2008

National Association of Federal Credit Unions

Financial Report



NAFCU

National Association of Federal Credit Unions ▪ www.nafcu.org

2008 CAPITAL ACHIEVEMENTS

IN A YEAR that saw the global economy and financial system devastated by fallout from the subprime crisis, NAFCU took a clear leadership role in protecting the interests of federal credit unions, ensuring the industry had an outspoken advocate as Congress continued to debate potential legislative solutions.

To that end, NAFCU sought and won measures that ensured parity for credit unions in connection with the enactment of the Emergency Economic Stabilization Act of 2008. The bill, signed by President Bush in October, created the Troubled Assets Relief Program, which authorized Treasury to invest up to $700 billion in financial institutions' troubled assets. NAFCU's efforts ensured parity for credit unions and that a temporary increase to $250,000 in federal deposit insurance would apply equally to the National Credit Union Share Insurance Fund (NCUSIF).

NAFCU also took vigilant action to protect credit unions from mortgage bankruptcy cramdowns, which would allow bankruptcy judges to cram down mortgage values for homeowners trying to avoid foreclosure. When such a proposal was introduced by Senate Majority Whip Dick Durbin, D-IL, NAFCU worked with the senator and his staff on revisions to exclude roughly 95 percent of credit union mortgages from cramdown authority. The issue has carried over into 2009, with cramdown provisions included in several bills, and NAFCU continues to remind lawmakers of its unintended, detrimental effects on credit unions.

Protecting credit unions' continued ability to participate in the payments system was also a key focus for the association in 2008. Sen. Durbin introduced H.R. 5546, the Credit Card Fair Fee Act, which would create a three-judge panel charged with negotiating credit card interchange fees. NAFCU testified before Congress, rallied members in a grassroots lobbying effort and gave radio interviews aimed at educating lawmakers and consumers on the dangers that price caps posed to credit- and debit-card programs at credit unions and on its contradictions with federal antitrust law.

NAFCU also took an active role in the debate over abusive credit-card practices to ensure credit unions would not be adversely impacted. When Rep. Carolyn Maloney, D-NY, introduced H.R. 5244, the Credit Card Holders' Bill of Rights, NAFCU informed lawmakers that certain provisions could make it difficult for credit unions to price for risk and would require some to acquire Internet access for the first time. The bill died with the 110th Congress but is expected to be reintroduced sometime this year.

The preservation of an independent regulator and share insurance fund for federal credit unions also became a key issue in 2008. The Treasury Department's Blueprint for a Modernized Regulatory Structure contained a provision that would adopt a single regulator for all depository institutions, effectively eliminating the NCUA as well as the NCUSIF. NAFCU President Fred Becker was the first industry representative to meet with David Nason, Treasury's assistant secretary for financial institutions, to voice significant concerns over the plan.

The association also remained engaged in communicating credit unions' concerns to NCUA about a number of important regulatory issues. NAFCU contested recommendations by NCUA's Outreach Task Force that would require credit unions to collect data on members and disclose executive compensation, noting it would place credit unions "within a Community Reinvestment Act-like reporting mode." The association also noted that the agency's proposed changes to the chartering and field of membership manual were "overly complicated" and urged an alternative approach: ease the burden of those seeking to charter new credit unions by streamlining the application process.




In June, NAFCU marked the 100th year of credit union service in America in a ceremony at America's Credit Union Museum in Manchester, NH. The museum houses an exhibit created by NAFCU to showcase the association's accomplishments and impact on the credit union industry since its formation in 1967. NAFCU worked with members of Congress to achieve a House resolution commemorating the 100th anniversary of credit unions in the U.S. and to recognize their outstanding work in serving member-owners and communities.

To help credit unions contend with the rapidly changing financial market landscape, NAFCU provided a number of tools and resources to keep members informed and well prepared.

Overall, NAFCU conducted 16 educational webcasts in 2008 — of those, nine were related to a variety of regulatory compliance issues and two focused specifically on the Bank Secrecy Act (BSA).

To help NAFCU members better understand BSA, the association's compliance staff also developed a questionnaire to accompany the regular BSA Blast newsletter that offers real-world examples of BSA issues faced by credit union staff.

NAFCU also unveiled a new consumer Web site, **www.CULookUp.com**, which helps consumers locate a credit union they can join that will fit their needs and financial goals. NAFCU members receive free branch listings on the Web site as part of their member benefits. The service was made possible by NAFCU Services Corporation and is sponsored by its Preferred Partners and NAFCU.

NAFCU also hosted another successful Annual Conference & Exhibition last July, the association's 41st. The conference, the largest of its type in the credit union industry, was held in San Diego, and provided attendees with the latest information on economic, legislative and regulatory trends affecting the credit union industry.

The full spectrum of NAFCU's efforts and accomplishments in 2008 cannot be summed up easily, but a common thread running through last year's work was the association's vigilant response to the needs of credit unions in the increasingly troubled economy. Through constant contact with key congressional lawmakers about important issues, while further expanding its educational offerings, NAFCU provided tools and resources to help equip members for the industry's unpredictable challenges.


NAFCU CHAIR & PRESIDENT'S REPORT

A TROUBLED ECONOMY marked by record-high unemployment figures and home foreclosure rates remained the focal point of lawmakers, regulators and the financial industry in 2008. Those foreclosures helped drive a rising number of large-bank failures and fueled an ongoing debate about how to stem a housing finance crisis that continues to draw blame for the current economic downturn.

Despite these and other tough challenges, credit unions performed admirably during the year. Whether measured by financial literacy outreach efforts, loan and share growth, or an increased share of the mortgage market (NAFCU members who participated in the Fannie Mae alliance saw a huge increase in mortgage originations in 2008), credit unions clearly reached out to their members and communities during the most difficult economic environment in decades, ultimately demonstrating their core values and ideals.

Credit unions are also to be applauded for supporting NAFCU on the year's top legislative and regulatory issues. NAFCU members' efforts were essential to ensuring that the credit union industry received parity with other federally insured institutions and increased deposit coverage for the National Credit Union Share Insurance Fund (NCUSIF).

For its part, NAFCU worked diligently to assist credit unions with addressing a constantly evolving financial landscape. In an effort to address questions about the safety of the NCUSIF, NAFCU hosted a free webcast open to all credit unions in July, with more than 1,400 registrants participating. The free webcast was part of NAFCU's overall effort to provide information and education on matters of importance to the credit union industry and its members.

NAFCU also unveiled a new direct mail service as part of its member benefits. The service allows credit unions to choose from a variety of professionally developed direct mail packages (postcards and letters), customize them and get them in the mail quickly and affordably using the convenience of a computer.

Finally, elections are always important, but even more so when the future of the financial services industry is being debated in Congress. It is of utmost importance to elect credit union-friendly lawmakers in order for the credit union industry to keep thriving. Thanks to the support of NAFCU members, it was another strong year for NAFCU/PAC, with $212,358 raised last year, yet another robust show of support for a 12-month period. We thank you for that.

As we prepare this report, NAFCU is in the midst of tackling a number of important issues. Chief among these is addressing challenges posed by the impact of NCUA's corporate stabilization plan, Treasury's regulatory blueprint proposal and proposed restrictions on credit card programs, interchange fees and overdraft protection. The association is also working to fend off the threat of onerous and unnecessary Community Reinvestment Act-type regulations.

As always, NAFCU values your thoughts and opinions and would like to hear from you. We remain committed to your needs and will continue to do everything we can to empower federal credit unions and the members they serve. Please feel free to contact us at any time.

Bradley W. Beal
NAFCU Board Chair

Fred R. Becker Jr.
NAFCU President and CEO

NAFCU SERVICES CORPORATION CHAIR & PRESIDENT'S REPORT

CREDIT UNIONS faced a host of unexpected challenges in 2008, and NAFCU Services Corporation, NAFCU's wholly owned subsidiary, responded accordingly, building even further on its reputation for providing innovative, high-quality solutions to the credit union industry. In addition, NAFCU Services broke an all-time record in providing financial support to our parent organization, NAFCU.

Always focused on finding solutions for credit unions, NAFCU Services added a number of new ways that credit unions can learn about strategies to help them thrive in an increasingly competitive marketplace. A number of new free webcasts and podcasts by NAFCU Services Preferred Partner industry experts were added last year, which can be viewed at **www.nafcu.org/nafcuservices** or **http://nafcuservices.podbean.com**, as well as on each Preferred Partner Web page. The webcasts and podcasts cover a broad range of topics, offering expert advice on everything from security and anti-phishing to best practices in call center operations.

NAFCU Services also added a number of new Preferred Partners, giving NAFCU members an even wider array of the industry's best and brightest solution providers. These partners include the largest independent Bank Secrecy Act/anti-money laundering/anti-terrorist financing provider in the U.S., a "turn-key" financial planning and wealth management provider, a credit card processing and servicing solutions provider, an information security provider, a data loss prevention solutions provider and a business intelligence solutions provider.

Also in 2008, NAFCU Services launched **www.CULookUp.com**, a Web site that assists credit unions with one of their primary growth challenges — making new member prospects aware of credit unions and helping them to find the right credit union to join. As we write this, traffic for the site is growing over 30 percent each month.

Finally, NAFCU Services increased the presence of partner experts at numerous NAFCU meetings and events. Preferred Partner representatives spoke at nearly every one of the association's conferences, including NAFCU's 2008 Annual Conference & Exhibition in San Diego.

To carry out its more ambitious goals, NAFCU Services required a new staff addition and welcomed Kirstin Hemsteger as its new marketing manager. With the addition of new Preferred Partners and the continued and growing success of existing partners, 2008 was the most successful year to date for NAFCU Services.

As we write this in 2009, we are more confident than ever that our group of highly qualified and carefully selected solutions providers clearly demonstrate why they have earned the designation of NAFCU Services Preferred Partners.

We thank you for your continued support.

Fred R. Becker Jr.
NAFCU Services
Corporation Chair

David C. Frankil
NAFCU Services
Corporation President

NAFCU TREASURER'S REPORT

GIVEN THE CHALLENGING ECONOMIC CONDITIONS OF 2008, it is particularly impressive that NAFCU reported its 20th consecutive year of sustained financial stability and growth.

In 2008, NAFCU's equity increased by $407,887, while its assets grew by $225,220 — yet further evidence that the association's value continues to build even amid challenging times.

One of the most essential aspects to NAFCU's continued success is its unwavering and relentless focus on serving its members. From day one, the association has defined itself by its direct and immediate access to the best representation, education, information and support services in the credit union industry. Our members value their membership because they know NAFCU always delivers — and frequently exceeds — expectations.

At a time when many other trade associations in the financial services industry are downsizing their service offerings, NAFCU continues to add to and improve upon its member benefits. In 2008, the association added a host of new educational resources for members while its subsidiary, NAFCU Services Corporation, brought even greater value to NAFCU members via several new partnerships and products.

Whether it is member retention, member awareness of services or operational costs, NAFCU's key ratio analysis illustrates that NAFCU-member credit unions are doing remarkably well in today's highly challenging financial marketplace.

Thanks to the financial support of our members, NAFCU has continued to bolster its efforts on Capitol Hill, ultimately providing our members with an even stronger voice on important legislative concerns. Of course, NAFCU's talented and hard working staff should also be recognized for doing an outstanding job of focusing on the association's membership, providing not only the best, but the most cost-effective programs and services within the credit union industry.

I would like to thank NAFCU's member credit unions, its board of directors, member volunteers, management and staff for their guidance, strong support and cooperation. It is through our commitment to working together that we have been able to strengthen the association both financially and in its ability to enhance the federal credit union charter.

Michael J. Parsons
NAFCU Treasurer

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statements of financial position of the National Association of Federal Credit Unions, Inc. and Affiliates (the Organization) as of December 31, 2008 and 2007, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 Federal Credit Unions, Inc. and Affiliates at December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
March 4, 2009

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,	**2008**	2007
ASSETS		
Cash and cash equivalents – Note B	**$ 955,943**	$ 943,784
Accounts receivable	**249,869**	229,408
Prepaid expenses and other assets	**275,252**	407,484
Investments - Notes B & C	**8,674,334**	8,240,947
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**5,415,139**	5,307,330
Furniture and equipment	**1,637,780**	1,545,471
	8,362,145	8,162,027
Less accumulated depreciation and amortization	**(4,449,771)**	(4,141,098)
	3,912,374	4,020,929
Total assets	**$14,067,772**	$ 13,842,552
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	**$ 926,647**	$ 8 86,073
Deferred revenue	**4,312,826**	4,536,067
Tenant deposits	**13,222**	13,222
Total liabilities	**5,252,695**	5,435,362
Net assets		
Unrestricted	**8,492,154**	8,056,384
Temporarily restricted – Note D	**322,923**	350,806
Total net assets	**8,815,077**	8,407,190
Commitments and contingencies - Note G	–	–
Total liabilities and net assets	**$14,067,772**	$ 13,842,552

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31,	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	**$ 6,787,189**	$ 6,744,041
Member educational conferences	**2,699,030**	2,741,265
Service fees	**1,715,797**	1,187,003
Products and services	**396,729**	368,990
Advertising	**267,642**	280,825
Investment income - Note C	**243,354**	390,855
Other	**212,016**	247,778
Rental Income	**126,361**	115,665
	12,448,118	12,076,422
Net assets released from restriction	**537,979**	456,083
	12,986,097	12,532,505
Expense		
Program services		
Membership educational conferences	**2,142,203**	2,361,934
Communications and publications	**632,815**	574,760
Legislative, regulatory and compliance	**215,361**	178,661
Officials and committees	**160,179**	78,736
Products and services	**83,205**	99,010
Membership	**48,656**	50,199
	3,282,419	3,343,300
Supporting services – Note E		
Administration and overhead	**8,685,996**	8,350,618
Building and occupancy	**581,912**	635,382
	9,267,908	8,986,000
	12,550,327	12,329,300
Change in unrestricted net assets	**435,770**	203,205

Years Ended December 31,	2008	2007
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**505,486**	427,781
Interest income - Note C	**4,610**	4,275
Net assets released from restriction	**(537,979)**	(456,083)
Change in temporarily restricted net assets	**(27,883)**	(24,027)
Changes in net assets	**407,887**	179,178
Net assets, beginning of year	**8,407,190**	8,228,012
Net assets, end of year	**$ 8,815,077**	$ 8 ,407,190

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 407,887**	$ 179,178
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**308,674**	336,433
Net loss on investments	**5,286**	-
Changes in assets and liabilities:		
Accounts receivable	**(20,461)**	(50,005)
Prepaid expenses and other assets	**132,232**	(16,676)
Accounts payable and accrued expenses	**40,574**	247,518
Deferred revenue	**(223,241)**	(204,484)
Total adjustments	**243,064**	312,786
Net cash provided by operating activities	**650,951**	491,964

See notes to the consolidated financial statements.
Certain 2007 items have been reclassified for comparative purposes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of investments	**(438,673)**	(409,982)
Net purchases of property and equipment	**(200,119)**	(223,834)
Net cash used in investing activities	**(638,792)**	(633,816)
Net (decrease) increase in cash and cash equivalents	**12,159**	(141,852)
Cash and cash equivalents, beginning of year	**943,784**	1,085,636
Cash and cash equivalents, end of year	**$ 955,943**	$ 943,784
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$ -**	$ 10,300

See notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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 in 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.

FSP FIN 48-3: FASB Staff Position FIN 48-3 (FSP FIN 48-3), Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Entities, grants nonpublic organizations the option to defer the effective date of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes until the year ended December 31, 2009. As permitted by FSP FIN 48-3, the Organization has elected to delay the implementation of FIN 48 until the year ended December 31, 2009. The Organization records a liability for income taxes when it believes that such an accrual is warranted based on current law or guidance from the appropriate taxing authorities.

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

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

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

Cash and cash equivalents: For financial statement purposes, the Organization considers all money market funds, certificates of deposit, and US agency and treasury obligations 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. As a result of these reviews, customer balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts was 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 - 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.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Cash: The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these cash balances.

Investments: The Association also invests funds in fixed income securities and mutual funds that contain various types of marketable securities. Such investments are exposed to market and credit risks. Given the current turmoil in world financial markets, the Association's financial investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

Investments are carried at fair value. Investments consist of the following as of December 31:

	2008	2007
Money market funds	**$ 4,460,933**	$ 1,338,300
US agency and government obligations	**3,589,352**	3,787,358
Commercial paper	**624,049**	3,115,289
	$ 8,674,334	$ 8,240,947

The Association has implemented Statement of Financial Accounting Standard No. 157 (FAS 157), Fair Value Measurements. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principals, and expands disclosures about fair value measurements. FAS 157 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;

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

The following table summarizes the Association's investments as of December 31, 2008 and 2007, based on the inputs used to value them:

	2008	2007
Level 1 – Quoted prices	**$ 4,460,933**	$ 1,338,300
Level 2 – Other significant observable inputs	**4,213,401**	6,902,647
Level 3 – Significant unobservable inputs	-	-
Total Investments	**$ 8,674,334**	$ 8,240,947

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets.

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

	2008	2007
Interest and dividends	**$ 253,250**	$ 395,130
Net loss on investment	(5,286)	-
	$ 247,964	$ 395,130

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of $322,923 and $350,806 for the NAFCU PAC Administration fund as of December 31, 2008 and 2007, 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, 2008 and 2007:

	2008	2007
Employee compensation and benefits	**$6,698,019**	$ 6,196,818
Building operations	**581,912**	635,382
Depreciation	**116,220**	122,469
Professional services	**581,073**	491,082
Other	**1,290,684**	1,540,249
	$9,267,908	$ 8,986,000

F. RETIREMENT PLANS

Supplemental Benefit Plan: During the year ended December 31, 2008, the Organization established a plan to provide certain executives with supplemental benefits to compensate for statutory limitations on benefits under the defined benefit pension plan. The total liability accrued for the supplemental benefit plan was $159,103 and $0 at December 31, 2008 and 2007, respectively.
The Association and NSC maintain 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 expense charged to operating expenses in 2008 and 2007 was $319,429 and $321,694, respectively.

G. COMMITMENTS AND CONTINGENCIES

The Organization leases a portion of its headquarters building under operating leases which expires through 2014. The approximate future minimum payments to be received under the operating leases are as follows:

Year ending December 31,	2009	$ 122,000
	2010	128,000
	2011	93,000
	2012	56,000
	2013	59,000
	2014	62,000
		$ 520,000

H. INCOME TAXES

As of December 31, 2007, NSC had net operating losses (NOLs) of $12,418 which could be carried forward and used to offset future income tax liabilities through the year 2026. As a result, NSC recorded a deferred tax asset of $1,585 as of December 31, 2007. All of the NOLs will be consumed as part of NSC's income tax filing for the year ended December 31, 2008.

NSC also has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2013. As of December 31, 2008, total unused charitable contributions approximated $55,000. Due to uncertainty regarding NSC's future ability to utilize these deductions, a valuation allowance has been recorded to completely offset any related deferred tax asset.

NSC accrues a liability for certain compensation expenses that are not deductible for income tax purposes until the obligations are paid in cash. As a result, these compensation accruals create a deferred tax asset. The total deferred tax asset related to anticipated future compensation expense deductions equaled $8,960 as of December 31, 2008.

NAFCU BOARD OF DIRECTORS

NAFCU

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