

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

**AND**

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

**AUDITED CONSOLIDATING  
FINANCIAL STATEMENTS  
JUNE 30, 2004**

**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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MURRAY / JONSON / WHITE & ASSOCIATES, LTD P C  
Certified Public Accountants

## 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, 2004, 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, 2004, 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 16, 2004

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2004**

**ASSETS**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$1,070,466	\$153,479	\$ -	\$1,223,945
Accounts receivable	16,555	-	-	16,555
Prepaid expenses	37,481	-	-	37,481
Prepaid pension cost	<u>48,365</u>	<u>-</u>	<u>-</u>	<u>48,365</u>
TOTAL CURRENT ASSETS	<u>1,172,867</u>	<u>153,479</u>	<u>-</u>	<u>1,326,346</u>
FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS	19,278	-	-	19,278
OTHER ASSETS	<u>7,721</u>	<u>-</u>	<u>-</u>	<u>7,721</u>
TOTAL ASSETS	<u>\$1,199,866</u>	<u>\$153,479</u>	<u>\$ -</u>	<u>\$1,353,345</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 33,221	\$ -	\$ -	\$ 33,221
Deferred income				
Accreditation	70,200	-	-	70,200
Membership dues	499,363	-	-	499,363
Convention registrations and sponsors	43,392	-	-	43,392
Education	<u>13,381</u>	<u>-</u>	<u>-</u>	<u>13,381</u>
TOTAL CURRENT LIABILITIES	659,557	-	-	659,557
Deferred rent	<u>16,914</u>	<u>-</u>	<u>-</u>	<u>16,914</u>
TOTAL LIABILITIES	676,471	-	-	676,471
UNRESTRICTED NET ASSETS	<u>523,395</u>	<u>153,479</u>	<u>-</u>	<u>676,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,199,866</u>	<u>\$153,479</u>	<u>-</u>	<u>\$1,353,345</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, 2004**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
<b>REVENUE</b>				
Membership dues	\$1,001,643	\$ -	\$ -	\$1,001,643
Program support and contributions	61,225	81,902	-	143,127
NCUA contract	73,130	66,303	(73,130)	66,303
Accreditation	63,000	-	-	63,000
Convention	174,575	-	-	174,575
Education programs	103,793	-	(40,955)	62,838
Education management	17,233	-	(17,233)	-
Interest and dividends	3,390	154	-	3,544
Other	<u>352</u>	<u>-</u>	<u>-</u>	<u>352</u>
TOTAL REVENUE	<u>1,498,341</u>	<u>148,359</u>	<u>(131,318)</u>	<u>1,515,382</u>
<b>EXPENSES</b>				
Program services				
Accreditation	68,782	-	-	68,782
Communication	176,720	-	-	176,720
Convention	216,880	-	-	216,880
Education	117,539	40,955	(40,955)	117,539
NCUA education	63,096	73,130	(73,130)	63,096
Foundation	75,299	-	-	75,299
Government relations	131,128	-	-	131,128
Lobbying	7,916	-	-	7,916
Regulatory and research services	<u>55,153</u>	<u>-</u>	<u>-</u>	<u>55,153</u>
TOTAL PROGRAM SERVICES	<u>912,513</u>	<u>114,085</u>	<u>(114,085)</u>	<u>912,513</u>
Supporting services				
Governance	198,085	-	-	198,085
General and administration	90,793	-	-	90,793
Membership development	86,898	-	-	86,898
NISCUE management	<u>15,015</u>	<u>17,233</u>	<u>(17,233)</u>	<u>15,015</u>
TOTAL SUPPORTING SERVICES	<u>390,791</u>	<u>17,233</u>	<u>(17,233)</u>	<u>390,791</u>
TOTAL EXPENSES	<u>1,303,304</u>	<u>131,318</u>	<u>(131,318)</u>	<u>1,303,304</u>
CHANGE IN UNRESTRICTED NET ASSETS	195,037	17,041	-	212,078
Net assets - Beginning of year	<u>328,358</u>	<u>136,438</u>	<u>-</u>	<u>464,796</u>
NET ASSETS - END OF YEAR	<u>\$ 523,395</u>	<u>\$153,479</u>	<u>\$ -</u>	<u>\$ 676,874</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, 2004**

**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, 2004**

	<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	\$32,451	\$ 91,897	\$ 59,851	\$ 26,967	\$45,304	\$32,026
Convention	-	-	131,839	-	-	-
Occupancy	7,021	18,736	11,670	5,476	9,849	6,581
Outside Services	4,270	26,142	1,901	2,353	1,103	793
Travel and Lodging	18,557	2,695	904	5,335	93	22,241
Schools and Seminars-	-	-	68,599	-	-	-
Postage, Printing, and Delivery	1,834	24,311	2,181	1,346	1,219	1,834
Supplies, Services, and Software	1,111	1,933	1,103	3,090	701	3,471
Audit and Accounting	1,036	3,511	3,298	984	1,446	1,081
Telephone	799	1,676	1,285	1,933	1,096	927
Legal and Insurance Expenses	471	1,973	603	313	606	4,851
Equipment Rental and Repair	659	1,711	1,167	569	907	605
Depreciation	480	1,491	916	458	734	304
Committees and Program Events	71	-	-	71	-	562
Promotional and Advertising	-	518	-	-	-	-
Taxes, Licenses, and Other	<u>22</u>	<u>126</u>	<u>162</u>	<u>45</u>	<u>38</u>	<u>23</u>
TOTAL EXPENSES	<u>\$68,782</u>	<u>\$176,720</u>	<u>\$216,880</u>	<u>\$117,539</u>	<u>\$63,096</u>	<u>\$75,299</u>

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

<b>Government Relations</b>	<b>Lobbying</b>	<b>Regulatory and Research Services</b>	<b>Governance</b>	<b>General and Administration</b>	<b>Membership Development</b>	<b>NISCUE Management</b>	<b>Total Expenses</b>
\$ 85,352	\$5,790	\$26,128	\$ 89,881	\$59,532	\$54,664	\$ 9,789	\$ 619,632
-	-	-	-	-	-	-	131,839
18,596	1,107	5,712	17,155	10,916	12,689	2,000	127,508
2,323	132	613	4,649	1,906	1,293	267	47,745
8,778	28	12,670	56,599	797	1,732	156	130,585
-	-	-	-	-	-	331	68,930
4,226	184	1,542	3,583	2,407	3,520	253	48,440
2,046	60	3,860	1,892	1,328	1,158	124	21,877
2,786	219	959	3,119	7,270	1,763	1,211	28,683
2,852	130	2,180	4,283	2,343	1,334	285	21,123
1,073	66	290	7,201	1,721	736	111	20,015
1,756	122	524	1,663	1,071	1,180	199	12,133
1,213	72	483	683	767	944	122	8,667
71	-	165	7,306	-	203	-	8,449
-	-	-	-	-	5,650	-	6,168
<u>56</u>	<u>6</u>	<u>27</u>	<u>71</u>	<u>735</u>	<u>32</u>	<u>167</u>	<u>1,510</u>
<b><u>\$131,128</u></b>	<b><u>\$7,916</u></b>	<b><u>\$55,153</u></b>	<b><u>\$198,085</u></b>	<b><u>\$90,793</u></b>	<b><u>\$86,898</u></b>	<b><u>\$15,015</u></b>	<b><u>\$1,303,304</u></b>



**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, 2004**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
OPERATING ACTIVITIES				
Change in net assets	\$ 195,037	\$ 17,041	\$ -	\$ 212,078
Adjustments to reconcile change in unrestricted net assets to net cash (used) provided by operating activities				
Depreciation	8,667	-	-	8,667
Changes in operating assets and liabilities				
Increase in accounts receivable	(12,465)	-	(3,530)	(15,995)
Decrease in prepaid expenses	127	-	-	127
Increase in prepaid pension costs	(48,365)	-	-	(48,365)
Decrease in accounts payable and accrued expenses	(75,608)	(3,530)	3,530	(75,608)
Decrease in accrued pension costs	(91,722)	-	-	(91,722)
Increase in deferred rent	15,468	-	-	15,468
(Increase) decrease in deferred income:				
Accreditation	5,800	-	-	5,800
Membership dues	(5,312)	-	-	(5,312)
Convention registrations and sponsors	(13,597)	-	-	(13,597)
Education	<u>(827)</u>	<u>-</u>	<u>-</u>	<u>(827)</u>
 NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	 <u>(22,797)</u>	 <u>13,511</u>	 <u>-</u>	 <u>(9,286)</u>
INVESTING ACTIVITIES				
Purchases of furniture, equipment, and leasehold improvements	<u>(8,028)</u>	<u>-</u>	<u>-</u>	<u>(8,028)</u>
 NET CASH USED BY INVESTING ACTIVITIES	 <u>(8,028)</u>	 <u>-</u>	 <u>-</u>	 <u>(8,028)</u>

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

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

**CONSOLIDATING STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2004  
(Continued)**

	<u>NASCUS</u>	<u>NISCUE</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
<b>FINANCING ACTIVITIES</b>				
Lessor subsidy of leasehold improvement purchases	<u>32,805</u>	<u>-</u>	<u>-</u>	<u>32,805</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>32,805</u>	<u>-</u>	<u>-</u>	<u>32,805</u>
Net increase in cash and cash equivalents	1,980	13,511	-	15,491
Cash and cash equivalents - Beginning of year	<u>1,068,486</u>	<u>139,968</u>	<u>-</u>	<u>1,208,454</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,070,466</u>	<u>\$153,479</u>	<u>\$ -</u>	<u>\$1,223,945</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 2004, 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  
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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  
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**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)**

**NOTE 2 - FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

At June 30, 2004, furniture, equipment, and leasehold improvements owned by NASCUS cost \$47,841 and accumulated depreciation on the assets amounted to \$28,563. During the year ended June 30, 2004, the lessor of the occupancy rental contributed \$32,805 toward the leasehold improvements made by NASCUS during 2003.

**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, 2004, NASCUS contributed \$ 18,561 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. 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 following table sets forth the plan's funded status:

Actuarial present value of benefit obligations	
Benefit obligation at June 30, 2004	\$566,354
Fair value of plan assets at June 30, 2004	<u>456,339</u>
<b>FUNDED STATUS</b>	<b><u>\$110,015</u></b>
Prepaid pension cost	\$ 48,365
Benefit cost	\$ 44,018
Employer contributions	\$ 75,000

The actuarial calculation related to the plan shows a prepaid expense of \$ 48,365, which is shown as a current asset in the accompanying consolidating statement of financial position.

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 6.5% and 4.5%, respectively. The expected long-term rate of return on assets was 7.5%.

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

**NOTE 4 - RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2004, NASCUS incurred costs which were 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	\$ 73,130
Salaries, taxes, benefits, and overhead	17,233
Schools and seminars, grants	<u>40,955</u>
TOTAL	<u>\$131,318</u>

At June 30, 2004, no amounts were due from NISCUE to NASCUS for these services.

**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. The amended lease requires base monthly payments of \$7,510. NASCUS and NISCUE also pay their share of any increases in operating expenses and real property taxes.

Rental expense for office space amounted to \$122,162 for the year ended June 30, 2004. In addition, NASCUS paid \$688 for records storage.

NASCUS, as lessee, had two operating leases for office equipment during the year ended June 30, 2004. Rent expense for the equipment amounted to \$11,655. In February and July 2004, respectively, NASCUS renewed one existing lease and entered into a third lease for office equipment. The three leases expire through 2009.

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

**NOTE 5 - LEASES: Continued**

Future minimum payments under the above leases as of June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>	<u>Office</u>	<u>Total</u>
2005	\$17,000	\$ 97,906	\$ 114,906
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
Thereafter	-	<u>459,077</u>	<u>459,077</u>
TOTAL	<u>\$48,750</u>	<u>\$978,215</u>	<u>\$1,026,965</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 \$66,303 for the year ended June 30, 2004.

**NOTE 7 - COMMITMENTS**

NASCUS has contractual obligations for hotel space to hold the 2004 and 2005 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.