SHAREPOINT CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

SHAREPOINT CREDIT UNION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2012 and 2011, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 8, 2013

SHAREPOINT CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	$ 12,964,546	$ 10,146,392
Deposits in Other Financial Institutions	5,655,000	5,312,000
Securities - Available for Sale	41,869,893	42,055,237
Loans, Net	109,034,503	107,782,468
Accrued Interest Receivable	404,223	501,303
Property and Equipment, Net	730,430	1,005,863
NCUSIF Deposit	1,496,106	1,435,518
Other Assets	5,878,450	4,696,857
Total Assets	$ 178,033,151	$ 172,935,638
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 156,750,133	$ 152,322,788
Accrued Expenses and Other Liabilities	1,117,284	914,264
Total Liabilities	157,867,417	153,237,052
COMMITMENTS AND CONTINGENT LIABILITIES		
MEMBERS' EQUITY		
Regular Reserves	4,464,762	4,464,762
Undivided Earnings	15,194,008	14,690,269
Accumulated Other Comprehensive Income	506,964	543,555
Total Members' Equity	20,165,734	19,698,586
Total Liabilities and Members' Equity	$ 178,033,151	$ 172,935,638

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INTEREST INCOME		
Loans	$ 5,583,441	$ 5,876,457
Securities and Interest Bearing Deposits	873,614	1,202,144
Total Interest Income	6,457,055	7,078,601
INTEREST EXPENSE	1,347,954	1,824,377
Net Interest Income	5,109,101	5,254,224
PROVISION FOR LOAN LOSSES	493,659	572,569
Net Interest Income After Provision for Loan Losses	4,615,442	4,681,655
NON-INTEREST INCOME		
Service Charges and Fees	683,332	677,342
Other Non-Interest Income	1,205,228	932,227
Gain on Sale of Investments	3,549	30,229
Total Non-Interest Income	1,892,109	1,639,798
NON-INTEREST EXPENSE		
General and Administrative:		
Employee Compensation and Benefits	2,865,676	2,775,196
Office Occupancy and Operations	1,001,360	948,221
Share Insurance Premium	142,130	358,879
Other Operating Expenses	1,987,025	2,174,573
Net Loss on Sale of Assets	7,621	3,554
Total Non-Interest Expense	6,003,812	6,260,423
NET INCOME	$ 503,739	$ 61,030

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
NET INCOME	$ 503,739	$ 61,030
AVAILABLE FOR SALE SECURITIES		
Unrealized Holding Gain (Loss) Arising During the Period	(33,042)	97,155
Reclassification for Gains Included in Net Income During the Period	(3,549)	(30,229)
OTHER COMPREHENSIVE INCOME (LOSS)	(36,591)	66,926
TOTAL COMPREHENSIVE INCOME	$ 467,148	$ 127,956

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT DECEMBER 31, 2010	$ 4,464,762	$ 14,629,239	$ 476,629	$ 19,570,630
Net Income	-	61,030	-	61,030
Other Comprehensive Income	-	-	66,926	66,926
BALANCE AT DECEMBER 31, 2011	4,464,762	14,690,269	543,555	19,698,586
Net Income	-	503,739	-	503,739
Other Comprehensive Loss	-	-	(36,591)	(36,591)
BALANCE AT DECEMBER 31, 2012	$ 4,464,762	$ 15,194,008	$ 506,964	$ 20,165,734

See accompanying Notes to Financial Statements.

SHAREPOINT CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Income	$ 503,739	$ 61,030
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	319,992	273,604
Net Securities Discount/Premium Amortization	735,572	539,096
Provision for Loan Losses	493,659	572,569
Amortization of Net Loan Origination Costs	523,448	553,657
Loss on Disposal of Assets	7,621	3,554
Gain on Sale of Investments	(3,549)	(30,229)
Changes in:		
Accrued Interest Receivable	97,080	6,053
Other Assets	(1,113,397)	(359,782)
Accrued Expenses and Other Liabilities	203,020	(197,860)
Net Cash Provided by Operating Activities	1,767,185	1,421,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Increase) Decrease in Deposits in Other Financial Institutions	(343,000)	5,393,000
Purchase of Securities Available for Sale	(25,035,509)	(24,187,770)
Proceeds from Maturities of Securities Available for Sale	23,924,683	14,738,486
Proceeds from Sales of Securities - Available for Sale	527,556	1,009,157
Loan Originations Net of Principal Collected on Loans to Members	(2,489,934)	(3,968,457)
Increase in NCUSIF Deposit	(60,588)	(24,268)
Increase in Cash Surrender Value of Life Insurance	(137,468)	(142,236)
Proceeds from Sales of Foreclosed Assets	282,443	136,883
Expenditures for Property and Equipment	(44,559)	(364,957)
Net Cash Used by Investing Activities	(3,376,376)	(7,410,162)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	4,427,345	3,861,701
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,818,154	(2,126,769)
Cash and Cash Equivalents at Beginning of Year	10,146,392	12,273,161
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,964,546	$ 10,146,392
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Members' Share and Savings Accounts Interest Paid	$ 1,351,916	$ 1,820,363
Transfers of Loans to Foreclosed Assets	$ 220,792	$ 131,386

See accompanying Notes to Financial Statements.

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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 of approximately $11,688,000 and $8,500,000 at December 31, 2012 and 2011, 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 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 were subject to unlimited insurance under NCUA's Share Guarantee Program, which expired 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 three 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, business 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

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 (two years in 2012 and three years in 2011) and expected losses given default derived from the Credit Union's internal risk rating process. The effect of this change was immaterial to the financial statements as a whole. 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:

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. 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.

Residential Real Estate: 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. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. 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 that the borrowers' capacity to repay their obligations may be deteriorating.

Business: Business 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. Other business 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 $27,000 and $97,000 for the years ended December 31, 2012 and 2011, respectively.

Property and Equipment, Net

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs totaling approximately $195,000 and $179,000 at December 31, 2012 and 2011, respectively, are expensed as incurred.

NCUSIF Deposit 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.

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 and was recorded by the Credit Union during the year ended December 31, 2011. In 2012, the NCUA Board assessed a single premium for the CCUSF calculated at 0.095 percent of June 30, 2012 insured shares. The impact of this transaction was approximately $142,000 and was recorded by the Credit Union during the year ended December 31, 2012. These costs are reflected as part of Share Insurance Premium expense on the Statements of Income for the years ended December 31, 2012 and 2011.

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 established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings.

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. Accumulated 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 was exempt, under IRC 501(c)(14), from federal and state income taxes. However, the Credit Union's tax exempt status was revoked effective May 15, 2010 by the Internal Revenue Service (IRS) due to not complying with the Pension Protection Act of 2006 (oversight of filing Form 990 returns for three consecutive years). The taxing authorities have the ability to assess taxes, penalties and interest for any years for which the organization is not considered tax exempt or for which no tax return was filed.

The Credit Union filed an application for retroactive reinstatement of their tax exempt status in late December of 2012. However, they have not yet received a response to the application from the IRS. The likelihood of this application being approved is unknown. If the application is not approved, the Credit Union will be required to file corporate tax returns (Form 1120) from the date of revocation of status (05/15/10) through the date the application for reinstatement was filed with the IRS in late December 2012. The potential liability if such corporate tax return filings are required is estimated to be between $285,000 and $345,000. If the IRS doesn't approve the retroactive reinstatement of tax exempt status, the organization should be considered tax exempt effective as of the date the application was filed with the IRS in late December of 2012.

The Credit Union attempted to file a 2011 Form 990 but it was rejected by the IRS due to their tax exempt status being revoked.

The Credit Union's 2009 and subsequent tax years are open for examination by federal and state taxing authorities.

Retirement Plans

401(k) plan – The Credit Union offers a 401(k) 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 Credit Union's contributions to the plan for the years ended December 31, 2012 and 2011 was approximately $45,000 and $49,000, respectively.

Deferred Compensation Plan [Section 457(b)] – The Credit Union provides a non-qualified 457(b) deferred compensation plan to certain employees who elect to participate. The Credit Union does not contribute to this plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union financial statements and are available to creditors in the event of the Credit Union's liquidation. The balances of the deferred compensation arrangement were $75,000 and $65,000 as of December 31, 2012 and 2011, respectively.

Life Insurance Policies

Life insurance policies held as part of the Credit Union's deferred compensation plan are carried at net cash surrender value. The balance of life insurance policies as of December 31, 2012 and 2011 were $3,756,000 and $3,619,000, respectively, and are included in Other Assets on the Statements of Financial Condition. Income for increases in cash surrender value is recorded in Other Non-Interest Income on the Statements of Income.

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.

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 8, 2013, the date the financial statements were available to be issued.

Reclassification of 2011 Data

Data in the 2011 financial statements has been reclassified to conform with the presentation of the 2012 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, 2012 and 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 were 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, 2012				
Federal Agency Securities	$ 9,105,880	$ 16,725	$ (16,411)	$ 9,106,194
Taxable Municipal Obligations	1,188,445	43,299	-	1,231,744
Asset-Backed Securities	754,040	112,515	(34,390)	832,165
Corporate Bonds	5,420,238	23,183	(9,609)	5,433,812
Mortgage-Backed Securities	24,894,326	467,835	(96,183)	25,265,978
	$ 41,362,929	$ 663,557	$ (156,593)	$ 41,869,893
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

Proceeds from sales of securities available for sale during 2012 and 2011 were approximately $527,000 and $1,009,000, respectively. These sales resulted in gross gains of approximately $4,000 and $30,000 during 2012 and 2011, respectively.

NOTE 3 SECURITIES (CONTINUED)

Available for Sale (Continued)

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	
	Amortized Cost	Estimated Fair Value (Carrying Value)
Federal Agency Securities, Taxable Municipal Obligations and Corporate Bonds:		
Due in One Year of Less	$ 1,812,581	$ 1,819,042
Due After One Year Through Five Years	13,901,982	13,952,708
	15,714,563	15,771,750
Asset-Backed and Mortgage-Backed Securities	25,648,366	26,098,143
	$ 41,362,929	$ 41,869,893

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	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
Federal Agency Securities	$ (16,411)	$ 6,059,030	$ -	$ -
Asset-Backed Securities	-	-	(34,390)	780,544
Corporate Bonds	(9,609)	1,524,860	-	-
Mortgage-Backed Securities	(90,718)	9,959,657	(5,465)	762,757
Total Available for Sale	$ (116,738)	$ 17,543,547	$ (39,855)	$ 1,543,301
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

NOTE 3 SECURITIES (CONTINUED)

Available for Sale (Continued)

At December 31, 2012, the 24 securities with unrealized losses have depreciated 0.88% 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:

	2012	2011
Consumer:		
Auto and RV	$ 24,207,632	$ 21,136,533
Consumer Unsecured	4,657,139	4,293,628
Visa Platinum	7,457,901	7,470,341
Indirect Auto	539,245	935,937
Indirect RV	11,524,918	14,149,783
Share Secured	596,296	739,564
Residential Real Estate:		
Home Equity	25,911,434	29,727,675
First Mortgage	28,447,602	25,503,900
Business:		
Member Business	274,394	497,389
Participations	889,006	918,194
Other Business	5,233,106	2,706,863
Total Loans	109,738,673	108,079,807
Net Deferred Loan Origination Costs	268,444	636,634
Allowance for Loan Losses	(972,614)	(933,973)
Loans, Net	$ 109,034,503	$ 107,782,468

NOTE 4 LOANS, NET (CONTINUED)

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

December 31, 2012	Consumer	Residential Real Estate	Business	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 644,666	$ 230,202	$ 59,105	$ 933,973
Provision for Loan Losses	228,845	263,013	1,801	493,659
Loans Charged-Off	(428,030)	(122,844)	-	(550,874)
Recoveries of Loans Previously Charged-Off	81,063	14,793	-	95,856
Balance at End of Year	$ 526,544	$ 385,164	$ 60,906	$ 972,614
Ending Balance: Individually Evaluated for Impairment	$ 15,000	$ -	$ -	$ 15,000
Ending Balance: Collectively Evaluated for Impairment	$ 511,544	$ 385,164	$ 60,906	$ 957,614
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 42,311	$ -	$ -	$ 42,311
Ending Balance: Collectively Evaluated for Impairment	$ 48,940,820	$ 54,359,036	$ 6,396,506	$ 109,696,362

December 31, 2011	Consumer	Residential Real Estate	Business	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 745,394	$ 215,876	$ 145,094	$ 1,106,364
Provision for Loan Losses	429,114	229,444	(85,989)	572,569
Loans Charged-Off	(616,176)	(221,798)	-	(837,974)
Recoveries of Loans Previously Charged-Off	86,334	6,680	-	93,014
Balance at End of Year	$ 644,666	$ 230,202	$ 59,105	$ 933,973
Ending Balance: Individually Evaluated for Impairment	$ 42,600	$ -	$ -	$ 42,600
Ending Balance: Collectively Evaluated for Impairment	$ 602,066	$ 230,202	$ 59,105	$ 891,373
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 139,183	$ -	$ -	$ 139,183
Ending Balance: Collectively Evaluated for Impairment	$ 48,586,603	$ 55,231,575	$ 4,122,446	$ 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, 2012

	Credit Risk Profile by Payment Activity			
Payment Activity	Auto and RV	Consumer Unsecured	Visa Platinum	Indirect Auto
Performing	$ 24,084,525	$ 4,551,705	$ 7,418,329	$ 522,481
Non-Performing	123,107	105,434	39,572	16,764
Total	$ 24,207,632	$ 4,657,139	$ 7,457,901	$ 539,245

	Credit Risk Profile by Payment Activity			
Payment Activity	Indirect RV	Share Secured	Home Equity	First Mortgage
Performing	$ 11,434,207	$ 596,296	$ 25,604,665	$ 28,310,927
Non-Performing	90,711	-	306,769	136,675
Total	$ 11,524,918	$ 596,296	$ 25,911,434	$ 28,447,602

	Credit Risk Profile by Payment Activity			
Payment Activity	Member Business	Participations	Other Business	Total
Performing	$ 274,394	$ 889,006	$ 5,233,106	$ 108,919,641
Non-Performing	-	-	-	819,032
Total	$ 274,394	$ 889,006	$ 5,233,106	$ 109,738,673

December 31, 2011

	Credit Risk Profile by Payment Activity			
Payment Activity	Auto and RV	Consumer Unsecured	Visa Platinum	Indirect Auto
Performing	$ 20,928,043	$ 4,284,600	$ 7,470,341	$ 935,937
Non-Performing	208,490	9,028	-	-
Total	$ 21,136,533	$ 4,293,628	$ 7,470,341	$ 935,937

	Credit Risk Profile by Payment Activity			
Payment Activity	Indirect RV	Share Secured	Home Equity	First Mortgage
Performing	$ 14,011,140	$ 739,564	$ 29,608,563	$ 25,503,900
Non-Performing	138,643	-	119,112	-
Total	$ 14,149,783	$ 739,564	$ 29,727,675	$ 25,503,900

	Credit Risk Profile by Payment Activity			
Payment Activity	Member Business	Participations	Other Business	Total
Performing	$ 497,389	$ 918,194	$ 2,706,863	$ 107,604,534
Non-Performing	-	-	-	475,273
Total	$ 497,389	$ 918,194	$ 2,706,863	$ 108,079,807

NOTE 4 LOANS, NET (CONTINUED)

The following tables show an aging analysis of the loan portfolio by time past due:

December 31, 2012	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	$ 23,881,663	$ 202,862	$ -	$ 123,107	$ 24,207,632
Consumer Unsecured	4,457,438	94,267	-	105,434	4,657,139
Visa Platinum	7,325,488	92,841	-	39,572	7,457,901
Indirect Auto	521,746	735	-	16,764	539,245
Indirect RV	11,337,101	97,106	-	90,711	11,524,918
Share Secured	596,296	-	-	-	596,296
Home Equity	25,333,056	271,609	-	306,769	25,911,434
First Mortgage	28,310,927	-	-	136,675	28,447,602
Member Business	274,394	-	-	-	274,394
Participations	889,006	-	-	-	889,006
Other Business	5,233,106	-	-	-	5,233,106
	$ 108,160,221	$ 759,420	$ -	$ 819,032	$ 109,738,673

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
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
Share Secured	739,564	-	-	-	739,564
Home Equity	29,409,906	198,657	-	119,112	29,727,675
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
	$ 107,196,108	$ 408,426	$ -	$ 475,273	$ 108,079,807

Interest income foregone on nonaccrual loans approximated $82,000 and $114,000 for the years ended December 31, 2012 and 2011.

The following tables present information related to impaired loans:

December 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With An Allowance Recorded:					
Auto and RV	$ 42,311	$ 42,311	$ 15,000	$ 27,889	$ 721

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
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	-

NOTE 4 LOANS, NET (CONTINUED)

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 troubled debt restructurings during the years ending December 31, 2012 and 2011.

NOTE 5 PROPERTY AND EQUIPMENT, NET

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

	December 31,	
	2012	2011
Land	$ 44,670	$ 44,670
Building	558,686	558,686
Office Furniture and Equipment	2,212,835	2,184,322
Leasehold Improvements	49,639	47,460
Subtotal	2,865,830	2,835,138
Less: Accumulated Depreciation/Amortization	(2,135,400)	(1,829,275)
Total	$ 730,430	$ 1,005,863

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 $265,000 and $266,000 for the years ended December 31, 2012 and 2011, respectively.

The required minimum rental payments under the terms of these noncancelable leases at December 31, 2012, are as follows:

Year Ended December 31,	Amount
2013	$ 241,550
2014	242,350
2015	116,500
2016	57,400
2017	40,800
Thereafter	583,400
Total	$ 1,282,000

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31,	
	2012	2011
Share Savings	$ 35,449,052	$ 31,444,473
Share Drafts	14,100,646	10,679,790
Money Market	38,129,699	37,803,858
IRA Deposits	4,322,722	4,866,230
Other Deposits	74,514	77,123
Share and IRA Certificates	64,673,500	67,451,314
Total	$ 156,750,133	$ 152,322,788

The aggregate amounts of certificates in denominations of $100,000 or more were approximately $18,658,000 and $22,221,000 at December 31, 2012 and 2011, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $21,100 and $-0- at December 31, 2012 and 2011, respectively.

As of December 31, 2012, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2013	$ 31,175,679
2014	14,311,592
2015	8,946,598
2016	4,630,011
2017	5,609,620
Total	$ 64,673,500

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

At December 31, 2012 and 2011, the Credit Union had an available line of credit of $9,990,000 with Alloya 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, 2012 and 2011.

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, 2012, the most recent quarterly regulatory filing date, was 5.07%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2012, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2012, 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, 2012						
Net Worth	$ 19,658,770	11.04%	$ 10,681,989	6.00%	$ 12,462,321	7.00%
Risk-Based Net Worth Requirement	$ 9,026,281	5.07%	N/A	N/A	N/A	N/A
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

Because RBNWR at December 31, 2012, 5.07%, is less than the regulatory net worth ratio of 11.04%, 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, 2012 and 2011, are loans to the Credit Union's Board of Directors, Committee Members and Senior Executive Staff of approximately $1,021,000 and $1,097,000, 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, 2012 and 2011, are approximately $1,271,000 and $1,354,000, 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,	
	2012	2011
Commitments to Grant Collateralized Loans		
Home Equity Lines of Credit	$ 7,149,761	$ 7,155,902
Commercial Real Estate	643,859	590,537
Unfunded Unsecured Commitments Under Lines of Credit		
Overdraft Protection	849,900	821,317
Lines of Credit	2,005,124	1,626,487
Credit Card Commitments	20,039,649	18,145,596
	$ 30,688,293	$ 28,339,839

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.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Balance-Sheet Activities (Continued)

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

Recurring Basis

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 Company measures fair value refer to Note 1 – Summary of Significant Accounting Principles. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011:

December 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
Federal Agency Securities	$ -	$ 9,106,194	$ -	$ 9,106,194
Taxable Municipal Obligations	-	1,231,744	-	1,231,744
Asset-Backed Securities	-	832,165	-	832,165
Corporate Bonds	-	5,433,812	-	5,433,812
Mortgage-Backed Securities	-	25,265,978	-	25,265,978
457(b) Non-Qualified Plan Assets	-	75,034	-	75,034
Total Assets	$ -	$ 41,944,927	$ -	$ 41,944,927

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(b) Non-Qualified Plan Assets	-	65,138	-	65,138
Total Assets	$ -	$ 42,120,375	$ -	$ 42,120,375

NOTE 11 FAIR VALUE (CONTINUED)

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Deferred Compensation

457(b) non-qualified plan assets are invested in a variable annuity contract. The underlying assets are marketable securities. These are classified as Level 2 of the fair value hierarchy.

Financial Instruments

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the statements of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Credit Union.

The following disclosures represent financial instruments in which the ending balances at December 31, 2012 and 2011 are not carried at fair value in their entirety on the statements of financial condition.

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.

NOTE 11 FAIR VALUE (CONTINUED)

Financial Instruments (Continued)

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.

Loan Commitments: The Credit Union has entered into variable rate loan commitments at December 31, 2012 and 2011. 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:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and Cash Equivalents	$ 12,964,546	$ 12,964,546	$ 10,146,392	$ 10,146,392
Deposits in Other Financial Institutions	5,655,000	5,655,000	5,312,000	5,312,000
Loans, Net	109,034,503	111,365,000	107,782,468	110,465,000
Accrued Interest Receivable	404,223	404,223	501,303	501,303
Financial Liabilities				
Members' Share and Savings Accounts	$ 156,750,133	$ 157,470,000	$ 152,322,788	$ 153,134,000