NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

TWHC | TURNER, WARREN, HWANG & CONRAD AC
Certified Public Accountants & Consultants

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northrop Grumman Federal Credit Union

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northrop Grumman Federal Credit Union and subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Turner, Warren, Hwang + Conrad

TURNER, WARREN, HWANG & CONRAD
ACCOUNTANCY CORPORATION

March 13, 2012

100 North First Street, Suite 202 | Burbank, California 91502
T 818.954.9700 | F 818.955.8416 | W twhc.com

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 70,582,559	$ 77,236,543
Securities available for sale	363,377,105	334,517,976
Other investments	5,250,000	-
Loans to members	420,315,464	418,550,479
Accrued interest receivable	2,923,285	2,691,296
Property and equipment	7,268,404	7,219,532
NCUSIF deposit	7,237,351	7,176,198
Other assets	2,244,351	3,357,865
Total assets	$ 879,198,519	$ 850,749,889
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 767,766,848	$ 750,535,899
Borrowed funds	8,000,000	12,000,000
Accrued expenses and other liabilities	6,161,036	5,709,595
Total liabilities	781,927,884	768,245,494
Members' equity:		
Regular reserve	3,559,687	3,559,687
Undivided earnings	91,182,789	82,188,709
Accumulated other comprehensive income (loss)	2,528,159	(3,244,001)
Total members' equity	97,270,635	82,504,395
Total liabilities and members' equity	$ 879,198,519	$ 850,749,889

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
INTEREST INCOME		
Loans to members	$ 21,346,339	$ 22,303,699
Investments and cash and cash equivalents	10,602,704	10,946,976
Total interest income	31,949,043	33,250,675
INTEREST EXPENSE		
Members' share accounts	7,307,976	10,293,155
Borrowed funds	484,349	647,718
Total interest expense	7,792,325	10,940,873
NET INTEREST INCOME	24,156,718	22,309,802
PROVISION FOR LOAN LOSSES	1,514,903	3,644,763
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,641,815	18,665,039
NON-INTEREST INCOME		
Fees and charges	2,353,545	2,626,812
Other-than-temporary impairment losses on securities available for sale:		
Total other-than-temporary impairment losses	(1,819,244)	(1,831,998)
Less portion of other-than-temporary impairment losses recognized in other comprehensive income	1,193,132	1,568,229
Net impairment losses recognized in earnings	(626,112)	(263,769)
Net realized gain on sale of securities available for sale	1,776,232	1,658,397
Other income	2,093,032	2,047,619
Total non-interest income	5,596,697	6,069,059
NON-INTEREST EXPENSE		
Compensation and benefits	8,139,543	7,894,326
Operations	7,842,676	7,605,767
Occupancy	1,452,875	1,486,843
Temporary corporate credit union stabilization fund assessment	1,809,338	938,545
NCUSIF premium assessment	-	891,284
Total non-interest expense	19,244,432	18,816,765
NET INCOME	$ 8,994,080	$ 5,917,333

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
NET INCOME	$ 8,994,080	$ 5,917,333
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized gains (losses) on securities available for sale	6,922,280	(245,412)
Less: reclassification adjustment for net gain recognized in net income	(1,150,120)	(1,394,628)
Other comprehensive income (loss)	5,772,160	(1,640,040)
COMPREHENSIVE INCOME	$ 14,766,240	$ 4,277,293

The accompanying notes are an integral part of these consolidated financial statements

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Members' Equity

Years Ended December 31, 2011 and 2010

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009	$ 3,559,687	$ 76,271,376	$ (1,603,961)	$ 78,227,102
Comprehensive income:				
Net income	-	5,917,333	-	5,917,333
Other comprehensive loss	-	-	(1,640,040)	(1,640,040)
Total comprehensive income				4,277,293
Balance, December 31, 2010	3,559,687	82,188,709	(3,244,001)	82,504,395
Comprehensive income:				
Net income	-	8,994,080	-	8,994,080
Other comprehensive income	-	-	5,772,160	5,772,160
Total comprehensive income				14,766,240
Balance, December 31, 2011	$ 3,559,687	$ 91,182,789	$ 2,528,159	$ 97,270,635

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,994,080	$ 5,917,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,107,095	1,077,832
Provision for loan losses	1,514,903	3,644,763
Net amortization (accretion) of investments	7,137,664	(7,599,674)
Amortization of deferred loan origination costs, net	189,171	210,222
Other-than-temporary impairment losses realized on securities available for sale	626,112	263,769
Gain on sale of securities available for sale	(1,776,232)	(1,658,397)
Net change in:		
Accrued interest receivable	(231,989)	(107,820)
NCUSIF deposit	(61,153)	(958,999)
Other assets	1,509,260	28,131
Accrued expenses and other liabilities	451,441	687,805
Net cash provided by operating activities	19,460,352	1,504,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(320,770,682)	(450,589,416)
Proceeds from sales, maturities and principal payments received on securities available for sale	291,696,169	396,914,725
Net increase in other investments	(5,250,000)	-
Net (increase) decrease in loans to members	(3,864,805)	1,503,435
Purchases of property and equipment	(1,155,967)	(785,848)
Net cash used in investing activities	(39,345,285)	(52,957,104)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	17,230,949	78,431,390
Net decrease in borrowed funds	(4,000,000)	(4,000,000)
Net cash provided by financing activities	13,230,949	74,431,390
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,653,984)	22,979,251
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,236,543	54,257,292
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 70,582,559	$ 77,236,543

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Dividends paid on members' share accounts	$ 7,501,736	$ 10,490,016
Interest paid on borrowed funds	484,349	647,718
Transfer of loans to foreclosed assets	395,746	573,578

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Northrop Grumman Federal Credit Union (the credit union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The credit union provides a variety of financial services to its members. Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The credit union's primary deposit products are share accounts, and its primary lending products are real estate, automobile and unsecured loans.

The credit union's wholly owned subsidiary, Flight Plan Financial Services, Inc., provides insurance and investment services for members.

Field of Membership and Sponsor: Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The primary field of membership of the credit union is employees and former employees of Northrop Grumman Corporation.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Northrop Grumman Federal Credit Union and Flight Plan Financial Services, Inc. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Fair Value: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

A summary of the credit union's financial instruments and other accounts subject to fair value measurement and/or disclosure is presented in Note 15.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in financial institutions and all highly liquid debt instruments with original maturities of three months or less.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments: Investments that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as “available for sale” and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the costs of securities sold are determined using the specific-identification method.

Other investments are classified separately and stated at cost.

Loans to Members: The credit union grants mortgage and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and mortgage loans to members. Members’ ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the credit union’s field of membership.

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 and net deferred loan origination costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 60 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain loan fees and direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the credit union’s historical prepayment experience.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings (TDRs): In situations where, for economic or legal reasons related to a member's financial difficulties, the credit union grants a concession for other than an insignificant period of time to the member that the credit union would not otherwise consider, the related loan is classified as a troubled debt restructuring. The credit union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the credit union grants the member new terms that provide for a reduction of either interest or principal, the credit union measures any impairment on the restructuring using the methodology for individually impaired loans.

Allowance for Loan Losses: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into two segments: residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The classes within the residential real estate portfolio segment are first mortgages and home equity loans. The classes within the consumer portfolio segment are automobile, credit cards, and other consumer loans.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the residential real estate and consumer segments for impairment on a pooled basis, unless they represent troubled debt restructurings, as part of the general loan loss allowance. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided on loans not specifically identified as impaired. The allowance is determined by pooling residential real estate and consumer loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio, and duration of the current business cycle.

In estimating the allowance for loan losses, significant risk characteristics considered for the residential real estate segments are historical and expected future charge-offs, borrower's credit, and property collateral.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned: Assets acquired through or in lieu of loan foreclosure and included in other assets are held for sale and initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

Transfers of Financial Assets: Transfers of financial assets 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 or the ability to unilaterally cause the holder to return specific assets.

Property and Equipment: Land is carried at cost. Building and improvements, furniture and equipment, data processing equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Furniture and equipment and data processing 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.

NCUSIF Deposit: 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 insurance coverage to another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premium: A credit union is required to pay an annual premium equal to one-twelfth of 1% of its total insured shares unless the payments are waived or reduced by the NCUA Board. See Note 17 for the NCUA's special insurance premium assessment in 2011 and 2010.

Members' Share Accounts: Members' shares accounts are subordinated to all other liabilities of the credit union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of the dividend period and are 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 dividends.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the members' equity section in the accompanying consolidated statements of financial condition.

Income Taxes: The credit union is exempt from federal and California taxes on income. The credit union's wholly owned subsidiary, however, is subject to federal and state income taxes. The operations of the subsidiary resulted in immaterial income taxes for the years ended 2011 and 2010.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications: Certain account reclassifications have been made to the consolidated financial statements of the prior year in order to conform to classifications used in the current year.

Recent Accounting Pronouncements: In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-18—*Receivables (Topic 310-10)*: *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. This ASU clarifies that modifications of loans that are accounted for within a pool under Topic 310-10 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required with this ASU. The amendments in this ASU are effective for modifications of loans accounted for within pools under Topic 310-10 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively, and early application is permitted. Upon initial adoption of the guidance in this ASU, an entity may make a one-time election to terminate accounting for loans as a pool under Topic 310-10. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The adoption of this ASU did not have a material impact on the credit union's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20—*Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU expands existing disclosures to require entities to provide additional information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. Specifically, entities will be required to present a summary of activity in the allowance for credit losses, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables, all on a disaggregated basis. This ASU also requires an entity to provide additional disclosures on credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For nonpublic entities, the disclosures of period-end balances are effective for interim and annual reporting periods ending after December 15, 2011. For nonpublic entities, the disclosures of activity are effective for interim and annual reporting periods beginning on or after December 15, 2011. The adoption of this ASU did not have a material impact on the credit union's consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02—*Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. The ASU also ends the deferral issued in January 2010 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the related disclosure requirements of ASU No. 2010-20 are effective for the credit union's reporting periods ending on or after December 15, 2012. The adoption of this ASU is not expected to have a material impact on the credit union's consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In April 2011, the FASB issued ASU No. 2011-04—*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update amends existing guidance regarding the highest and best use and valuation premise by clarifying that these concepts are only applicable to measuring the fair value of nonfinancial assets. The update also clarifies that the fair value measurement of financial assets and financial liabilities with offsetting market risks or counterparty credit risks that are managed on a portfolio basis, when several criteria are met, can be measured at the net risk position.

Additional disclosures about Level 3 fair value measurements are required, including a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation process in place, and discussion of the sensitivity of fair value changes in unobservable inputs and interrelationships about those inputs as well disclosure of the level of the fair value of items that are not measured at fair value in the financial statements but disclosure of fair value is required. The provisions of ASU No. 2011-04 will be effective for the credit union's reporting period beginning after December 15, 2011 and should be applied prospectively. The adoption of this ASU did not have a material impact on the credit union's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05—*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This update amends current guidance to allow an entity the option of presenting the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the credit union's reporting period beginning after December 15, 2012 and should be applied retrospectively. Early adoption is permitted, and there are no required transition disclosures. The adoption of this ASU did not have a material impact on the credit union's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12—*Comprehensive (Topic 220): Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This guidance defers certain disclosure requirements of ASU No. 2011-05 pertaining to reclassifications of items out of accumulated other comprehensive income. The provisions of ASU No. 2011-12 are effective for the credit union's reporting period beginning after December 15, 2012. The adoption of this ASU will not have a material impact on the credit union's consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through March 13, 2012, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

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

2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 149,333,524	$ 1,328,618	$ (360,190)	$ 150,301,952
Mortgage-backed securities	211,515,422	3,430,254	(1,870,523)	213,075,153
	$ 360,848,946	$ 4,758,872	$ (2,230,713)	$ 363,377,105

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 62,745,538	$ 98,837	$ (222,422)	$ 62,621,953
Mortgage-backed securities	275,016,439	1,188,469	(4,308,885)	271,896,023
	$ 337,761,977	$ 1,287,306	$ (4,531,307)	$ 334,517,976

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010 are as follows:

2011	Fair Value	Continuous Unrealized Losses Existing for Less Than 12 Months	Continuous Unrealized Losses Existing for 12 Months or Longer	Total
Federal agency securities	$ 59,648,330	$ (360,190)	$ -	$ (360,190)
Mortgage-backed securities	80,444,135	(468,303)	(1,402,220)	(1,870,523)
	$ 140,092,465	$ (828,493)	$ (1,402,220)	$ (2,230,713)

2010	Fair Value	Continuous Unrealized Losses Existing for Less Than 12 Months	Continuous Unrealized Losses Existing for 12 Months Or Longer	Total
Federal agency securities	$ 24,118,322	$ (222,422)	$ -	$ (222,422)
Mortgage-backed securities	154,175,928	(2,557,372)	(1,751,513)	(4,308,885)
	$ 178,294,250	$ (2,779,794)	$ (1,751,513)	$ (4,531,307)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

There are 27 investments that have been in a continuous unrealized loss position for less than 12 months and four investments that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2011. The unrealized losses associated with these investments are considered temporary, as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 2 – INVESTMENTS (CONTINUED)

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

A loss for other-than-temporary impairment of available-for-sale non-government-backed mortgage-backed securities totaling $626,112 and $263,769 has been recognized in net income for the years ended December 31, 2011 and 2010, respectively, due to a significant deterioration in the credit quality of the underlying loans comprising these securities.

Other investments consist of the following:

		2011
Certificate of deposit in a corporate credit union	$	5,000,000
Contributed capital in a corporate credit union		250,000
	$	5,250,000

The certificate of deposit is generally non-negotiable and non-transferable and may incur substantial penalties for withdrawal prior to maturity.

The amortized cost and fair value of investments by contractual maturity at December 31, 2011 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.

A summary of investments by maturity at December 31, 2011 is as follows:

	Available for Sale		
Maturity	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ 250,000
Less than one year	15,116,221	15,149,005	5,000,000
One to five years	15,657,749	15,785,384	-
Five to ten years	12,040,587	11,990,556	-
Over ten years	106,518,967	107,377,007	-
	149,333,524	150,301,952	5,250,000
Mortgage-backed securities	211,515,422	213,075,153	-
	$ 360,848,946	$ 363,377,105	$ 5,250,000

NOTE 3 – LOANS TO MEMBERS

The following table presents total loans outstanding by portfolio segment and class of loans:

	2011	2010
Residential real estate:		
First mortgages:		
Fixed rate	$ 210,558,111	$ 204,869,983
Hybrid	12,813,625	14,796,949
Variable rate	929,864	1,118,931
	224,301,600	220,785,863
Home equity line of credit (HELOC):		
Variable rate	60,710,036	61,835,893
Fixed rate	26,908,674	32,968,941
	87,618,710	94,804,834
Total residential real estate	311,920,310	315,590,697
Consumer:		
Automobile	73,351,825	72,486,399
Credit cards	15,671,548	10,636,534
Other consumer loans, primarily unsecured	22,700,298	23,749,183
Total consumer	111,723,671	106,872,116
Total loans	423,643,981	422,462,813
Net deferred loan origination costs	707,537	536,687
Allowance for loan losses	(4,036,054)	(4,449,021)
Total loans, net	$ 420,315,464	$ 418,550,479

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

The activity in the allowance for loan losses and recorded investment in loans, by portfolio segment, for the year ended December 31, 2011 is as follows:

	Residential Real Estate	Consumer	Total
Allowance for loan losses:			
Beginning balance	$ 3,314,540	$ 1,134,481	$ 4,449,021
Charge-offs	(1,042,590)	(1,021,460)	(2,064,050)
Provision	731,405	783,498	1,514,903
Recoveries	6,316	129,864	136,180
Ending balance	$ 3,009,671	$ 1,026,383	$ 4,036,054
Ending balance: Individually evaluated for impairment	$ 1,289,830	$ 27,391	$ 1,317,221
Ending balance: Collectively evaluated for impairment	$ 1,719,841	$ 998,992	$ 2,718,833
Recorded loan balance:			
Ending balance	$ 311,920,310	$ 111,723,671	$ 423,643,981
Ending balance: Individually evaluated for impairment	$ 5,158,873	$ 41,015	$ 5,199,888
Ending balance: Collectively evaluated for impairment	$ 306,761,437	$ 111,682,656	$ 418,444,093
Net unamortized loan deferred costs	$ 699,351	$ 8,186	$ 707,537
Recorded accrued interests	$ 852,657	$ 433,130	$ 1,285,787

Credit Quality Indicators: The credit union assesses the credit quality of its residential real estate and consumer loans by delinquency status and FICO scores.

Delinquency Status: Residential real estate and consumer loans are assessed for credit quality by delinquency status and are placed into one of two categories. The first category is for borrowers who are current in their payments in accordance with their contractual terms, and the second category is for borrowers who have missed one or more payments and are past due 60 days or more. The following represents the credit quality of each class of residential real estate and consumer loans based on the delinquency status as of December 31, 2011:

	Current	Past Due	Total
First mortgages	$ 223,314,289	$ 987,311	$ 224,301,600
HELOC	86,865,612	753,098	87,618,710
Automobile	72,837,461	514,364	73,351,825
Credit cards	15,653,298	18,250	15,671,548
Other consumer	22,446,478	253,820	22,700,298
	$ 421,117,138	$ 2,526,843	$ 423,643,981

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

FICO Score: Residential real estate and consumer loans are assessed for credit quality by recent FICO score. The credit union obtains FICO scores at loan origination, and the scores are updated at least quarterly. Loans that trend upward toward higher levels are generally associated with a lower risk factor, whereas loans that migrate toward lower ratings will generally result in a higher risk factor being applied to the related loan balances.

	First Mortgages	HELOC	Automobile	Credit Cards	Other Consumer	Total
800 and above	$ 71,200,174	$ 14,977,677	$ 6,136,395	$ 1,163,949	$ 819,482	$ 94,297,677
720 to 799	105,394,386	44,071,557	34,658,462	8,583,794	8,884,345	201,592,544
680 to 719	24,864,488	11,903,685	12,260,709	3,181,469	5,105,678	57,316,029
640 to 679	11,220,889	7,407,518	9,871,616	1,613,982	3,364,828	33,478,833
580 to 639	4,014,556	4,123,551	6,118,847	746,442	2,468,388	17,471,784
579 and below	5,312,907	3,995,886	3,647,157	233,294	1,900,057	15,089,301
Unknown	2,294,200	1,138,836	658,639	148,618	157,520	4,397,813
	$ 224,301,600	$ 87,618,710	$ 73,351,825	$ 15,671,548	$ 22,700,298	$ 423,643,981

Nonaccrual and Past Due Loans: The following table presents information relating to the age and nonaccrual status of the loans by class as of December 31, 2011:

	Current	2–5 Months Past Due	6-11 Months Past Due	12 months and more past due	Total	Loans on Nonaccrual Status	60 Days or More Past Due and Still Accruing
Residential real estate:							
First mortgages	$ 223,314,289	$ 645,976	$ 341,335	$ -	$ 224,301,600	$ 353,708	$ 633,603
HELOC	86,865,612	513,759	239,339	-	87,618,710	308,718	444,381
	310,179,901	1,159,735	580,674	-	311,920,310	662,426	1,077,984
Consumer:							
Automobile	72,837,461	422,058	85,678	6,628	73,351,825	175,510	321,966
Credit cards	15,653,298	18,250	-	-	15,671,548	18,249	-
Other consumer	22,446,478	231,000	22,820	-	22,700,298	156,660	114,048
	$ 421,117,138	$ 1,831,043	$ 689,172	$ 6,628	$ 423,643,981	$ 1,012,845	$ 1,513,998

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

Impaired Loans: Impaired loans as of December 31, 2011 are summarized below. The average balances are calculated based on the month-end balances of the loans for the period reported, and the interest income on impaired loans is recognized on a cash basis when received.

	As of December 31, 2011			For the Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
First mortgages	$ 554,003	$ 547,256	$ -	$ 555,910	$ 19,717
HELOC	532,253	531,692	-	537,255	16,996
Automobile	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
First mortgages	2,926,829	2,923,059	674,081	2,947,403	62,933
HELOC	1,156,719	1,155,551	615,749	1,150,340	26,835
Automobile	21,348	21,348	10,674	21,502	245
Credit cards	-	-	-	-	-
Other consumer	19,725	19,667	16,717	19,696	-
Total:					
First mortgages	3,480,832	3,470,315	674,081	3,503,313	82,650
HELOC	1,688,972	1,687,243	615,749	1,687,595	43,831
Automobile	21,348	21,348	10,674	21,502	245
Credit cards	-	-	-	-	-
Other consumer	19,725	19,667	16,717	19,696	-
	$ 5,210,877	$ 5,198,573	$ 1,317,221	$ 5,232,106	$ 126,726

TDRs: A summary of loans and type of concession granted, presented by class, that were modified as TDRs during the year ended December 31, 2011 is as follows:

	Type of Concession				
	Interest Rate	Maturity Date	Principal Reduction	Other	Total
First mortgages	$ 640,196	$ -	$ -	$ -	$ 640,196
HELOC	120,473	-	-	659,011	779,484
Automobile	-	638,874	-	-	638,874
Other consumer	-	74,143	-	78,920	153,063
	$ 760,669	$ 713,017	$ -	$ 737,931	$ 2,211,617

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

A summary of loans, presented by class, that were modified as TDRs during the year ended December 31, 2011 and those restructurings for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring, are as follows:

	TDRs			TDRs That Subsequently Defaulted	
	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance
First mortgages	2	$ 640,196	$ 108,923	-	$ -
HELOC	12	779,484	9,662	5	329,068
Automobile	45	638,874	-	42	561,864
Other consumer	18	153,063	-	11	106,396
	77	$ 2,211,617	$ 118,585	58	$ 997,328

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for Fannie Mae totalled $6,477,000 and $8,780,000 at December 31, 2011 and 2010, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

The composition of property and equipment is summarized as follows:

	2011	2010
Land	$ 1,110,140	$ 1,110,140
Building and improvements	3,958,345	3,958,345
Data processing equipment	7,541,282	6,880,868
Leasehold improvements	2,924,680	2,959,873
Furniture and equipment	3,928,447	3,639,314
	19,462,894	18,548,540
Accumulated depreciation and amortization	(12,194,490)	(11,329,008)
	$ 7,268,404	$ 7,219,532

NOTE 6 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2011	2010
Regular shares	$ 153,818,870	$ 140,356,048
Share drafts	82,846,120	75,117,056
Money market	243,894,104	218,644,184
Individual retirement accounts	9,923,322	8,983,981
Certificates of deposit	277,284,432	307,434,630
	$ 767,766,848	$ 750,535,899

NOTE 6 – MEMBERS' SHARE ACCOUNTS (CONTINUED)

Dividend rates are set by the board of directors, and dividends are charged to operations. The aggregate amount of certificates in denominations of $100,000 or more was $121,215,000 and $133,428,000 at December 31, 2011 and 2010, respectively.

A summary of members' share accounts by maturity at December 31, 2011 is as follows:

Within one year	$ 179,289,869
One to three years	67,362,437
Three to five years	30,632,126
	$ 277,284,432

NOTE 7 – BORROWINGS

The credit union is a borrower under a Master Loan and Security Agreement (Master Agreement) with a corporate credit union. Fixed rate loan advances currently outstanding under the Master Agreement bear interest at rates ranging from 4.55% to 4.73% and are collateralized by all consumer loans plus four specified investment securities held in safekeeping at the corporate credit union. A Demand Loan and Security Agreement under the Master Agreement provides for a credit limit of $85,000,000 with interest rates determined at the time of the advance. As of December 31, 2011 and 2010, fixed rate loans under the agreement totaled $8,000,000 and $12,000,000, respectively.

In addition to the agreement described above, the credit union utilizes demand loan agreements with two other corporate credit unions. The terms of these agreements call for the pledging of all assets not already pledged as collateral under other borrowing agreements as security for any and all obligations taken by the credit union. The agreements provide for a combined credit limit of $9,700,000 with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2011 and 2010, there were no borrowings under these agreements. The agreements are annually reviewed for continuation by the lenders and the credit union.

NOTE 8 – LEASE COMMITMENTS

The credit union leases four offices. The operating leases contain renewal options and provisions requiring the credit union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2011 are as follows:

Years Ending December 31,	
2012	$ 1,147,941
2013	1,181,941
2014	1,215,906
2015	1,246,742
2016	1,237,148
Thereafter	2,828,712
	$ 8,858,390

Rent expense totaled $1,165,000 and $1,184,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES

The credit union is 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 first mortgage and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated 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 loans recorded in the consolidated financial statements.

The credit union had $999,000 and $4,285,000 in outstanding loan commitments at December 31, 2011 and 2010, respectively. The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31:

	2011	2010
HELOC	$ 83,352,192	$ 86,842,032
Lines of credit	62,334,865	64,048,390
Credit card	29,366,297	21,746,309
Courtesy pay program	9,698,558	10,568,421
	$ 184,751,912	$ 183,205,152

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. Since 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 member. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit are uncollateralized, 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.

NOTE 10 – LEGAL CONTINGENCIES

The credit union is party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of the credit union.

NOTE 11 – CONCENTRATION OF CREDIT RISK

At December 31, 2011, the credit union had no cash at various financial institutions that exceeded federally insured limits.

The NCUA approved the Temporary Corporate Credit Union Share Guarantee Program on January 28, 2009, effective March 1, 2009 and revised on August 31, 2010. The program provides a temporary guarantee by the NCUSIF of all shares (excluding paid-in capital and membership capital accounts) at participating corporate credit unions through December 31, 2012 with the option for quarterly extensions of the expiration date and a maximum maturity of two years. At December 31, 2011, the credit union did not have term certificates with a maturity date after the guarantee expiration date.

NOTE 11 – CONCENTRATION OF CREDIT RISK (CONTINUED)

The Federal Deposit Insurance Corporation (FDIC) announced the Temporary Liquidity Guarantee Program on October 14, 2008 to strengthen confidence and encourage liquidity in the banking system. The program included a (1) guarantee of newly issued senior unsecured debt of eligible institutions, including FDIC-insured banks and thrifts, as well as certain holding companies, and (2) provided full deposit insurance coverage for non-interest bearing deposit transaction accounts in FDIC-insured institutions, regardless of the dollar amount. From December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. This coverage is available to all depositors, including consumers, businesses, and government entities. The unlimited coverage is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

NOTE 12 – RELATED PARTY TRANSACTIONS

Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances. Loans to officials totaled $1,588,000 and $1,606,000 at December 31, 2011 and 2010, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

The credit union participates in a multiemployer retirement plan. Employees age 21 and older who have been employed by the credit union for three consecutive months are eligible to participate in the plan. The profit sharing portion of the plan is discretionary and non-contributory. The credit union makes a 3% profit sharing contribution to all eligible employees for each payroll period. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees.

The 401(k) portion allows eligible employees to defer a portion of their salary into the plan. The employer match for the 401(k) plan is $1 for every $1 deferred up to 5% of the eligible employee's compensation. All matching contributions to the 401(k) plan are 100% vested. The contribution to the profit sharing and 401(k) plan for the years ended December 31, 2011 and 2010 amounted to $410,000 and $416,000, respectively.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires the disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the credit union's various financial instruments. 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 estimates 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. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the credit union.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents: The carrying amount is a reasonable estimate of fair value based on the current availability of funds.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities Available for Sale: Fair values of marketable securities are usually based on quoted market prices. If quoted market prices were not available, fair value was estimated using quoted market prices of similar securities.

Other Investments: The carrying amounts of other investments approximate their fair value.

Loans to Members: Fair value is estimated by discounting the future cash flows using the current average rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Members' Share Accounts: The fair value of regular shares and share draft accounts is the carrying amount. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds: The carrying amounts of borrowed funds maturing within 90 days approximate their fair value. The fair value of other borrowed funds is estimated using discounted cash flow analyses based on the credit union's current incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance-Sheet Instruments: The fair value of off-balance-sheet commitments is estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the members. The estimated value of these commitments is not significant.

The estimated fair values of the credit union's financial instruments are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 70,583,000	$ 70,583,000	$ 77,237,000	$ 77,237,000
Securities available for sale	363,377,000	363,377,000	334,518,000	334,518,000
Other investments	5,250,000	5,250,000	-	-
Loans to members	420,315,000	427,253,000	418,550,000	421,302,000
Financial liabilities:				
Members' share accounts	767,767,000	771,053,000	750,536,000	754,053,000
Borrowed funds	8,000,000	8,003,000	12,000,000	12,016,000

NOTE 15 – FAIR VALUE MEASUREMENTS

The fair value of assets and liabilities measured on a recurring basis at December 31, 2011 and 2010 is as follows:

		Fair Value Measurements at Reporting Date Using		
2011	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale				
Federal agency securities	$ 150,301,952	$ 16,755,214	$ 133,546,738	$ -
Mortgage-backed securities:				
NCUA guaranteed notes	1,739,517	-	1,739,517	-
U.S. agency	208,826,124	3,172,500	205,653,624	-
Non U.S. agency	2,509,512	-	2,509,512	-
Total mortgage-backed securities	213,075,153	3,172,500	209,902,653	-
	$ 363,377,105	$ 19,927,714	$ 343,449,391	$ -
2010				
Securities available for sale				
Federal agency securities	$ 62,621,953	$ -	$ 62,621,953	$ -
Mortgage-backed securities:				-
NCUA guaranteed notes	1,911,597	-	1,911,597	-
U.S. agency	266,763,799	5,042,183	261,721,616	-
Non U.S. agency	3,220,627	-	3,220,627	-
Total mortgage-backed securities	271,896,023	5,042,183	266,853,840	-
	$ 334,517,976	$ 5,042,183	$ 329,475,793	$ -

The fair value of assets measured on a nonrecurring basis at December 31, 2011 and 2010 is as follows:

		Fair Value Measurements at Reporting Date Using		
2011	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,881,352	$ -	$ -	$ 3,881,352
2010				
Impaired loans	$ 3,096,597	$ -	$ -	$ 3,096,597

NOTE 15 – FAIR VALUE MEASUREMENTS (CONTINUED)

The fair values of impaired loans are measured based on the present value of future cash flows expected to be received or, for loans that are dependent on collateral for repayment, the estimated fair value of the collateral.

NOTE 16 – REGULATORY CAPITAL

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 consolidated 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 GAAP. The credit union's capital amounts and net worth classification 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 amounts and ratios (set forth in the table below) of net worth (as defined) to assets (as defined). Credit unions are also required to calculate a risk-based net worth (RBNW) ratio that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2011 and 2010 was 6.78% and 6.89%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. 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 framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification which management believes have changed the credit union's category.

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
2011	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 94,742,476	10.78%	$ 52,751,911	6%	$ 61,543,896	7%
RBNW requirement	59,609,660	6.78%	N/A	N/A	N/A	N/A
2010						
Net worth	$ 85,748,396	10.08%	$ 51,044,993	6.00%	$ 59,552,492	7.00%
RBNW requirement	58,616,667	6.89%	N/A	N/A	N/A	N/A

Because the RBNW requirement is less than the net worth ratio, the credit union retains its original category.

NOTE 17 – CORPORATE STABILIZATION PROGRAM

From late January 2009 to March 20, 2009, the NCUA Board approved a series of actions under its Corporate Stabilization Program designed to enhance and support a corporate credit union system facing unprecedented strains on liquidity and capital due to extraordinary market disruptions and the current economic climate.

On June 17, 2010, the NCUA Board approved an assessment of 0.134% of the credit union's insured shares as of March 31, 2010 and established September 30, 2010 as the deadline for the NCUA to repay $1.5 billion borrowed from the U.S. Department of Treasury. The credit union paid $938,545 in August 2010.

On September 16, 2010, the NCUA approved an assessment of 0.1242% of the credit union's insured shares as of June 30, 2010 to restore the NCUSIF equity ratio to 1.30%. The credit union paid $891,284 in November 2010 for this assessment.

In September 2010, the NCUA announced the Corporate System Resolution Plan, creating a "good bank/bad bank" structure. The plan isolates and funds legacy assets and allows the costs of resolution to be funded over ten years. The plan also establishes bridge corporate credit unions to conduct essential activities of the conserved corporate credit unions with no interruption in member services. The funding of legacy assets is being handled by securitizing the assets in the form of senior debt instruments called NCUA Guaranteed Notes that are backed by the full faith and credit of the U.S. government. As of December 31, 2010, $17.8 billion of notes had been issued. Legacy assets totaling $27 billion are expected to be securitized in the future.

On August 29, 2011, the NCUA approved an assessment of 0.25% of the credit union's insured shares as of June 30, 2011 to help cover corporate credit union stabilization costs. The NCUA estimated that the agency will have to charge between $7.0 billion and $9.0 billion in future assessments over several years to pay for the remaining losses from troubled assets at corporate credit unions. The credit union paid a premium assessment expense of $1,809,338 in September 2011.

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