NAFCU ANNUAL REPORT **2012**

FORWARD FOCUS

National Association of Federal Credit Unions

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

NAFCU Chair and President's Report

In today's rapidly evolving financial services environment, we cannot afford to merely focus on the here and now. Our biggest challenges — an onslaught of new rules and regulations, growing legislative hurdles and increasing bottom-line pressures — are as difficult to ignore as they are to predict.

And that's where NAFCU comes in.

NAFCU looks unabashedly forward — to the next rules to be announced, to the next bills to be introduced, to the next innovations to come and the next challenges and opportunities ahead. By focusing forward, NAFCU better equips its members for their present-day challenges and serves as the credit union industry's most effective advocate and resource.

As a powerful champion for our industry, NAFCU and its member credit unions played a key role in policy debates in 2012. The association and its members testified before Congress, met with top policymakers, and worked to make sure the industry's concerns were considered as lawmakers debated solutions to the nation's deficit and the recovering economy and pressed forward with implementation of rules from the Dodd-Frank Act.

The association's numerous accomplishments in 2012 on behalf of its member credit unions are a testament to the effectiveness of its singular focus on the issues confronting our industry. Most importantly, NAFCU thanks its members for their tireless efforts throughout the year to provide value and service to their members.

Michael Parsons
NAFCU Chair

Fred Becker
NAFCU President and CEO

Legislative and Regulatory Advocacy

Protecting the tax exemption. Early in 2012, NAFCU recognized that discussions in Washington about tax reform and deficit reduction would become only more pervasive as the end-of-the-year, "fiscal cliff" deadline drew closer. That's why the association commissioned a study on the value of the credit union federal income tax exemption. The findings, which showed that all Americans benefit from the tax exemption, were released in September during NAFCU's Congressional Caucus, just in time for the months of fiscal debate that would follow. The timing of the release allowed NAFCU to help frame the debate early on with hard data on the economic value of the exemption, and ensured the exemption would be left untouched by Congress.

Leading the industry on regulatory reform. On February 12, 2013, NAFCU President and CEO Fred Becker called on Congress to support the association's five-point plan for broad-based credit union regulatory relief. The plan seeks to reduce the mounting regulatory burden through enhanced administrative powers for NCUA, capital reforms, structural improvements for credit unions, operational improvements for credit unions and data security reforms. NAFCU is hard at work seeking support for legislation that furthers the goals of the plan.

Eliminating duplicative ATM fee disclosures. The association lobbied hard for legislation to eliminate the onerous, duplicative ATM placard requirement for fee disclosures. NAFCU's relentless focus paid off and the legislation was passed and signed into law. The new law will save credit unions from being the target of baseless, frivolous lawsuits.

Delaying and scaling back the international remittance rule. When the CFPB finalized a troublesome international remittance rule that was originally set to take effect February 7, 2013, NAFCU pushed back hard during testimony and meetings on Capitol Hill and at the CFPB (in conversations with CFPB Director Richard Cordray and through numerous comment letters). The CFPB has now delayed implementation of the rule until 90 days after other proposed changes are finalized. While the delay was a key victory, NAFCU continues to push the CFPB for a broader exemption and longer implementation period.

Winning a much-needed fix to a credit card rule. NAFCU and credit unions scored a significant victory when the CFPB heeded its concerns about a rule that prevented the use of "household" income in the evaluation of credit applications. The association communicated its concerns to regulators and lawmakers, including members of a House subcommittee who later pressed CFPB Director Richard Cordray on the rule during a congressional hearing. As a result of NAFCU's efforts, the bureau's proposal would allow a stay-at-home spouse or partner to rely on shared income when applying for a credit card.

Clarifying rules to treat video teller machines as a service "facility." NAFCU, beginning in 2011 in Annual Conference remarks by President and CEO Fred Becker, urged NCUA to ensure its chartering and field-of-membership rules treated video teller machines as service facilities, enhancing multiple common-bond credit unions' ability to increase and serve their memberships. In August 2012, NCUA issued a legal opinion letter to NAFCU that says a VTM is a valid service facility if members can interact with a credit union representative and can conduct the same types of transactions they can handle at a branch.

Delaying the implementation of the CUSO, loan participation and emergency liquidity rules. Heeding concerns from NAFCU, NCUA delayed the proposed rules relating to CUSOs, loan participations and emergency liquidity. NAFCU had expressed opposition to these three rules. The CUSO proposal would have significantly increased NCUA's regulatory oversight of CUSOs and federally insured credit unions beyond the agency's statutory authority. The loan participation proposal would have set arbitrary concentration limits on loan participations for credit unions. The emergency liquidity rule would not have included Federal Home Loan Banks.

Image: **Dan Berger**, *Executive Vice President of Government Affairs*

Easing troubled debt restructuring rules. After nearly two years of lobbying by NAFCU, NCUA approved a final rule in 2012 that permits credit unions to modify loans without having to classify them immediately as delinquent. Removing this requirement eliminates unnecessarily onerous reserving and examination pressures that make it difficult for credit unions to provide real relief to financially troubled members.

Holding the line on assessments. NAFCU's longstanding focus on getting NCUA to reduce costs associated with corporate stabilization and the federal share insurance fund has been having an impact. 2012 was a year where credit unions saw a further reduction in these costs. NAFCU continues to urge NCUA to not assess share insurance premiums and to keep stabilization assessments as low as possible so that credit unions can use the money at home to provide products and services to their members.

Winning recognition for lobbying efforts. NAFCU won recognition once again for its highly effective lobbying team. NAFCU's successful effort to prevent passage of a stand-alone bill on transaction guarantee accounts without new member business lending authority for credit unions was included in *The Hill's* list of top 10 lobbying victories of 2012. The publication also named NAFCU's Dan Berger, executive vice president of government affairs, and Brad Thaler, vice president of legislative affairs, to its list of Washington's most influential lobbyists, while Carrie Hunt, vice president of regulatory affairs and general counsel, was named to *CU Times'* list of Women to Watch.

Compliance Resources

Providing compliance assistance. NAFCU's regulatory compliance expertise has expanded and sharpened over the years as the regulatory challenges facing credit unions have mushroomed to overwhelming proportions. In 2012, NAFCU's highly-regarded compliance team once again proved why it is one of the most valued resources of NAFCU membership through an unrelenting focus on members' most pressing compliance needs and by responding to hundreds of compliance calls and emails. The association's popular Compliance Blog counted over 4,300 subscribers as of January 2013. NAFCU's compliance team also offers members further insight and assistance via the *Compliance Monitor* newsletter, the *BSA Blast* publication, *NAFCU's Credit Union Compliance GPS* and more.

Offering renowned compliance training. In 2012, close to 400 credit union compliance staff trained at NAFCU's premier compliance conferences — Regulatory Compliance School and Regulatory Compliance Seminar. NAFCU awarded 97 credit union professionals the prestigious NAFCU Certified Compliance Officer designation, bringing the total number of NCCOs to 565.

Education and Conferences

Leading the industry with the best conferences and education. NAFCU continues to lead the industry with the best conferences and training, providing credit unions with the tools and knowledge they need to thrive in an increasingly competitive market. In 2012, several NAFCU events, including Strategic Growth Conference, CEOs and Senior Executives Conference, Regulatory Compliance Seminar and the association's Annual Conference and Solutions Expo, crossed major attendance milestones — a clear testament to the quality of NAFCU's educational offerings. The association also launched its first mobile app at the 2012 Annual Conference to give attendees access to a wealth of information on their mobile devices, including program details, presentation notes, presenter bios, exhibitor information and more.

Offering an expanded range of webcasts. NAFCU offered 28 webcasts in 2012, with topics ranging from social media and website compliance to the Bank Secrecy Act, corporate governance and NCUA examinations, to name just a few. Among the most popular webcasts were the ones NAFCU did on the CFPB's mortgage proposals. NAFCU continues to offer members valuable information about the CFPB's mortgage rules in 2013 with a new series of webcasts that focuses on important deadlines, critical compliance issues, tips and best practices on compliance.

Credit Union Data and Research

Offering key data and research. Each month, the *Economic and CU Monitor* provides the latest credit union trends, an economic forecast and a special topic reflecting survey findings from NAFCU-member credit unions. NAFCU uses this vital information on Capitol Hill, in comment letters to regulators and in contacts

Images from left to right: **Carrie Hunt**, *General Counsel and Vice President of Regulatory Affairs*; **Anthony Demangone**, *Senior Vice President and COO*; Attendees at NAFCU Regulatory Compliance School with the media. NAFCU's research department also provides a range of other tools to keep members informed on the economy and the industry, including: Macro Data Flashes, which focus on specific economic indicators; and the *CU Performance Benchmark Report*, which compares a credit union's performance with that of their geographic and asset class peers.

Providing new regional outlook data. To give credit unions deeper insight and a comprehensive view of conditions in specific regions, NAFCU's research department developed a new resource in 2012, the NAFCU Regional Outlook. Released monthly as part of the *Economic and CU Monitor*, the NAFCU Regional Outlook provides a convenient snapshot of credit union growth indicators on a regional basis, including membership, shares, assets, net income, net worth, loan balances, delinquencies and more.

Image: **David Carrier**, *Director of Research/Chief Economist*

Membership

Scoring high marks from member credit unions. A needs assessment and satisfaction survey of credit unions conducted by McKinley Advisors in October 2012 found that NAFCU scored especially high for its regulatory and legislative advocacy, compliance assistance, as a source of industry insight and news, and for its exceptionally superior service. Nearly all respondents (96 percent or more) indicated they were satisfied with NAFCU staff's knowledge of products/services, resolution of issues, timeliness of response, access/friendliness of staff and overall quality of member service. Seventy-four percent of respondents said the overall value for dues paid was "outstanding" or "very good." In addition, NAFCU ranked second in terms of membership value and had the highest Net Promoter Score among comparative associations.

Offering virtual board briefings. In 2012, NAFCU also gave members the opportunity to schedule live, remote briefings with NAFCU's staff upon request. NAFCU President and CEO Fred Becker presents many of these briefings, which give NAFCU members a technologically convenient way to learn more about the most pressing issues and concerns in the credit union industry.

Enhancing recognition for NAFCU members. NAFCU believes strongly in recognizing the excellence of its membership. In 2012, the association expanded the number of asset categories for both its Annual Awards and Marketing Awards programs from two to three, giving more NAFCU members the opportunity to be recognized for their efforts.

Communications and Marketing

Garnering national press attention. In October 2012, the NAFCU communications team's efforts to champion the benefits of credit union membership led to a CBS *This Morning* segment that touted credit unions' favorable rates, lower fees nationwide ATM access, and the association's credit union locator, CULookUp.com. In 2012, NAFCU staff, leaders and members were quoted and featured in top national news outlets, including *Politico, National Journal, PBS Nightly Business Report, Associated Press, CNN Money, ABC World News, USA Today, CBS News, The Washington Post* and *The Wall Street Journal.*

Offering digital edition of *TFCU* magazine. 2012 was also a year that saw NAFCU roll out several new publications and revamp some of its long-standing member favorites. *The Federal Credit Union*, NAFCU's award-winning bimonthly magazine, went digital, giving readers an enhanced way of accessing the same vital information offered in the print version of the magazine. The publication also received a facelift with a "refreshed" look and the introduction of new columns and departments.

Launching breaking news. NAFCU enhanced its reporting of daily credit union news in 2012 with the launch of breaking news alerts, which enables NAFCU members to learn immediately about breaking industry developments via news stories directly to their email in-boxes. The daily *NAFCU Today* morning enewsletter weekly *UPDATE* newsletter, and email letters from NAFCU's President and CEO, also continue to provide NAFCU members with timely and informative industry news.

Introducing *Musings from the CU Suite*. 2012 marked the launch of NAFCU's innovative blog, *Musings from the CU Suite*, penned by NAFCU Senior Vice President and Chief Operating Officer Anthony Demangone. The blog provides useful insights and fresh perspectives about leadership and management to help credit union executives, branch managers and up-and-coming managers thrive.

Winning awards for our work. The association's annual holiday radio tour championing the benefits of credit unions and providing financial tips to consumers reached more than 27 million adults across the nation. The campaign won a coveted Toth Award from the National Capital Chapter of the Public Relations Society of America. NAFCU also garnered two American Inhouse Design Awards. The association won for its 2012 Events and Education preview brochure and 2012 membership campaign, each in the "Brochures & Collateral" category.

While NAFCU's unwavering focus on its members resulted in these and other accomplishments over the past year, the work continues. In July 2013, Fred Becker will retire after more than 13 years of leading the association as its president and CEO. Taking over will be Dan Berger, NAFCU executive vice president of government affairs.

One thing that will not change is NAFCU's singular focus on its members. NAFCU will remain a strong advocate for member credit unions, seeking to ensure laws that make sense, rules that work as they should and an environment where credit unions and their members can flourish. And to accomplish this, NAFCU will continue to stay one step ahead — focusing forward to challenges and opportunities that will ensure our members' best interests.

NAFCU Services Corporation Chair and President's Report

2012 was a strong reminder that NAFCU Services Corporation continues to lead the industry in offering innovative and effective solutions for credit unions.

NAFCU Services Corporation has earned its well-deserved reputation by focusing on the most promising technologies and tools of the future — the kind that help credit unions achieve their most ambitious goals and objectives in a rapidly evolving and increasingly competitive marketplace.

In 2012, NAFCU Services Corporation added an even greater array of top-notch solutions and tools to enhance credit unions' competitiveness. New Preferred Partners added in 2012 specialize in a range of key areas, including research-driven educational content related to credit scoring; consumer and commercial loan recovery services and vendor and contract management. All of these solutions were approved by our member-run Advisory Committee.

In addition, NAFCU Services Corporation enhanced CULookup.com's award-winning financial calculators to include color customization for branding and a secure deployment option for websites using HTTPS technology. The calculators, which NAFCU members may upload to their own websites for free, crossed the 2 million calculation milestone in 2012 — underscoring the value they provide to credit union members and prospective members. With more than 30 financial topics to choose from, the calculators continue to grow in popularity.

NAFCU Services Corporation also added a number of new free webcasts and podcasts by NAFCU Services Preferred Partner industry experts last year, building further on its reputation as a trusted resource for credit unions. All NAFCU Services Corporation webcasts and podcasts can be viewed at www.nafcu.org/nafcuservices or www.nafcu.org/PartnerLibrary, as well as on each Preferred Partner webpage.

The NAFCU Services Blog, which provides key insights on various topics of interest to credit unions from the Preferred Partner network, added more content in 2012 — with the number of blog posts increasing from 40 to 60 over the previous year. Readers responded favorably, with the number of blog subscribers increasing from 651 in 2011 to 725 in 2012.

With the addition of new Preferred Partners and the continued and growing success of existing partners, 2012 was once again a successful year for NAFCU Services, both in terms of total annual revenue and contributions to support essential NAFCU programs.

As we write this in 2013, we are more confident than ever that our highly qualified and carefully selected solution providers clearly demonstrate why they have earned the designation of NAFCU Services Preferred Partners. It is our focus to identify vendors that enable credit unions to thrive.

We thank you for your continued support.

Fred Becker
NAFCU Services Corporation Chair

David Frankil
NAFCU Services Corporation President

NAFCU Treasurer's Report

Occasionally, someone will ask me: What's the secret to NAFCU's long-standing record of sustained financial growth?

I tell them it's no secret. NAFCU has always been clear that its unwavering focus on its membership means taking the long view when it comes to financials. NAFCU never allows short-term uncertainties to cloud its long-term goals or core principles.

NAFCU's solid financials are a stellar example of the association's prudent financial decision-making. 2012 marked NAFCU's 24th consecutive year of sustained financial stability and growth, and the association achieved this while simultaneously adding new member services and growing its membership.

In 2012, NAFCU's equity increased by 281,918, while its assets grew by $1,190,343 — gains that enable the association to maintain its position as the industry's leader in advocacy, compliance assistance and education. NAFCU Services Corporation, the association's subsidiary, also brought even greater value via several new partnerships and products that enhance credit unions' competitiveness.

NAFCU's leadership role in the industry is a direct result of its diligent commitment to prudent financial decision-making. It's not surprising that NAFCU-member credit unions are among the top performers in the industry.

Whether through member services or benefits, NAFCU's member credit unions continue to set the standard in today's constantly changing and highly challenging financial marketplace.

Thank you for your guidance, strong support and cooperation. Working together, we continue to ensure a bright and secure future for our industry.

Richard L. Harris

Richard L. Harris
NAFCU Treasurer

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of the National Association of Federal Credit Unions, Inc. and Affiliates (the Organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditor's Responsibility: Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 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 the National Association of Federal Credit Unions, Inc. and Affiliates as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
February 28, 2013

Consolidated Statements of Financial Position

December 31,	**2012**	2011
ASSETS		
Cash and cash equivalents - Note B	**$ 3,177,152**	$ 3,792,350
Accounts receivable - net of allowance for doubtful accounts (2012 - $30,000; 2011 - $0)	**259,278**	254,945
Prepaid expenses and other assets	**415,249**	488,496
Investments - Notes B, C, & J	**10,338,238**	8,327,216
Deferred compensation investments - Note J	**698,580**	622,679
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**5,965,419**	5,739,551
Furniture and equipment	**2,372,776**	2,312,244
	9,647,421	9,361,021
Less accumulated depreciation and amortization	**(5,859,671)**	(5,360,803)
	3,787,750	4,000,218
Total assets	**$ 18,676,247**	$ 17,485,904
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$ 1,652,343**	$ 938,485
Deferred revenue	**5,882,064**	5,711,952
Tenant deposits	**14,349**	13,222
Deferred compensation liability - Note F	**862,954**	839,626
Total liabilities	**8,411,710**	7,503,285
Net assets		
Unrestricted	**9,579,194**	9,282,985
Temporarily restricted - Note D	**685,343**	699,634
Total net assets	**10,264,537**	9,982,619
Commitments and contingencies - Note H		
Total liabilities and net assets	**$ 18,676,247**	$ 17,485,904

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year Ended December 31,	**2012**	2011
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	**$ 7,280,821**	$ 6,878,095
Member educational conferences	**3,239,860**	3,171,355
Service fees	**1,697,937**	1,657,608
Advertising	**299,318**	207,807
Other	**279,195**	212,983
Interest and dividend income - Note C	**145,024**	72,770
Products and services	**157,383**	431,796
Rental income	**132,720**	145,948
	13,232,258	12,778,362
Net assets released from restriction	**549,750**	345,417
	13,782,008	13,123,779
Expense		
Program services:		
Membership educational conferences	**2,108,986**	2,273,291
Communications and publications	**383,951**	258,960
Officials and committees	**209,385**	165,232
Legislative and regulatory	**63,149**	99,576
Membership	**62,313**	45,818
Products and services	**26,712**	67,805
	2,854,496	2,910,682
Supporting services - Note E		
Administration and overhead	**10,027,161**	9,091,807
Building and occupancy	**715,109**	703,990
Total supporting services expense	**10,742,270**	9,795,797
Total expense	**13,596,766**	12,706,479
Change in unrestricted net assets before investment gains (losses)	**185,242**	417,300
Unrealized gain on investments - Note C	**99,972**	6,860
Realized gain (loss) on investments - Note C	**10,995**	(5,554)
Change in unrestricted net assets	**296,209**	418,606
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**531,794**	517,721
Interest income - Note C	**3,665**	4,468
Net assets released from restriction	**(549,750)**	(345,417)
Change in temporarily restricted net assets	**(14,291)**	176,772
Change in net assets	**281,918**	595,378
Net assets, beginning of year	**9,982,619**	9,387,241
Net assets, end of year	**$ 10,264,537**	$ 9,982,619

See notes to consolidated financial statements.

Certain 2011 amounts have been reclassified for comparative purposes.

Consolidated Statements of Cash Flows

Year Ended December 31,	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 281,918**	$ 595,378
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	**541,137**	500,162
Net gain on investments	**(110,967)**	(1,306)
Changes in assets and liabilities:		
Accounts receivable	**(4,333)**	(7,731)
Prepaid expenses and other assets	**73,247**	(81,599)
Deferred compensation investments	**(75,901)**	(92,181)
Accounts payable and accrued expenses	**713,858**	(48,101)
Deferred revenue	**170,112**	703,539
Tenant deposits	**1,127**	-
Deferred compensation liability	**23,328**	115,843
Total adjustments	**1,331,608**	1,088,626
Net cash provided by operating activities	**1,613,526**	1,684,004
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	**4,810,007**	22,313,371
Purchases of investments	**(6,710,062)**	(21,287,551)
Net purchases of property and equipment	**(328,669)**	(342,651)
Net cash (used in) provided by		
investing activities	**(2,228,724)**	683,169
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments made on capital lease obligation	**-**	(60,938)
Net cash used in financing activities	**-**	(60,938)
Net (decrease) increase in cash and cash equivalents	**(615,198)**	2,306,235
Cash and cash equivalents, beginning of year	**3,792,350**	1,486,115
Cash and cash equivalents, end of year	**$ 3,177,152**	$ 3,792,350
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$ 19,372**	$ -

See notes to consolidated financial statements.

Certain 2011 amounts have been reclassified for comparative purposes.

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The National Association of Federal Credit Unions, Inc. (the Association), located in the Washington, D.C. area, is the only trade association which exclusively serves federally chartered credit unions. Founded in 1967, the Association's primary purpose is to represent its members before Congress and the federal regulatory agencies. The Association also provides its members with a source of reliable information through its publications, educational programs, regulatory compliance assistance, and economic research. The Association's members are among the most progressive institutions in the industry.

The Association's wholly-owned for-profit subsidiary, NAFCU Services Corporation (NSC), is incorporated in the District of Columbia. NSC was organized to provide consulting and marketing efforts for various services offered by vendors to the credit union community.

A trust agreement was drawn by NSC on September 25, 1975 (amended March 2, 1977) to provide for the establishment of individual trusts by credit unions in the United States and its possessions, with such credit unions being the grantors and Union Bank being the Trustee. This plan of Common Trust is known as the National Investment Fund for Credit Unions (NIFCUS). NSC receives fees from the Trustee (Union Bank) in return for advice and assistance concerning credit union regulations and participation.

Other fee sources have been developed as a result of marketing agreements between the service corporation and third party entities providing services to credit unions.

The National Association of Federal Credit Unions Political Action Committee (the PAC) was organized to conduct political activities on behalf of the Association's members.

The National Association of Federal Credit Unions Foundation for Charitable, Literary, Educational and Humanitarian Purposes (the Foundation) was incorporated in April 1995 in the Commonwealth of Virginia. The purpose of the Foundation is to promote charitable, literary, educational and humanitarian causes of interest to credit unions and those associated with them.

Income tax status: The Association is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. Under the Code, advertising revenue earned from the publication of the Association's magazine and other income earned from NSC are subject to unrelated business income taxes.

The PAC is a separate segregated fund as defined under Section 527(f)(3) of the Internal Revenue Code. As such, the PAC is subject to income taxes on the lesser of its exempt activity expenditures or investment income.

The Foundation is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Foundation has been classified as other than a private foundation by the Internal Revenue Service.

NSC is a taxable corporation. As such, it pays Federal and State income taxes on its net taxable income.

Principles of consolidation: The consolidated financial statements include the accounts of the Association, NSC, the Foundation, and the PAC. Significant inter-company accounts and transactions have been eliminated in consolidation. For purposes of these consolidated financial statements, the entities are referred to collectively as the Organization.

Basis of accounting: As required by U.S. generally accepted accounting principles (GAAP), the Organization prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Organization considers all equities, unrestricted money market funds, commercial paper, corporate bonds, US agency and treasury obligations, and certificates of deposit to be other than cash equivalents.

Accounts receivable: Accounts receivable consist primarily of amounts owed from NSC Preferred Partners as a result of royalty/marketing agreements. Accounts receivable are presented at the gross, or face, amount due to the Organization. The Organization's management periodically reviews the status of all accounts receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. The Organization has established an allowance for various invoices it believes may be uncollectable.

Property and equipment: Acquisitions of property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the following useful lives of the various classes of assets:

Building and improvements	5 - 29 years
Furniture and equipment	3 - 7 years

Deferred revenue: Deferred revenue principally consists of membership dues, subscriptions, and conference/seminar payments received in advance. Membership dues and subscriptions are recognized as revenue over the duration of the related membership or subscription. Conference and seminar registration fees are recognized as revenue once the related meeting has taken place.

Net assets: For financial statement purposes, net assets are as follows:

Unrestricted: Unrestricted net assets are available for general operations.

Temporarily restricted: Temporarily restricted net assets represent the portion of net assets that have been restricted by donors (see Note D).

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. Donor-restricted support is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires.

Functional reporting of expenses: The Organization reports the direct costs of operating its programs as "program services" expense on the statement of activities. All salaries, occupancy, and administrative costs are reported as supporting services on the statement of activities.

Subsequent events: Subsequent events have been evaluated through February 28, 2013, which is the date the financial statements were available to be issued.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Credit risk: The Organization maintains demand deposits with federal credit unions and banks, and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization also invests funds in various securities. Such investments are exposed to market and credit risks. Thus, the Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

Investments are carried at fair value and consisted of the following as of December 31,:

	2012	2011
Money market funds	$ 4,142,709	$ 6,482,306
Fixed income mutual funds and ETFs	3,987,030	500,826
Equity mutual funds and ETFs	1,098,682	414,905
Certificates of deposit	959,000	-
Foreign obligations	65,469	141,133
U.S. & Agency obligations	65,244	585,580
Corporate obligations	20,104	202,466
	$ 10,338,238	**$ 8,327,216**

Investment return consists of the following during the years ended December 31,:

	2012	2011
Interest and dividends	$ 148,689	$ 77,238
Net gain on investments	110,967	1,306
	$ 259,656	**$ 78,544**

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of $685,343 and $699,634 for the NAFCU PAC Administration fund as of December 31, 2012 and 2011, respectively.

E. SUPPORTING SERVICES

The major components of the Organization's consolidated supporting service expenses consist of the following for the years ended December 31,:

	2012	2011
Employee compensation and benefits	$ 7,697,315	$ 7,149,745
Building operations	715,109	703,990
Depreciation	308,805	285,367
Professional services	345,378	382,642
Other	1,675,663	1,274,053
	$ 10,742,270	**$ 9,795,797**

F. RETIREMENT PLANS

Deferred compensation plans: The Organization has established nonqualified deferred compensation plans under the Internal Revenue Code for certain eligible executives. The total liability accrued for the deferred compensation plans was $862,954 and $839,626 at December 31, 2012 and 2011, respectively.

Defined contribution plan: The Organization maintains a defined contribution retirement plan covering substantially all full-time employees who meet certain age and length of service requirements. Employees are fully vested on attaining five years of service. Retirement plan expenses charged to operating expenses in 2012 and 2011 were $330,861 and $245,137, respectively.

G. EQUIPMENT SERVICE AGREEMENT AND CAPITAL LEASE OBLIGATIONS

During 2009, the Association entered into a capital lease for web studio equipment expiring in 2011. The fair value of the related equipment was recorded as an asset and is being amortized over the life of the lease. The leased equipment has a cost basis of $180,092. Under the terms of the lease, monthly payments were due to the lessor through December 31, 2011. The lease required the lessor to be responsible for the maintenance of the equipment through March 31, 2012. The Association has extended the term of the associated service agreement through March 31, 2015. Payments under the extended service agreement commenced on April 1, 2012 and end on March 31, 2015. The liability under the capital lease was $0 for December 31, 2012 and 2011, respectively.

Future minimum payments under the service agreement are as follows:

Year Ending December 31,

2013	$ 94,848
2014	94,848
2015	23,712
	$ 213,408

H. COMMITMENTS AND CONTINGENCIES

The Organization leases a portion of its headquarters building under operating leases which expire through 2017. The approximate future minimum payments to be received under the operating leases are as follows:

Year Ending December 31,

2013	$ 213,000
2014	183,000
2015	71,000
2016	75,000
2017	79,000
	$ 621,000

I. INCOME TAXES

NSC has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2017. As of December 31, 2012, total unused charitable contributions approximated $43,000. Due to uncertainty regarding NSC's future ability to utilize these deductions, a valuation allowance has been recorded to completely offset any related deferred tax asset.

NSC accrues a liability for certain compensation expenses that are not deductible for income tax purposes until the obligations are paid in cash. As a result, these compensation accruals create a deferred tax asset. The total deferred tax asset related to anticipated future compensation expense deductions equaled $40,506 and $29,388 as of December 31, 2012 and 2011, respectively.

The Organization believes that it has adequate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. At a minimum, the fiscal periods ending 2009 through 2012 remain open for examination by taxing authorities.

J. FAIR VALUE MEASUREMENTS

The Organization has implemented the accounting standards topic regarding fair value measurements. This standard establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data; and

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

The Organization's investments and deferred compensation investments were measured at fair value on a recurring basis using the following input levels at December 31:

2012	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 4,142,709	$ 4,142,709	$ -	$ -
U.S. & Agency obligations	65,244	-	65,244	-
Fixed income mutual funds & ETFs	3,987,030	3,987,030	-	-
Corporate obligations	20,104	-	20,104	-
Foreign obligations	65,469	-	65,469	-
Equity mutual funds & ETFs	1,098,682	1,098,682	-	-
Certificate of deposits	959,000	-	959,000	
Deferred compensation investments (mutual funds)	698,580	698,580	-	-
	$ 11,036,818	$ 9,927,001	$ 1,109,817	$ -

2011	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 6,482,306	$ 6,482,306	$ -	$ -
U.S. & Agency obligations	585,580	-	585,580	-
Fixed income mutual funds	500,826	500,826	-	-
Corporate obligations	202,466	-	202,466	-
Foreign obligations	141,133	-	141,133	-
Equity mutual funds	414,905	414,905	-	-
Deferred compensation investments (mutual funds)	622,679	622,679	-	-
	$ 8,949,895	$ 8,020,716	$ 929,179	$ -

Investments using Level 2 inputs are priced by the investment custodian using an outside data and pricing company that uses a market approach and spreads based on the credit risk of the issuer, maturity, current yield, trading frequency, and other terms and conditions of each security. Management believes the estimates to be a reasonable approximation of the fair value of the investments.

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