SHAREPOINT CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

SHAREPOINT CREDIT UNION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
SharePoint Credit Union
Hopkins, Minnesota

We have audited the accompanying statements of financial condition of SharePoint Credit Union as of December 31, 2011 and 2010, and the related statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 SharePoint Credit Union as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 13, 2012

SHAREPOINT CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Cash Equivalents	$ 10,146,392	$ 12,273,161
Deposits in Other Financial Institutions	5,312,000	10,705,000
Securities - Available for Sale	42,055,237	34,057,051
Loans, Net	107,782,468	105,071,623
Accrued Interest Receivable	501,303	507,356
Property and Equipment, Net	1,005,863	914,510
NCUSIF Deposit	1,435,518	1,411,250
Other Assets	4,696,857	4,203,890
Total Assets	$ 172,935,638	$ 169,143,841
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 152,322,788	$ 148,461,087
Accrued Expenses and Other Liabilities	914,264	1,112,124
Total Liabilities	153,237,052	149,573,211
COMMITMENTS AND CONTINGENT LIABILITIES		
MEMBERS' EQUITY		
Regular Reserves	4,464,762	4,464,762
Undivided Earnings	14,690,269	14,629,239
Accumulated Other Comprehensive Income	543,555	476,629
Total Members' Equity	19,698,586	19,570,630
Total Liabilities and Members' Equity	$ 172,935,638	$ 169,143,841

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
INTEREST INCOME		
Loans	$ 5,876,457	$ 6,297,278
Securities and Interest Bearing Deposits	1,202,144	1,544,028
Total Interest Income	7,078,601	7,841,306
INTEREST EXPENSE		
Members' Share and Savings Accounts	1,824,377	2,448,962
Interest on Borrowed Funds	-	17,364
Total Interest Expense	1,824,377	2,466,326
NET INTEREST INCOME	5,254,224	5,374,980
PROVISION FOR LOAN LOSSES	572,569	605,221
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,681,655	4,769,759
NON-INTEREST INCOME		
Service Charges and Fees	677,342	749,605
Other Non-Interest Income	932,227	894,713
Gain on Sale of Investments	30,229	156,651
Total Non-Interest Income	1,639,798	1,800,969
NON-INTEREST EXPENSE		
General and Administrative:		
Employee Compensation and Benefits	2,775,196	2,720,321
Office Occupancy and Operations	948,221	881,051
Share Insurance Premium	358,879	364,700
Other Operating Expenses	2,174,573	2,011,723
Net Loss on Sale of Assets	3,554	32,513
Total Non-Interest Expense	6,260,423	6,010,308
NET INCOME	$ 61,030	$ 560,420

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT DECEMBER 31, 2009	$ 4,464,762	$ 14,068,819	$ 313,093	$ 18,846,674
Comprehensive Income:				
Net Income	-	560,420	-	560,420
Other Comprehensive Income:				
Change in Unrealized Gain/(Loss) on Securities Available for Sale	-	-	320,187	320,187
Reclassification for Gains Included in Net Income	-	-	(156,651)	(156,651)
Total Comprehensive Income				723,956
BALANCE AT DECEMBER 31, 2010	4,464,762	14,629,239	476,629	19,570,630
Comprehensive Income:				
Net Income	-	61,030	-	61,030
Other Comprehensive Income:				
Change in Unrealized Gain/(Loss) on Securities Available for Sale	-	-	97,155	97,155
Reclassification for Gains Included in Net Income	-	-	(30,229)	(30,229)
Total Comprehensive Income				127,956
BALANCE AT DECEMBER 31, 2011	$ 4,464,762	$ 14,690,269	$ 543,555	$ 19,698,586

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Income	$ 61,030	$ 560,420
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	273,604	245,544
Net Securities Discount/Premium Amortization	539,096	187,116
Provision for Loan Losses	572,569	605,221
Amortization of Net Loan Origination Costs	553,657	491,597
Loss on Disposal of Assets	3,554	32,513
Gain on Sale of Investments	(30,229)	(156,651)
Changes in:		
Accrued Interest Receivable	6,053	72,168
Other Assets	(502,018)	35,935
Accrued Expenses and Other Liabilities	(197,860)	(316,594)
Net Cash Provided by Operating Activities	1,833,113	2,248,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Decrease in Deposits in Other Financial Institutions	5,393,000	5,725,569
Purchase of Securities Available for Sale	(24,187,770)	(12,878,422)
Proceeds from Maturities of Securities Available for Sale	14,738,486	10,463,870
Proceeds from Sales of Securities - Available for Sale	1,009,157	2,225,066
Loan Originations Net of Principal Collected on Loans to Members	(4,522,114)	2,736,123
Increase in NCUSIF Deposit	(24,268)	(62,151)
Proceeds from Sales of Other Real Estate Owned	136,883	-
Expenditures for Property and Equipment	(364,957)	(124,212)
Net Cash Provided (Used) by Investing Activities	(7,821,583)	8,085,843
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	3,861,701	4,512,888
Repayments on Term Borrowings	-	(10,909,569)
Net Cash Provided (Used) by Financing Activities	3,861,701	(6,396,681)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,126,769)	3,938,028
Cash and Cash Equivalents at Beginning of Year	12,273,161	8,335,133
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,146,392	$ 12,273,161
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Borrowed Funds Interest Paid	$ -	$ 44,372
Members' Share and Savings Accounts Interest Paid	$ 1,820,363	$ 2,448,897
Transfers of Loans to Other Real Estate Owned	$ 131,386	$ -

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

SharePoint Credit Union is a state-chartered cooperative association headquartered in Hopkins, Minnesota, organized in accordance with the provisions of the state of Minnesota for the purpose of promoting thrift among and creating a source of credit for its members.

Membership

SharePoint Credit Union is open to anyone who lives, works, worships, volunteers, attends school or conducts business in Hennepin, Dakota, and Anoka Counties in Minnesota and over 40 select employee groups and their families.

Uses of Estimates

The preparation of financial statements in conformity with U.S. 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.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a geographical field of membership.

The current downturn in the real estate market impacting collateral values increases risks inherent in the real estate lending portfolio and, as such, has the potential to impact the extent of losses being incurred or provided for in current or future periods.

Risk factors influencing potential losses include higher loan to values, stability of third-party insurers of initial loan to values in excess of 80%, reliability of appraisals provided by third parties and relied on in the loan origination process, continued employment of borrowers to sustain cash flows, as well as general employment in the geographic area where the field of membership is concentrated.

The Credit Union has a concentration of funds on deposit at Alloya Corporate Federal Credit Union (formerly Members United Bridge Corporate Federal Credit Union) of approximately $14,145,000 and $21,905,000 at December 31, 2011 and 2010, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and funds due from other financial institutions and brokerage firms. For purposes of the statements of cash flows, the Credit Union considers demand deposit cash accounts, share and daily interest deposit accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

The Credit Union maintains cash and some investments in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits. Certain insurance eligible deposits at corporate credit unions are now subject to unlimited insurance under NCUA's Share Guarantee Program through December 31, 2012.

Deposits in Other Financial Institutions

Deposits in other financial institutions include certificates of deposit. These are stated at cost. The certificates of deposit all mature within two years.

Securities

Securities are classified as "available-for-sale" and recorded at fair value, with the unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the straight-line method over the terms of the securities which approximates the interest method. Declines in the fair value of available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in non-interest income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans, Net

The Credit Union grants mortgage, commercial and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the geographic area. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. Specific allowances for loan losses are established for classified and impaired loans on an individual basis. The specific allowances established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience (three years) and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Auto and RV: Direct automobile and recreational vehicle loans fund the purchase or refinance of new or used vehicles. These generally have less risk than indirect vehicle loans as the borrowers are members of the Credit Union.

Home Equity: Home equity loans are generally in a second or later position. As a result, they represent greater risk than first mortgage loans.

Consumer Unsecured: Unsecured loans include Visa classic, Visa pinnacle, unsecured loans, personal loans, and overdraft lines of credit. These loans rely on the borrower for repayment. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Visa Platinum: These credit card loans are unsecured borrowings and therefore rely on the borrower for repayment. Visa Platinum credit cards are issued to borrowers of higher credit standards; therefore they generally possess less credit risk than consumer unsecured loans.

Indirect Auto: Indirect automobile loans allow borrowers to make a purchase and obtain financing at the same location. Indirect loans generally represent greater risk than direct loans due to the reliance on a third party for loan documentation.

Indirect RV: Indirect recreational vehicle loans allow borrowers to make a purchase and obtain financing at the same location. Indirect loans generally represent greater risk than direct loans due to the reliance on a third party for loan documentation.

First Mortgage: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. First mortgage loans generally possess a lower inherent risk of loss than other real estate portfolio segments due to collateral existing even in a declining real estate market.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Member Business: Member business loans consist of commercial real estate. Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Participations: These loans are loans that have been purchased from other lenders. As the Credit Union is not the lead lender, they have placed reliance on the corresponding lead lenders for origination of the loans.

Other Business: Other business loans consist of commercial term secured loans, lines of credit and business overdraft lines of credit. These loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Share Secured: Share secured loans represent low inherent risk to the Credit Union as the borrowings are 100% secured by funds controlled by the Credit Union.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed and Repossessed Assets

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value (normally no greater than the loan amount) at the date of foreclosure, establishing a new cost basis. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed. Management periodically performs valuations and a charge to operations is made if the carrying value of a property exceeds the lower of its fair value less estimated costs to sell, or cost.

Repossessed collateral is recorded at fair value (anticipated liquidation proceeds, net of selling costs) upon possession.

Foreclosed and repossessed assets totaled approximately $97,000 and $87,000 for the years ended December 31, 2011 and 2010, respectively.

Property and Equipment

Land is carried at cost. Property and equipment are carried at cost, less accumulated depreciation and amortization. Office furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is less.

Advertising Costs

Advertising costs totaling approximately $179,000 and $187,000 at December 31, 2011 and 2010, respectively, are expensed as incurred.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Financial institutions in the U.S., including credit unions, have experienced substantial losses in the past few years due to the collapse in real estate values supporting the mortgage market in many geographical areas. In addition to loan losses at natural person credit unions, losses incurred in mortgage backed securities and other related securities in the investment portfolios of several corporate credit unions resulted in unanticipated losses exceeding the deposit insurance reserves in the NCUSIF system.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments (Continued)

In May of 2009, legislation was passed to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb corporate stabilization costs with authority to borrow money from the U.S. Treasury. During September 2010, the NCUA received approval from the U.S. Treasury to extend the life of the CCUSF to June 2021. Funds borrowed by the CCUSF from the U.S. Treasury will be repaid from assessments, levied against Credit Unions, as authorized by the NCUA Board. The NCUA Board has levied assessments to repay borrowed funds and to cover stabilization costs. It is anticipated that the NCUA Board will be making annual assessment premiums and will spread the repayment of corporate stabilization costs through the year 2021 at its discretion.

In 2010, the NCUA Board assessed two premiums, the first in June for the CCUSF calculated at 0.134% of insured shares and the second in September for the NCUSIF calculated at 0.1242% of insured shares. The combined impact of the 2010 premium assessments approximated $365,000.

In 2011, the NCUA Board assessed a single premium for the CCUSF calculated at 0.25 percent of June 30, 2011 insured shares. The impact of this transaction was approximately $359,000.

These costs are reflected as Share Insurance Premium Expense reported as Non-Interest Expense for the years ended December 31, 2011 and 2010.

Members' Share and Savings Accounts

Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Dividend rates on members' share accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest or dividends.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income, also recognized as a separate component of members’ equity, includes valuation adjustments for available-for-sale securities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Credit Union is exempt, under IRC 501 (c) (14), from federal and state income taxes.

Certain products and services provided by select state chartered credit unions have been deemed by the Internal Revenue Service (IRS), in technical advice memorandums (TAMs) released in 2007, to be unrelated to the specific entity's exempt purpose. As presented in the technical advice memorandums the net taxable income from these products and services would be subject to income taxes. Credit Unions have litigated against the IRS positions noted in the TAMs and have been successful in having courts declare in 2009 and 2010 that revenue from insurance products sold to members, helping them protect their financial wellbeing, qualifies as exempt purpose income, contrary to the IRS position in the TAMs.

The Credit Union has not filed tax returns in the past for activities they have deemed taxable.

The taxing authorities have the ability to assess taxes, penalties and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities potentially deemed to be unrelated to the Credit Union's exempt purpose is not expected to have a material effect on the Credit Union's financial position or results of operations.

The Credit Union adopted the income tax standard for uncertain tax positions. As a result, the Credit Union evaluated its tax positions and determined no uncertain tax positions exist as of December 31, 2011 and 2010.

The Credit Union's 2008 through 2010 tax years are open for examination by federal and state taxing authorities.

Retirement Plans

The Credit Union offers a money purchase defined contribution pension plan for the benefit of its employees. Participation in the plan is limited to employees who meet specified length of service and age limitations. The total pension expense for the years ended December 31, 2011 and 2010 was approximately $49,000 and $97,000, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The Credit Union has also applied the above measurement principles for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis. In particular this applies to other real estate owned, which is valued at the lower of the loan/acquisition cost, or fair value less disposition costs, initially at the time of acquisition.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent Events

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through April 13, 2012, the date the financial statements were available to be issued.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification of 2010 Data

Data in the 2010 financial statements has been reclassified to conform with the presentation of the 2011 financial statements. This reclassification did not have any change on net income or members' equity.

NOTE 2 RESTRICTIONS ON REGULATORY EQUITY DEPOSITS AT CORPORATE CREDIT UNIONS

The Credit Union maintains nonperpetual contributed capital accounts (NCA) and perpetual contributed capital accounts (PCC) with Alloya Corporate Federal Credit Union that are uninsured and usually require a multi-year advance notice before withdrawal. Contributed capital accounts with Alloya Corporate Federal Credit Union totaled $333,000 at December 31, 2011 and are classified in Other Assets on the statement of financial condition.

These uninsured deposits are part of the corporate credit unions' regulatory capital and are subject to impairment or loss in the event the corporate credit union is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated. All other deposit balances with corporate credit unions are fully insured by NCUA through December 31, 2012.

NOTE 3 SECURITIES

Available for Sale

The amortized cost and estimated fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Carrying Value)
December 31, 2011				
Federal Agency Securities	$ 11,102,371	$ 58,580	$ (9,343)	$ 11,151,608
Taxable Municipal Obligations	1,872,449	81,779	-	1,954,228
Asset-Backed Securities	1,585,846	113,893	(96,659)	1,603,080
Corporate Bonds	4,737,042	2,024	(68,486)	4,670,580
Mortgage-Backed Securities	22,213,974	489,265	(27,498)	22,675,741
	$ 41,511,682	$ 745,541	$ (201,986)	$ 42,055,237
December 31, 2010				
Federal Agency Securities	$ 4,917,330	$ 144,664	$ -	$ 5,061,994
Taxable Municipal Obligations	3,506,491	132,038	-	3,638,529
Asset-Backed Securities	3,563,990	-	(172,940)	3,391,050
Corporate Bonds	1,175,849	143	(4,255)	1,171,737
Mortgage-Backed Securities	20,416,762	530,094	(153,115)	20,793,741
	$ 33,580,422	$ 806,939	$ (330,310)	$ 34,057,051

NOTE 3 SECURITIES (CONTINUED)

Available for Sale (Continued)

Proceeds from sales of securities available for sale during 2011 and 2010 were approximately $949,000 and $2,225,000, respectively. These sales resulted in gross gains of approximately $30,000 and $157,000 during 2011 and 2010, respectively.

The amortized cost and estimated fair value of securities, at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Cost	Fair Value (Carrying Value)
Federal Agency Securities, Taxable Municipal Obligations and Corporate Bonds:		
Due in One Year of Less	$ 5,835,287	$ 5,878,309
Due After One Year Through Five Years	11,876,575	11,898,107
	17,711,862	17,776,416
Asset-Backed and Mortgage-Backed Securities	23,799,820	24,278,821
	$ 41,511,682	$ 42,055,237

Temporarily Impaired Securities

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position is as follows:

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2011				
Federal Agency Securities	$ (9,343)	$ 3,998,520	$ -	$ -
Asset-Backed Securities	(11,029)	240,874	(85,630)	1,040,735
Corporate Bonds	(64,927)	3,027,365	(3,559)	559,936
Mortgage-Backed Securities	(27,498)	4,097,184	-	-
Total Available for Sale	$ (112,797)	$ 11,363,943	$ (89,189)	$ 1,600,671
December 31, 2010				
Asset-Backed Securities	$ -	$ -	$ (172,940)	$ 3,391,050
Corporate Bonds	(4,255)	935,821	-	-
Mortgage-Backed Securities	(117,609)	7,694,776	(35,506)	1,055,836
Total Available for Sale	$ (121,864)	$ 8,630,597	$ (208,446)	$ 4,446,886

NOTE 3 SECURITIES (CONTINUED)

Available for Sale (Continued)

At December 31, 2011, the 23 securities with unrealized losses have depreciated 1.53% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available for sale, no declines are deemed to be other-than-temporary.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

NOTE 4 LOANS, NET

The composition of loans to members is as follows:

	2011	2010
Auto and RV	$ 21,136,533	$ 21,428,125
Home Equity	29,727,675	34,044,296
Consumer Unsecured	4,293,628	4,440,956
Visa Platinum	7,470,341	7,514,752
Indirect Auto	935,937	690,968
Indirect RV	14,149,783	18,221,901
First Mortgage	25,503,900	16,273,247
Member Business	497,389	299,731
Participations	918,194	944,349
Other Business	2,706,863	416,003
Share Secured	739,564	795,723
	108,079,807	105,070,051
Net Deferred Loan Origination Costs	636,634	1,107,936
Allowance for Loan Losses	(933,973)	(1,106,364)
	$ 107,782,468	$ 105,071,623

NOTE 4 LOANS, NET (CONTINUED)

A summary of the activity in the allowance for loan losses is as follows:

	December 31, 2011	December 31, 2010
Balance, Beginning of Year	$ 1,106,364	$ 1,112,089
Provision for Loan Losses	572,569	605,221
Loans Charged-Off	(837,974)	(686,215)
Recoveries of Previous Loan Charge-Offs	93,014	75,269
Balance, End of Year	$ 933,973	$ 1,106,364

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2011	Auto and RV	Home Equity	Consumer Unsecured	Visa Platinum	Indirect Auto
Allowance for Loan Losses:					
Balance at Beginning of Year	$ 131,996	$ 182,679	$ 298,708	$ 254,600	$ 6,882
Provision for Loan Losses	114,114	187,946	78,983	175,405	(4,786)
Loans Charged-Off	(131,206)	(191,990)	(226,993)	(195,436)	-
Recoveries of Loans Previously Charged-Off	11,916	6,680	71,039	-	-
Balance at End of Year	$ 126,820	$ 185,315	$ 221,737	$ 234,569	$ 2,096
Ending Balance: Individually Evaluated for Impairment	$ 15,800	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ 111,020	$ 185,315	$ 221,737	$ 234,569	$ 2,096
Loans:					
Ending Balance: Individually Evaluated for Impairment	$ 49,399	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ 21,087,134	$ 29,727,675	$ 4,293,628	$ 7,470,341	$ 935,937

NOTE 4 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows (Continued):

December 31, 2011

	Indirect RV	First Mortgage	Member Business	Participations	Other Business
Allowance for Loan Losses:					
Balance at Beginning of Year	$ 53,208	$ 33,197	$ 21,701	$ 68,371	$ 55,022
Provision for Loan Losses	65,398	41,498	(15,275)	(56,508)	(14,206)
Loans Charged-Off	(62,541)	(29,808)	-	-	-
Recoveries of Loans Previously Charged-Off	3,379	-	-	-	-
Balance at End of Year	$ 59,444	$ 44,887	$ 6,426	$ 11,863	$ 40,816
Ending Balance: Individually Evaluated for Impairment	$ 26,800	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ 32,644	$ 44,887	$ 6,426	$ 11,863	$ 40,816
Loans:					
Ending Balance: Individually Evaluated for Impairment	$ 89,784	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ 14,059,999	$ 25,503,900	$ 497,389	$ 918,194	$ 2,706,863

NOTE 4 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows (Continued):

December 31, 2011

	Share Secured	Total
Allowance for Loan Losses:		
Balance at Beginning of Year	$ -	$ 1,106,364
Provision for Loan Losses	-	572,569
Loans Charged-Off	-	(837,974)
Recoveries of Loans Previously Charged-Off	-	93,014
Balance at End of Year	$ -	$ 933,973
Ending Balance: Individually Evaluated for Impairment	$ -	$ 42,600
Ending Balance: Collectively Evaluated for Impairment	$ -	$ 891,373
Loans:		
Ending Balance: Individually Evaluated for Impairment	$ -	$ 139,183
Ending Balance: Collectively Evaluated for Impairment	$ 739,564	$ 107,940,624

NOTE 4 LOANS, NET (CONTINUED)

The following table shows the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

December 31, 2011	Credit Risk Profile by Payment Activity			
Payment Activity	Auto and RV	Home Equity	Consumer Unsecured	Visa Platinum
Performing	$ 20,928,043	$ 29,608,563	$ 4,284,600	$ 7,470,341
Non-Performing	208,490	119,112	9,028	-
Total	$ 21,136,533	$ 29,727,675	$ 4,293,628	$ 7,470,341

December 31, 2011	Credit Risk Profile by Payment Activity			
Payment Activity	Indirect Auto	Indirect RV	First Mortgage	Member Business
Performing	$ 935,937	$ 14,011,140	$ 25,503,900	$ 497,389
Non-Performing	-	138,643	-	-
Total	$ 935,937	$ 14,149,783	$ 25,503,900	$ 497,389

December 31, 2011	Credit Risk Profile by Payment Activity			
Payment Activity	Participations	Other Business	Share Secured	Total
Performing	$ 918,194	$ 2,706,863	$ 739,564	$ 107,604,534
Non-Performing	-	-	-	475,273
Total	$ 918,194	$ 2,706,863	$ 739,564	$ 108,079,807

The following table shows an aging analysis of the loan portfolio by time past due:

December 31, 2011	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Auto and RV	$ 20,831,585	$ 96,458	$ -	$ 208,490	$ 21,136,533
Home Equity	29,409,906	198,657	-	119,112	29,727,675
Consumer Unsecured	4,261,051	23,549	-	9,028	4,293,628
Visa Platinum	7,470,341	-	-	-	7,470,341
Indirect Auto	924,206	11,731	-	-	935,937
Indirect RV	13,933,109	78,031	-	138,643	14,149,783
First Mortgage	25,503,900	-	-	-	25,503,900
Member Business	497,389	-	-	-	497,389
Participations	918,194	-	-	-	918,194
Other Business	2,706,863	-	-	-	2,706,863
Share Secured	739,564	-	-	-	739,564
	$ 107,196,108	$ 408,426	$ -	$ 475,273	$ 108,079,807

NOTE 4 LOANS, NET (CONTINUED)

At December 31, 2010, the Credit Union had no loans past due 90 days or more and still accruing and $1,102,254 of nonaccrual loans.

Interest income foregone on nonaccrual loans approximated $114,000 for the year ended December 31, 2011.

The following table presents information related to impaired loans:

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Auto and RV	$ -	$ -		$ -	$ -
Indirect RV	-	-		-	-
With An Allowance Recorded:					
Auto and RV	49,399	49,399	15,800	49,399	-
Indirect RV	89,784	89,784	26,800	89,784	-
Total Impaired Loans:					
Auto and RV	$ 49,399	$ 49,399	$ 15,800	$ 49,399	$ -
Indirect RV	$ 89,784	$ 89,784	$ 26,800	$ 89,784	$ -

At December 31, 2010, the recorded investment in impaired loans was $346,189. The Credit Union had $73,589 of specific allowance for loan losses on impaired loans. For the year ended December 31, 2010, the average recorded investment in impaired loans was $232,095.

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

The Credit Union has not entered into any TDRs during 2011 and no TDRs subsequently defaulted in 2011.

NOTE 5 PROPERTY AND EQUIPMENT

The Credit Union's property and equipment is summarized as follows:

	December 31, 2011	December 31, 2010
Land	$ 44,670	$ 44,670
Building	558,686	548,297
Office Furniture and Equipment	2,184,322	1,831,703
Leasehold Improvements	47,460	45,511
Subtotal	2,835,138	2,470,181
Less: Accumulated Depreciation/Amortization	(1,829,275)	(1,555,671)
Total	$ 1,005,863	$ 914,510

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space in Minnesota. Net rent expense under operating leases, included in occupancy expenses, was approximately $266,000 and $241,000 for the years ended December 31, 2011 and 2010, respectively.

The required minimum rental payments under the terms of these noncancelable leases at December 31, 2011 are as follows:

Year Ended December 31,	Amount
2012	$ 186,551
2013	38,400
2014	38,400
2015	38,400
2016	39,800
Thereafter	624,200
Total	$ 965,751

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2011	December 31, 2010
Share Savings	$ 31,444,473	$ 28,292,077
Share Drafts	10,679,790	7,322,938
Money Market	37,803,858	38,230,082
IRA Deposits	4,866,230	4,065,532
Other Deposits	77,123	57,267
Share and IRA Certificates	67,451,314	70,493,191
Total	$ 152,322,788	$ 148,461,087

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

The aggregate amounts of certificates in denominations of $100,000 or more were approximately $22,221,000 and $22,915,000 at December 31, 2011 and 2010, respectively.

As of December 31, 2011, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2012	$ 37,999,825
2013	9,943,686
2014	7,495,741
2015	7,396,611
2016	4,448,831
Thereafter	166,620
Total	$ 67,451,314

Member accounts are insured to at least $250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

The Credit Union also offers insurance through Excess Share Insurance, a private company, on accounts that exceed $250,000, up to $350,000 and that meet certain requirements specified in the contract.

NOTE 7 BORROWED FUNDS

Alloya/Members United Bridge Corporate Federal Credit Union

At December 31, 2011 and 2010, the Credit Union had an available line of credit of $9,990,000 and $18,000,000, respectively, with Alloya/Members United Bridge Corporate Federal Credit Union. The interest rates applied on any borrowing are determined on that date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit. There were no balances outstanding on this line at December 31, 2011 and 2010.

CUSIP (Credit Union System Investment Program)

During the year ended December 31, 2009, the Credit Union participated in the CUSIP Program. CUSIP is a program under which eligible, natural person credit unions borrow from the Central Liquidity Facility (CLF) for a fixed one-year term and immediately reinvest the loan proceeds into CUSIP Senior Guaranteed Term Obligations (GTO), and earn a 25 basis point administrative fee or spread. These CLF Advances are to be fully secured by collateral of the borrowing credit union, and must be invested in the GTOs.

Through its participation in CUSIP the Credit Union had outstanding borrowings from the CLF, and investments in a GTO with MUBCFCU, of $10,909,569. The CLF borrowing and GTO investments were issued on January 9, 2009. The CLF borrowing and GTO investments matured on March 12, 2010.

NOTE 8 REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. generally accepted accounting principles. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio using the quarter end assets as of December 31, 2011, the most recent quarterly regulatory filing date, was 5.22%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2011, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory frame work for prompt corrective action. To be categorized as "well capitalized" the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institutions category.

The Credit Unions actual capital amounts and ratios are also presented in the table.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011						
Net Worth	$ 19,155,031	11.08%	$ 10,376,138	6.00%	$ 12,105,495	7.00%
Risk-Based Net Worth Requirement	$ 9,027,240	5.22%	N/A	N/A	N/A	N/A
December 31, 2010						
Net Worth	$ 19,094,001	11.29%	$ 10,148,630	6.00%	$ 11,840,069	7.00%
Risk-Based Net Worth Requirement	$ 8,575,593	5.07%	N/A	N/A	N/A	N/A

NOTE 8 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

Because RBNWR at December 31, 2011, 5.22%, is less than the regulatory net worth ratio of 11.08%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 9 RELATED PARTY TRANSACTIONS

Included in loans receivable at December 31, 2011 and 2010 are loans to the Credit Union's Board of Directors, Committee Members and Senior Executive Staff of approximately $1,097,000 and $1,024,000, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's Board of Directors, Committee Members and Senior Executive Staff held by the Credit Union at December 31, 2011 and 2010 are approximately $1,354,000 and $750,000, respectively.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Balance-Sheet Activities

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the financial statements.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2011	2010
Commitments to Grant Collateralized Loans		
Home Equity Lines of Credit	$ 7,155,902	$ 7,547,843
Commercial Real Estate	590,537	158,097
Unfunded Unsecured Commitments Under Lines of Credit		
Overdraft Protection	821,317	1,012,946
Lines of Credit	1,626,487	372,774
Credit Card Commitments	18,145,596	17,333,492
	$ 28,339,839	$ 26,425,152

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Balance-Sheet Activities (Continued)

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Legal Contingencies

The Credit Union is a party to various collection related legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the financial condition of the Credit Union.

NOTE 11 FAIR VALUE

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies to the Financial Statements. The following table presents the balances of the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
Federal Agency Securities	$ -	$ 11,151,608	$ -	$ 11,151,608
Taxable Municipal Obligations	-	1,954,228	-	1,954,228
Asset-Backed Securities	-	1,603,080	-	1,603,080
Corporate Bonds	-	4,670,580	-	4,670,580
Mortgage-Backed Securities	-	22,675,741	-	22,675,741
457 Non-Qualified Plan Assets	-	65,138	-	$ 65,138
Total Assets	$ -	$ 42,120,375	$ -	$ 42,120,375

NOTE 11 FAIR VALUE (CONTINUED)

The following table presents the balances of the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
Federal Agency Securities	$ -	$ 5,061,994	$ -	$ 5,061,994
Taxable Municipal Obligations	-	3,638,529	-	3,638,529
Asset-Backed Securities	-	3,391,050	-	3,391,050
Corporate Bonds	-	1,171,737	-	1,171,737
Mortgage-Backed Securities	-	20,793,741	-	20,793,741
457 Non-Qualified Plan Assets	-	63,412	-	$ 63,412
Total Assets	$ -	$ 34,120,463	$ -	$ 34,120,463

The estimated fair values of financial instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable value could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Credit Union. The following disclosures represent financial instruments in which the ending balances at December 31, 2011 and 2010 are not carried at fair value in their entirety on the statement of financial condition.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents and Deposits in Other Financial Institutions: The carrying amounts reported in the statement of financial condition for cash and cash equivalents and deposits in other financial institutions approximate those assets' fair values.

Loans, Net: Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loan prepayments are assumed to occur at a similar rate as in previous periods.

Accrued Interest Receivable: Accrued interest receivable represents interest on loans and investments. The carrying amount of accrued interest receivable approximates fair value.

Members' Share and Savings Accounts: The fair value of demand deposit accounts is the amount payable on demand at the reporting date. The fair value of share certificates is estimated by discounting the future cash flows using the market rates offered as of December 31 for similar deposits with the same remaining maturities.

NOTE 11 FAIR VALUE (CONTINUED)

Loan Commitments: The Credit Union has entered into variable rate loan commitments at December 31, 2011 and 2010. The Credit Union charges no fees for these commitments. Because the rates at which these commitments are entered into do not significantly differ from market rates, they have no quantifiable value.

The following table presents the carrying amounts and estimated fair values of the Credit Union's financial instruments at December 31:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and Cash Equivalents	$ 10,146,392	$ 10,146,392	$ 12,273,161	$ 12,273,161
Deposits in Other Financial Institutions	5,312,000	5,312,000	10,705,000	10,705,000
Loans, Net	107,782,468	110,465,000	105,071,623	107,668,000
Accrued Interest Receivable	501,303	501,303	507,356	507,356
Financial Liabilities				
Members' Share and Savings Accounts	$ 152,322,788	153,134,000	$ 148,461,087	$ 149,371,000