LEADING THROUGH CHANGE

National Association of Federal Credit Unions

FINANCIAL REPORT 2010

NAFCU | National Association of Federal Credit Unions

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

NAFCU
CHAIR & PRESIDENT'S REPORT

When the NAFCU history books are written, 2010 will be described as a year of major transitions and challenges for the credit union industry. Not only did credit unions contend with a sweeping overhaul of the regulatory landscape and a fragile economy, but they also experienced increased bottom-line pressures, new compliance burdens and a barrage of legislation sure to bring even more regulation.

Through it all, NAFCU led the industry through these historic changes and challenges, working relentlessly to advocate on behalf of credit union interests. Below are just a few of last year's key accomplishments.

NAFCU ensured that credit unions had a voice in the debate over the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act.

NAFCU won two key provisions that were ultimately included in the law: one that exempts credit unions with $10 billion in assets or less from the new Consumer Financial Protection Bureau's (CFPB) direct examination authority; and one that includes NCUA on a council of regulators that can "veto" some of the CFPB's rules. As the only credit union trade association that opposed the CFPB's application to the credit union industry throughout the course of the debate, NAFCU prevented the CFPB from having a more far-reaching impact.

NAFCU advocated for the CFPB to have a reduced role in regulating credit unions.

NAFCU met personally with Elizabeth Warren, the president's advisor on the CFPB, several times throughout the year to make the case for limiting the new bureau's regulations governing credit unions. Warren made her first public address following her presidential appointment at NAFCU's 2010 Congressional Caucus in Washington. NAFCU's board and senior staff met privately with Warren after the meeting, and NAFCU President Fred Becker has met several times with her since to personally call for reducing the regulatory burden on credit unions. As a direct result, Warren stated in congressional testimony that the bureau is specifically charged with "considering the impact of proposed rules on smaller credit unions."

NAFCU shaped the debit interchange discussion on Capitol Hill.

NAFCU led the way in opposing the debit card interchange provision of the Dodd-Frank reform law. Throughout 2010, NAFCU strongly objected to the provision, arguing that setting caps on debit interchange fees would have a devastating impact on credit unions' card programs.

"I absolutely love your services! Through a trial membership, we discovered the immense value of NAFCU membership and decided to join. I especially appreciate the direct accessibility of NAFCU's staff and the timely information I receive on important topics like interchange and the CFPB."

Dana Rawlings, CEO, Pioneer West Virginia FCU

The issue has carried over into 2011, with NAFCU initiating and garnering congressional support for legislation introduced in both the House and Senate that would require a delay and study of the interchange cap. NAFCU also sought hearings on the issue, and NAFCU members have since testified that the new fees will ultimately hurt credit union members.

NAFCU advocated for an increase in the member business lending cap.

NAFCU pushed for lawmakers' support for raising the credit union member business lending cap to 27.5 percent of assets, as outlined in legislation by Sen. Mark Udall, D-Colo. The association urged President Obama and Treasury to support the proposal. While the legislation was not adopted in 2010, Sen. Udall has reintroduced his bill in the new Congress, and the issue continues to gain support in Congress.

NAFCU developed key principles for industry on supplemental capital.

NAFCU also took a leadership role in reaching an agreement on principles for supplemental capital for credit unions. These principles were forwarded to NCUA Chairman Debbie Matz, who subsequently sent them to the House Financial Services Committee along with NCUA's proposal for risk-based capital.

Congressional action is required to grant credit unions the ability to raise supplemental capital, and NAFCU continued to work with lawmakers, NCUA, Treasury and others on this initiative in 2010. NAFCU President Fred Becker, along with senior staff, met with Treasury Assistant Secretary Michael Barr to discuss a number of credit union issues, including supplemental capital.

NAFCU vigorously protected credit unions' tax-exempt status.

Credit unions' tax-exempt status also became a top issue again, following the recommendations of the president's National Commission on Fiscal Responsibility and Reform. When the commission proposed the elimination of all tax expenditures (which by implication, would include the credit union tax exemption), NAFCU objected, pointing out that the exemption continues to be essential for credit union members, communities and taxpayers generally. The commission's plan was not presented to Congress, and NAFCU continues to proactively remind lawmakers about the value of the exemption.

"The new NAFCU website is a dramatic step forward—I like it a lot! Congratulations to you and the staff for all you bring to the table for your constituents. We love NAFCU!"

John Gebhard, CEO, International Airline Employees Federal Credit Union

NAFCU advocated for limited costs related to corporate stabilization and replenishing the share insurance fund.

NAFCU urged the NCUA to do everything in its power to mitigate costs facing natural person credit unions stemming from corporate credit union stabilization. The association advocated for separate stabilization and share insurance fund assessments, keeping assessments as low as possible, providing estimates for both assessments in a timely fashion and transparency throughout the process.

NCUA's final rule for restructuring the corporate credit union system and its plan for dealing with legacy assets were in line with what NAFCU had been advocating. The final rule places corporate credit unions under a prompt corrective action regime, similar to what exists for natural person credit unions, implements new capital requirements and sets limits on investments. NCUA also sided with NAFCU's long-held position on the future of the corporate credit union system: that the fate of each corporate should be decided by that institution's member-owners.

NAFCU enhanced and expanded educational and event offerings.

With all that credit unions faced in 2010, NAFCU consistently worked to ensure that its events and educational offerings, which are offered to the entire industry regardless of membership status, reflected the current challenges facing the industry. Case in point: NAFCU's webcasts in 2010 helped credit unions prepare for the most recent developments concerning Regulation Z and the Secure and Fair Enforcement for Mortgage Licensing Act. The association also released a widely acclaimed white paper on NCUA examinations.

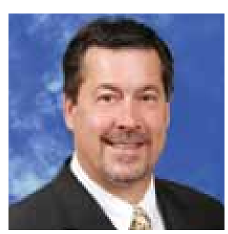
NAFCU continued to add products and services to the industry in several key areas. In February, NAFCU launched its new website. The new site includes advanced search capability, an enhanced profile section that gives users the option to define their areas of interest, convenient online shopping in NAFCU's Marketplace, one convenient user name and login for the website and event registration, instant access to free and searchable educational content in the Partner Resource Library, convenient tracking of NAFCU Certified Compliance Office (NCCO) credits and more.

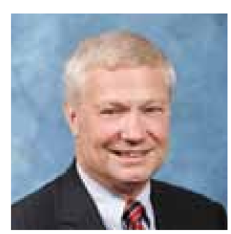
NAFCU Services Corporation added more than 30 financial calculators to CULookup.com, the credit union locator website. NAFCU Services also added several new Preferred Partners, with 30 partners now available to serve the needs of NAFCU members.

NAFCU provides credit unions with the best value for their money.

As the financial services marketplace keeps evolving, NAFCU continues to lead and champion the causes that credit unions care about most, providing members with direct access to the industry's most knowledgeable staff and best resources. NAFCU members know they can always rely on their trade association to keep them fully informed and prepared for today's issues and tomorrow's challenges. Simply put, NAFCU continues to raise the bar in consistently demonstrating why it offers the best trade association value in the credit union industry.

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 in our power to champion federal credit unions. Please feel free to contact us at any time.





Michael N. Lussier
NAFCU Board Chair

Fred R. Becker, Jr.
NAFCU President and CEO

NAFCU SERVICES CORPORATION CHAIR & PRESIDENT'S REPORT

To effectively navigate the constantly changing financial services landscape, credit unions need a proven leader they can turn to for the most innovative and effective solutions the industry has to offer. That's why NAFCU Services Corporation, NAFCU's wholly owned subsidiary, provided credit unions with an even greater array of top-notch tools in 2010 to help them achieve their most ambitious goals and objectives.

To enhance the hugely popular **www.CULookup.com**, a NAFCU Services website that helps consumers locate credit unions they are eligible to join, we added more than 30 financial calculators that are free to NAFCU members. Used by credit unions big and small on their websites, the calculators reinforce the value of the credit union to existing members and help attract the "unaware nonmember." Nearly 800,000 calculations were performed by credit union members on the platform in 2010, with growth accelerating through 2011. In recognition of their usefulness, the calculators netted NAFCU Services Corporation a 2010 Best Practices Award from *Credit Union Journal*.

NAFCU Services Corporation also expanded its range of free video advertisements that NAFCU members can use to better promote themselves and their brand. We partnered with Affinion Security Center to develop two new public service announcement videos on identity theft. As with our other free video ads, the videos can be customized and used on local television, online and in other venues. Since the video ads were first offered in February 2009, NAFCU Services has received more than 400 requests for customized versions and interest continues to build. Samples of customized ads are available for view at **www.nafcu.org/video-ads**.

Building on its reputation as a trusted resource for credit unions, NAFCU Services Corporation added a number of new free webcasts and podcasts by NAFCU Services Preferred Partner industry experts last year. These cover a broad range of topics, offering expert advice on everything from ID theft prevention, strategic planning to Web-based mortgage origination and processing. All NAFCU Services Corporation webcasts and podcasts can be viewed at **www.nafcu.org/nafcuservices** or **www.nafcu.org/PartnerLibrary**, as well as on each Preferred Partner webpage.

A number of new Preferred Partners were also added in 2010, giving NAFCU members access to even more of the industry's finest solutions. These partners specialize in the areas of health insurance for credit union employees, residential mortgage portfolio servicing and default solutions, outsourced insurance brokerage, merchant card solutions and leadership development. All passed muster with our member-run Advisory Committee, and are worthy of the Preferred Partner Seal, a designation bestowed upon solution providers whose commitment to excellence is matched only by their commitment to credit unions.

With the addition of new Preferred Partners and the continued and growing success of existing partners, 2010 was once again a successful year for NAFCU Services, both in terms of total annual revenue and contributions to support essential NAFCU programs.

As we write this in 2011, we are more confident than ever that our highly qualified and carefully selected solution 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

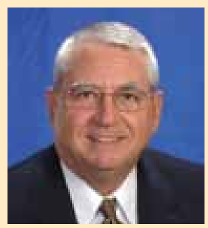
NAFCU's leadership in the credit union industry has long been exemplified by its stewardship, and the association's 2010 financials are an impressive case in point. I am pleased to report that the association marked its 22nd consecutive year of sustained financial stability and growth, while increasing member services and making no reductions in employee compensation or benefits.

There is a direct correlation between NAFCU's financial standing and the association's singular focus on its membership. In 2010, NAFCU's equity increased by $335,626, while its assets grew by $690,352—gains that enabled the association to add a range of new educational tools and support services. In addition, the association's subsidiary, NAFCU Services Corporation, brought even greater value to NAFCU members via several new partnerships and products.

While continuing to lead the industry's advocacy efforts, the increased services and benefits are a testament to NAFCU's prudent financial management. Since NAFCU continues to offer the best tools and resources, it's not surprising that its member credit unions are among the top-performers in the industry.

Whether it is member services or benefits, NAFCU's member credit unions continue to set the standard in today's constantly changing and highly challenging financial marketplace.

I would like to thank you, NAFCU's member credit unions, for your guidance, strong support and cooperation. Working together, we continue to ensure a bright and secure future for our industry.



Ed Templeton
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, 2010 and 2009, 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, 2010 and 2009, 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, D.C.
March 4, 2011

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,	**2010**	2009
ASSETS		
Cash and cash equivalents - Note B	**$ 1,486,115**	$ 1,242,950
Accounts receivable	**247,214**	159,941
Prepaid expenses and other assets	**406,897**	365,957
Investments - Notes B, C, & J	**9,351,730**	9,376,280
Deferred compensation investments - Note J	**530,498**	284,283
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**5,611,064**	5,548,695
Furniture and equipment	**2,098,079**	1,690,459
	9,018,369	8,548,380
Less accumulated depreciation and amortization	**(4,860,640)**	(4,487,960)
	4,157,729	4,060,420
Total assets	**$ 16,180,183**	$ 15,489,831
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses - Note G	**$ 1,047,524**	$ 869,683
Deferred revenue	**5,008,413**	5,090,778
Tenant deposits	**13,222**	13,222
Deferred compensation liability - Notes F & J	**723,783**	464,533
Total liabilities	**6,792,942**	6,438,216
Net assets		
Unrestricted	**8,864,379**	8,693,480
Temporarily restricted - Note D	**522,862**	358,135
Total net assets	**9,387,241**	9,051,615
Commitments and contingencies - Note H	–	–
Total liabilities and net assets	**$ 16,180,183**	$ 15,489,831

See notes to the consolidated financial statements.
Certain 2009 amounts have been reclassified for comparative purposes.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31,	2010	2009
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	$ 6,676,687	$ 6,746,912
Member educational conferences	2,693,940	2,319,907
Service fees	1,547,503	1,808,530
Products and services	359,143	317,270
Other	220,210	210,361
Advertising	199,165	231,044
Rental income	145,685	132,204
Investment income - Note C	76,438	125,073
	11,918,771	11,891,301
Net assets released from restriction	333,024	444,070
	12,251,795	12,335,371
Expense		
Program services:		
Membership educational conferences	2,014,832	2,038,686
Communications and publications	231,700	414,336
Officials and committees	175,395	97,019
Legislative, regulatory and compliance	97,755	135,827
Membership	58,726	42,311
Products and services	56,588	52,131
	2,634,996	2,780,310
Supporting services - Note E		
Administration and overhead	8,796,104	8,738,334
Building and occupancy	649,796	615,401
Total supporting services expense	9,445,900	9,353,735
Total expense	12,080,896	12,134,045
Change in unrestricted net assets	170,899	201,326

Years Ended December 31,	2010	2009
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	490,565	475,551
Interest income - Note C	7,186	3,731
Net assets released from restriction	(333,024)	(444,070)
Change in temporarily restricted net assets	164,727	35,212
Changes in net assets	335,626	236,538
Net assets, beginning of year	9,051,615	8,815,077
Net assets, end of year	$ 9,387,241	$ 9,051,615

See notes to the consolidated financial statements.
Certain 2009 amounts have been reclassified for comparative purposes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 335,626	$ 236,538
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	372,680	342,298
Net loss on investments	7,138	9,161
Equipment acquired under capital lease	-	(180,092)
Changes in assets and liabilities:		
Accounts receivable	(87,273)	89,928
Prepaid expenses and other assets	(40,940)	(90,705)
Deferred compensation investments - Note J	(246,215)	(163,888)
Accounts payable and accrued expenses	177,841	102,139
Deferred revenue	(82,365)	777,952
Deferred compensation liability - Notes F & J	259,250	185,035
Total adjustments	360,116	1,071,828
Net cash provided by operating activities	695,742	1,308,366

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of investments	**17,412**	(711,107)
Net purchases of property and equipment	**(469,989)**	(310,252)
Net cash used in investing activities	**(452,577)**	(1,021,359)
Net increase in cash and cash equivalents	**243,165**	287,007
Cash and cash equivalents, beginning of year	**1,242,950**	955,943
Cash and cash equivalents, end of year	**$ 1,486,115**	$ 1,242,950
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for income taxes	**$ 12,320**	17,694
Schedule of non-cash investing & financing transactions:		
Equipment acquired under capital lease	**-**	(180,092)
Obligation assumed under capital lease	**-**	$ 180,092
	$ -	$ -

See notes to the consolidated financial statements.
Certain 2009 amounts have been reclassified for comparative purposes.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other fee sources have been developed as a result of marketing agreements between the service corporation 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 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.

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 U.S. 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. The Organization has established an allowance for various invoices it believes may be uncollectable. 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 4, 2011.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Credit risk: The Organization maintains demand deposits 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 professionally managed mutual funds. 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. Investments consist of the following as of December 31:

	2010	2009
Money market funds	$ 3,823,513	$ 3,482,659
Certificates of deposit	2,015,203	2,421,814
U.S. agency and government obligations	2,653,299	2,318,631
Corporate obigations	859,715	1,153,176
	$ 9,351,730	$ 9,376,280

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

	2010	2009
Interest and dividends	$ 90,762	$ 137,965
Net loss on investment	(7,138)	(9,161)
	$ 83,624	$ 247,964

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of $522,862 and $358,135 for the NAFCU/PAC Administration fund as of December 31, 2010 and 2009, 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, 2010 and 2009:

	2010	2009
Employee compensation and benefits	$ 6,977,103	$ 6,985,810
Building operations	649,796	615,401
Depreciation	166,281	142,762
Professional services	387,394	301,077
Other	1,265,326	1,308,685
	$ 9,445,900	$ 9,353,735

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 $723,783 and $464.533 at December 31, 2010 and 2009, 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 2010 and 2009 were $349,456 and $345,956, respectively.

G. CAPITAL LEASE OBLIGATIONS

During 2009, the Organization 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 is being amortized over the life of the lease. The leased equipment has a cost basis of $180,092. Future minimum lease payments to be made during 2011 and the present value of payments as of December 31, 2010 are as follows:

Future minimum lease payments	$ 61,600
Less amount representing interest	(662)
Principal balance - December 31, 2010	$ 60,938

The liability under the lease was $60,938 and $120,670 as of December 31, 2010 and 2009, respectively. For both years the lease liability is included within accounts payable and accrued expenses on the accompanying statement of financial position.

H. 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,	Amount
2010	$ 128,000
2011	93,000
2012	56,000
2013	59,000
2014	62,000
	$ 398,000

I. INCOME TAXES

NSC has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2015. As of December 31, 2010, total unused charitable contributions approximated $65,000. 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 $23,680 and $13,557 as of December 31, 2010 and 2009, respectively.

The Organization has adopted the accounting standards topic related to uncertain income tax positions. These standards require that realization of an uncertain income tax position must be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Furthermore, these standards prescribe the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. There was no impact on the Organization's financial statements from its adoption of the standards.

The Organization believes it is no longer subject to U.S. Federal, state, and local income tax examinations by taxing authorities for years before 2007.

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.

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:

2010	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 9,376,280	3,482,659	5,893,621	-
Fixed income securities	5,528,217	-	5,528,217	-
Deferred compensation investments (mutual funds)	530,498	530,498	-	-

2009	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 3,482,659	3,482,659	-	-
Fixed income securities	5,893,621	-	5,893,621	-
Deferred compensation investments (mutual funds)	284,283	284,283	-	-

NAFCU Board of Directors




NAFCU

National Association of Federal Credit Unions
3138 10th Street North, Arlington, VA 22201
800-336-4644 | 703-522-4770
Fax: 703-524-1082
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