NAFCU

GROW STRONGER

Federal Advocacy, Education & Compliance

NAFCU 2016 ANNUAL REPORT

Executive Summary

2016 was another successful year of growth and evolution for NAFCU — and this would not have been possible without a dedicated and active membership.

The following pages of this annual report provide an overview of NAFCU's organizational and membership focus in 2016; accomplishments in legislative and regulatory advocacy; enhancements in education, training and compliance resources and programs; and the year's financial results.

Throughout 2016, NAFCU:

- Continued to prove its value by offering the best in federal advocacy, education and compliance assistance available to the credit union industry
- Embraced change, opening full membership in NAFCU to all federally-insured credit unions
- Grew both in terms of membership and in political clout
- As an organization still led by a board of directors made up of credit union CEOs, maintained its focus on what credit unions need and care about most

In the year ahead, NAFCU will remain focused on ensuring member credit unions receive strong representation, strong value and the resources you need to thrive.

NAFCU Chair and President's Report

NAFCU remained committed in 2016 to ensuring the credit union message was heard loud and clear throughout Washington, particularly amid the heightened activity surrounding the November elections. Through regular meetings with congressional leaders and key regulators, NAFCU maintained a strong connection with decision-makers on both sides of the aisle.

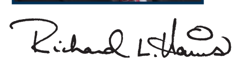
We know that credit unions are the best option for consumers, and we know it's imperative that credit unions serve their members and communities without unnecessary restrictions. That's why NAFCU never rested — before the election or during the subsequent transition as the 115th Congress prepared to convene — and instead made sure lawmakers heard our voices.

NAFCU's board last year unanimously decided to revise the association's articles of incorporation to extend the benefits of full membership to federally-insured, state-chartered credit unions. The board then put that issue before NAFCU's membership, and the change was overwhelmingly approved. Following this historic vote, our name changed to the National Association of Federally-Insured Credit Unions, to more fully represent our membership at the federal level in a growing and thriving industry.

Our advocacy has continued to focus on the issues most concerning to credit unions around the country: the credit union tax exemption, regulatory relief, data security, the NCUA's budget and potential premium, field of membership modernization and pending rulemakings by the CFPB.

Meanwhile, NAFCU has continued to offer the best in education and regulatory compliance assistance. Our regulatory compliance team never stops working for members, and our popular webcasts and sold-out conferences attest to the crucial role NAFCU continues to play in supporting the industry's professionals and volunteers.

The past year was a banner year for NAFCU and credit unions across the country — a year of growth and progress. The NAFCU Board of Directors and staff thank each of you for your trust in us. We value your membership and look forward to another successful year in 2017 — our 50th year ensuring credit unions' concerns are heeded at the federal level.



Richard L. Harris
NAFCU Chair

B. Dan Berger
NAFCU President and CEO

From left: House Financial Services Committee Ranking Member Maxine Waters, D-Calif., speaking at NAFCU's Congressional Caucus; Anthony Demangone, NAFCU exective vice president and COO, addressing CEOs and Senior Executives Conference; NAFCU Board Members Bob Fisher and Martin Breland at Congressional Caucus session.

Legislative and Regulatory Priorities in 2016

Preserving credit unions' tax exemption

Protecting credit unions' federal corporate income tax exemption remains NAFCU's top legislative priority. While lawmakers have not indicated a desire to remove the exemption, NAFCU remains vigilant as talks of broad bipartisan tax reform continue. NAFCU staff met repeatedly with lawmakers to discuss the importance of the tax exemption to the American economy. NAFCU also countered numerous banker attacks mischaracterizing the tax exemption and its benefits for consumers.

Moving regulatory relief

NAFCU and its members supported the bipartisan call from a majority of House and Senate members for CFPB Director Richard Cordray to provide relief to credit unions via the bureau's broad authority under Section 1022 of the Dodd-Frank Act. Legislation containing numerous NAFCU-backed regulatory relief measures, including a repeal of the Durbin amendment, was introduced by House Financial Services Committee Chairman Jeb Hensarling, R-Texas. The "Financial Creating Hope and Opportunity for Investors, Consumers and Entrepreneurs (CHOICE) Act" (H.R. 5983) is a comprehensive regulatory relief bill that includes a repeal of the Durbin amendment. That legislation passed the committee in September but was not acted on before the end of the 114th Congress. Action on a new version is expected in the 115th Congress.

NAFCU also joined in the effort for relief from the Federal Communications Commission's auto-dialing order under the Telephone Consumer Protection Act, leading to a report raising similar concerns from the House Appropriations Committee. NAFCU has continually sought to take advantage of every available avenue to pursue meaningful regulatory relief, whether under the CFPB, the NCUA or other government agency restrictions.

Leading on cyber and data security

NAFCU was the first financial services trade association to speak out on data security on Capitol Hill in the wake of the 2013 Target data security breach, and the association has not wavered. NAFCU in 2016 continued the call for Congress to establish a national standard to ensure that merchants protect data and take responsibility for breaches that occur on their end. The association will continue to advocate for the reintroduction of legislation such as the "Data Security Act" (H.R. 2205/S. 961) during the 115th Congress.

Fighting for greater budget transparency

Last year, NAFCU continued to advocate for greater transparency from the NCUA regarding its budget process, both in the agency's communications with Congress and with credit unions. The NCUA responded to NAFCU's request, and then-Board Chairman Rick Metsger announced at NAFCU's Annual Conference that the agency would return to the practice of holding public budget briefings for the industry. The first of these was held in October, during which NAFCU President and CEO Dan Berger testified that the exponential pace of the agency's ongoing budget growth is unjustified and urged finding cost savings wherever possible.

Advocating extended exam cycles

NAFCU, in contacts with lawmakers and at the NCUA, strongly advocated for an extended examination cycle for healthy credit unions. This work led to a bipartisan letter to the NCUA from lawmakers, then the introduction by Rep. Frank Guinta, R-N.H., of a bill to require the NCUA to establish an exam cycle of at least 18 months for well-run credit unions having assets of $1 billion or less. Guinta's "Credit Union Examination Reform Act of 2016" would not preclude the NCUA from establishing an 18-month exam cycle for all credit unions, which NAFCU supports. The NCUA laid the groundwork for extended

More scenes from Congressional Caucus, from left: Sen. Ted Cruz, R-Texas; Rep. Ed Royce, R-Calif., with NAFCU Chair Richard L. Harris; Rep. Joyce Beatty, D-Ohio.

exam cycles beginning this year for healthy credit unions with assets of less than $1 billion. NAFCU continues to advocate for such relief for all healthy, well-run credit unions.

Member business lending rules eased

The NCUA finalized a member business lending rule that eliminated the previous personal guarantee requirement and, as of this Jan. 1, shifted the rule's focus from set underwriting requirements to a more flexible, risk-based system. NAFCU praised the rule for easing the regulatory burden on credit unions and allowing them the independence to address the needs of their small-business members. NAFCU also launched a joint effort with CUNA to challenge a lawsuit filed last October by the Independent Community Bankers of America against the NCUA over its MBL rule. This joint effort resulted in the dismissal of the lawsuit on procedural grounds, but not before the court noted that the bankers' case would likely have failed on the merits.

Seeking Durbin amendment repeal

NAFCU continued the fight for repeal of the Durbin amendment on interchange. In 2016, Rep. Randy Neugebauer, R-Texas, introduced NAFCU-backed legislation (H.R. 5465) to repeal the amendment. That legislative language was subsequently incorporated into the "Financial CHOICE Act," which passed the House Financial Services Committee in September. The association continues this effort.

Modernizing field-of-membership rules

Last year brought to fruition numerous positive changes in the NCUA field-of-membership rules for credit unions. In action supported by NAFCU, the NCUA Board finalized the most extensive modernization of its FOM rules in a decade. It also proposed new provisions that would raise to 10 million the population cap for well-defined communities and allow the use of narratives in applications for community charter expansions.

The NAFCU-backed "Financial Services for the Underserved Act of 2016" (H.R. 5541) was also introduced to expand access to federal credit unions for individuals living in underserved and low-income communities. The legislation was introduced by Reps. Tim Ryan, D-Ohio, and Donald Norcross, D-N.J.

Modernizing exams and supervision

In May, after repeated calls from NAFCU to improve the credit union exam system, the NCUA announced its efforts to modernize the examination and supervision program, including the call report system. The NCUA said it hopes to strengthen its on-site examination and off-site monitoring, facilitate better industry trends and comparisons between institutions, and minimize the reporting burden on federally-insured credit unions. NAFCU, based on NAFCU members' input and concerns, has provided the agency specific recommendations on how the program can be made better for credit unions.

Delaying CECL a year

NAFCU succeeded in convincing the Financial Accounting Standards Board in April to delay the effective date of its "current expected credit loss" standard for an additional year on top of the originally planned timeline for credit unions. The credit losses accounting standard is effective for fiscal years after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021.

Fixing CFPB's mortgage disclosure rule

In an action urged by NAFCU, the CFPB in 2016 proposed updates to its Truth in Lending Act/Real Estate Settlement Procedures Act integrated mortgage disclosure rule, including more guidance on construction lending. However, NAFCU continued to encourage the bureau to go farther to address the numerous, substantive compliance issues that have been highlighted by credit unions.

nafcu.org/priorities

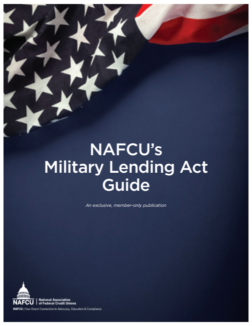
From left: Rep. Mark Takano, D-Calif., with Congressional Caucus attendees; Carrie Hunt, NAFCU executive vice president of government affairs and general counsel; House Financial Services Committee Chairman Jeb Hensarling, R-Texas.

Education and compliance assistance

NAFCU continued to deliver best-in-class education and compliance assistance in 2016. Last year saw strong attendance for our conferences and programs, including September's Congressional Caucus in Washington, where attendees heard from and met with lawmakers about top credit union issues in advance of the November elections; and the Regulatory Compliance Seminar, which provided attendees the latest news about credit union regulation and briefings on what to anticipate in the future.

In 2016, NAFCU added several new compliance offerings to its lineup. These included a BSA (Bank Secrecy Act) Seminar; an online training subscription that covers the 10 most challenging compliance topics (including BSA, Home Mortgage Disclosure Act, data security and more); and a complimentary mortgage symposium held in conjunction with NAFCU's Annual Conference.

NAFCU's regulatory compliance team also published a Military Lending Act Compliance Guide to provide members with analysis of the Department of Defense's MLA rule, which went into effect Oct. 3. In addition, the team created a user-friendly, interactive workbook for credit unions using the Federal Financial Institutions Examination Council's cybersecurity assessment tool.



Also in 2016, NAFCU launched a revised Board of Directors Online Training Subscription that now contains 11 all-new modules and exams board members can complete to become NAFCU Certified Volunteer Experts.

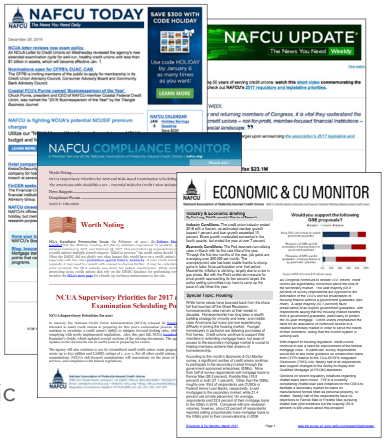
The association also certified 130 NCCOs — NAFCU Certified Compliance Officers — and saw big increases in member and non-member subscriptions for on-demand webcasts.

In 2016, 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 16 regulatory alerts on proposed rulemakings. The regulatory and legislative affairs divisions wrote more than 130 letters to Congress and regulatory agencies about the issues that matter most to NAFCU's members.

nafcu.org/education | nafcu.org/compliance

News and information

Throughout 2016, NAFCU publications kept members (and nonmembers) apprised of advocacy developments and other news important to federally-insured credit unions. Among these were the NAFCU Today enewsletter (and Breaking News), The Federal Credit Union magazine, UPDATE, Compliance Monitor, Economic and CU Monitor and more.



nafcu.org/news | nafcu.org/publications

Left and right: Attendees at NAFCU's Strategic Growth Conference ask questions. Center: Regulatory Compliance Counsel Stephanie Lyon presents at NAFCU's Risk Management Seminar.

NAFCU Services Corporation Chair and President's Report

Last year was another stellar year for NAFCU Services Corporation (NSC). This wholly-owned subsidiary of NAFCU identifies leading, innovative firms that are committed to the credit union industry — connecting credit unions to the best suppliers for their needs.

NSC is unique, as these connections between leading providers and credit unions take place through a wide variety of valuable resources. Always studying industry best practices, emerging trends and cutting-edge solutions, NSC's own vetting process and market research focus credit unions on the right suppliers at the right time.

One of the most important benefits of NSC's services to the credit union industry is its unrivaled educational program. In 2016, NSC produced and distributed a wide variety of educational resources, all available through the online Partner Library and including free, on-demand training from industry experts. Education is key to credit union success; any interested credit union staff can tune into NSC's free webinars, webcasts and podcasts featuring trusted Preferred Partner industry experts.

In 2016, nearly 9,200 registrants participated in 48 free webinars presented by NSC partners. All of the webinars, webcasts, research reports and podcasts are available through the Partner Library or through the respective Preferred Partner web pages.

NSC also keeps credit unions engaged through the NAFCU Services Blog, the LinkedIn network and Twitter to highlight thought leadership materials and educational resources.

To learn more about NAFCU Services Corporation and their portfolio of 30 leading industry providers, visit the Preferred Partner section of the website, nafcu.org/nafcuservices.

B. Dan Berger
NAFCU Services Corporation
Chair and CEO

Randy Salser
NAFCU Services Corporation
President

NAFCU Treasurer's Report

NAFCU's focus on its members' needs in 2016 yielded results — not just for credit unions in terms of political advocacy and educational opportunities, but in terms of the association's sustained financial growth as well.

NAFCU turned in a strong financial performance in 2016 — our 27th consecutive year of sustained financial stability — and we did so while investing heavily in new technologies to help us deliver improved education and training to NAFCU members in a cost-effective, efficient manner.

In 2016, NAFCU's equity increased $535,810, and its assets grew $1,413,932. This growth ensures that NAFCU remains at the forefront of federal advocacy, education and compliance assistance for the credit union industry. NAFCU Services Corporation added new partnerships and products in order to provide the best solutions for credit unions and keep them competitive.

NAFCU will continue to set the standard for member service and benefits in 2017, putting the needs and concerns of its members at the top of the priority list every day. Thank you for your guidance and support. We look forward to working with you in the coming year to ensure a bright and secure future for our industry.

Debra Schwartz
NAFCU Treasurer

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of the National Association of Federally-Insured Credit Unions and Affiliates (the Organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Association of Federally-Insured Credit Unions and Affiliates as of December 31, 2016 and 2015, 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
March 13, 2017

Consolidated Statements of Financial Position

December 31,	2016	2015
ASSETS		
Cash and cash equivalents	**$3,478,237**	$4,211,034
Accounts receivable - net of allowance for doubtful accounts (2016 - $0; 2015 - $11,250)	**592,388**	474,813
Prepaid expenses and other assets	**676,033**	438,560
Investments	**15,171,651**	13,145,161
Deferred compensation investments	**416,989**	316,434
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**6,147,666**	6,147,666
Furniture and equipment	**2,086,600**	1,992,036
	9,543,492	9,448,928
Less accumulated depreciation and amortization	**(6,696,984)**	(6,267,056)
	2,846,508	3,181,872
Total assets	**$23,181,806**	$21,767,874
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$1,922,477**	$2,038,835
Deferred revenue	**8,212,341**	7,336,597
Tenant deposits	**14,349**	14,349
Deferred compensation liability	**549,600**	430,864
Total liabilities	**10,698,767**	9,820,645
Net assets		
Unrestricted	**11,098,483**	10,782,777
Temporarily restricted	**1,384,556**	1,164,452
Total net assets	**12,483,039**	11,947,229
Total liabilities and net assets	**$23,181,806**	$21,767,874

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$535,810**	$299,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**429,927**	426,702
Net loss (gain) on investments	**(250,476)**	83,165
Loss on disposal of property and equipment	**-**	67,823
Changes in assets and liabilities:		
Accounts receivable	**(117,575)**	(212,235)
Prepaid expenses and other assets	**(237,473)**	122,285
Deferred compensation investments	**(100,555)**	4,150
Accounts payable and accrued expenses	**(116,358)**	488,951
Deferred revenue	**875,744**	749,200
Deferred compensation liability	**118,736**	19,827
Total adjustments	**601,970**	1,749,868
Net cash provided by operating activities	**1,137,780**	2,049,041
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	**5,107,881**	2,255,191
Purchases of investments	**(6,883,895)**	(2,981,098)
Net purchases of property and equipment	**(94,563)**	(392,830)
Net cash used in investing activities	**(1,870,577)**	(1,118,737)
Net increase (decrease) in cash and cash equivalents	**(732,797)**	930,304
Cash and cash equivalents, beginning of year	**4,211,034**	3,280,730
Cash and cash equivalents, end of year	**$3,478,237**	$4,211,034

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for income taxes	**$24,496**	$1,200

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year Ended December 31,	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	**$8,288,538**	$7,747,920
Membership educational and training	**4,121,302**	3,975,654
Service fees	**2,214,209**	1,748,004
Advertising	**404,370**	329,990
Other	**213,060**	490,029
Interest and dividend income	**209,795**	196,679
Rental income	**159,591**	151,720
Products and services	**94,987**	101,469
	15,705,852	14,741,465
Net assets released from restriction	**602,547**	580,633
	16,308,399	15,322,098
Expense		
Program services:		
Membership educational and training	**2,988,061**	2,551,203
Communications and publications	**521,869**	572,960
Officials and committees	**219,372**	216,643
Legislative and regulatory	**80,780**	73,067
Membership	**54,960**	60,482
Products and services	**21,315**	28,742
	3,886,357	3,503,097
Supporting services		
Administration and overhead	**11,594,149**	10,773,051
Building and occupancy	**762,663**	865,433
Total supporting services expense	**12,356,812**	11,638,484
Total expense	**16,243,169**	15,141,581
Change in unrestricted net assets before investment gains	**65,230**	180,517
Unrealized gain on investments	**(83,694)**	(120,566)
Realized gain on investments	**334,170**	37,401
Change in unrestricted net assets	**315,706**	97,352
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**820,037**	780,635
Interest income	**2,614**	1,819
Net assets released from restriction	**(602,547)**	(580,633)
Change in temporarily restricted net assets	**220,104**	201,821
Change in net assets	**535,810**	299,173
Net assets, beginning of year	**11,947,229**	11,648,056
Net assets, end of year	**$12,483,039**	$11,947,229

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 Federally-Insured Credit Unions (the Association), located in the Washington, D.C. area, is a direct membership association for federally-insured 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. On November 14, 2016, the Association adopted the "doing business as" name of National Association of Federally-Insured Credit Unions. The Association's official corporate name is National Association of Federal Credit Unions, Inc.

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.

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 transactions with 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 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 mutual funds, exchange traded funds (ETFs), unrestricted money market funds, 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 any 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 items in the statement of cash flows relating to the prior year have been reclassified to conform to the current year presentation.

Subsequent events: Subsequent events have been evaluated through March 13, 2017, 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,:

	2016	**2015**
Money market funds	$7,110,232	$5,924,114
Fixed income mutual funds and ETFs	5,192,592	3,740,566
Certificates of deposit	1,500,000	1,459,000
Equity mutual funds and ETFs	1,368,827	2,021,481
	$15,171,651	**$13,145,161**

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

	2016	**2015**
Interest and dividends	$212,409	$198,498
Net gain (loss) on investments	250,476	(83,165)
	$462,885	**$115,333**

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of $1,384,556 and $1,164,452 for the NAFCU PAC Administration fund and for lobbying activities as of December 31, 2016 and 2015, 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,:

	2016	2015
Employee compensation and benefits	$9,401,132	$8,650,352
Building operations	762,663	865,433
Depreciation	162,297	159,247
Professional services	430,925	375,781
Other	1,599,795	1,587,671
	$12,356,812	**$11,638,484**

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 $549,600 and $430,864 as of December 31, 2016 and 2015, 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 2016 and 2015 were $539,984 and $463,352 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 for the year ending December 31,:

2017	165,000
2018	91,000
2019	96,000
2020	102,000
2021	107,000
	$561,000

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 $8,583 and $4,000 as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, NSC has accumulated operating losses of approximately $70,000 which may be carried forward to offset taxable income through the year 2036. An estimated deferred tax asset of $13,910 and $7,400 has been recorded at December 31, 2016 and 2015, respectively, 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, 2016, total unused charitable contributions approximated $2,000. 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.

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,:

2016	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds & EFT's	$1,368,827	$1,368,827	$-	$-
Fixed income mutual funds & EFT's	5,192,592	5,192,592	-	-
Certificates of deposit	1,500,000	-	1,500,000	-
Deferred compensation investments (mutual funds)	416,989	416,989	-	-
Investments Carried at Fair Value	8,478,408	$6,978,408	$1,500,000	$-
Money Market funds*	7,110,232			
	$15,588,640			

2015	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds & EFT's	$2,021,481	$2,021,481	$-	$-
Fixed income mutual funds & EFT's	3,740,566	3,740,566	-	-
Certificates of deposit	1,459,000	-	1,459,000	-
Deferred compensation investments (mutual funds)	316,434	316,434	-	-
Investments Carried at Fair Value	7,537,481	$6,078,481	$1,459,000	$-
Money Market funds*	5,924,114			
	$13,461,595			

**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.

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