A YEAR OF EXTREME MEMBER SERVICE

NAFCU Annual Report 2013

NAFCU National Association of Federal Credit Unions

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

NAFCU **CHAIR AND PRESIDENT'S REPORT**

Michael Parsons
NAFCU Chair

Dan Berger
NAFCU President and CEO

The past year has been an important one for NAFCU — full of key successes for our members — on Capitol Hill and at regulatory agencies. We pride ourselves on extreme member service and try to reflect your priorities and needs in everything we do.

Our focal message has been our five-point plan for regulatory relief, which we delivered to legislators and regulators last February. In the plan, we summarized the five most important ways that lawmakers and regulatory agencies can ease credit unions' regulatory burden. One of the five points has recently received a lot of attention: our call for increased data security standards for retailers.

Everyone with a credit card and a holiday shopping list found out how important data security can be last December, and NAFCU has been consistently leading the response to the ongoing crisis of security breaches. Just like credit unions responded immediately on behalf of their members, we knew our members required action right away. We were the first financial trade organization to call for Congress to hold retailers to the same standards that credit unions and other financial institutions already follow. In 2014, we will continue to be at the forefront of this issue.

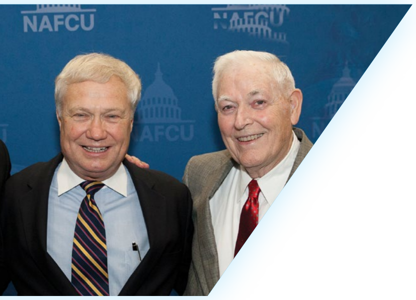
Many other elements of the five-point plan were reflected in bills introduced over the past year, particularly in H.R. 2572, the "Regulatory Relief for Credit Unions Act," introduced by Rep. Gary Miller, R-Calif.

As we continue to promote our five-point plan, we'll emphasize what our members are telling us: Enough is enough. We've had enough of overregulation for our industry — especially when the big banks and retailers continue to prove that they're the ones in need of reining in. NAFCU will also focus on our list of the 12 outdated regulations that most need to be amended or eliminated — the "Dirty Dozen."

2014 holds a lot of promise for NAFCU as we continue to focus on our nationally acclaimed compliance assistance, award-winning legislative and regulatory advocacy, and education and training opportunities that are the best in the industry.

While there were numerous developments last year that affected you, we also lived through a key development for NAFCU and its members. Last July 31 marked the end of Fred Becker's long and successful tenure as this association's top executive. As we move forward, we want to thank our members, board members, Fred and staff for their support throughout this transition — and for being a part of all our accomplishments in 2013.

We promise to do everything we can to continue our strong record of extreme member service and serving the credit union industry's needs — for everything from regulatory compliance to political advocacy and more — in 2014.



LEGISLATIVE AND REGULATORY PRIORITIES

Protect the credit union tax exemption

As a NAFCU-commissioned independent study has shown, the credit union exemption from federal income tax is vital for credit unions' survival and a significant benefit for the country's economy. In 2012, House Ways and Means Chairman Dave Camp, R-Mich., and then — Senate Finance Chairman Max Baucus, D-Mont., announced their intention to examine broad tax reform. Even though no member of Congress had proposed the elimination of your credit union's tax exemption as a part of this reform, NAFCU continued to remain vigilant on behalf of your exemption throughout all of 2013. NAFCU has been successful in keeping the credit union exemption out of any proposed reform measures to date.

Enough is enough: End overregulation

NAFCU believes "enough is enough." We can only withstand a tidal wave of regulation meant for someone else for so long. Our five-point plan for regulatory relief was well-received on Capitol Hill last winter, prompting the House Financial Services Committee to begin a series of hearings on regulatory burden. NAFCU has sent Congress numerous letters and testified five times on credit unions' regulatory burden, and we will continue to call on legislators to address the need for immediate relief.

Progress was made particularly with the introduction of the aforementioned "Regulatory Relief for Credit Unions Act," from Rep. Miller, and additional bills to end the requirement for sending duplicative privacy notices and to give credit unions equal treatment with banks in the offering of Interest on Lawyers Trust Accounts.

Promote data security

The massive data security breaches at Target Corporation and others affecting millions of consumers show us the urgent need for stronger data security standards for retailers. NAFCU was out front, leading the charge for better standards that are fair to consumers and a system that holds the entities responsible for a breach accountable for the resulting costs — unlike the current one, which forces credit unions to pay for poor data security on the part of others.

Guarantee credit union access to secondary mortgage market

In the past year, Congress and the Federal Housing Finance Agency continued to examine housing finance reform and plan the eventual conversion of government-sponsored enterprises Fannie Mae and Freddie Mac into a new system. NAFCU, the only credit union trade to testify before both the House and the Senate on this issue, consistently called for unfettered, government-guaranteed access for your credit union to the secondary mortgage market and fair pricing based on loan quality instead of loan volume.

Oppose the lowering of debit interchange fees

The U.S. district court ruling in July on the Federal Reserve's debit interchange rule could have a serious impact on NAFCU's members in the form of lower interchange fees and increased costs. NAFCU has worked successfully with other amici to have the ruling overturned.

Support member business lending

NAFCU spent the past year monitoring and supporting legislation that would raise the arbitrary member business lending cap for credit unions, a key aspect of our five-point plan for regulatory relief. In particular, NAFCU has been focusing on H.R. 688, the "Credit Union Small Business Jobs Creation Act," from Reps. Ed Royce, R-Calif., and Carolyn McCarthy, D-N.Y., and S. 968, the "Small Business Lending Enhancement Act," from Sens. Mark Udall, D-Colo., and Rand Paul, R-Ky.

Create a true risk-based capital system for credit unions, and other capital reforms

NAFCU has lent its support to legislation that reflects another key point on the five-point plan — creating a true risk-based capital system for credit unions that makes sense. We will continue to oppose NCUA's proposed framework, which divides the credit union industry into two separate categories. We believe any potential rule should reflect risk appropriately. In addition, we continue our push to open the Federal Credit Union Act to allow eligible credit unions access to supplemental capital by supporting H.R. 719, the "Capital Access for Small Businesses and Jobs Act," from Reps. Peter King, R-N.Y., and Brad Sherman, D-Calif.

Continue to advocate for changes in Dodd-Frank

The Dodd-Frank Act regulations continued to roll out throughout 2013. As the only trade association that opposed putting credit unions under the regulation of the CFPB, NAFCU has stayed on the front line — asking Congress to protect small financial entities like credit unions from the overreach of measures designed to rein in the big Wall Street institutions behind the financial crisis. NAFCU has particularly raised concerns about new mortgage rules from the CFPB.

Seek patent reform

Credit unions are among the many entities that suffer from the frivolous litigation and attacks of so-called "patent trolls" — those patent-assertion entities that purchase patents in order to profit from demand letters and litigation. NAFCU continued to press for legislation to rein in such entities in 2013 and will continue that work in the coming year.

Fight flood insurance premium spike

The 2012 Biggert-Waters Flood Insurance Act paved the way last year for increases in some National Flood Insurance Program premiums, but the law's mandated affordability study remained incomplete. These price spikes could hurt housing markets and credit union portfolios. NAFCU kept the pressure on Congress and others to enact a delay in the premium hikes until the affordability study had been completed and analyzed, and achieved success in 2014.

Education and conferences

NAFCU had a very successful 2013 full of innovative conferences and training opportunities, and hundreds of members received essential training. We had strong attendance at September's Congressional Caucus in Washington, D.C., and our Management and Leadership Institute continued a trend by selling out for the second year in a row. NAFCU's Regulatory Compliance Seminar also sold out, and we offered an online version of the conference for the first time for those unable to attend in person.

NAFCU also certified more than 100 NAFCU Certified Compliance Officers (NCCOs) in 2013.

NAFCU webcasts also had a good year, with big increases in member and nonmember subscriptions.

NAFCU unveiled its new Online Training Center in March 2014, providing our members with even more opportunities for education and getting the latest information on what's happening in the industry in a cost-effective manner.

Information that meets your needs

We also continued to offer 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 the CFPB's mortgage rules and on the latest data security concerns. The regulatory compliance division wrote more than 200 blog posts and issued more than 30 regulatory alerts. The regulatory and legislative affairs divisions wrote nearly 200 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 apprised of developments in the Federal Reserve's interchange suit, corporate stabilization costs, NCUA examination policy and the CFPB's mortgage regulations.

We also ensured you were kept up to date on 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.

Also this year, President and CEO Dan Berger launched the Berger Leadership Blog, with weekly posts about leadership strategies and issues affecting the credit union industry.

NAFCU SERVICES CORPORATION
CHAIR AND PRESIDENT'S REPORT

Dan Berger
NAFCU Services Corporation Chair and CEO

Randy Salser
NAFCU Services Corporation President

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

NAFCU Services Corporation 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 solutions that will make the difference for them.

In 2013, 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 for NAFCU Services Corporation, which is why we emphasize the importance of training from anywhere: anyone interested can tune into our free webinars and podcasts featuring NAFCU Services Preferred Partner industry experts.

In 2013, 4,979 registrants participated in 41 free webinars presented by our partners. All of the webinars 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.

NAFCU Services Corporation also experienced a change-up this year: saying goodbye to former President David Frankil, and welcoming new President Randy Salser. We are grateful to our staff and partners for their help with a smooth transition.

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

NAFCU
TREASURER'S REPORT

Richard L. Harris
NAFCU Treasurer

The past year has shown that NAFCU's focus on extreme member service is not only good for members in terms of political advocacy and 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.

2013 marked NAFCU's 24th consecutive year of sustained financial stability and growth as it continued to add to member service functions and grow membership.

In 2013, NAFCU's net assets increased by $711,737. 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 2014, 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.

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, 2013 and 2012, 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, 2013 and 2012, 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 3, 2014

Consolidated Statements of Financial Position

December 31,	**2013**	2012
ASSETS		
Cash and cash equivalents	**$4,215,964**	$3,177,152
Accounts receivable - net of allowance for doubtful		
accounts (2013 - $20,000; 2012 - $30,000)	**112,457**	259,278
Prepaid expenses and other assets	**505,419**	415,249
Investments	**10,026,739**	10,338,238
Deferred compensation investments	**388,985**	698,580
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**6,100,939**	5,965,419
Furniture and equipment	**1,880,629**	2,372,776
	9,290,794	9,647,421
Less accumulated depreciation and amortization	**(5,806,883)**	(5,859,671)
	3,483,911	3,787,750
Total assets	**$18,733,475**	$18,676,247

LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$1,326,709**	$1,652,343
Deferred revenue	**5,973,298**	5,882,064
Tenant deposits	**14,349**	14,349
Deferred compensation liability	**442,845**	862,954
Total liabilities	**7,757,201**	8,411,710
Net assets		
Unrestricted	**10,260,258**	9,579,194
Temporarily restricted	**716,016**	685,343
Total net assets	**10,976,274**	10,264,537
Total liabilities and net assets	**$18,733,475**	$18,676,247

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year Ended December 31,	**2013**	2012
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	**$7,534,619**	$7,280,821
Member educational conferences	**3,186,152**	3,239,860
Service fees	**1,701,595**	1,697,937
Advertising	**333,949**	299,318
Other	**476,306**	279,195
Products and services	**189,093**	157,383
Interest and dividend income	**170,413**	145,024
Rental income	**141,523**	132,720
	13,733,650	13,232,258
Net assets released from restriction	**556,784**	549,750
	14,290,434	13,782,008
Expense		
Program services:		
Membership educational conferences	**2,075,262**	2,108,986
Communications and publications	**413,980**	383,951
Officials and committees	**160,991**	208,990
Legislative and regulatory	**86,841**	79,659
Membership	**80,170**	62,313
Products and services	**69,631**	10,202
	2,886,875	2,854,101
Supporting services		
Administration and overhead	**10,323,298**	10,027,556
Building and occupancy	**739,499**	715,109
Total supporting services expense	**11,062,797**	10,742,665
Total expense	**13,949,672**	13,596,766
Change in unrestricted net assets before		
investment gains	**340,762**	185,242
Unrealized gain on investments	**303,333**	99,972
Realized gain on investments	**36,969**	10,995
Change in unrestricted net assets	**681,064**	296,209
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**585,560**	531,794
Interest income	**1,897**	3,665
Net assets released from restriction	**(556,784)**	(549,750)
Change in temporarily restricted net assets	**30,673**	(14,291)
Change in net assets	**711,737**	281,918
Net assets, beginning of year	**10,264,537**	9,982,619
Net assets, end of year	**$10,976,274**	$10,264,537

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	**2013**	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$711,737**	$ 281,918
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	**577,009**	541,137
Net gain on investments	(340,302)	(110,967)
Changes in assets and liabilities:		
Accounts receivable	**146,821**	(4,333)
Prepaid expenses and other assets	**(90,170)**	73,247
Deferred compensation investments	**309,595**	(75,901)
Accounts payable and accrued expenses	**(325,634)**	713,858
Deferred revenue	**91,234**	170,112
Tenant deposits	**-**	1,127
Deferred compensation liability	**(420,109)**	23,328
Total adjustments	**(51,556)**	1,331,608
Net cash provided by operating activities	**660,181**	1,613,526
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	**5,720,039**	4,810,007
Purchases of investments	**(5,068,238)**	(6,710,062)
Net purchases of property and equipment	**(273,170)**	(328,669)
Net cash provided by (used in) investing activities	**378,631**	(2,228,724)
Net increase (decrease) in cash and cash equivalents	**1,038,812**	(615,198)
Cash and cash equivalents, beginning of year	**3,177,152**	3,792,350
Cash and cash equivalents, end of year	**$4,215,964**	$3,177,152
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$12,640**	$19,372

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.

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 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.

Other fee sources have been developed as a result of 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 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 equities, unrestricted money market funds, commercial paper, corporate bonds, U.S. 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 March 3, 2014, 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,:

	2013	2012
Money market funds	$2,677,570	$4,142,709
Fixed income mutual funds and ETFs	3,932,130	3,987,030
Equity mutual funds and ETFs	1,958,039	1,098,682
Certificates of deposit	1,459,000	959,000
Foreign obligations	-	65,469
U.S. & Agency obligations	-	65,244
Corporate obligations	-	20,104
	$ 10,026,739	**$ 10,338,238**

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

	2013	2012
Interest and dividends	$172,310	$148,689
Net gain on investments	340,302	110,967
	$512,612	**$259,656**

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of $716,016 and $685,343 for the NAFCU PAC Administration fund as of December 31, 2013 and 2012, 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, 2013 and 2012:

	2013	2012
Employee compensation and benefits	$7,949,931	$7,856,686
Building operations	739,499	715,109
Depreciation	315,786	308,805
Professional services	437,204	345,378
Other	1,620,377	1,516,687
	$11,062,797	**$10,742,665**

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 $442,845 and $862,954 at December 31, 2013 and 2012, 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 the various plan assets and liabilities related to this individual was recognized in 2013 and is included in 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 2013 and 2012 were $364,580 and $330,861, 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 was 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 at December 31, 2013 and 2012.

Future minimum payments under the service agreement are as follows:

Year Ending December 31,

2014	$94,948
2015	23,712
	$118,660

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,

2014	$130,000
2015	71,000
2016	75,000
2017	79,000
	$355,000

I. INCOME TAXES

NSC has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2018. As of December 31, 2013, 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.

NSC accrued a liability for certain compensation expenses that were not deductible for income tax purposes until the obligations were paid in cash. As a result, these compensation accruals created a deferred tax asset. This deferred tax asset was directly related to the deferred compensation plan established for NSC's President. Since the President left NSC during 2013 and forfeited the balance in the deferred compensation plan, NSC no longer has a deferred tax asset at December 31, 2013. The total deferred tax asset related to anticipated future compensation expense deductions equaled $0 and $40,506 as of December 31, 2013 and 2012, respectively.

NSC has current year taxable losses which will be carried back to offset taxable income for the years ended December 31, 2012 and 2011. Amounts expected to be received from the carryback total $20,982 as of December 31, 2013 and are included in prepaid expenses and other assets on the statement of financial position.

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 2010 through 2013 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.

J. 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:

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	-	-
Unvestments Carried at Fair Value	7,738,154	**$6,279,154**	**$1,459,000**	**$-**
Money Market funds*	2,677,570			
	$10,415,724			

2012	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds & EFT's	$1,098,682	$1,098,682	$1,098,682	$-
Fixed income mutual funds & EFT's	3,987,030	3,987,030	-	-
Coporate obligations	20,104	-	20,104	-
Foreign obligations	65,469	-	65,469	-
US & Agency obligations	65,244	-	65,244	-
Certificates of deposit	959,000	-	959,000	-
Deferred compensation investments (mutual funds)	698,580	698,580	-	-
Investments Carried at Fair Value	6,894,109	**$5,784,292**	**$1,109,817**	**$-**
Money Market funds*	4,142,709			
	$11,036,818			

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

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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