BUILDING A STRONG FUTURE TOGETHER

ANNUAL REPORT 2011

NAFCU | National Association of Federal Credit Unions

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

NAFCU CHAIR AND PRESIDENT'S REPORT

To ensure a strong future for credit unions, true leadership is required to navigate the continued currents of change.

With so much confronting credit unions today — a see-sawing economic recovery, tough legislative hurdles, an onslaught of new regulations and increased bottom-line pressures — NAFCU continues to demonstrate that leadership comes not during moments of calm but, rather, in times of great challenge.

Whether championing vital, industry-related causes during congressional hearings, communicating frequently with regulatory agencies — in letters and in person — to ensure the industry's concerns are being heard, or helping to raise public awareness about credit unions in the national media, NAFCU remains the industry's leader in advocacy efforts on behalf of the credit union industry.

In addition, we are packing more into our educational offerings and regulatory compliance resources than ever before. In response, credit unions are attending NAFCU's conferences and events in record numbers.



MEETING MEMBERS' TOP DEMANDS

The burden of regulatory compliance continues to be the top challenge for credit unions. To ensure NAFCU members have the very best compliance assistance, we recently enhanced our well-regarded regulatory compliance team by adding a third compliance attorney.

NAFCU's expert compliance staff speaks at NAFCU events and posts entries to the association's popular *Compliance Blog*, which now boasts more than 3,700 subscribers. In 2011 alone, NAFCU sent NCUA, the Federal Reserve and other agencies more than 80 comment letters.

To help credit unions comply with NCUA's financial literacy requirements for credit union board and committee members, we created training sessions for the Annual and Board of Directors and Supervisory Committee conferences. In 2012, the association continued to provide webcasts and training to help credit unions meet fiduciary duty requirements.

Those who completed the training, attended the conference sessions or viewed the webcasts were presented with a Financial Literacy Certificate. The association handed out more than 1,800 certificates in 2011. Those who attended specially designed courses at NAFCU's Annual and Board of Directors and Supervisory Committee conference received Supervisory Committee Training Certificates.

ADVANCING VITAL CREDIT UNION ISSUES

NAFCU witnesses appeared before lawmakers to testify in 2011 on a variety of critical issues affecting credit unions, including legislative proposals to improve data security standards, housing finance reform, supplemental capital and issues related to the Consumer Financial Protection Bureau. NAFCU President and CEO Fred Becker, in a joint House subcommittee hearing, pressed for a number of provisions that would relieve credit unions' regulatory burden. These include allowing credit unions of all charter types to serve underserved areas, decreasing the regulatory burdens imposed by the Dodd-Frank Act and modernizing credit union capital standards.

A number of lawmakers who spoke before NAFCU's 2011 Congressional Caucus noted their support for the credit union industry and issues of importance to it. The event drew legislative luminaries such as Rep. Debbie Wasserman Schultz, R-Fla., chair of the Democratic National Committee, and Sen. Jon Tester, D-Mont., who introduced legislation to delay the Fed's debit interchange rule.

PROMOTING MEMBER BUSINESS LENDING

Expanding credit unions' authority to make member business loans remains a top priority for NAFCU. In 2011, the association built broad, bipartisan support for the Small Business Lending Enhancement Act, introduced as H.R. 1418 and S. 509, which would raise the member business lending cap from 12.25 percent of total assets to 27.5 percent. NAFCU Chair Michael Lussier, president and CEO of Webster First FCU in Worcester, Mass., Corning FCU President and CEO Gary Grinnell and NAFCU President and CEO Fred Becker testified before the House and Senate in separate hearings about the issue during the year.

In 2012, the bill was reintroduced in the Senate by Sen. Mark Udall, D-Colo., as S. 2231. NAFCU continues to tout the importance of the legislation and build further support ahead of a planned vote by the full Senate.

CHAMPIONING THE CREDIT UNION TAX EXEMPTION

On Capitol Hill, lawmakers continue to lock horns over how to stoke a sluggish economy. In 2011, under a much-debated debt limit agreement, lawmakers formed the Joint Select Committee on Deficit Reduction to find $1.2 trillion in reductions over the next 10 years.

NAFCU worked to ensure the credit union tax exemption was not among the items targeted in that effort. And while the committee was unable to reach a decision on deficit spending, lawmakers did learn that removing the credit union tax exemption would not necessarily result in an equivalent level of new revenue. The association continues to make protecting the tax exemption a top priority.

ADVOCATING FOR CREDIT UNIONS TO THE CFPB

The Consumer Financial Protection Bureau (CFPB) opened its doors in July 2011, and NAFCU's government affairs team maintains close contact with the bureau's officials and senior staff. The CFPB has already released a host of proposals targeting credit card agreements, mortgage disclosures and its consumer complaint process. In November 2011, the NAFCU Board, accompanied by Becker and senior staff, met with Raj Date, special advisor to the Treasury secretary for the CFPB, to discuss issues of vital importance to the credit union industry.

In April 2012, nearly 600 credit union representatives signed up to participate in a NAFCU webcast featuring CFPB Director Richard Cordray, who talked about the CFPB's goals and its relationship with credit unions. The webcast was provided free to all credit unions — federal and state-chartered — regardless of membership in NAFCU. It will remain available as an on-demand webcast until April 2013.

STEMMING THE TIDE OF REGULATION

NAFCU, in every comment letter to NCUA, the administration and the CFPB, continues to emphasize the unprecedented regulatory burden credit unions face. The association has been successful in slowing the pace of regulatory issuances from the NCUA and delaying the implementation of several regulatory proposals.

IMPROVING THE REGULATORY EXAMINATION PROCESS

Ensuring that credit unions' regulatory examinations are fair and consistent remains a key focus of NAFCU. In February 2012, NAFCU Board Member Jeanne Kucey, president and CEO of JetStream FCU in Miami Lakes, Fla., testified on behalf of the association at a House subcommittee hearing on H.R. 3461, a bill that would streamline the regulatory examination process used by NCUA, the CFPB and other federal financial institution regulators. Not only would the bill make examinations more consistent, it would establish a path for institutions to make appeals.

PUSHING NCUA ON EXPENSES

NAFCU continues to keep a close eye on NCUA's budget. In 2011, the association pressed the agency to drive down costs in order to relieve financial pressure on credit unions. Specifically, NAFCU urged NCUA to seek every avenue for reducing costs to credit unions from corporate stabilization, pressing for legal action where possible. To that end, NCUA filed lawsuits against investment companies — and reached settlements with two of them — relating to the agency's claims that issuers misrepresented the risk associated with mortgage-backed securities sold to corporate credit unions that later failed.

SOUNDING OFF ON INTERCHANGE

NAFCU worked throughout 2011 to mitigate the impact of the Dodd-Frank Act's debit interchange fee-cap rule on credit unions. The Federal Reserve initially proposed a fee cap of 12 cents per transaction, but NAFCU stridently opposed the rule and fought diligently against such a low cap in congressional testimony and letters to President Obama, Treasury Secretary Tim Geithner and the central bank.

Some large banks said they would tack fees onto their checking accounts to make up for lost profits under this debit interchange rule, but that plan drew the ire

of consumers, triggered congressional complaints to the Justice Department about collusion and gave way to the Nov. 5 Bank Transfer Day. This historic event, driven largely by social media activism, encouraged consumers to move their money from Wall Street banks to member-owned credit unions in their hometowns. As a result, the credit union industry and NAFCU enjoyed increased, positive media attention.

DRIVING CREDIT UNION MEDIA COVERAGE

While banks were planning to increase fees, credit unions continued to do what they do best. They served their members and bucked financial industry trends of adding fees to debit cards. NAFCU's communications team took that news, plus results of our own Bank Transfer Day survey showing 54 percent of respondents gaining members and deposits, and delivered it directly to the media. The association managed to score coverage on *ABC World News* with Diane Sawyer, on CNN and in hundreds of other national and local outlets.

A number of media stories, facilitated by NAFCU, featured association members such as Chicago Patrolmen's FCU in Chicago, Ill., Mid-Atlantic FCU of Germantown, Md., and Arlington Community FCU of Arlington, Va. This widespread coverage helped to elevate public awareness of NAFCU and its member credit unions. It also drove visitors to CULookup.com, NAFCU's credit union locator website, which provides free branch listings for members. Visitor traffic increased more than 700 percent in 2011 over the previous year.

NAFCU SERVICES OFFERS MORE

NAFCU Services Corporation, the association's wholly owned subsidiary, also grew its Preferred Partner program in 2011. It welcomed, among others, Cathedral Corporation, which specializes in print and electronic financial communication materials, and Dovenmuehle Mortgage Inc., which offers mortgage subservicing solutions. More than 1 million calculations were made in 2011 by credit union members using the online financial calculators developed by NAFCU Services and available through CULookup.com. NAFCU members may upload the calculators to their own websites for free.

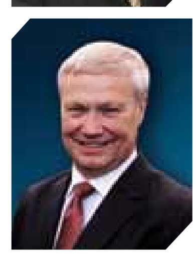
CONSTANTLY RAISING THE BAR

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. With 73 credit unions joining NAFCU in 2011 amid economic stagnation and the overall shrinking of the industry, NAFCU's membership growth speaks to the value the association brings.

And therein lies the key to building a strong future for credit unions — a commitment to not just quality, but to consistently raising the bar, year after year. That, and working together, because only by working together, can we build a stronger future for our 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.

Michael Lussier
NAFCU Board Chair



Fred Becker, Jr.
NAFCU President and CEO

NAFCU SERVICES CORPORATION CHAIR & PRESIDENT'S REPORT

With so many challenges to contend with, credit unions need a trusted source 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 2011 to help them achieve their most ambitious goals and objectives.

A number of new Preferred Partners were added in 2011, giving NAFCU members access to even more of the industry's finest solutions. These partners specialize in the areas of print and electronic financial communications, mortgage insurance and mortgage subservicing solutions. In addition, NAFCU Services Corporation also expanded Burns-Fazzi, Brock's Preferred Partner solution category to include long-term care insurance for credit unions as well as expanded Allied Solutions' Preferred Partner solution category to include auto loan sourcing from MoneyAisle.com.

All of these new solutions 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.

In addition, CULookup.com's award-winning financial calculators crossed a major milestone in 2011, serving up more than 1.65 million calculations to nearly a quarter of a million consumers either directly or via credit union websites. This achievement underscores the value that CULookup.com calculators provide credit unions, their members and prospective members. The calculators, which NAFCU members may use on their own websites for free, cover five broad categories, including home/mortgage, savings, credit, retirement and auto finance. 2011 also marked the launch of the *NAFCU Services Blog*. Blog posts feature educational content of interest to credit union executives and staff, as well as interviews with opinion leaders and industry experts from the Preferred Partner network.

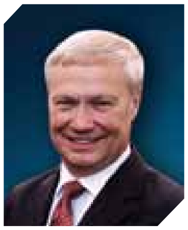
NAFCU Services Corporation also updated the range of free video advertisements to comply with NCUA's new rules on advertising. The videos, which can be customized and used on local television, online and in other venues, all bear the required NCUA insured logo. All of the ads as well as examples of customized ads can be viewed at www.nafcu.org/video-ads.

Building on our reputation as a trusted resource for credit unions, NAFCU Services Corporation added a number of new free webcasts, podcasts, webinars and whitepapers by NAFCU Services Preferred Partner industry experts last year. All NAFCU Services Corporation free educational content can be viewed at www.nafcu.org/PartnerLibrary.

With the addition of new Preferred Partners and the continued and growing success of existing partners, 2011 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 2012, we are more confident than ever that our group of 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

To ensure NAFCU remains a vibrant organization with a bright future, sustained financial growth and stewardship is required. That is why I am particularly pleased with NAFCU's membership growth last year.

I am also happy to report that the association marked its 23rd consecutive year of sustained financial stability and growth, while simultaneously adding new member services.

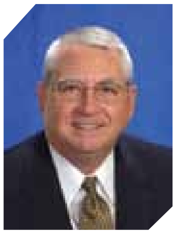
There is a direct correlation between NAFCU's sound financial standing and the association's singular focus on its membership. In 2011, NAFCU's equity increased by $595,378, while its assets grew by $1,305,721 — gains that enabled the association to add a range of new educational tools and support services. 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. And because NAFCU continues to offer unparalleled 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.

Thank you 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, 2011 and 2010, 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, 2011 and 2010, 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 8, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,	2011	2010
ASSETS		
Cash and cash equivalents - Note B	**$ 3,792,350**	$ 1,486,115
Accounts receivable - net of allowance for doubtful accounts (2011 – $0; 2010 – $62,500)	**254,945**	247,214
Prepaid expenses and other assets	**488,496**	406,897
Investments - Notes B, C, & J	**8,327,216**	9,351,730
Deferred compensation investments - Note J	**622,679**	530,498
Property and equipment, at cost		
Land	**1,309,226**	1,309,226
Building and improvements	**5,739,551**	5,611,064
Furniture and equipment	**2,312,244**	2,098,079
	9,361,021	9,018,369
Less accumulated depreciation and amortization	**(5,360,803)**	(4,860,640)
	4,000,218	4,157,729
Total assets	**$ 17,485,904**	$ 16,180,183
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses - Note G	**$ 938,485**	$ 1,047,524
Deferred revenue	**5,711,952**	5,008,413
Tenant deposits	**13,222**	13,222
Deferred compensation liability - Note F	**839,626**	723,783
Total liabilities	**7,503,285**	6,792,942
Net assets		
Unrestricted	**9,282,985**	8,864,379
Temporarily restricted - Note D	**699,634**	522,862
Total net assets	**9,982,619**	9,387,241
Commitments and contingencies - Note H		
Total liabilities and net assets	**$ 17,485,904**	$ 16,180,183

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31,	2011	2010
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue		
Membership dues	**$ 6,878,095**	$ 6,676,687
Member educational conferences	**3,171,355**	2,692,591
Service fees	**1,657,608**	1,547,503
Products and services	**431,796**	349,371
Advertising	**207,807**	220,210
Other	**212,983**	199,165
Rental income	**145,948**	145,685
Investment income - Note C	**74,076**	76,438
	12,779,668	11,907,650
Net assets released from restriction	**345,417**	333,024
	13,125,085	12,240,674
Expense		
Program services:		
Membership educational conferences	**2,273,291**	1,987,778
Communications and publications	**258,960**	243,248
Officials and committees	**165,232**	203,034
Legislative and regulatory	**99,576**	86,480
Membership	**45,818**	58,726
Products and services	**67,805**	44,156
	2,910,682	2,623,422
Supporting services - Note E		
Administration and overhead	**9,091,807**	8,796,557
Building and occupancy	**703,990**	649,796
Total supporting services expense	**9,795,797**	9,446,353
Total expense	**12,706,479**	12,069,775
Change in unrestricted net assets	**418,606**	170,899
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**517,721**	90,565
Interest income - Note C	**4,468**	7,186
Net assets released from restriction	**(345,417)**	(333,024)
Change in temporarily restricted net assets	**176,772**	164,727
Change in net assets	**595,378**	335,626
Net assets, beginning of year	**9,387,241**	9,051,615
Net assets, end of year	**$ 9,982,619**	$ 9,387,241

Certain 2010 amounts have been reclassified for comparative purposes.
See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 595,378**	$ 335,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**500,162**	372,680
Net (gain) loss on investments	**(1,306)**	7,138
Changes in assets and liabilities:		
Accounts receivable	**(7,731)**	(87,273)
Prepaid expenses and other assets	**(81,599)**	(40,940)
Deferred compensation investments	**(92,181)**	(246,215)
Accounts payable and accrued expenses	**(48,101)**	237,573
Deferred revenue	**703,539**	(82,365)
Deferred compensation liability	**115,843**	259,250
Total adjustments	**1,088,626**	419,848
Net cash provided by operating activities	**1,684,004**	755,474
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of investments	**1,025,820**	17,412
Net purchases of property and equipment	**(342,651)**	(469,989)
Net cash provided by (used in) investing activities	**683,169**	(452,577)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments made on capital lease obligation	**(60,938)**	(59,732)
Net cash used in financing activities	**(60,938)**	(59,732)
Net increase in cash and cash equivalents	**2,306,235**	243,165
Cash and cash equivalents, beginning of year	**1,486,115**	1,242,950
Cash and cash equivalents, end of year	**$ 3,792,350**	$ 1,486,115
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for income taxes	**$ -**	$ 12,320

Certain 2010 amounts have been reclassified for comparative purposes.
See notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A trust agreement was drawn by NSC on September 25, 1975 (amended March 2, 1977) to provide for the establishment of individual trusts by credit unions in the United States and its possessions, with such credit unions being the grantors and Union Bank being the Trustee. This plan of Common Trust 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.

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 from the publication of the Association's magazine and other income earned from NSC are subject to unrelated business income taxes.

The PAC is a separate segregated fund as defined under Section 527(f)(3) of the Internal Revenue Code. As such, the PAC is subject to income taxes on the lesser of its exempt activity expenditures or investment income.

The Foundation is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Foundation has been classified as other than a private foundation by the Internal Revenue Service.

NSC is a taxable corporation. As such, it pays Federal and State income taxes on its net taxable income.

Principles of consolidation: The consolidated financial statements include the accounts of the Association, NSC, the Foundation, and the PAC. Significant 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 equities, unrestricted money market funds, commercial paper, corporate bonds, US agency and treasury obligations, and certificates of deposit to be other than cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounts receivable: Accounts receivable consist primarily of amounts owed from NSC Preferred Partners as a result of royalty/marketing agreements. Accounts receivable are presented at the gross, or face, amount due to the Organization. The Organization's management periodically reviews the status of all accounts receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. The Organization has established an allowance for various invoices it believes may be uncollectable.

Property and equipment: Acquisitions of property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the following useful lives of the various classes of assets:

Building and improvements	5 - 29 years
Furniture and equipment	3 - 7 years

Deferred revenue: Deferred revenue principally consists of membership dues, subscriptions, and conference/seminar payments received in advance. Membership dues and subscriptions are recognized as revenue over the duration of the related membership or subscription. Conference and seminar registration fees are recognized as revenue once the related meeting has taken place.

Net assets: For financial statement purposes, net assets are as follows:

Unrestricted: Unrestricted net assets are available for general operations.

Temporarily restricted: Temporarily restricted net assets represent the portion of net assets that have been restricted by donors (see Note D).

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. Donor-restricted support is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires.

Functional reporting of expenses: The Organization reports the direct costs of operating its programs as "program services" expense on the statement of activities. All salaries, occupancy, and administrative costs are reported as supporting services on the statement of activities.

Subsequent events: Subsequent events have been evaluated through March 8, 2012, which is the date the financial statements were available to be issued.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Credit risk: The Organization maintains demand deposits with federal credit unions and banks, and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization also invests funds in 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 and consisted of the following as of December 31:

	2011	2010
Money market funds	**$ 6,482,306**	$ 3,823,513
Certificates of deposit	**-**	2,015,203
U.S. & Agency obligations	**585,580**	2,653,299
Fixed income mutual funds	**500,826**	-
Corporate obligations	**202,466**	859,715
Foreign obligations	**141,133**	-
Equity mutual funds	**414,905**	-
	$ 8,327,216	$ 9,351,730

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

	2011	2010
Interest and dividends	**$ 77,238**	$ 90,762
Net gain (loss) on investment	**1,306**	(7,138)
	$ 78,544	$ 83,624

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of $699,634 and $522,862 for the NAFCU PAC Administration fund as of December 31, 2011 and 2010, 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, 2011 and 2010:

	2011	2010
Employee compensation and benefits	**$ 7,149,745**	$ 6,977,103
Building operations	**703,990**	649,796
Depreciation	**285,367**	166,281
Professional services	**382,642**	387,394
Other	**1,274,053**	1,265,779
	$ 9,795,797	$ 9,446,353

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 $839,626 and $723,783 at December 31, 2011 and 2010, 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 2011 and 2010 were $245,137 and $349,456, respectively.

G. CAPITAL LEASE OBLIGATION

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. Under the terms of the lease, monthly payments were due to the lessor through December 31, 2011. The lease required the lessor to be responsible for the maintenance of the equipment through March 31, 2012. The Organization has extended the term of the service agreement through March 31, 2015. Payments under the extended service agreement are to commence on April 1, 2012 and end on March

31, 2015. The liability under the capital lease is included within accounts payable and accrued expenses on the accompanying statement of financial position and was $0 and $60,938 as of December 31, 2011 and 2010, respectively.

Future minimum payments under the service agreement are as follows:

Year Ending December 31,	Amount
2012	$ 71,136
2013	94,848
2014	94,848
2015	23,712
	$ 284,544

H. COMMITMENTS AND CONTINGENCIES

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

Year Ending December 31,	Amount
2012	$ 140,000
2013	148,000
2014	115,000
	$ 403,000

I. INCOME TAXES

NSC has unused charitable contribution deductions that may be used to offset future income tax liabilities through the year 2016. As of December 31, 2011, total unused charitable contributions approximated $62,000. 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 $29,388 and $23,680 as of December 31, 2011 and 2010, respectively.

The Organization believes that it has adequate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. At a minimum, the fiscal periods ending 2008 through 2011 remain open for examination by taxing authorities.

J. FAIR VALUE MEASUREMENTS

The Organization has implemented the accounting standards topic regarding fair value measurements. This standard establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 — Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 — Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data; and

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

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:

2011	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 6,482,306	$ 6,482,306	$ -	$ -
U.S. & Agency obligations	585,580	-	585,580	-
Fixed income mutual funds	500,826	500,826	-	-
Corporate obligations	202,466	-	202,466	-
Foreign obligations	141,133	-	141,133	-
Equity mutual funds	414,905	414,905	-	-
Deferred compensation investments (mutual funds)	622,679	622,679	-	-
	$ 8,949,895	**$ 8,020,716**	**$ 929,179**	**$ -**

2010	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 3,823,513	$ 3,823,513	$ -	$ -
Certificates of deposit	2,015,203	-	2,015,203	-
U.S. & Agency obligations	2,653,299	-	2,653,299	-
Corporate obligations	859,715	-	859,715	-
Deferred compensation investments (mutual funds)	530,498	530,498	-	-
	$ 9,882,228	**$ 4,354,011**	**$ 5,528,217**	**$ -**

Investments using Level 2 inputs are priced by the investment custodian using an outside data and pricing company that uses a market approach and spreads based on the credit risk of the issuer, maturity, current yield, trading frequency, and other terms and conditions of each security. Management believes the estimates to be a reasonable approximation of the fair value of the investments.

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