



14041095

7/17/14

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0123
Expires: February 28, 2014
Estimated average burden
hours per response . . . 12.00

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8-50200

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2013 AND ENDING December 31, 2013
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Principal Funds Distributor, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

711 High Street

Des Moines Iowa 50392
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Tracy W. Bollin (515) 362-1345

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

801 Grand Avenue, Suite 3000, Des Moines, Iowa 50309
(Name - of individual, state last, first, middle name)

(Address) (City) (State) SECURITIES AND EXCHANGE COMMISSION

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

RECEIVED
JUL 16 2014
DIVISION OF TRADING & MARKETS

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

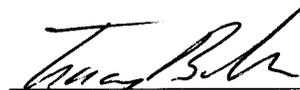
SEC 1410 (6-02)

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

7/17/14

Oath or Affirmation

I, Tracy W. Bollin, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplementary information pertaining to the firm of Principal Funds Distributor, Inc. as of December 31, 2013, are true and correct. I further affirm that neither the Company nor any principal officer or director has any proprietary interest in any account classified solely as that of a customer.



Chief Financial Officer



Notary Public



This report contains:

- (a) Facing page
- (b) Statement of Financial Condition
- (c) Statement of Operations
- (d) Statement of Cash Flows
- (e) Statement of Changes in Stockholder's Equity
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3
 - (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
 - (j) A reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3
 - (k) A reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- (l) An Oath or Affirmation
- (m) A copy of the SIPC Supplemental Report
- (n) Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5

Principal Funds Distributor, Inc.
Financial Statements and Supplemental Information

Years Ended December 31, 2013 and 2012

Contents

Report of Independent Registered Public Accounting Firm.....	1
Audited Financial Statements	
Statements of Financial Condition.....	3
Statements of Operations	4
Statements of Changes in Stockholder's Equity	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
Supplementary Information	
Supplementary Schedules:	
Computation of Net Capital – Part IIA	15
Statement Relating to Certain Determinations	
Required Under Rule 15(c)3-3 – Part IIA	17
Statement Pursuant to Rule 17a-5(d)(4)	18



Building a better
working world

Ernst & Young LLP
Suite 3000
801 Grand Avenue
Des Moines, IA 50309-2764

Tel: +1 515 243 2727
Fax: +1 515 362 7200

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder
Principal Funds Distributor, Inc.

We have audited the accompanying financial statements of Principal Funds Distributor, Inc., (the Company), which comprise the statement of financial condition as of December 31, 2013 and 2012, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; 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 financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Principal Funds Distributor, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the Supplementary Schedules is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

February 26, 2014

Principal Funds Distributor, Inc.

Statements of Financial Condition

	December 31	
	2013	2012
Assets		
Cash and cash equivalents	\$ 35,587,076	\$ 32,932,289
Receivables from:		
Affiliates	13,735,470	11,303,360
Others	171,406	44,700
Total receivables	<u>13,906,876</u>	<u>11,348,060</u>
Deferred sales commissions, net of amortization of \$153,281,612 and \$119,527,501 in 2013 and 2012, respectively	11,903,987	16,636,943
Income tax receivable under tax allocation agreement	11,395,139	10,319,147
Deferred income tax asset, net	1,405,144	-
Other assets	3,241,019	258,535
Total assets	<u>\$ 77,439,241</u>	<u>\$ 71,494,974</u>
Liabilities and stockholder's equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 14,628,425	\$ 12,118,884
Deferred income tax liability, net	-	2,058,956
Payables to:		
Principal Life Insurance Company	13,866,887	10,619,240
Other affiliates	4,087,731	3,235,924
Total liabilities	<u>32,583,043</u>	<u>28,033,004</u>
Stockholder's equity:		
Common stock, \$10 par value – authorized, 10,000 shares; issued and outstanding, 10,000 shares	100,000	100,000
Additional paid-in capital	408,936,241	346,812,827
Accumulated deficit	(364,180,043)	(303,450,857)
Total stockholder's equity	<u>44,856,198</u>	<u>43,461,970</u>
Total liabilities and stockholder's equity	<u>\$ 77,439,241</u>	<u>\$ 71,494,974</u>

See accompanying notes.

Principal Funds Distributor, Inc.

Statements of Operations

	Year Ended December 31	
	2013	2012
Revenues		
Distribution fees (12b-1 fees)	\$ 152,145,704	\$ 121,207,597
Underwriting fees	6,492,853	6,465,110
Contingent deferred sales charges	3,592,382	2,788,060
Total revenues	<u>162,230,939</u>	<u>130,460,767</u>
Expenses		
Distribution expenses (12b-1 fees)	124,961,916	100,983,240
Compensation and related expenses	59,561,462	57,499,806
Amortization of deferred sales commissions	33,754,111	26,028,116
General and administrative expenses	43,813,467	36,096,213
Total expenses	<u>262,090,956</u>	<u>220,607,375</u>
Loss before income tax benefit	(99,860,017)	(90,146,608)
Income tax benefit	39,252,498	34,780,626
Net loss	<u>\$ (60,607,519)</u>	<u>\$ (55,365,982)</u>

See accompanying notes.

Principal Funds Distributor, Inc.

Statements of Changes in Stockholder's Equity

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
Balance at January 1, 2012	\$ 100,000	\$ 290,351,109	\$ (248,005,272)	\$ 42,445,837
Net loss	-	-	(55,365,982)	(55,365,982)
Capital contributions in the form of forgiveness of allocated stock-based compensation expense	-	1,461,718	(79,603)	1,382,115
Capital contributions from Principal Management Corporation	-	55,000,000	-	55,000,000
Balance at December 31, 2012	100,000	346,812,827	(303,450,857)	43,461,970
Net loss	-	-	(60,607,519)	(60,607,519)
Capital contributions in the form of forgiveness of allocated stock-based compensation expense	-	2,123,414	(121,667)	2,001,747
Capital contributions from Principal Management Corporation	-	60,000,000	-	60,000,000
Balance at December 31, 2013	<u>\$ 100,000</u>	<u>\$ 408,936,241</u>	<u>\$ (364,180,043)</u>	<u>\$ 44,856,198</u>

See accompanying notes.

Principal Funds Distributor, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2013	2012
Operating activities		
Net loss	\$ (60,607,519)	\$ (55,365,982)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred sales commissions	33,754,111	26,028,116
Allocation of stock-based compensation	2,123,414	1,461,718
Equity distribution in the form of common stock to employees	(121,667)	(79,603)
Deferred income taxes, net	(3,464,100)	1,499,553
Sales commissions deferred	(29,021,155)	(29,257,269)
Changes in operating assets and liabilities:		
Income tax receivable under tax allocation agreement	(1,075,992)	(2,621,964)
Receivables from affiliates	(2,432,110)	(2,207,184)
Other receivables	(126,706)	74,819
Other assets	(2,982,484)	(23,376)
Accounts payable and accrued expenses	2,509,541	3,309,355
Payable to Principal Life Insurance Company	3,247,647	1,939,919
Payable to other affiliates	851,807	312,975
Net cash used in operating activities	(57,345,213)	(54,928,923)
Financing activities		
Capital contributions from Principal Management Corporation	60,000,000	55,000,000
Net cash provided by financing activities	60,000,000	55,000,000
Net increase in cash and cash equivalents	2,654,787	71,077
Cash and cash equivalents at beginning of year	32,932,289	32,861,212
Cash and cash equivalents at end of year	\$ 35,587,076	\$ 32,932,289

See accompanying notes.

Principal Funds Distributor, Inc.

Notes to Financial Statements

December 31, 2013

1. Organization and Nature of Business

Principal Funds Distributor, Inc. (the Company) is a broker-dealer registered with the Financial Industry Regulatory Authority (FINRA). The Company is incorporated under the laws of the state of Washington and is a wholly owned subsidiary of Principal Management Corporation (PMC). PMC is a wholly owned subsidiary of Principal Financial Services, Inc. (PFSI), which is a wholly owned subsidiary of Principal Financial Group, Inc. (PFG). The Company serves as the principal contracted distributor of the Principal Mutual Funds (the Funds). The Company does not receive or hold funds of subscribers or securities of issuers and does not hold customer funds or securities. Main sources of revenue include distribution and underwriting fees earned for providing services to the Funds.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Revenue Recognition

The majority of the Company's revenues are derived from services provided to the Funds. The Company receives 12b-1 fees from each fund based on a percentage of the Fund's average net assets. Such fees are booked as revenues as they are earned.

Cash and Cash Equivalents

The Company's cash equivalents included money market funds as of December 31, 2012. The money market fund investments held by the Company were disposed of during the year ended December 31, 2013. The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Sales Commission

Commission costs related to sales of Class B, Class C, Class J and certain Class A shares are capitalized and amortized over each Class's contingent deferred sales charge period as stated in the Principal Funds' prospectus. Deferred sales commissions related to Class B shares are amortized over a period of five years using the straight-line method. Deferred sales commissions related to Class C shares are amortized over a period of 12 months using the straight-line method. Deferred sales commissions related to Class J shares are amortized over an 18 month period using the straight-line method. Class A shares are amortized over a period of 12 months using the straight-line method. Such Class A commissions are those associated with payments made when the customer is not required to pay a load, typically for Class A share purchases of \$500,000 or more.

Federal and State Taxes on Income

The Company is taxed as a division of PFG at corporate rates based on existing tax laws. Current income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes are provided for the tax effect of temporary differences in the financial reporting and income tax bases of assets and liabilities and net operating losses using enacted income tax rates and laws. The effect on deferred income tax assets and deferred income tax liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted.

Subsequent Events

The Company's management has evaluated all subsequent events through the date the financial statements were issued.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

3. Fair Value Measurement

The Company uses fair value measurements to record fair value of cash equivalents.

Valuation Hierarchy

Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels.

- Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets included money market mutual funds.
- Level 2 – Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Fair values are based on significant unobservable inputs for the asset or liability.

Determination of Fair Value

Cash equivalents are reported at fair value on a recurring basis and included money market instruments. Fair values of these cash equivalents may be determined using public quotations, when available, which are reflected in Level 1. When public quotations are not available, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values, which are reflected in Level 2. The Company used Level 1 valuation techniques to measure the fair value, which is equal to the carrying value, of cash equivalents at December 31, 2012. The Company did not have any fair value Level 2 or Level 3 assets or liabilities at December 31, 2013 and 2012.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

3. Fair Value Measurement (continued)

Assets measured at fair value on a recurring basis are summarized below. The Company does not have any liabilities measured at fair value.

Assets	As of December 31, 2012			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 2,424,715	\$ 2,424,715	\$ —	\$ —
Total assets	\$ 2,424,715	\$ 2,424,715	\$ —	\$ —

Transfers

Transfers between fair value hierarchy levels are recognized at the beginning of the reporting period. The Company did not have any transfers between any of the levels during the years ended December 31, 2013 and 2012.

4. Related-Party Transactions

As set forth in the statements of operations, the Company receives distribution (Rule 12b-1) and shareholder servicing fees from the Funds.

Substantially all revenue recorded by the Company is for services provided to the Funds. Pursuant to the terms of agreements approved by the Funds' shareholders under the provisions of Rule 12b-1 of the Investment Company Act of 1940, the Company receives 12b-1 fees from each fund based on a stipulated percentage of the Fund's average net assets. Receivables from the Funds related to these services totaled \$13,559,579 and \$11,303,332 at December 31, 2013 and 2012, respectively.

Additionally, the Company pays to selling broker dealers a portion of these fees. Fees received under the provisions of Rule 12b-1 are listed as distribution fees and fees paid to selling broker dealers are listed as distribution expenses. The Company is affiliated with Prncor Financial Services Corporation (PFSC) through common ownership and management. Distribution expenses paid to PFSC for the sale of shares of the Funds totaled \$44,001,697 and \$35,755,147 for the years ended December 31, 2013 and 2012, respectively.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

4. Related-Party Transactions (continued)

The Company has entered into an expense reimbursement agreement with Principal Life Insurance Company (PLIC). PLIC performs certain functions on its own behalf and on behalf of many subsidiaries, including the Company, and shares the use of certain equipment, personnel and facilities with its subsidiaries. On a monthly basis PLIC bills the subsidiaries, including the Company, for amounts due for the performance of such services and functions and the use of such equipment, personnel and facilities. Amounts billed to the Company by PLIC for the years ended December 31, 2013 and 2012, were \$155,728,135 and \$122,056,054, respectively.

PFG has allocated the expenses associated with its stock-based compensation plans to each of its subsidiaries, with the allocation aggregating \$2,123,414 and \$1,461,718 to the Company for the years ended December 31, 2013 and 2012, respectively. As PFG has not required the allocation to be settled in cash, the amount has been treated as a capital contribution.

5. Leases

As of December 31, 2013, future minimum rentals under operating leases for office space that have initial or non-cancelable lease terms in excess of one year are as follows:

2014	\$ 593,327
2015	199,715
2016	—
2017	—
Thereafter	—
	<u>\$ 793,042</u>

Rent expense for 2013 and 2012 totaled \$599,560 and \$626,427, respectively.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

6. Income Taxes

Income Tax Expense

The Company's taxable income or loss is included in the consolidated income tax return filed by PFG, the Company's ultimate parent. PFG has adopted the policy of allocating income tax expense and benefits to members of its consolidated group based upon their pro rata contribution of taxable income or loss. Taxes received during 2013 and 2012 were \$34,855,073 and \$33,874,428, respectively.

The Company's income tax expense was as follows:

	For the Year Ended	
	December 31,	
	2013	2012
Current income taxes (benefits):		
U.S. federal	\$ (31,245,887)	\$ (30,623,037)
State	(4,542,512)	(5,657,142)
Total current income taxes (benefits)	(35,788,399)	(36,280,179)
Deferred income taxes (benefits):		
U.S. federal	(561,859)	2,032,565
State	(2,902,240)	(533,012)
Total deferred income taxes (benefits)	(3,464,099)	1,499,553
Total income tax benefit	\$ (39,252,498)	\$ (34,780,626)

Effective Income Tax Rate

The effective rate differs from the federal statutory rate of 35% primarily due to the effect of state income taxes.

Unrecognized Tax Benefits

The amount of unrecognized tax benefits calculated for the Company as of December 31, 2013 and 2012 is not material to the Company's financial position. Therefore, the total amount of unrecognized tax benefits, that if recognized, would affect the effective income tax rate is immaterial. The Company recognizes interest expense and penalties related to income taxes in operating expenses. The Company recognized no accumulated pre-tax interest and penalties related to unrecognized tax benefits in 2013 and 2012.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

6. Income Taxes (continued)

The Company does not believe there is a reasonable possibility that the total amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months.

Net Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes were as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Deferred income tax assets:		
State net operating loss	\$ 4,083,901	\$ 2,431,838
Stock compensation	577,743	557,792
Other deferred income tax assets	258,534	247,487
Total deferred income tax assets	<u>4,920,178</u>	<u>3,237,117</u>
Deferred income tax liabilities:		
Deferred sales commissions	(3,348,054)	(5,192,142)
Other deferred income tax liabilities	(166,980)	(103,931)
Total deferred income tax liabilities	<u>(3,515,034)</u>	<u>(5,296,073)</u>
Total net deferred income tax assets (liabilities)	<u>\$ 1,405,144</u>	<u>\$ (2,058,956)</u>

In management's judgment, total deferred income tax assets are more likely than not to be realized.

Other Tax Information

The Internal Revenue Service (IRS) completed its examinations of tax years 2004 through 2008. PFG filed claims for refund for tax years 2004 and 2005 during 2012 and will file claims for refund relating to disputed adjustments for tax years 2006 through 2008 in 2014. The IRS commenced the audit of PFG's federal income tax return for 2009 during the fourth quarter of 2011, for 2010 during the first quarter of 2012 and for 2011 during the first quarter of 2013. PFG and the Company do not expect the results of these audits or developments in other tax areas for all open tax years to significantly change the possible increase in the amount of unrecognized tax benefits, but the outcome of tax reviews is uncertain and unforeseen results can occur.

Principal Funds Distributor, Inc.

Notes to Financial Statements (continued)

7. Contingencies

The Company is regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming the Company as a defendant ordinarily arises out of the Company's business operations as a provider of asset management and accumulation products and services. Some of the lawsuits are class actions, or purport to be, and some include claims for punitive damages. In addition, regulatory bodies, such as, the Securities and Exchange Commission (SEC), FINRA and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning the Company's compliance with, among other things, securities laws and laws governing the activities of broker-dealers. The Company receives requests from regulators and other governmental authorities relating to other industry issues and may receive additional requests, including subpoenas and interrogatories, in the future.

On October 28, 2009, Judith Curran filed a derivative action lawsuit on behalf of Principal Funds, Inc. Strategic Asset Management Portfolios in the United States District Court for the Southern District of Iowa against Principal Management Corporation; Principal Global Investors, LLC; and Principal Funds Distributor, Inc. (the Curran Defendants). The lawsuit alleges the Curran Defendants breached their fiduciary duty under Section 36(b) of the Investment Company Act by charging advisory fees and distribution fees that were excessive. The Curran Defendants filed a motion to dismiss the case on January 29, 2010. That motion was granted in part and overruled in part. Principal Global Investors, LLC was dismissed from the suit. The court dismissed this case on June 12, 2013.

While the outcome of any pending or future litigation or regulatory matter cannot be predicted, management does not believe that any pending litigation or regulatory matter will have a material adverse effect on the Company's business or financial position. The outcome of such matters is always uncertain, and unforeseen results can occur. It is possible that such outcomes could materially affect net income in a future period.

8. Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). The Company computes its net capital requirements under the alternative method provided for in Rule 15c3-1. At December 31, 2013, the Company had net capital of \$8,380,226, which was \$8,130,226 in excess of its required minimum net capital of \$250,000.

The Company is exempt from maintaining a special reserve bank account under Rule 15c3-3(k)(1).

Supplementary Information

Principal Funds Distributor, Inc.

Computation of Net Capital – Part IIA

December 31, 2013

Computation of Net Capital

1. Total ownership equity from statement of financial condition		\$ 44,856,198
2. Deduct ownership equity not allowable for net capital		<u>—</u>
3. Total ownership equity qualified for net capital		<u>44,856,198</u>
4. Add:		
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>—</u>
B. Other (deductions) or allowable credits		<u>—</u>
5. Total capital and allowable subordinated liabilities		<u>44,856,198</u>
6. Deductions and/or charges:		
A. Total non-allowable assets from statement of financial condition (Notes B and C)	\$ 36,475,972	
B. Secured demand note deficiency	<u>—</u>	
C. Commodity futures contracts and spot commodities – proprietary capital charges	<u>—</u>	
D. Other deductions and/or charges	<u>—</u>	(36,475,972)
7. Other additions and/or allowable credits		<u>—</u>
8. Net capital before haircuts on securities positions		<u>\$ 8,380,226</u>
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):		
A. Contractual securities commitments	<u>—</u>	
B. Subordinated securities borrowings	<u>—</u>	
C. Trading and investment securities:		
1. Exempted securities	<u>—</u>	
2. Debt securities	<u>—</u>	
3. Options	<u>—</u>	
4. Other securities	<u>—</u>	
D. Undue concentration	<u>—</u>	
E. Other	<u>—</u>	<u>—</u>
10. Net capital		<u>\$ 8,380,226</u>

Principal Funds Distributor, Inc.

Computation of Net Capital – Part IIA (continued)

Computation of Alternate Net Capital Requirement

Part B

22.	2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	<u> -</u>
23.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)		<u> 250,000</u>
24.	Net capital requirement (greater of line 22 or 23)		<u> 250,000</u>
25.	Excess net capital (line 10 less 24)		<u> 8,130,226</u>
26.	Net capital in excess of: 5% of combined aggregate debit items or 120% of minimum net capital requirement		<u> 8,080,226</u>

Notes

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
 2. 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

Principal Funds Distributor, Inc.

Statement Relating to Certain Determinations
Required Under Rule 15c3-3 – Part IIA

December 31, 2013

Computation for Determination of Reserve Requirements

Pursuant to Rule 15c3-3:

Exemptive Provision

If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k)(1) – Limited business (mutual funds and/or variable annuities only)

 X

B. (k)(2)(i) – “Special Account for the Exclusive Benefit of Customers” maintained

C. (k)(2)(ii) – All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm:

D. (k)(3) – Exempted by order of the Commission

Principal Funds Distributor, Inc.

Statement Pursuant to Rule 17a-5(d)(4)

December 31, 2013

There were no differences between Net Capital, which is included in this audited report, and Net Capital in the Company's corresponding unaudited Focus Report (Form X-17A-5, Part IIA) filing as of December 31, 2013.