

NASCUS

Audit Report

July 15, 2005

August 11, 2005

To the Board of Directors
National Association of State Credit Union Supervisors
National Institute for State Credit Union Examination

In planning and performing our audit of the consolidating financial statements of National Association of State Credit Union Supervisors (NASCUS) and National Institute for State Credit Union Examination (NISCUE) for the year ended June 30, 2005, we considered the Organizations' internal controls to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we noted one item involving operational matters that is presented for your consideration. This letter does not affect our report dated July 15, 2005 on the consolidated financial statements of NASCUS and NISCUE. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Peachtree Accounting File Back Up Procedures

During the audit, we noted that the organization does not have a formal, written policy regarding when the Peachtree accounting file should be backed up and where a copy of these computer files should be kept. It is our recommendation that a backup of the Peachtree file be saved and kept off-site and rotated with a newer backup at least weekly. In the advent of data loss, this will help to insure that only a week's worth of information will need to be re-entered at the most. Backup disks should also be tested periodically to make sure that they are in working order.

We would like to commend all those at NASCUS who helped to establish the personnel and policy manuals. We are pleased to note that all the recommendations made in the prior year's letter to the Board have been accomplished.

We wish to thank Mary Martha Fortney for her support and assistance during our audit. This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and others in the organization.

Very truly yours,

MURRAY, JONSON, WHITE & ASSOCIATES, LTD., PC

Randolph Shapiro, CPA

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**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)**

AND

**NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**AUDITED CONSOLIDATING
FINANCIAL STATEMENTS
JUNE 30, 2005**

MURRAY, JONSON, WHITE & ASSOCIATES, LTD., PC
Certified Public Accountants
Falls Church, Virginia

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
AND
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
National Association of State Credit Union Supervisors
and National Institute for State Credit Union Examination**

We have audited the accompanying consolidating statement of financial position of National Association of State Credit Union Supervisors (NASCUS) and National Institute for State Credit Union Examination (NISCUE) as of June 30, 2005, and the related consolidating statements of activities and changes in net assets and cash flows, and the consolidated statement of functional expenses for the year then ended. These financial statements are the responsibility of NASCUS and NISCUE's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Association of State Credit Union Supervisors (NASCUS) and National Institute for State Credit Union Examination (NISCUE) as of June 30, 2005, and the changes in their net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Murray, Jonson, White & Associates, Ltd., P.C.
Certified Public Accountants

July 15, 2005

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**NATIONAL ASSOCIATION OF STATE CREDIT
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NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2005**

ASSETS				
	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,248,272	\$ 149,204	\$ -	\$ 1,397,476
Accounts receivable	6,866	1,100	(1,100)	6,866
Prepaid expenses	48,158	5,671	(5,671)	48,158
Prepaid pension cost	54,347	-	-	54,347
Intangible pension asset	<u>790</u>	<u>-</u>	<u>-</u>	<u>790</u>
TOTAL CURRENT ASSETS	<u>1,358,433</u>	<u>155,975</u>	<u>(6,771)</u>	<u>1,507,637</u>
FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS	35,737	-	-	35,737
OTHER ASSETS	<u>7,721</u>	<u>-</u>	<u>-</u>	<u>7,721</u>
TOTAL ASSETS	<u>\$ 1,401,891</u>	<u>\$ 155,975</u>	<u>\$ (6,771)</u>	<u>\$ 1,551,095</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 38,517	\$ -	\$ (1,100)	\$ 37,417
Additional pension liability	213,740	-	-	213,740
Deferred income				
Accreditation	84,200	-	-	84,200
Membership dues	519,977	-	-	519,977
Convention registrations and sponsors	59,938	-	-	59,938
Education	<u>16,367</u>	<u>556</u>	<u>(5,671)</u>	<u>11,252</u>
TOTAL CURRENT LIABILITIES	932,739	556	(6,771)	926,524
Deferred rent	<u>26,554</u>	<u>-</u>	<u>-</u>	<u>26,554</u>
TOTAL LIABILITIES	959,293	556	(6,771)	953,078
UNRESTRICTED NET ASSETS	<u>442,598</u>	<u>155,419</u>	<u>-</u>	<u>598,017</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,401,891</u>	<u>\$ 155,975</u>	<u>\$ (6,771)</u>	<u>\$ 1,551,095</u>

The accompanying notes to consolidating financial statements are an integral part of this statement.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
REVENUE				
Membership dues	\$ 1,084,738	\$ -	\$ -	\$ 1,084,738
Program support and contributions	48,725	95,927	-	144,652
NCUA contract	61,254	59,054	(61,254)	59,054
Accreditation	88,000	-	-	88,000
Convention	145,317	-	-	145,317
Education programs	182,842	-	(79,745)	103,097
Education management	14,532	-	(14,532)	-
Interest and dividends	16,162	1,081	-	17,243
Other	-	1,409	-	1,409
	<u>1,641,570</u>	<u>157,471</u>	<u>(155,531)</u>	<u>1,643,510</u>
TOTAL REVENUE				
EXPENSES				
Program services				
Accreditation	91,577	-	-	91,577
Communication	176,192	-	-	176,192
Convention	174,554	-	-	174,554
Education	212,422	79,745	(79,745)	212,422
NCUA education	72,758	61,254	(61,254)	72,758
Foundation	74,771	-	-	74,771
Government relations	179,476	-	-	179,476
Lobbying	15,726	-	-	15,726
Regulatory and research	120,420	-	-	120,420
	<u>1,117,896</u>	<u>140,999</u>	<u>(140,999)</u>	<u>1,117,896</u>
TOTAL PROGRAM SERVICES				
Supporting services				
Governance	217,245	-	-	217,245
General and administration	45,539	-	-	45,539
Membership development	113,941	-	-	113,941
NISCUE management	14,796	14,532	(14,532)	14,796
	<u>391,521</u>	<u>14,532</u>	<u>(14,532)</u>	<u>391,521</u>
TOTAL SUPPORTING SERVICES				
TOTAL EXPENSES				
	<u>1,509,417</u>	<u>155,531</u>	<u>(155,531)</u>	<u>1,509,417</u>

The accompanying notes to consolidating financial statements are an integral part of this statement.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005
(Continued)**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER COMPREHENSIVE INCOME/(LOSS)	132,153	1,940	-	134,093
OTHER COMPREHENSIVE INCOME/(LOSS)				
Minimum pension liability adjustment	(212,950)	-	-	(212,950)
Net assets - Beginning of year	<u>523,395</u>	<u>153,479</u>	<u>-</u>	<u>676,874</u>
NET ASSETS - END OF YEAR	\$ <u>442,598</u>	\$ <u>155,419</u>	\$ <u>-</u>	\$ <u>598,017</u>

The accompanying notes to consolidating financial statements are an integral part of this statement.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2005**

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2005**

	<u>Accredi- tation</u>	<u>Commu- nication</u>	<u>Con- vention</u>	<u>Edu- cation</u>	<u>NCUA Edu- cation</u>	<u>Foun- dation</u>
Salaries, Taxes, and Benefits	\$ 43,811	\$ 74,107	\$ 67,759	\$ 49,720	\$ 55,250	\$ 39,943
Convention	-	-	75,161	-	-	-
Occupancy	6,978	13,257	10,720	7,706	8,888	6,417
Outside Services	8,748	38,115	1,983	1,492	1,556	1,801
Travel and Lodging	24,290	4,556	1,452	7,396	-	20,922
Schools and Seminars	-	-	-	133,052	-	-
Postage, Printing, and Delivery	1,449	34,326	3,813	1,358	1,090	861
Supplies, Services, and Software	1,383	3,012	5,620	1,054	491	326
Audit and Accounting	1,476	2,557	3,417	1,983	1,742	1,479
Telephone	983	2,108	1,334	3,758	1,100	856
Legal and Insurance Expenses	417	783	658	461	758	597
Equipment Rental and Repair	1,055	1,975	1,497	1,125	1,291	919
Depreciation	423	766	676	437	544	409
Committees and Program Events	73	73	-	186	-	-
Promotional and Advertising	241	-	-	2,298	-	-
Taxes, Licenses, and Other	<u>250</u>	<u>557</u>	<u>464</u>	<u>396</u>	<u>48</u>	<u>241</u>
 TOTAL EXPENSES	 \$ <u>91,577</u>	 \$ <u>176,192</u>	 \$ <u>174,554</u>	 \$ <u>212,422</u>	 \$ <u>72,758</u>	 \$ <u>74,771</u>

The accompanying notes to consolidating financial statements are an integral part of this statement.

<u>Government Relations</u>	<u>Lobbying</u>	<u>Regulatory and Research Services</u>	<u>Governmentance</u>	<u>General and Administration</u>	<u>Membership Development</u>	<u>NISCUE Management</u>	<u>Total Expenses</u>
\$ 125,451	\$ 11,850	\$ 70,911	\$ 103,478	\$ 30,032	\$ 78,400	\$ 9,807	\$ 760,519
-	-	-	-	-	-	-	75,161
19,797	1,934	10,681	16,449	6,507	12,498	1,574	123,406
3,605	334	9,142	5,619	846	2,263	253	75,757
10,719	59	17,222	58,938	1,225	2,853	1,620	151,252
-	-	-	-	-	-	-	133,052
2,472	225	1,910	3,396	1,361	1,662	111	54,034
1,425	140	1,106	1,706	329	2,122	92	18,806
4,328	359	2,273	3,729	1,287	2,676	311	27,617
4,020	238	2,102	3,398	691	1,536	263	22,387
1,470	114	924	3,764	304	749	95	11,094
2,893	299	1,567	2,409	760	1,836	276	17,902
1,182	123	639	984	310	766	96	7,355
208	-	241	10,778	-	308	186	12,053
-	-	-	2,001	584	5,825	-	10,949
<u>1,906</u>	<u>51</u>	<u>1,702</u>	<u>596</u>	<u>1,303</u>	<u>447</u>	<u>112</u>	<u>8,073</u>
\$ <u>179,476</u>	\$ <u>15,726</u>	\$ <u>120,420</u>	\$ <u>217,245</u>	\$ <u>45,539</u>	\$ <u>113,941</u>	\$ <u>14,796</u>	\$ <u>1,509,417</u>

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
OPERATING ACTIVITIES				
Change in net assets	\$ 132,153	\$ 1,940	\$ -	\$ 134,093
Other comprehensive income/(loss)	(212,950)	-	-	(212,950)
Adjustments to reconcile change in unrestricted net assets to net cash (used) provided by operating activities				
Depreciation	7,355	-	-	7,355
Changes in operating assets and liabilities				
(Increase)/decrease in accounts receivable	9,689	(1,100)	1,100	9,689
(Increase) decrease in prepaid expenses	(10,677)	(5,671)	5,671	(10,677)
(Increase) in prepaid pension costs	(5,982)	-	-	(5,982)
(Increase) in intangible pension asset	(790)	-	-	(790)
Increase (decrease) in accounts payable and accrued expenses	5,296	-	(1,100)	4,196
Increase in additional pension liability	213,740	-	-	213,740
Increase in deferred rent	9,640	-	-	9,640
Increase in deferred income:				
Accreditation	14,000	-	-	14,000
Membership dues	20,614	-	-	20,614
Convention registrations and sponsors	16,546	-	-	16,546
Education	<u>2,986</u>	<u>556</u>	<u>(5,671)</u>	<u>(2,129)</u>
 NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	 <u>201,620</u>	 <u>(4,275)</u>	 <u>-</u>	 <u>197,345</u>
INVESTING ACTIVITIES				
Purchases of furniture, equipment, and leasehold improvements	<u>(23,814)</u>	<u>-</u>	<u>-</u>	<u>(23,814)</u>
 NET CASH USED BY INVESTING ACTIVITIES	 <u>(23,814)</u>	 <u>-</u>	 <u>-</u>	 <u>(23,814)</u>
 Net increase (decrease) in cash and cash equivalents	 177,806	 (4,275)	 -	 173,531
Cash and cash equivalents - Beginning of year	<u>1,070,466</u>	<u>153,479</u>	<u>-</u>	<u>1,223,945</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 \$ <u>1,248,272</u>	 \$ <u>149,204</u>	 \$ <u>-</u>	 \$ <u>1,397,476</u>

The accompanying notes to consolidating financial statements are an integral part of this statement.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The National Association of State Credit Union Supervisors (NASCUS) was organized under the laws of the District of Columbia on October 6, 1975 for the purpose of improving the supervision of credit unions and to facilitate the administration of laws governing these institutions.

The National Institute for State Credit Union Examination (NISCUE) was organized under the laws of the District of Columbia on June 9, 1982 as an educational foundation to conduct and sponsor educational programs concerning credit unions and related topics in cooperation with NASCUS.

The following is a summary of significant accounting policies followed in the preparation of these financial statements:

- (a). Basis of Presentation - The financial statements of NASCUS and NISCUE are presented on a separated and consolidated basis since the organizations are under common control. The trustees who serve as the board of NISCUE are appointed annually by NASCUS, and these trustees may be removed upon consent of a majority of the Board of Directors of NASCUS.

NASCUS and NISCUE account for contributions as unrestricted, temporarily restricted, or permanently restricted based upon restrictions imposed by the donor. When donor restrictions expire, either through the passage of time or accomplishment of the purpose for which the restriction was imposed, the net assets are reclassified to unrestricted. For the fiscal year ending June 30, 2005 all assets were considered unrestricted.

- (b). Principles of Consolidation - The consolidating financial statements include all accounts of NASCUS and NISCUE. All significant intercompany accounts and transactions are eliminated in consolidation.
- (c). Cash and Cash Equivalents - Cash and cash equivalents consist of demand deposits and money market accounts held in a brokerage firm and a bank. NASCUS and NISCUE maintain cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk to the entities.
- (d). Membership Dues - Members of NASCUS are financial regulators and credit unions. Dues of the regulators are based on assets of the credit unions they supervise. Dues paid by credit unions are based upon the assets of the credit unions as reflected on their most recent financial statements. All dues are paid in advance on an annual basis. Revenue from membership dues is deferred and recognized ratably over the membership period.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)**

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: Continued

- (e). Program Support and Contributions - Credit Union Leagues and other entities provide program support to NASCUS. Revenues from program support are recognized when received.

Certification fees included in education programs revenue are deferred and recognized as revenue over a twelve month period.

On-Line University fees included in education programs revenue are deferred and recognized as revenue over a twelve month period.

Fees for educational programs are recognized at the time they are earned.

Contributions designated to support the annual NASCUS Regulators' School are recognized in the year in which the funds are received.
- (f). Furniture, Equipment, and Leasehold Improvements - Furniture and equipment are recorded at original cost and are depreciated over the estimated useful lives of three to seven years using the straight-line method. Leasehold improvements are depreciated over the life of the lease.
- (g). Income Taxes - NASCUS qualifies as a tax-exempt organization under Section 501(c)(6) of the Internal Revenue Code. NISCUE qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.
- (h). Functional Expense Allocations - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidating statement of activities and in the consolidated statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly according to their natural expenditure classification. Certain costs common to several functions have been allocated among the various programs benefited. General and administration costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization.
- (i). Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)**

NOTE 2 - FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

At June 30, 2005, furniture, equipment, and leasehold improvements owned by NASCUS cost \$66,537 and accumulated depreciation on the assets amounted to \$30,800.

NOTE 3 - PENSION PLANS

NASCUS participates in two group pension plans with the Credit Union National Association, Inc. (CUNA) and CUNA Mutual Group's Credit Union Benefits Service (CUBS).

On January 1, 1994, NASCUS adopted the CUBS Individual Account Master and Capital Accumulation Plan which is a pre-tax Internal Revenue Code Section 401(k) plan. Employees are eligible to participate in the plan immediately upon date of hire. The employer matches 100% of employee contributions to the plan, limited to IRS contribution limits. Employees who participate in the plan contribute three percent of before tax wages, plus voluntary contributions not to exceed ten percent of compensation. The plan provides for immediate vesting in the employer's contribution. During the year ended June 30, 2005, NASCUS contributed \$50,000 to the plan. For the year ending June 30, 2006, NASCUS expects to contribute \$52,000 to the plan.

On January 1, 1994, NASCUS also entered the CUBS Retirement Defined Benefit Pension Plan. The plan covers employees over the age of twenty years and six months who have completed six months of service. Plan benefits vest after three years of service with the Organization. The benefits are based on years of service of employees and employees' average annual salary during the final five years. The funding policy is to contribute the annual suggested amount determined for ERISA purposes.

The investment goal is to minimize contributions as a percentage of payroll by providing a total return over a five-year period equal to the actuarially assumed target at the lowest possible portfolio risk level. The Association's defined benefit plan invests in both equity and debt securities. Target asset allocation is determined by the Plan board of trustees who oversee the retirement pension plan investment entity. This allocation was recently reviewed in January 2005. Asset allocation is targeted at 60% stock and 40% fixed income. The Plan's investment policy states that the portfolio is to be invested as follows: 45% in equity securities, 15% in absolute return strategies, 5% in a real assets fund, and 35% in an aggregate bond index fund. The equity securities are to consist of 10% in the S&P 500 index fund, 5% in S&P/BARRA value tilt fund, 7% in a small-cap fund, 5% in a REIT index fund, 6% in an EAFE index fund, 6% in international small-cap stocks, and 6% in international emerging market stocks.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)**

NOTE 3 - PENSION PLANS: Continued

The following table sets forth the plan's funded status:

Actuarial present value of benefit obligations	\$ 791,903
Benefit obligation at June 30, 2005	\$ 514,583
Fair value of plan assets at June 30, 2005	<u>514,583</u>
FUNDED STATUS	\$ <u>(277,320)</u>
Accumulated benefit obligation	\$ <u>673,976</u>
Prepaid pension cost	\$ <u>54,347</u>
Pension expense	\$ <u>44,018</u>
Employer contributions	\$ <u>50,000</u>

The actuarial calculation related to the plan shows a prepaid expense of \$54,347, and an additional pension liability of \$213,740, to arrive at a net liability of \$159,393. The balances are shown as a current asset and current liability, respectively, in the accompanying consolidating statement of financial position. The additional liability is recalculated and adjusted each year as necessary.

The prepaid pension cost comprised of the following:

Excess of the benefit obligation over the value of plan assets	\$ (277,320)
Unrecognized net actuarial loss	330,877
Unrecognized prior service cost	<u>790</u>
Prepaid pension cost	\$ <u>54,347</u>

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)**

NOTE 3 - PENSION PLANS: Continued

At June 30, 2005, an additional liability was determined by the following:

Accumulated benefit obligation at June 30, 2005	\$ 673,976
Fair value of plan assets at June 30, 2005	<u>514,583</u>
Minimum liability	159,393
Prepaid pension cost	<u>54,347</u>
Additional pension liability	\$ <u>213,740</u>

For the year ended June 30, 2005, the net amounts recognized in the balance sheet were classified as follows:

Accrued/(prepaid) benefit cost	\$ (54,347)
Intangible Asset	790
Accumulated other comprehensive (income)/loss	<u>212,950</u>
Net amount recognized	\$ <u>159,393</u>

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were as follows:

Discount rate on the benefit obligation	6.50%
Rate of expected return on plan assets	7.50%
Rate of employee compensation increase	4.50%

The expected long-term rate of return is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

**NATIONAL ASSOCIATION OF STATE CREDIT
UNION SUPERVISORS (NASCUS)
and
NATIONAL INSTITUTE FOR STATE CREDIT
UNION EXAMINATION (NISCUE)**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)**

NOTE 3 - PENSION PLANS: Continued

Pension expense for the year ended June 30, 2005 amounted to \$44,018, and is comprised of the following:

Service Cost	\$ 30,977
Interest Cost	36,813
Expected return on plan assets	(34,225)
Amortization of the transition liability	122
Amortization of other losses	<u>10,331</u>
Pension expense	\$ <u>44,018</u>

NASCUS expects to pay the following benefits over the next five years and thereafter:

For period beginning:	
7/1/2005	\$ 37,588
7/1/2006	37,011
7/1/2007	37,011
7/1/2008	37,011
7/1/2009	37,011
Five years thereafter	958,667

NOTE 4 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2005, NASCUS incurred costs for the benefit of, and were reimbursed by, NISCUE. These costs were primarily for the services of NASCUS employees who allocated all or a portion of their time to the educational activities of NISCUE, for reimbursement of allocated overhead, and for purchases made by NASCUS for the benefit of NISCUE. These NISCUE reimbursements were eliminated in the accompanying financial statements. These costs were as follows:

<u>Description of Cost</u>	<u>Amount</u>
NCUA program management	\$ 61,254
Salaries, taxes, benefits, and overhead	14,532
Schools and seminars, grants	<u>79,745</u>
TOTAL	\$ <u>155,531</u>

**NATIONAL ASSOCIATION OF STATE CREDIT
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**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)**

NOTE 4 - RELATED PARTY TRANSACTIONS: Continued

At June 30, 2005, NISCUE prepaid \$5,671 to NASCUS for these services. In addition, donations deposited by NASCUS on behalf of NISCUE in the amount of \$1,100 were due from NASCUS to NISCUE.

NOTE 5 - LEASES

In March 1999, NASCUS and NISCUE entered into an operating lease for 3,038 square feet of office space in Arlington, Virginia. The lease was amended on July 2, 2002 and February 14, 2003 to add additional square footage. The term of the amended lease is for ten years ending May 31, 2013. The lease includes escalation clauses of 2.75% per year. NASCUS and NISCUE also pay their share of any increases in operating expenses and real property taxes.

Rental expense for office space including real estate taxes, utilities, and common area charges amounted to \$116,292 for the year ended June 30, 2005. In addition, NASCUS paid \$777 for records storage.

NASCUS, as lessee, had two operating leases for office equipment during the year ended June 30, 2005. Rent expense for the equipment amounted to \$17,499. The three leases expire through 2009.

Future minimum payments under the above leases as of June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>	<u>Office</u>	<u>Total</u>
2006	\$ 9,250	\$ 101,062	\$ 110,312
2007	7,700	103,842	111,542
2008	7,700	106,697	114,397
2009	7,100	109,631	116,731
2010	-	112,646	112,646
Thereafter	<u>-</u>	<u>346,431</u>	<u>346,431</u>
	<u>\$ 31,750</u>	<u>\$ 880,309</u>	<u>\$ 912,059</u>

NOTE 6 - CONTRACT

On September 1, 1990, NISCUE was awarded a contract with the National Credit Union Administration (NCUA) to provide personnel and other services to educate state credit union examiners. The contract continues until revoked by either party and provides for payments which were \$59,054 for the year ended June 30, 2005. At June 30, 2005, NCUA had prepaid \$556 under the contract.

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**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
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NOTE 7 - COMMITMENTS

NASCUS has contractual obligations for hotel space to hold the 2005 and 2006 annual conferences. The contracts specify that, if cancelled, NASCUS may be subject to substantial cancellation penalties based on the amount of time remaining before the reservation dates.

NASCUS has an employment contract with the president/chief executive officer. This contract provides for a liability of the year's base pay and continuation of fringe benefits if the officer is terminated without cause before April 1, 2007. This contingent liability is not reflected in the accompanying financial statements.