,365,607 |
| Employer contributions | 300,000 | 3,017,001 | 1,080,000 | 4,397,001 |
| Benefits and expenses paid | (308,671) | (2,435,258) | (761,669) | (3,505,598) |
| Fair value of plan assets end of the year | <u>\$ 4,049,189</u> | <u>\$ 47,229,457</u> | <u>\$ 18,188,922</u> | <u>\$ 69,467,568</u> |
| Funded status - benefit obligation in excess of plan assets | <u>\$ 2,595,760</u> | <u>\$ 9,990,401</u> | <u>\$ 10,938,298</u> | <u>\$ 23,524,459</u> |
| Accumulated benefit obligation | <u>\$ 6,644,949</u> | <u>\$ 57,219,858</u> | <u>\$ 29,127,220</u> | <u>\$ 92,992,027</u> |

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

8. PENSION PLANS (Continued)

Component of net periodic pension costs

| | | | | |
|---------------------------------|-------------------|---------------------|---------------------|---------------------|
| Service cost - benefits earned | \$ 393,587 | \$ 1,958,995 | \$ 1,766,364 | \$ 4,118,946 |
| Interest cost | 294,676 | 2,397,597 | 1,208,513 | 3,900,786 |
| Expected return on plan assets | (355,360) | (3,597,466) | (1,380,441) | (5,333,267) |
| Net amortization and deferral | <u>352,289</u> | <u>1,818,048</u> | <u>417,725</u> | <u>2,588,062</u> |
| Total net periodic pension cost | <u>\$ 685,192</u> | <u>\$ 2,577,174</u> | <u>\$ 2,012,161</u> | <u>\$ 5,274,527</u> |

| | <u>Rabbi Trust</u> | <u>Staff Representatives</u> | <u>Employees</u> |
|---|------------------------|----------------------------------|------------------|
| Weighted-average assumptions | | | |
| Discount rate | 4.75% | 4.75% | 4.75% |
| Average compensation increase | 3.00% | 3.00% | 3.00% |
| Expected rate of return on plan assets | 8.50% | 8.50% | 8.50% |

The expected return on plan assets was determined by the Association together with its investment advisors. The rate is based primarily on expectations of future returns for the plan's investments, based on target asset allocations. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected rate.

The Association's target allocation is as follows. These rates are estimated and are subject to change based upon future actions taken by the Board of Trustees.

| | <u>Rabbi Trust</u> | <u>Staff Representatives</u> | <u>Employees</u> |
|----------------------|------------------------|----------------------------------|------------------|
| Cash equivalents | 0% - 5% | 0% - 10% | 0% - 10% |
| Selected equity pool | 0% | 45% - 55% | 45% - 55% |
| Fixed income pool | 95% - 100% | 40% - 50% | 40% - 50% |

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

8. PENSION PLANS (Continued)

The table below presents the balances of pension assets measured at fair value on a recurring basis, as of September 30, 2013.

| | Fair value | | | |
|--|----------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Plan Assets | | | | |
| Cash equivalents | \$ 244,391 | \$ - | \$ - | \$ 244,391 |
| U.S. government securities | 12,556,939 | - | - | 12,556,939 |
| Municipal bonds | 347,359 | - | - | 347,359 |
| Common stocks | 38,880,512 | - | - | 38,880,512 |
| Corporate bonds | 9,712,880 | - | - | 9,712,880 |
| Pooled funds | 3,027,648 | - | - | 3,027,648 |
| AFL-CIO investment trust | - | 3,953,179 | - | 3,953,179 |
| Total plan assets measured at fair value | <u>\$ 64,769,729</u> | <u>\$ 3,953,179</u> | <u>\$ -</u> | <u>\$ 68,722,908</u> |
| Net receivables | | | | 744,660 |
| | | | | <u>\$ 69,467,568</u> |

The following is a schedule of benefits expected to be paid in each of the next five years, and in aggregate for the five fiscal years thereafter as of September 30, 2013. The expected benefit payments shown below are based on the same assumptions used to determine the Projected Benefit Obligation as of September 30, 2013, and includes benefits attributable to estimated future employee service.

| | Rabbi Trust | Staff Representatives | Employees | Total |
|-------------|---------------------|--------------------------|---------------------|----------------------|
| 2014 | \$ 261,951 | \$ 2,295,863 | \$ 571,288 | \$ 3,129,102 |
| 2015 | 275,110 | 2,447,968 | 576,603 | 3,299,681 |
| 2016 | 288,663 | 2,546,369 | 653,349 | 3,488,381 |
| 2017 | 302,624 | 2,645,116 | 680,388 | 3,628,128 |
| 2018 | 317,003 | 2,730,472 | 792,065 | 3,839,540 |
| 2019 - 2023 | 1,816,261 | 15,358,985 | 4,751,632 | 21,926,878 |
| | <u>\$ 3,261,612</u> | <u>\$ 28,024,773</u> | <u>\$ 8,025,325</u> | <u>\$ 39,311,710</u> |

During the next fiscal year, the Association expects to collectively contribute approximately \$3,700,000 to the defined benefit pension plans.

The Association also has a deferred compensation plan, a 457(b) retirement plan, covering eligible employees who choose to participate. Contributions to the plan are amounts deferred from the participating employees' salary and are limited to the lesser of the applicable dollar amount as defined in Code Section 457(e)(15)(A) or 100% of the participants' includible compensation.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

8. PENSION PLANS (Continued)

In addition to the defined benefit plans and deferred compensation plan, the Association also has an employee 401(k) plan that allows eligible employees to defer from their salaries an amount equal to a percentage of the contributing participants' compensation from 1 to 15 percent in increments of 1 percent. The Association matches up to 2% of qualified compensation for all employees who elect to defer.

Pension expenses related to the various pension plans for the year ended September 30, 2013 are as follows:

| | |
|---------------------------------------|---------------------|
| Defined benefit plans | |
| Officers- Rabbi Trust | \$ 685,192 |
| Staff Representatives | 2,577,174 |
| Employees | 2,012,161 |
| | <u>\$ 5,274,527</u> |
| Other pension expense | |
| 401(k) match and administrative costs | \$ 216,169 |
| Canadian pension benefit payments | 77,001 |
| | <u>\$ 5,567,698</u> |

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available as of September 30, 2013 for the following purposes:

| | Balance at September 30, 2012 | Revenue and Support | Released | Balance at September 30, 2013 |
|----------------------------|-------------------------------------|------------------------|-----------------------|-------------------------------------|
| IAFF PAC | \$ 5,231,940 | \$ 6,987,669 | \$ (7,104,331) | \$ 5,115,278 |
| Burn Fund - Research | 15,000 | 15,000 | - | 30,000 |
| Burn Fund - Burn Camp | - | 39,209 | (39,209) | - |
| Burn Fund - General | - | 57,567 | (57,567) | - |
| John P. Redmond Fund | - | 917 | - | 917 |
| Fallen Memorial Fund | - | 55,034 | (55,034) | - |
| Disaster Relief Fund | - | 470,897 | (470,897) | - |
| McClennan Scholarship Fund | 313,750 | 24 | (121,542) | 192,232 |
| | <u>\$ 5,560,690</u> | <u>\$ 7,626,317</u> | <u>\$ (7,848,580)</u> | <u>\$ 5,338,427</u> |

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

10. DONATED PROPERTY

The City of Colorado Springs granted to the IAFF Fallen Fire Fighter Memorial Fund, Inc. a park license for its use of city land on which the memorials stand. Should the Fund ever misuse or abandon the land, it would be responsible for the costs incurred to restore the land to its original state. The term of this license ends August 30, 2028. At that date, the license may be renewed for an additional twenty-five years. The value of this donated property has not been reflected in the financial statements.

11. COMMITMENTS AND CONTINGENCIES

Office Lease, related party

The Association leases office space in Washington, D.C. The Association is a partial owner of the leased building as described in Note 1. The lease, which expires in 2018, provides for annual escalations in base rental payments. Rent expense is recognized on a straight-line basis over the term of the lease. Total rent expense for the year ended September 30, 2013 was \$2,313,445.

At September 30, 2013, future minimum lease payments under this operating lease are as follows:

| | |
|------|----------------------|
| 2014 | \$ 2,215,607 |
| 2015 | 2,282,075 |
| 2016 | 2,350,538 |
| 2017 | 2,421,054 |
| 2018 | 2,280,178 |
| | <u>\$ 11,549,452</u> |

IAFF subleases one thousand square feet of its current space to its wholly owned subsidiary, the IAFF Financial Corporation. The lease term began April 1, 2005, and will continue on a month-to-month basis until the rental rate of \$4,250 monthly is renegotiated. IAFF Financial Corporation paid the Association a total of \$51,000 in sublease payments, which the Association recognized as other income during the year ending September 30, 2013.

As a partial owner of the leased office space, if the landlord (United Unions, Inc.) receives rents that are insufficient to meet the debt service requirements and other obligations on the building, the Association will pay its pro-rata share (13.433%) of the amount necessary to meet such debt service requirements and other obligations. These additional payments will be recognized as additional investment capital contributions.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

11. COMMITMENTS AND CONTINGENCIES (Continued)

Capital leases

The Association has entered into lease agreements for office equipment that are classified as capital leases. The assets and liabilities under these capital leases were recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over their related lease term.

Payments under the capital leases are due as follows:

| | <u>Total</u> <u>Payment</u> | <u>Interest</u> <u>Portion</u> | <u>Net</u> |
|------|--------------------------------|-----------------------------------|-------------------|
| 2014 | \$ 146,796 | \$ 36,156 | \$ 110,640 |
| 2015 | 146,796 | 27,971 | 118,825 |
| 2016 | 123,149 | 19,001 | 104,148 |
| 2017 | 75,857 | 10,697 | 65,160 |
| 2018 | 50,572 | 2,326 | 48,246 |
| | <u>\$ 543,170</u> | <u>\$ 96,151</u> | <u>\$ 447,019</u> |

Interest paid during the fiscal year ended September 30, 2013 under these capital leases was \$16,673.

Guarantor responsibilities

During the 2007 fiscal year, the Association, as an owner of United Unions, Inc., became a co-guarantor of a loan agreement with SunTrust Bank, N.A. As of September 30, 2013, the Association is contingently liable for its share (25.98%) of United Unions, Inc.'s remaining principal balance of \$196,478. This loan bears an annual interest rate of 6.2%. United Unions, Inc. is making payments of \$66,171, including principal and interest, until December 2013, the maturity date.

Government Contracts and Grants

The Association participated in federal grant programs, which are subject to financial and compliance audits by federal agencies or their representatives. Management does not anticipate any significant adjustments as a result of such an audit.

Letter of Credit

The Association has an open letter of credit in the amount of \$4,652,000 to secure pension costs in Canada. As of September 30, 2013, no amount has been drawn and no interest has been incurred on the letter of credit.

See Independent Auditors' Report.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended September 30, 2013

11. COMMITMENTS AND CONTINGENCIES (Continued)

Future Meeting Sites

The Association has entered into agreements with hotels for future conventions and meetings. In the event of the cancellation of these agreements on September 30, 2013, the maximum cancellation penalty would be \$4,561,831. Subsequent to year end, the Association had satisfied the terms of several of these contracts in the amount of \$762,404.

12. CONDITIONAL GRANT

The Association has been awarded federal grants, which are conditioned upon the organizations' progression on various programs. The remaining amount to be received for these promises at September 30, 2013 was \$5,808,700.

13. SIGNIFICANT SOURCES OF REVENUE

A significant portion of the Association's support and revenue was provided by per capita tax. For the year ended September 30, 2013, gross revenue from per capita tax was \$41,431,091, which approximates 72% of the consolidated gross support and revenue.

14. SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 27, 2014, the date the financial statements were available to be issued.

Dissolution of Affiliates

During the year ended September 30, 2012, the Association adopted plans of *Winding-Up, Distribution of Assets and Dissolution* of the W.H. "Howie" McClennan Scholarship Fund.

All liabilities of the W.H. "Howie" McClennan Scholarship Fund will be satisfied by its assets or be settled by the International Association of Firefighters. Final release of any funds set aside as reserve funds following final dissolution of the Fund will be contributed to the International Association of Fire Fighters Foundation. The International Association of Fire Fighters Foundation will continue to perform the missions of the dissolved fund. Subsequent to the fiscal year end, the Fund was dissolved.

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INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
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for the year ended September 30, 2013

14. SUBSEQUENT EVENTS (Continued)

Future Meeting Sites

As mentioned in Note 11, the Association entered into agreements with hotels for future conventions and meetings. Subsequent to the fiscal year end, the Association held several of these meetings and satisfied the terms of the cancellation penalties in the amount of \$762,404.

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
International Association of Fire Fighters and its Subsidiary and Affiliates
Washington, DC

We have audited the consolidated financial statements of the International Association of Fire Fighters (IAFF) and its subsidiary and affiliates (the Association) as of and for the year ended September 30, 2013, and have issued our report thereon dated January 27, 2014 which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position, consolidating statement of activities, and consolidating schedule of expenses by entity are presented for the purpose of additional analysis and are 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. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, therefore, we express no opinion on it.

Renner and Company, CPA, P.C.

January 27, 2014

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2013

ASSETS

| | International Association of Fire Fighters Foundation | | | | | | | | | | Eliminating Entries | Consolidated Balance | |
|-----------------------------------|---|--|--|--|--|--|---|-------------------|----------------------|----------------------|------------------------|-------------------------|----------------------|
| | IAFF Financial Corporation | International Association of Fire Fighters Foundation | International Association of Fire Fighters Burn Foundation | John P. Redmond Memorial Foundation | International Association of Fire Fighters Disaster Relief Fund | IAFF Fallen Fire Fighter Memorial Fund, Inc. | W.H. "Howie" McClelland Scholarship Fund | Total | | | | | |
| <u>CURRENT ASSETS</u> | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 13,860,285 | \$ 1,397,824 | \$ 523,984 | \$ 2,939 | \$ - | \$ - | \$ - | \$ - | \$ 9,125 | \$ 15,794,157 | \$ - | \$ - | \$ 15,794,157 |
| Investments | 12,058,749 | - | - | - | - | - | - | - | 478,798 | 13,054,780 | - | - | 13,054,780 |
| Accounts receivable, net | 1,860,653 | 368,297 | 96 | - | - | - | - | - | 422,928 | 2,232,176 | - | - | 2,232,176 |
| Grants receivable | 1,478,644 | - | - | 687,915 | - | - | - | - | 3,130 | 2,166,559 | - | - | 2,166,559 |
| Financial assistance loans, net | 190,679 | - | - | - | - | - | - | - | - | 190,679 | - | - | 190,679 |
| Prepaid expenses | 441,573 | 4,203 | - | - | 96,500 | - | - | - | - | 542,276 | - | - | 542,276 |
| Inventories | 52,879 | - | 16,340 | - | - | - | - | - | - | 69,219 | - | - | 69,219 |
| Intercompany receivables | 1,414,095 | - | - | - | - | - | - | - | - | 1,414,095 | (1,414,095) | - | - |
| TOTAL CURRENT ASSETS | \$ 31,357,557 | \$ 1,770,324 | \$ 540,420 | \$ 690,854 | \$ 94,305 | \$ 96,500 | \$ 426,058 | \$ 487,923 | \$ 35,463,941 | \$ 35,463,941 | \$ (1,414,095) | \$ - | \$ 34,049,846 |
| <u>PROPERTY, net</u> | | | | | | | | | | | | | |
| PROPERTY, net | \$ 1,563,936 | \$ 162,648 | \$ 5,370 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,731,954 | \$ - | \$ - | \$ 1,731,954 |
| <u>OTHER ASSETS</u> | | | | | | | | | | | | | |
| Financial assistance loans, net | \$ 307,054 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 307,054 | \$ - | \$ - | \$ 307,054 |
| Other investments | | | | | | | | | | | | | |
| IAFF Financial Corporation | 89,368 | - | - | - | - | - | - | - | - | 89,368 | (89,368) | - | - |
| United Unions, Inc. | 2,088,645 | - | - | - | - | - | - | - | - | 2,088,645 | - | - | 2,088,645 |
| Collections - Memorials | - | - | - | - | - | - | 423,953 | - | - | 423,953 | - | - | 423,953 |
| Deferred compensation investments | 3,005,741 | - | - | - | - | - | - | - | - | 3,005,741 | - | - | 3,005,741 |
| Rabbi Trust assets | 4,049,189 | - | - | - | - | - | - | - | - | 4,049,189 | - | - | 4,049,189 |
| TOTAL OTHER ASSETS | \$ 9,539,997 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 423,953 | \$ - | \$ 423,953 | \$ 9,963,950 | \$ (89,368) | \$ - | \$ 9,874,582 |
| TOTAL ASSETS | \$ 42,461,490 | \$ 1,932,972 | \$ 545,790 | \$ 690,854 | \$ 94,305 | \$ 96,500 | \$ 850,011 | \$ 487,923 | \$ 47,159,845 | \$ 47,159,845 | \$ (1,503,463) | \$ - | \$ 45,656,382 |

See Independent Auditors' Report on Supplementary Information.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2013

LIABILITIES AND NET ASSETS

| | International Association of Fire Fighters Foundation | | | | | | | Eliminating Entries | Consolidated Balance |
|--|---|--|--|--|--|--|--|------------------------|-------------------------|
| | IAFF Financial Corporation | International Association of Fire Fighters Foundation | International Association of Fire Fighters Burn Foundation | John P. Redmond Memorial Foundation | International Association of Fire Fighters Disaster Relief Fund | IAFF Fallen Fire Fighter Memorial Fund, Inc. | W.H. "Howie" McClellan Scholarship Fund | | |
| CURRENT LIABILITIES | | | | | | | | | |
| Accounts payable | \$ 3,210,825 | \$ 4,170 | \$ - | \$ - | \$ 57,976 | \$ - | \$ - | \$ - | \$ 3,290,247 |
| Accrued expenses | | | | | | | | | |
| Salaries and benefits | 246,304 | - | - | - | - | - | - | - | 257,560 |
| Leave and severance | 2,918,328 | - | - | - | - | - | - | - | 3,009,602 |
| Accrued pension liability | 3,129,102 | - | - | - | - | - | - | - | 3,129,102 |
| Deferred rent | 119,675 | - | - | - | - | - | - | - | 119,675 |
| Deferred revenue | 449,368 | - | - | - | - | - | - | - | 449,368 |
| Capital lease obligation | 110,640 | - | - | - | - | - | - | - | 110,640 |
| Intercompany payables | - | (122,564) | 758,140 | 251,888 | (298,099) | 803,458 | (102,076) | (1,414,095) | - |
| TOTAL CURRENT LIABILITIES | \$ 10,184,242 | \$ 243,154 | \$ 758,140 | \$ 251,888 | \$ (240,123) | \$ 803,458 | \$ (102,076) | \$ (1,414,095) | \$ 10,366,194 |
| LONG-TERM LIABILITIES | | | | | | | | | |
| Accrued pension liability, net of current | \$ 20,395,357 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 20,395,357 |
| Deferred rent, net of current | 1,124,778 | - | - | - | - | - | - | - | 1,124,778 |
| Capital lease obligation, net of current | 336,379 | - | - | - | - | - | - | - | 336,379 |
| Deferred compensation liability | 3,005,741 | - | - | - | - | - | - | - | 3,005,741 |
| Rabbi Trust liability | 4,049,189 | - | - | - | - | - | - | - | 4,049,189 |
| TOTAL LONG-TERM LIABILITIES | \$ 28,911,444 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 28,911,444 |
| TOTAL LIABILITIES | \$ 39,095,686 | \$ 243,154 | \$ 758,140 | \$ 251,888 | \$ (240,123) | \$ 803,458 | \$ (102,076) | \$ (1,414,095) | \$ 39,277,638 |
| EQUITY | | | | | | | | | |
| Common stock | \$ - | \$ 5 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5 | \$ - |
| Paid-in capital | - | 89,363 | - | - | - | - | - | 89,363 | (89,363) |
| TOTAL EQUITY | \$ - | \$ 89,368 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 89,368 | \$ - |
| NET ASSETS | | | | | | | | | |
| Unrestricted | \$ (1,749,474) | \$ 1,600,450 | \$ (97,286) | \$ (158,500) | \$ 336,623 | \$ (377,400) | \$ 397,767 | \$ - | \$ 616,364 |
| Temporarily restricted | 5,115,278 | - | 30,000 | 917 | - | - | 192,232 | - | 5,338,427 |
| Permanently restricted | - | - | - | - | - | 423,953 | - | - | 423,953 |
| TOTAL NET ASSETS | \$ 3,365,804 | \$ 1,600,450 | \$ (67,286) | \$ (157,583) | \$ 336,623 | \$ 46,553 | \$ 589,999 | \$ - | \$ 6,378,744 |
| TOTAL LIABILITIES AND NET ASSETS/EQUITY | \$ 42,461,490 | \$ 1,932,972 | \$ 690,854 | \$ 94,305 | \$ 96,500 | \$ 850,011 | \$ 487,923 | \$ (1,503,463) | \$ 45,656,382 |

See Independent Auditors' Report on Supplementary Information.

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
for the year ended September 30, 2013

| | International Association of Fire Fighters Foundation | | | | | | | | | | Eliminating Entries | Consolidated Balance | |
|--|---|--|--|--|--|--|---|--------------|---------------|----------------|------------------------|-------------------------|--|
| | IAFF Financial Corporation | International Association of Fire Fighters Foundation | International Association of Fire Fighters Burn Foundation | John P. Redmond Memorial Foundation | International Association of Fire Fighters Disaster Relief Fund | IAFF Fallen Fire Fighter Memorial Fund, Inc. | W. H. "Howie" McClellan Scholarship Fund | Total | | | | | |
| <u>SUPPORT AND REVENUE</u> | | | | | | | | | | | | | |
| Per capita tax | \$ 41,431,091 | \$ - | \$ - | \$ 134,135 | \$ 217,882 | \$ 213,692 | \$ - | \$ - | \$ 41,996,800 | \$ (565,709) | \$ 41,431,091 | | |
| Conference and seminar registration fees | 2,559,266 | - | - | - | - | - | - | - | 2,559,266 | (210,000) | 2,349,266 | | |
| Contributions | 2,466,025 | 249,229 | 193,384 | 917 | 470,897 | 55,034 | 24 | 24 | 3,435,510 | (40,000) | 3,395,510 | | |
| Royalties | 950,769 | 64,578 | 26,906 | - | - | 4,937 | - | - | 2,843,998 | - | 2,843,998 | | |
| Grants | 6,294,100 | - | 873,444 | - | - | - | - | - | 7,167,544 | - | 7,167,544 | | |
| Reimbursed legal expenses | 42,605 | - | - | - | - | - | - | - | 42,605 | - | 42,605 | | |
| Initiation, reinstatement and charter fees | 149,458 | - | - | - | - | - | - | - | 149,458 | - | 149,458 | | |
| Proceeds from sales | 56,413 | 1,597 | - | - | - | - | - | - | 58,010 | - | 58,010 | | |
| Investment income | (280,904) | (681) | - | (2,008) | - | 2,184 | (10,196) | (10,196) | (289,518) | 684 | (288,834) | | |
| Other revenues | 731,688 | 615 | - | - | - | 16,460 | - | - | 850,207 | (535,619) | 314,588 | | |
| <u>TOTAL SUPPORT AND REVENUE</u> | \$ 54,400,511 | \$ 1,900,315 | \$ 1,093,758 | \$ 133,044 | \$ 688,779 | \$ 292,307 | \$ (10,172) | \$ (10,172) | \$ 58,813,880 | \$ (1,350,644) | \$ 57,463,236 | | |
| <u>EXPENSES</u> | | | | | | | | | | | | | |
| Program | \$ 41,403,696 | \$ 19,491 | \$ 1,108,890 | \$ - | \$ 526,000 | \$ 377,322 | \$ 121,028 | \$ 121,028 | \$ 44,898,165 | \$ (1,350,644) | \$ 43,547,521 | | |
| Management and general | 12,931,863 | 19,491 | 32,926 | - | 2,931 | 81,655 | 514 | 514 | 13,069,380 | - | 13,069,380 | | |
| Fundraising | - | 8,174 | 34,101 | - | - | - | - | - | 42,275 | - | 42,275 | | |
| <u>TOTAL EXPENSES</u> | \$ 54,335,559 | \$ 1,341,738 | \$ 1,175,917 | \$ - | \$ 528,931 | \$ 458,977 | \$ 121,542 | \$ 121,542 | \$ 58,009,820 | \$ (1,350,644) | \$ 56,659,176 | | |
| <u>CHANGE IN NET ASSETS/EQUITY BEFORE CHANGE IN CUMULATIVE FOREIGN CURRENCY TRANSLATION AND INCOME TAXES</u> | \$ 64,952 | \$ 558,577 | \$ (82,159) | \$ 133,044 | \$ 159,848 | \$ (166,670) | \$ (131,714) | \$ (131,714) | \$ 804,060 | \$ - | \$ 804,060 | | |
| <u>INCOME TAXES</u> | - | (224,470) | - | - | - | - | - | - | (224,470) | - | (224,470) | | |
| <u>CHANGE IN CUMULATIVE FOREIGN CURRENCY TRANSLATION</u> | (183,066) | - | - | - | - | - | - | - | (183,066) | - | (183,066) | | |
| <u>CHANGE IN NET ASSETS BEFORE INCREMENTAL EFFECT OF DEFINED BENEFIT PLAN</u> | \$ (118,114) | \$ 334,107 | \$ (82,159) | \$ 133,044 | \$ 159,848 | \$ (166,670) | \$ (131,714) | \$ (131,714) | \$ 396,524 | \$ - | \$ 396,524 | | |
| <u>INCREMENTAL EFFECT ON NET ASSETS OF DEFINED BENEFIT PLAN</u> | 4,354,288 | - | - | - | - | - | - | - | 4,354,288 | - | 4,354,288 | | |
| <u>CHANGE IN NET ASSETS</u> | \$ 4,236,174 | \$ 334,107 | \$ (82,159) | \$ 133,044 | \$ 159,848 | \$ (166,670) | \$ (131,714) | \$ (131,714) | \$ 4,750,812 | \$ - | \$ 4,750,812 | | |
| <u>NET ASSETS/EQUITY, beginning of year</u> | (870,370) | 1,355,711 | 14,873 | (290,627) | 176,775 | 213,223 | 721,713 | 721,713 | 1,717,300 | (89,368) | 1,627,932 | | |
| <u>NET ASSETS/EQUITY, end of year</u> | \$ 3,365,804 | \$ 1,689,818 | \$ (67,286) | \$ (157,583) | \$ 336,623 | \$ 46,553 | \$ 589,999 | \$ 589,999 | \$ 6,468,112 | \$ (89,368) | \$ 6,378,744 | | |

See Independent Auditors' Report on Supplementary Information.

**INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AND ITS SUBSIDIARY AND AFFILIATES**

**CONSOLIDATING SCHEDULE OF EXPENSES BY ENTITY
for the year ended September 30, 2013**

| | International Association of Fire Fighters Foundation | | | | | | | | | | Eliminating Entries | Total | Consolidated Balance |
|---------------------------------------|---|--|--|--|--|---|--|---------------|----------------|---------------|------------------------|---------------|-------------------------|
| | IAFF Financial Corporation | International Association of Fire Fighters Foundation | International Association of Fire Fighters Burn Foundation | John P. Redmond Memorial Foundation | International Association of Fire Fighters Disaster Relief Fund | IAFF Fallen Fire Fighter Memorial Fund, Inc | W.H. "Howie" McClernan Scholarship Fund | | | | | | |
| Salaries | \$ 13,646,094 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 14,029,768 | \$ 13,917,149 |
| Employee reimbursements | 2,338,325 | - | - | - | - | - | - | - | - | - | - | 2,364,008 | 2,364,008 |
| Employee benefits | 3,413,991 | - | - | - | - | - | - | - | - | - | - | 3,496,948 | 3,496,948 |
| Accounting and audit | 115,322 | - | - | - | - | - | - | - | - | - | - | 140,491 | 140,491 |
| Advertising | 383,981 | - | - | - | - | - | - | - | - | - | - | 743,981 | 383,981 |
| Aid to affiliates | 355,307 | - | - | - | - | - | - | - | - | - | - | 355,307 | 355,307 |
| Audio/visual expense | 891,879 | - | - | - | - | - | - | - | - | - | - | 893,870 | 893,870 |
| Awards | 3,416 | - | - | - | 526,000 | - | - | - | - | - | - | 529,416 | 529,416 |
| Bad debt expense | 20,191 | - | - | - | - | - | - | - | - | - | - | 20,191 | 20,191 |
| Computer | 748,244 | - | - | - | - | - | - | - | - | 2,531 | - | 751,973 | 751,973 |
| Consultants | 6,393,943 | - | - | 620,208 | - | - | - | - | - | 110,065 | - | 7,262,775 | 7,250,775 |
| Cost of sales | 256,030 | - | - | - | - | - | - | - | - | - | - | 256,982 | 256,982 |
| Depreciation and amortization | 242,734 | 952 | - | - | - | - | - | - | - | - | - | 266,928 | 266,928 |
| Donations | 918,172 | 4,059 | - | - | - | - | - | - | - | - | - | 1,087,200 | 482,175 |
| Dues and subscriptions | 371,646 | 3,558 | - | - | - | - | - | - | - | 121,028 | - | 397,235 | 397,235 |
| Insurance and bonding | 291,988 | - | - | - | - | - | - | - | - | - | - | 304,461 | 304,461 |
| Interest and penalties | 17,331 | - | - | - | - | - | - | - | - | - | - | 17,331 | 17,331 |
| Journal and publication expenses | 1,124,643 | - | - | - | - | - | - | - | - | - | - | 1,194,146 | 1,194,146 |
| Legal services | 2,583,565 | - | - | - | - | - | - | - | - | - | - | 2,619,358 | 2,619,358 |
| Marketing and promotion expenses | 58,867 | 13,745 | - | - | - | - | - | - | - | - | - | 308,123 | 98,123 |
| Miscellaneous expenses | 281,741 | 8,174 | - | - | - | - | - | - | - | - | - | 315,451 | 315,451 |
| Office expense and supplies | 439,755 | 15,076 | - | - | 2,180 | - | - | - | - | 316 | - | 451,463 | 451,463 |
| Office machine rental and maintenance | 49,464 | 801 | - | - | - | - | - | - | - | 1,227 | - | 68,955 | 68,955 |
| Pension expense | 5,225,792 | - | - | - | - | - | - | - | - | 19,491 | - | 5,274,527 | 5,274,527 |
| Affiliations per capita tax | 2,240,586 | - | - | - | - | - | - | - | - | - | - | 2,240,586 | 2,240,586 |
| Political contributions | 5,382,110 | - | - | - | - | - | - | - | - | - | - | 5,382,110 | 5,382,110 |
| Postage and freight | 415,060 | 18 | - | - | 751 | - | - | - | - | - | - | 420,986 | 420,986 |
| Printing and copying | 855,603 | 3,084 | - | - | - | - | - | - | - | 27,303 | - | 891,484 | 891,484 |
| Rent | 2,311,957 | 51,000 | - | - | - | - | - | - | - | 1,488 | - | 2,364,445 | 2,313,445 |
| Seminars and meetings | 1,794,401 | 3,743 | - | - | - | - | - | - | - | 295,666 | - | 2,234,997 | 2,234,997 |
| Taxes - payroll | 974,523 | 10,391 | - | - | - | - | - | - | - | - | - | 991,723 | 991,723 |
| Taxes - income taxes | - | 224,470 | - | - | - | - | - | - | - | - | - | 224,470 | 224,470 |
| Taxes - other | 85,989 | 5,701 | - | - | - | - | - | - | - | - | - | 91,690 | 91,690 |
| Telephone and utilities | 232,889 | - | - | - | - | - | - | - | - | 890 | - | 240,911 | 240,911 |
| FAS 158 adjustment | (4,354,288) | - | - | - | - | - | - | - | - | - | - | (4,354,288) | (4,354,288) |
| Fringe pool | (129,980) | 747 | - | - | - | - | - | - | - | - | - | - | - |
| Total expenses | \$ 49,981,271 | \$ 1,566,208 | \$ 47,156 | \$ 1,175,917 | \$ 528,931 | \$ 458,977 | \$ 121,542 | \$ 53,880,002 | \$ (1,350,644) | \$ 52,529,358 | | | |

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