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NAFCU 2018 Annual Report

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NAFCU Chair and President's Report

Despite headwinds that brought renewed attacks on the credit union tax exemption and called into question the industry's mission and structure, NAFCU persevered and at the close of 2018 landed higher than ever in our 52-year history. The association's record membership numbers, as well as the growth of our award-winning advocacy, compliance and education services and products, support the strength of our year-end financials.

As our membership grows, we are proud to represent both state- and federally-chartered credit unions. In 2018, almost 50 percent of our new members were state-chartered institutions. The credit for these milestones goes to many, especially to the dedicated staff at NAFCU who work tirelessly to incorporate extreme member service into everything they do. And to our members—new and familiar—NAFCU's reputation as a premiere association would not be possible without your trust and support.

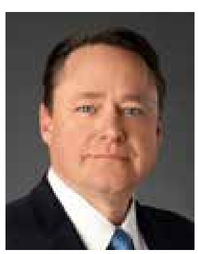
It is clear that this path we have forged since 1967 is affecting change within our industry—credit union stakeholders and national media in 2018 took notice. This year is proof of the value NAFCU brings to its members, to the industry, and to our stakeholders.

Since our founding, we have remained agile, effective, and a prudent steward of our members' dues dollars. We are in passionate pursuit of continued success with our eyes and hearts focused on the very foundation that sets NAFCU apart. We will remain committed to our original promise to advocate for and help credit unions grow.

We are devoted to continuing to raise the standard of what makes a trade association valuable, while strategizing with our members on the future and fighting to make credit unions stronger each and every day.

With your continued support, we are confident NAFCU will continue to pave the way forward for strength, innovation and growth.

Jeanne Kucey
NAFCU Chair



B. Dan Berger
NAFCU President and CEO


NAFCU
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2018 Accomplishments

As the industry's Washington Watchdog, NAFCU works daily to advocate for credit union priorities with administration officials, lawmakers and regulators, and keeps members informed of trends and new regulations that could impact their operations.

Our pillars of advocacy, education and compliance assistance keep us focused on our mission: strengthening credit unions and helping our members grow. Here's what we accomplished in 2018.

Above: Several NAFCU-member credit union CEOs discussing industry issues with President Donald Trump.
Official White House Photo by Shealah Craighead.

Advocacy: Securing meaningful regulatory relief

NAFCU's work to support credit unions and advance your priorities was recognized again in 2018 with another **ASAE award**—this one recognizing our advocacy efforts. As a bipartisan organization, we pride ourselves on building and strengthening relationships with key administration officials, lawmakers and regulators.

This was demonstrated throughout the year, but a highlight was securing the credit union industry's **first meeting with President Donald Trump at the White House** in February, which was attended by NAFCU-member credit union CEOs. This meeting helped ensure the president's support of the NAFCU-backed **Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155)**, which was enacted in May. We continue to hear from credit unions how it has reduced their regulatory burden.

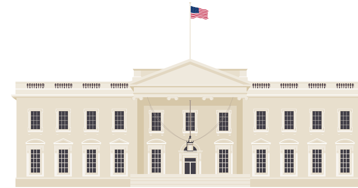
S. 2155 is the largest regulatory relief package to be enacted in the wake of the Dodd-Frank Act and includes a number a positive provisions for credit unions, including relief under the Home Mortgage Disclosure Act (HMDA) reporting requirements and member business lending exemptions. NAFCU will use S. 2155 as a building block for more relief on issues such as extended exam cycles and credit scoring.

We also worked with the NCUA and lawmakers to secure **relief for credit unions under the NCUA's risk-based capital (RBC) rule**. The NCUA Board approved a one-year delay of its RBC rule after our advocacy for relief under the rule gained traction on Capitol Hill (the House passed a two-year delay provision three times). Our award-winning advocacy team continues to work with Senate and House leaders to obtain a longer delay, arguing that the NCUA's delay "does not fully address all of the industry's concerns with the RBC rule."

As Congress worked on the fiscal year 2019 **National Defense Authorization Act (NDAA)**, our advocacy led House and Senate conferees to drop a provision that would have required the Department of Defense to allow all banks to operate rent free on military installations, disadvantaging credit unions.

Two of our **member credit union CEOs testified before Congress** in 2018 on key issues, including **small business lending** and **Bank Secrecy Act (BSA) reforms**. NAFCU has a Memorandum of Understanding with the Small Business Administration (SBA) and has worked closely with the agency to improve access to credit union small-dollar loans to small businesses across the nation. Obtaining further guidance and relief under BSA/anti-money laundering (AML) requirements remains a priority for NAFCU.

The financial services industry is a competitive market, and our wins have been underscored by a number of false attacks from bankers. In response, NAFCU set the record straight, **educating lawmakers and the public on the economic benefits of the industry's tax exemption** and the impact reforming field of membership rules would have on reaching unbanked and underserved communities. We also urged against **loosening Volcker rule requirements** and recommended Congress consider enacting a **modernized Glass-Steagall Act** to protect consumers from banks that are still too big to fail. While bankers are focused on limiting fair competition, credit unions remain focused on serving their members.



Led first credit union industry meeting with President Trump

Awarded for top-rated advocacy and research

Secured support for S. 2155 regulatory relief package

Called on Congress to enact a modernized Glass-Steagall

Compliance: Seeking clear guidance

In the ever-changing regulatory environment, NAFCU's compliance team works daily to ensure credit unions have the resources and guidance needed to operate successfully and compliantly. In 2018, the team **answered almost 7,800 questions** from members on issues such as lending, Bank Secrecy Act, advertising and S. 2155. Most importantly, they **respond to all members' questions within one business day**.

In 2018 NAFCU worked to obtain guidance on a number of issues in order to create a clear regulatory environment for credit unions to operate in.

Website accessibility requirements under the **Americans with Disabilities Act (ADA)** was a big issue for NAFCU and credit unions this year. Between 2017 and 2018, there was a 177 percent increase in the total number of lawsuits filed in federal court because of ambiguities in the law. NAFCU came out fighting early to defend credit unions against these meritless lawsuits and we continue to **work directly with the Department of Justice and Congress to obtain guidance**.

NAFCU's defense of credit unions facing these lawsuits—through amicus briefs and support at court hearings—has led to a slowdown in lawsuits against the industry; no new federal cases have been filed against credit unions since April 2018.

Another tough compliance issue facing credit unions is the **Financial Accounting Standards Board's (FASB) current expected credit loss (CECL) standard**. Since FASB issued the standard in June 2016, NAFCU has consistently sought more guidance on the standard and relief for credit unions.

As a result of NAFCU's efforts, some flexibility in the standard has been achieved: FASB issued a final update in November 2018 to clarify the effective date for its CECL standard, making clear that credit unions would not need to begin reporting data on call reports until the beginning of 2022. The update also clarified that operating lease receivables are not covered within the scope of CECL—a clarification welcomed by NAFCU.

Education: Providing top-rated training

Our education team is constantly seeking ways to provide credit unions with the best training opportunities for all employees—from senior executives to board members to compliance and lending staff—to help you take your institution to the highest level possible.

In 2018, we offered **13 conferences**—including two Regulatory Compliance Schools because they're so popular and a new CFO Summit. In addition, we provided **over 50 new live and on-demand webinars** on trending issues in our Online Training Center. It's an easy way for credit union staff to stay up-to-date on the latest trends and regulatory updates.

The **new CFO Summit** brought together more than 100 of the industry's top finance executives who were able to build a network of industry peers and talk about trends and issues affecting credit unions. After the summit we launched the CFO Network—an exclusive member-only online community for credit union CFOs to have candid conversations on issues and opportunities relevant to those serving CFO functions. We've seen huge success with the CFO Network and will look for more opportunities to connect leaders within the industry.

At each of our conferences and through our online training opportunities, credit union employees can earn credits for prestigious designations, including the award-winning NAFCU Certified Compliance Officer (NCCO), NAFCU Certified Risk Manager (NCRM), NAFCU Certified Volunteer Expert (NCVE), Certified Public Accountant (CPA) and more. In 2018, we reached **more than 1,000 active NCCOs**.

Media: Garnering national attention

Credit unions are committed to helping their members and communities grow, and our advocacy efforts are coordinated to make sure you're able to do that. In conjunction, our marketing and communications teams work to promote the good work of the industry.

NAFCU was referenced in almost 1,300 news articles in 2018—in publications such as the ***Wall Street Journal, Bloomberg, NPR, MarketWatch, Yahoo and Politico***—promoting key credit union issues such as data security, regulatory relief, and economic trends.

Our President and CEO Dan Berger was featured on **Fox Business' Countdown to the Closing Bell** to discuss the importance of S. 2155 in providing regulatory relief for the industry. He also joined **Hill.TV** to share our efforts in holding big banks accountable and protecting consumers.

Filed 16 amicus briefs in 7 states; 2 briefs filed in appellate courts

POLITICO

npr

WSJ

Bloomberg

MarketWatch

1,300 news articles in key publications

NAFCU Services Corporation Chair and President's Report

As credit unions continued to evolve in 2018, so too did the NAFCU Services Preferred Partner Program. At the forefront of innovation and education, NAFCU Services strives to elevate the financial services industry with a portfolio of providers that are carefully vetted by credit union leaders themselves. In today's rapidly evolving world of commerce, NAFCU Services combines advancement with assurance—providing cutting-edge solutions and thought leadership by dedicated, proven partners.

In the last year, NAFCU Services grew its educational content program to an unprecedented level. Credit unions across the nation took advantage of the free webinars, podcasts, blog posts, reports, and numerous other educational materials featuring Preferred Partner experts. In 2018, more than 10,000 industry professionals attended NAFCU Services webinars, making for a 7 percent higher attendance rate than the national B2B average. The program drew over 100 listeners per podcast episode, and nearly 60 percent pageview growth on the NAFCU Services Blog.

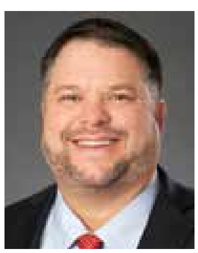
Many of the industry leaders who contribute to this robust content program also speak at NAFCU's renowned conferences. Last year, NAFCU Services and their Preferred Partners provided over 50 speakers at these conferences, covering a wide range of best practices, trends, and other crucial credit union topics.

All of this expert content is available through the Educational Resource Library on the NAFCU website. Resources can also be found on each of the Preferred Partners' dedicated pages within the site.

To learn more about NAFCU Services and their Preferred Partners, visit **nafcu.org/nafcuservices**.

NAFCU Services is a wholly-owned subsidiary of NAFCU.

B. Dan Berger
NAFCU Services Corporation
Chair and CEO



Randy Salser
NAFCU Services Corporation
President

NAFCU Treasurer's Report

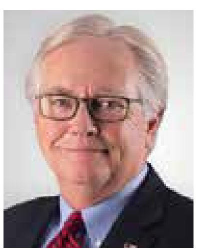
NAFCU's member focus and commitment to extreme member service led to important results last year for the industry in advocacy, education and compliance assistance. More than that, it was another year of sustained financial growth for the association, a reflection of the care we take in the management of members' dues dollars.

NAFCU turned in a strong financial performance in 2018—our 29th consecutive year of financial growth. We did so while investing in new services and technology to help us better deliver education and training to NAFCU members in a cost-effective, efficient manner.

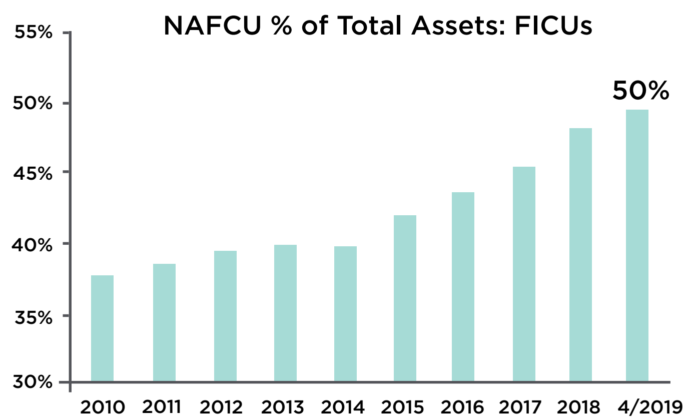
In 2018, NAFCU's equity increased $946,388, and its assets grew $1,578,092. This growth will help ensure that NAFCU remains at the forefront of advocacy, education and compliance assistance for the credit union industry. NAFCU Services Corporation also added new partnerships and products in order to provide the best solutions available for credit unions to stay competitive in the market.

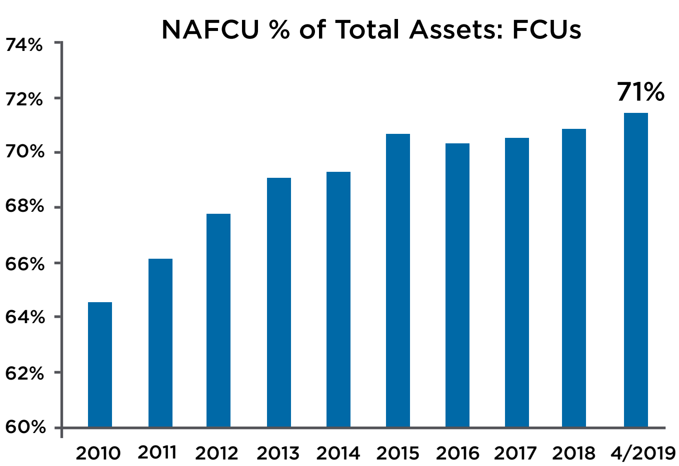
NAFCU will continue to set the standard for member service and benefits in 2019, putting the needs and concerns of its members across the country at the top of our priorities list every day.

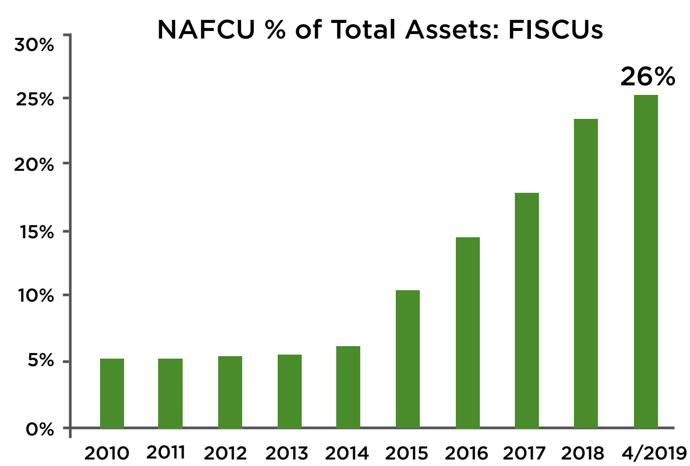
Thank you for your guidance, support and cooperation. We look forward to working with you in the coming year to ensure a bright and secure future for our industry.



Thomas W. DeWitt
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, 2018 and 2017, and the related consolidated statements of activities, statement of functional expense, 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 consolidated financial position of the National Association of Federally-Insured Credit Unions and Affiliates as of December 31, 2018 and 2017, and the changes in its consolidated net assets and its consolidated 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 5, 2018

Consolidated Statements of Activities

Year Ended December 31,	2018	2017
ACTIVITIES WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Membership dues	**$9,996,100**	$9,053,631
Membership education and training	**4,894,597**	4,882,249
Service fees	**2,535,603**	2,332,200
Advertising	**401,671**	381,948
Other	**230,947**	264,976
Interest and dividend income, net of investment fees	**301,831**	243,147
Rental income	**172,739**	167,900
Products and services	**131,690**	92,399
	18,665,178	17,418,450
Net assets released from restrictions	**421,815**	562,018
Total revenue and support	**19,086,993**	17,980,468
Expense		
Program services:		
Advocacy and compliance	**5,905,149**	5,709,575
Conferences and seminars	**4,523,461**	4,301,690
Communications, publications and marketing	**3,560,987**	3,187,662
Membership services	**935,587**	801,361
Total program services	**14,925,184**	14,000,288
ACTIVITIES WITHOUT DONOR RESTRICTIONS (CONTINUED)		
Supporting services		
Management and general	**2,633,993**	3,016,596
Building and occupancy	**742,224**	736,227
Total supporting services	**3,376,217**	3,752,823
Total expense	**18,301,401**	17,753,111
Change in net assets without donor restrictions before investment gains (loss)	**785,592**	227,357
Unrealized (loss) gain on investments	**(349,570)**	173,218
Realized gain on investments	**175,357**	9,096
Change in net assets without donor restrictions	**611,379**	409,671
ACTIVITIES WITH DONOR RESTRICTIONS		
Contributions	**752,217**	709,152
Interest income	**4,607**	3,434
Net assets released from restrictions	**(421,815)**	(562,018)
Change in net assets with donor restrictions	**335,009**	150,568
CHANGE IN NET ASSETS	**946,388**	560,239
Net assets, beginning of year	**13,043,278**	12,483,039
NET ASSETS, END OF YEAR	**$13,989,666**	$13,043,278

See notes to consolidated financial statements.

Consolidated Statements of Financial Position

December 31,	2018	2017
ASSETS		
Cash and cash equivalents	**$4,459,931**	$4,259,635
Accounts receivable	**429,915**	353,913
Prepaid expenses and other assets	**369,632**	530,556
Investments	**18,305,552**	16,660,590
Deferred compensation investments	**472,238**	372,113
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**6,176,217**	6,167,442
Furniture and equipment	**2,490,725**	2,360,522
Total property and equipment, at cost	**9,976,168**	9,837,190
Less accumulated depreciation and amortization	**(7,510,223)**	(7,088,876)
Total property and equipment, net	**2,465,945**	2,748,314
Total assets	**$26,503,213**	$24,925,121
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$2,484,769**	$2,278,347
Deferred revenue	**9,338,213**	9,022,829
Tenant deposits	**14,349**	14,349
Deferred compensation liability	**676,216**	566,318
Total liabilities	**12,513,547**	11,881,843
Net assets		
Without donor restrictions	**12,119,533**	11,508,154
With donor restrictions	**1,870,133**	1,535,124
Total net assets	**13,989,666**	13,043,278
Total liabilities and net assets	**$26,503,213**	$24,925,121

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$946,388**	$560,239
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**425,948**	402,261
Net loss (gain) on investments	**174,213**	(182,314)
Changes in assets and liabilities:		
Accounts receivable	**(76,002)**	238,475
Prepaid expenses and other assets	**160,924**	145,477
Deferred compensation investments	**(100,125)**	44,876
Accounts payable and accrued expenses	**206,422**	355,870
Deferred revenue	**315,384**	810,488
Deferred compensation liability	**109,898**	16,718
Total adjustments	**1,216,662**	1,831,851
Net cash provided by operating activities	**2,163,050**	2,392,090
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	5,107,881	5,107,881
Purchases of investments	(6,927,056)	(6,414,506)
Purchases of property and equipment	(143,579)	(304,067)
Net cash used in investing activities	**(1,962,754)**	(1,610,692)
Net increase in cash and cash equivalents	**200,296**	781,398
Cash and cash equivalents, beginning of year	**4,259,635**	3,478,237
Cash and cash equivalents, end of year	**$ 4,459,931**	$4,259,635
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$13,287**	$24,200

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), money market funds without restrictions, 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 collectability. 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. The Organization believes all receivables are fully collectable at December 31, 2018 and 2017; consequently, no allowance for doubtful accounts has been recorded.

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 - 39 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:

Without donor restrictions: the portion of net assets are available for general operations.

With donor restrictions: The portion of net assets that have been restricted by donors (see Note E).

Contributions: Contributions are recorded as with donor restrictions or without donor restrictions depending upon the existence and/or nature of any donor intent. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions and then reclassified to net assets without donor restrictions when the restriction expires.

Functional reporting of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and wages, benefits, payroll taxes, depreciation, and insurance, which are allocated on the basis of estimates of time and effort.

Change in accounting policies: The Organization adopted FASB Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities, during the year ended December 31, 2018. ASU 2016-14 refreshes current accounting standards by simplifying the presentation of net assets on the face of the financial statements and enhancing disclosures related to liquidity. Accounting and reporting changes related to ASU No. 2016-14 have been retrospectively applied to all prior periods presented as if the policy had always been in effect.

Measure in operations: The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing program and supporting services and interest and dividends earned on investments. Nonoperating activities are limited to unrealized and realized gains and losses from investments.

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income. Amounts reported in the December 31, 2017 financial statements were reclassified as follows:

	Previously Reported	Reclassification	Currently Reported
Expense			
Advocacy and compliance	$ -	$ 5,709,575	$ 5,709,575
Conferences and seminars	-	4,301,690	4,301,690
Comm., publications and marketing	-	3,187,662	3,187,662
Management and general	-	3,016,596	3,016,596
Membership services	-	801,361	801,361
Building and occupancy	743,467	(7,240)	736,227
Membership education and training	3,779,629	(3,779,629)	-
Communication and advertising	597,044	(597,044)	-
Officials and committees	267,114	(267,114)	-
Legislative and regulatory	85,987	(85,987)	-
Membership	49,674	(49,674)	-
Products and services	23,199	(23,199)	-
Administration and overhead	12,206,997	(12,206,997)	-

Subsequent events: Subsequent events have been evaluated through March 4, 2019, which is the date the consolidated financial statements were available to be issued.

B. CREDIT RISK AND MARKET VALUE RISK

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 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,:

	2018	2017
Money market funds	$8,129,077	$7,425,953
Fixed income mutual funds and ETFs	6,147,964	5,681,482
Certificates of deposit	3,000,000	2,000,000
Equity mutual funds and ETFs	1,028,511	1,553,155
	$18,305,552	**$15,171,651**

D. LIQUIDITY

The Association strives to maintain liquid assets sufficient to cover at least 180 days of general operating expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds, and other short-term investments.

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual or donor restrictions. Amounts not available include Certificates of Deposit maturing beyond December 31, 2019, contributions to the PAC Administrative fund, and investments held for deferred compensation.

	2018	2017
Cash and cash equivalents	$4,459,931	$4,259,635
Investments	18,305,552	16,660,590
Deferred compensation investments	472,238	372,113
Accounts receivable	429,915	353,913
Subtotal financial assets	23,667,636	21,646,251

Amounts not available for general expenditures within one year:		
Net assets with donor restrictions	(1,870,133)	(1,535,124)
Investments	(1,750,000)	(2,000,000)
Deferred compensation investments	(472,238)	(372,113)
	$19,575,265	**$17,739,014**

E. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with restrictions consist of $1,870,033 and $1,530,124 for the NAFCU PAC Administration fund and for lobbying activities as of December 31, 2018 and 2017, respectively. The Foundation had $5,000 in restricted net assets at December 31, 2017.

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 $676,216 and $566,318 as of December 31, 2018 and 2017, 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 2018 and 2017 were $718,902 and $685,484, 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 years ending December 31,:

Year Ending December 31,	
2019	$182,000
2020	191,000
2021	107,000
	$480,000

H. INCOME TAXES

NSC: 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 $21,112 and $15,080 as of December 31, 2018 and 2017, respectively.

An estimated deferred tax asset of $0 and $1,170 has been recorded at December 31, 2018 and 2017, respectively, to account for the potential future benefit of net operating losses. As of December 31, 2018, NSC has exhausted operating losses accumulated from prior years.

NSC has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2023. As of December 31, 2018, total unused charitable contributions approximated $13,000. 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 deferred tax asset totaled $21,112 and $16,250 at December 31, 2018 and 2017, respectively, and is recorded as a component of prepaid expense and other assets.

NAFCU: The Association earns unrelated business income on the sale of advertising in its publications. The Association incurred approximately $23,000 and $8,000 in net unrelated business income tax related to advertising, for the years ended December 31, 2018 and 2017, respectively. Under the Tax Reform of 2018, staff parking at NAFCU Headquarters, considered a benefit provided by the Association, is subject to UBIT tax. The Association incurred approximately $12,000 in unrelated business income tax related to this parking benefit.

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:

2018	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds and ETFs	$1,028,511	$1,028,511	$ -	$ -
Fixed income mutual funds and ETFs	6,147,964	6,147,964	-	-
Certificates of deposit	3,000,000	-	3,000,000	-
Deferred compensation investments (mutual funds)	472,238	472,238	-	-
Investments Carried at Fair Value	10,648,713	$7,648,713	$3,000,000	$ -
Money Market funds*	8,129,077			
	$18,777,790			

2017	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Equity mutual funds and ETFs	$1,553,155	$ 1,553,155	$ -	$ -
Fixed income mutual funds and ETFs	5,681,482	5,681,482	-	-
Certificates of deposit	2,000,000	-	2,000,000	-
Deferred compensation investments (mutual funds)	372,113	372,113	-	-
Investments Carried at Fair Value	9,606,750	$7,606,750	$2,000,000	$ -
Money Market funds*	7,425,953			
	$17,032,703			

**Money market funds included in the investment portfolio are not subject to the provisions of fair valuemeasurements as they are 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.

NAFCU
National Association of
Federally-Insured Credit Unions
3138 10th Street North
Arlington, VA 22201-2149