GROWING

THROUGH EXTREME MEMBER SERVICE

NAFCU Annual Report 2014

NAFCU
National Association of Federal Credit Unions

NAFCU Chair and President's Report

Last year, NAFCU accomplished much for our members in the areas of regulatory relief, credit union advocacy and in new membership growth for our association.

NAFCU also continued to deliver excellent advocacy, education, compliance assistance and more, in a cost-effective way that ensured members top value for their dues dollars.

We had several major successes in advancing credit union interests before Capitol Hill, the administration and the federal regulatory agencies in 2014. In the closing days of the 113th Congress, lawmakers passed and the president signed into law the "Credit Union Share Insurance Fund Parity Act," giving credit unions parity with FDIC-insured institutions offering escrow accounts like Interest on Lawyer Trust Accounts (IOLTAs). In the midterm elections, 93 percent of the candidates supported by NAFCU/PAC won their seats. Working with you and with lawmakers, we also succeeded in getting NCUA to recognize some real problems with its first risk-based capital proposal, and we will be every bit as vigilant in addressing the new version under review now.

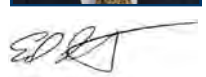
Among our top priorities for 2014 was our "Dirty Dozen" list of regulations that should be amended or eliminated to lessen the credit union regulatory burden, which continues to be too great. Some of these issues may not have been top-of-mind for regulators—or even at the top of their rulemaking agendas—but they still cause headaches in credit unions' day-to-day lives, and we have been fighting to get legislators and regulators to take notice. NAFCU saw several victories from the "Dirty Dozen" list: NCUA's final rule changing its requirements for appraisals and its proposal to remove the 5 percent cap on federal credit union investments in fixed assets were among those.

We also continued to seek improvements in overly restrictive field-of-membership requirements, and we kept up our pursuit of national data security standards for retailers to make them accountable while helping to ensure credit union members' data is as safe as it can be.

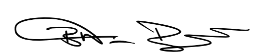
As for preserving credit unions' federal tax exemption—NAFCU's top priority—we made sure Congress was kept aware of the value of the exemption, and of credit unions, to credit unions' more than 100 million members and the national economy as a whole.

2014 was also a milestone year for new membership growth for NAFCU despite the continuing trend of consolidation. Through our focus on providing "Extreme Member Service," staying cost-effective and offering strong value to members, we concentrated on serving members' needs, and the numbers demonstrate that.

That's especially good news, because when it comes to our goals of advocacy, education and compliance assistance, there's strength in numbers. With that in mind, we want to thank our members, board of directors and staff for their support throughout this past year—and for being part of all our accomplishments in 2014.



Ed Templeton
NAFCU Chair



B. Dan Berger
NAFCU President and CEO

Image Captions: 1. NAFCU witness Daniel Weickenand, CEO of Orion Federal Credit Union, testifies on regulatory relief on the Hill. 2. NAFCU's Berger greets Rep. Shelley Moore-Capito, R-W.Va., at Congressional Caucus. 3. NAFCU Senior Vice President of Government Affairs and General Counsel Carrie Hunt consults with NAFCU witness David Clendaniel of Dover Federal Credit Union during a regulatory relief hearing on the Hill.

Legislative and Regulatory Priorities

Protect the credit union tax exemption

NAFCU remained vigilant on this issue in 2014 and does not expect any changes as a new Congress moves forward with new chairmen for both the House Ways and Means Committee and Senate Finance Committee. Last year, no member of Congress proposed legislation that would eliminate the credit union tax exemption, and the 113th Congress's H.R. 1, the tax reform package introduced by then-Ways and Means Chairman Dave Camp, R-Mich., would have preserved it.

As a NAFCU-commissioned, independent study showed, the credit union exemption from federal corporate income tax is vital to your credit union's survival and a significant benefit for the country's economy as a whole. NAFCU will continue to monitor tax reform discussions to make sure the exemption is protected.

Promote a national data security standard for retailers

NAFCU continued to push for a national data security standard for retailers, especially given that the 2013 Target Corporation breach—expected to cost credit unions nearly $30 million—was followed in 2014 by the even bigger Home Depot breach. We were successful in getting our message out there and staying engaged with Congress, regulatory agencies and the White House to keep the focus where it needs to be.

We have been steadfast in reminding policymakers that credit unions' data security measures are well-regulated under the Gramm-Leach-Bliley Act and that retailers must be held accountable for the losses caused by their negligence. NAFCU is also pushing for a bipartisan, bicameral working group in Congress to look for a legislative solution.

Guarantee credit unions' access to the secondary mortgage market

Congress and the administration continued to discuss housing finance reform in 2014, and it is unclear what government-sponsored enterprises Fannie Mae and Freddie Mac would look like under a new system. NAFCU remained an integral part of the conversation, advocating for unfettered, guaranteed access for credit unions to the secondary mortgage market and fair pricing for credit union mortgages based on loan quality instead of volume.

NAFCU will continue to work with Congress and the administration on housing finance reform and related issues, including the Federal Housing Finance Agency's proposal to revise criteria for membership in the Federal Home Loan Banks.

End the overregulation of credit unions

NAFCU's message continued to be "enough is enough" with regard to the overregulation of the credit union industry. NAFCU's five-point plan for regulatory relief and its "Dirty Dozen" list of regulations that need to be updated or eliminated both saw legislative and regulatory successes last year, including the IOLTA legislation noted earlier, NCUA's revisions to its rules on appraisals and the proposed lift of the 5 percent fixed-assets cap for federal credit unions.

NAFCU staff will continue to fight for credit union regulatory relief. Along that line, the association will work to curtail any impact from CFPB's Home Mortgage Disclosure Act proposal on credit unions, and it will continue to engage with the bureau as it contemplates a proposed rulemaking on overdraft fees.

Image Captions: 1. House Minority Leader Nancy Pelosi, D-Calif., speaks to credit union representatives at NAFCU's Congressional Caucus reception. 2. Carrie Hunt, NAFCU Executive Vice President and COO Anthony Demangone, and Vice President of Legislative Affairs Brad Thaler discuss NAFCU's advocacy efforts. 3. Linda McFadden, president and CEO of XCEL Federal Credit Union, testifies on NAFCU's behalf on the Hill.

Support fair capital reform for credit unions

After many months of pressure from NAFCU, NCUA Chairman Debbie Matz last year announced there would be a revised risk-based capital proposal with a second comment period lasting at least 90 days. This proposal includes many changes from the original, including removal of earlier language on individual minimum capital requirements, but NAFCU believes NCUA lacks the legal authority to promulgate many aspects of the proposed rule. It also has maintained that legislation is the best way to achieve comprehensive capital reform for the credit union industry.

Support for member business lending

NAFCU continued to monitor and support legislation that would raise the arbitrary credit union member business lending (MBL) cap, a key aspect of our five-point plan for regulatory relief. NAFCU also kept up its push for an exemption from NCUA regulations for credit unions that have a history of doing MBLs and for improvements in the MBL waiver process.

Support industry leading the way on payments reform

NAFCU expressed appreciation for the Federal Reserve's efforts in 2014 to discuss the future of the U.S. payments system, but we consistently counseled that industry be allowed to lead the way in reform rather than risk unintended consequences from the Fed stepping in.

NAFCU also continued our push to eliminate the limit on "convenience transfers" under Regulation D, which would aid consumers who are confused by current, outdated restrictions. We maintained our efforts to seek Regulation CC modernization to bring the rules in line with the rest of the Fed's regulatory framework, applicable Dodd-Frank Act provisions and other statutory requirements.

Push for patent reform

Credit unions and others have continued to suffer from the frivolous litigation and attacks of so-called "patent trolls"—the patent-assertion entities that purchase patents to profit from such litigation. NAFCU continued to closely monitor progress in this area on Capitol Hill and keep lawmakers focused on credit unions' need for relief from this onslaught.

Seek E-SIGN Act reform

The process set by the Electronic Signatures in Global and National Commerce Act for credit union member opt-ins to electronic statements and disclosures is poorly organized, cumbersome and outdated. NAFCU continued to push for legislation to streamline the process so a request from a member at a branch is all that is necessary.

Monitoring the debit interchange issue

NAFCU continued to work with the financial services community in monitoring the status of the Federal Reserve's debit interchange rule in 2014. It also continued its push for a debit interchange fee that, unlike the current rule, would preserve a reasonable return for credit unions.

Image Captions: 1. NCUA Board Member J. Mark McWatters, Chairman Debbie Matz, and Vice Chairman Rick Metsger at agency headquarters in Alexandria, Va. 2. Carrie Hunt speaks on legislative and regulatory issues at a NAFCU conference. 3. Dan Berger speaks to an attendee at NAFCU's Annual Conference and Solutions Expo.

Education and Conferences

NAFCU had a very successful 2014 full of innovative conferences and training opportunities, and hundreds of members and nonmembers received essential training. We saw exceptionally strong attendance at our conferences, including our Congressional Caucus and Regulatory Compliance Seminar, and 123 credit union compliance professionals earned the prestigious designation of NAFCU Certified Compliance Officer (NCCO).

As part of our dedication to providing educational enrichment, we developed a new state-of-the-art, online learning system that offers live webcasts and self-paced courses on the industry's most important issues. We saw an increase in webcast attendance and webcast subscription packages.

We also released a leadership-focused book written by NAFCU President and CEO Dan Berger and Anthony Demangone, NAFCU's executive vice president and COO, highlighting ways to help credit union managers lead their employees efficiently to create winning teams.

Information That Meets Your Needs

We also continued to deliver resources to members in other ways: NAFCU's regulatory compliance division and legislative division have kept our issue pages updated and relevant to your needs on CFPB's mortgage rules, the latest data security concerns and more. The regulatory compliance division wrote more than 140 blog posts and answered thousands of compliance-related questions from member credit unions. The regulatory affairs division issued 27 regulatory alerts. The regulatory and legislative affairs divisions wrote nearly 120 letters to Congress and regulatory agencies about the issues that matter most to our members.

Through NAFCU Today emails and videos, and NAFCU Today Breaking News, we kept you informed of developments in the Federal Reserve's interchange suit, corporate stabilization costs, merchant data breaches, NCUA examination policy and CFPB mortgage regulations.

We also ensured you were kept up-to-date on the latest issues, compliance and economic developments through regular publications such as the Compliance Monitor, the BSA Blast (on the Bank Secrecy Act), the Economic and CU Monitor and NAFCU's Macro Data Flash reports.

Image Captions: 1. NAFCU Director of Regulatory Compliance JiJi Bahhur updates credit unions on the latest rules and regulations. 2.–3. NAFCU members gather to learn about new products and vendors at NAFCU conferences.

NAFCU Services Corporation Chair and President's Report

NAFCU Services Corporation had another strong year, continuing to serve the credit union industry by offering the most effective and innovative solutions available.

NAFCU Services focuses on what technology and tools are most needed to ensure a credit union's success and growth. Amid fierce competition, we point credit unions to the companies that will make the difference for them.

In 2014, we offered a wide variety of resources, all available through our Partner Library online and including free, on-demand training from industry experts. Education is a top priority, which is why we emphasize the importance of training from anywhere: anyone interested can tune into our free webinars, webcasts, and podcasts featuring our Preferred Partner industry experts.

In 2014, over 4,000 registrants participated in 78 free webinars presented by our partners. All of the webcasts and podcasts are available through our Partner Library or through the respective Preferred Partner web pages.

We also reached out to credit unions through social media this year, using the NAFCU Services Blog, the LinkedIn network and Twitter to promote educational resources and opportunities.

We thank you for your continued support and look forward to another year of successful solutions and quality educational opportunities.

B. Dan Berger
NAFCU Services Corporation
Chair and CEO

Randy Salser
NAFCU Services Corporation
President

NAFCU Treasurer's Report

The past year has shown that NAFCU's focus on extreme member service is not only good for members in terms of political advocacy or educational opportunities, but in terms of sustained financial growth as well. NAFCU takes the long view and focuses on long-term goals and principles when it comes to its financials.

2014 marked NAFCU's 25th consecutive year of sustained financial stability and growth as it continued to add to member service functions and to grow membership.

In 2014, NAFCU's equity increased by $671,782, and its assets grew by $1,477,248. This will allow the association to remain at the forefront when it comes to advocacy, compliance assistance and education for the credit union industry. NAFCU Services Corporation also added new partnerships and products in order to provide the best available solutions for credit unions and keep them competitive.

NAFCU will continue to set the standard for member service and benefits in 2015, putting the needs and concerns of its members across the country at the top of its priority list every day.

Thank you for your guidance, support and cooperation. We look forward to working with you in the coming year to ensure a bright and secure future for our industry.

Jeanne Kucey
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, 2014 and 2013, 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, 2014 and 2013, 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
April 7, 2015

Consolidated Statements of Financial Position

December 31,	2014	2013
ASSETS		
Cash and cash equivalents	**$3,280,730**	3,167,664
Accounts receivable - net of allowance for doubtful accounts (2014 - $17,500; 2013 - $20,000)	**262,578**	112,457
Prepaid expenses and other assets	**560,845**	505,419
Investments	**12,502,419**	11,075,039
Deferred compensation investments	**320,584**	388,985
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**6,116,039**	6,100,939
Furniture and equipment	**1,905,816**	1,880,629
	9,331,081	9,290,794
Less accumulated depreciation and amortization	**(6,047,514)**	(5,806,883)
	3,283,567	3,483,911
Total assets	**$20,210,723**	$18,733,475

LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$1,549,884**	$1,326,709
Deferred revenue	**6,587,397**	5,973,298
Tenant deposits	**14,349**	14,349
Deferred compensation liability	**411,037**	442,845
Total liabilities	**8,562,667**	7,757,201
Net assets		
Unrestricted	**10,685,425**	10,260,258
Temporarily restricted	**962,631**	716,016
Total net assets	**11,648,056**	10,976,274
Total liabilities and net assets	**$20,210,723**	$18,733,475

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year Ended December 31,	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	**$7,590,330**	$7,534,619
Member educational conferences	**3,283,194**	3,258,184
Service fees	**1,623,803**	1,701,595
Advertising	**323,046**	345,899
Other	**255,051**	476,306
Interest and dividend income	**180,809**	170,413
Rental income	**145,070**	141,523
Products and services	**111,701**	105,111
	13,513,004	13,733,650
Net assets released from restriction	**517,935**	556,784
	14,030,939	14,290,434
Expense		
Program services:		
Membership educational conferences	**2,485,023**	2,137,230
Communications and publications	**345,860**	411,087
Officials and committees	**157,775**	160,991
Legislative and regulatory	**74,756**	86,841
Membership	**39,658**	69,631
Products and services	**14,258**	21,095
	3,117,330	2,886,875
Supporting services		
Administration and overhead	**9,944,527**	10,323,298
Building and occupancy	**743,250**	739,499
Total supporting services expense	**10,687,777**	11,062,797
Total expense	**13,805,107**	13,949,672
Change in unrestricted net assets before investment gains	**225,832**	340,762
Unrealized gain on investments	**161,133**	303,333
Realized gain on investments	**38,202**	36,969
Change in unrestricted net assets	**425,167**	681,064

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**762,800**	585,560
Interest income	**1,750**	1,897
Net assets released from restriction	**(517,935)**	(556,784)
Change in temporarily restricted net assets	**246,615**	(30,673)
Change in net assets	**671,782**	711,737
Net assets, beginning of year	**10,976,274**	10,264,537
Net assets, end of year	**$11,648,056**	$10,976,274

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$671,782**	$711,737
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**460,347**	577,009
Net gain on investments	(199,335)	(340,302)
Changes in assets and liabilities:		
Accounts receivable	**(150,121)**	146,821
Prepaid expenses and other assets	**(55,426)**	(90,170)
Deferred compensation investments	**68,401**	309,595
Accounts payable and accrued expenses	**223,175**	(325,634)
Deferred revenue	**614,099**	91,234
Deferred compensation liability	**(31,808)**	(420,109)
Total adjustments	**929,332**	(51,556)
Net cash provided by operating activities	**1,601,114**	660,181
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	**2,328,445**	5 ,720,039
Purchases of investments	**(3,556,490)**	(6,116,538)
Net purchases of property and equipment	**(260,003)**	(273,170)
Net cash used in investing activities	**(1,488,048)**	(669,669)
Net increase (decrease) in cash and cash equivalents	**113,066**	(9,488)
Cash and cash equivalents, beginning of year	**3,167,664**	3,177,152
Cash and cash equivalents, end of year	**$3,280,730**	$3,167,664
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$30,392**	$12,640

See notes to consolidated financial statements.

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. NSC's primary fee sources result from marketing agreements between NSC and third party entities providing services to credit unions.

NSC drew a trust agreement 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 was known as the National Investment Fund for Credit Unions (NIFCU$). NSC received fees from the Trustee (Union Bank) in return for advice and assistance concerning credit union regulations and participation. The trust was terminated during the year ended December 31, 2013.

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.

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 intra-entity 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 is recognized 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.

Reclassifications: Certain revenues in the statement of activities relating to the prior year have been reclassified to conform to the current year presentation. These reclassifications had no impact on the previously reported change in net assets.

Subsequent events: Subsequent events have been evaluated through April 7, 2015, 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 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 Association also invests in money market funds, certificates of deposit, mutual funds, and exchange traded funds (ETFs). Such investments are exposed to market and credit risks. Thus, the Association's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying 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,:

	2014	2013
Money market funds	$5,160,806	$3,725,870
Fixed income mutual funds and ETFs	3,775,588	3,932,130
Equity mutual funds and ETFs	2,107,025	1,958,039
Certificates of deposit	1,459,000	1,459,000
	$12,502,419	**$11,075,039**

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

	2014	2013
Interest and dividends	$182,559	$172,310
Net gain on investments	199,335	340,302
	$381,894	**$512,612**

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of $962,631 and $716,016 for the NAFCU PAC Administration fund as of December 31, 2014 and 2013, 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,:

	2014	2013
Employee compensation and benefits	$7,763,092	$7,949,931
Building operations	743,250	739,499
Depreciation	195,532	315,786
Professional services	393,788	437,204
Other	1,592,115	1,620,377
	$10,687,777	**$11,062,797**

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 $411,037 and $442,845 at December 31, 2014 and 2013, respectively. During 2013, one of the participants left the Organization and forfeited his plan balance. A net gain of $183,757 consisting of the write-off of his various plan assets and liabilities related to this individual was recognized in 2013 and is included in the other revenue on the statement of activities.

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 2014 and 2013 were $351,681 and $349,882 respectively.

G. COMMITMENTS AND CONTINGENCIES

The Organization leases a portion of its headquarters building under operating leases which expire through 2021. The approximate future minimum payments to be received under the operating leases are as follows:

2015	$149,000
2016	157,000
2017	165,000
2018	91,000
2019	96,000
Thereafter	209,000
	$867,000

H. INCOME TAXES

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 $2,300 and $0 as of December 31, 2014 and 2013, respectively. Since the prior President left NSC and forfeited the balance in the deferred compensation plan, NSC did not have a deferred tax asset related to the President's deferred compensation accruals at December 31, 2013.

As of December 31, 2014, NSC has accumulated operating losses of approximately $12,000 which may be carried forward to offset taxable income through the year 2024. An estimated deferred tax asset of $5,700 has been recorded as of December 31, 2014 to account for the potential future benefit of these operating losses.

NSC has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2019. As of December 31, 2014, total unused charitable contributions approximated $15,000. 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.

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 2011 through 2014 remain open for examination by taxing authorities.

I. 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.

I. FAIR VALUE MEASUREMENTS (CONTINUED)

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:

2014	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds & EFT's	$2,107,025	$2,107,025	$-	$-
Fixed income mutual funds & EFT's	3,775,588	3,775,588	-	-
Certificates of deposit	1,459,000	-	1,459,000	-
Deferred compensation investments (mutual funds)	320,584	320,584	-	-
Investments Carried at Fair Value	7,662,197	$6,203,197	$1,459,000	$-
Money Market funds*	5,160,806			
	$12,823,003			

2013	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds & EFT's	$1,958,039	$1,958,039	$-	$-
Fixed income mutual funds & EFT's	3,932,130	3,932,130	-	-
Certificates of deposit	1,459,000	-	1,459,000	-
Deferred compensation investments (mutual funds)	388,985	388,985	-	-
Investments Carried at Fair Value	7,738,154	$6,279,154	$1,459,000	$-
Money Market funds*	3,725,870			
	$11,464,024			

**Cash included in the investment portfolio is not subject to the provisions of fair value measurements as it is recorded at cost.*

The Organization's investments in certificates of deposit are carried at each instrument's face value. Management has concluded that face value approximates the fair value of these instruments.

National Association
of Federal Credit Unions
3138 10th Street North
Arlington, VA 22201