

MIDWEST CORPORATE FEDERAL CREDIT UNION
BISMARCK, NORTH DAKOTA

Financial Statements

As Of December 31, 2003 and 2002

With Independent Auditor's Report

MIDWEST CORPORATE FEDERAL CREDIT UNION

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1
Balance Sheets	2
Statements of Operations	3
Statements of Members' Equity and Comprehensive Income	4
Statements of Cash Flows	5
Notes to Financial Statements	6-14
Schedules of Non-interest Expenses	15

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Supervisory Committee of
Midwest Corporate Federal Credit Union
Bismarck, North Dakota

We have audited the accompanying balance sheets of Midwest Corporate Federal Credit Union as of December 31, 2003 and 2002 and the related statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midwest Corporate Federal Credit Union as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the years ended December 31, 2003 and 2002 taken as a whole. The supplementary information on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the years ended December 31, 2003 and 2002 has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRADY, MARTZ & ASSOCIATES, P.C.

January 15, 2004

MIDWEST CORPORATE FEDERAL CREDIT UNION
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS

	2003	2002
ASSETS		
Cash and cash equivalents	\$ 3,235,626	\$ 2,458,505
Interest bearing deposits with other financial institutions	161,151,501	190,835,917
Investment securities	3,245,782	1,001,190
Loans	3,246,152	2,273,420
Interest receivable	344,499	408,405
Other receivables	71,855	58,896
Future dated ACH	14,467,462	10,344,759
Prepaid expenses and other assets	68,100	80,292
Property and equipment (net of accumulated depreciation)	58,424	32,797
Other investments	299,980	124,070
TOTAL ASSETS	\$ 186,189,383	\$ 207,618,251

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES		
Members deposits	\$ 162,000,742	\$ 176,044,166
Borrowed funds	3,168,332	14,900,326
Future dated ACH	14,467,462	10,344,759
Interest payable	44,447	113,592
Accrued expenses and other liabilities	46,202	41,745
Total liabilities	\$ 179,727,186	\$ 201,444,588
MEMBERS' EQUITY		
Regular reserve	\$ 3,087,718	\$ 3,087,718
Reserve for contingencies	104,980	104,980
Undivided earnings	3,268,446	2,981,030
Unrealized gain (loss) on securities available for sale	1,053	(65)
Total members' equity	\$ 6,462,197	\$ 6,173,663
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 186,189,383	\$ 207,618,251

SEE NOTES TO FINANCIAL STATEMENTS

MIDWEST CORPORATE FEDERAL CREDIT UNION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
INTEREST INCOME		
Loans	\$ 60,617	\$ 77,408
Investment securities	21,153	19,475
Deposits with other financial institutions	<u>3,137,581</u>	<u>4,002,578</u>
Total interest income	<u>\$ 3,219,351</u>	<u>\$ 4,099,461</u>
INTEREST EXPENSE		
Deposits	\$ 2,551,566	\$ 3,467,945
Borrowed funds	<u>49,776</u>	<u>66,054</u>
Total interest expense	<u>\$ 2,601,342</u>	<u>\$ 3,533,999</u>
NET INTEREST INCOME	<u>\$ 618,009</u>	<u>\$ 565,462</u>
NON-INTEREST INCOME		
Other income	<u>\$ 242,553</u>	<u>\$ 203,644</u>
NON-INTEREST EXPENSES		
Salaries and employee benefits	\$ 241,947	\$ 201,659
Occupancy expenses	15,518	15,066
Other expenses	<u>315,681</u>	<u>317,105</u>
Total non-interest expenses	<u>\$ 573,146</u>	<u>\$ 533,830</u>
NET INCOME	<u>\$ 287,416</u>	<u>\$ 235,276</u>

SEE NOTES TO FINANCIAL STATEMENTS

MIDWEST CORPORATE FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>Regular Reserve</u>	<u>Reserve for Contingencies</u>	<u>Undivided Earnings</u>	<u>Unrealized gain/loss on available for sale securities</u>	<u>Total</u>
Balance - January 1, 2002	\$ 2,901,614	\$ 104,980	\$ 2,931,858	\$ (149)	\$ 5,938,303
Net income	0	0	235,276	0	235,276
Transfer from undivided earnings to regular reserve	186,104	0	(186,104)	0	0
Change in unrealized gain (loss) on securities available for sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>84</u>	<u>84</u>
Total comprehensive income					<u>\$ 235,360</u>
Balance - December 31, 2002	\$ 3,087,718	\$ 104,980	\$ 2,981,030	\$ (65)	\$ 6,173,663
Net income	0	0	287,416	0	287,416
Change in unrealized gain (loss) on securities available for sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,118</u>	<u>1,118</u>
Total comprehensive income					<u>\$ 288,534</u>
Balance - December 31, 2003	<u>\$ 3,087,718</u>	<u>\$ 104,980</u>	<u>\$ 3,268,446</u>	<u>\$ 1,053</u>	<u>\$ 6,462,197</u>

SEE NOTES TO FINANCIAL STATEMENTS

MIDWEST CORPORATE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 287,416	\$ 235,276
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	10,026	14,256
Amortization of premium on securities available for sale	1,373	833
Effects on operating cash flows due to changes in:		
Interest receivable	63,906	54,527
Other receivables and prepaid expenses	(767)	(26,343)
Interest payable	(69,145)	(34,104)
Accrued expenses and other liabilities	4,458	(2,235)
Future dated ACH	(4,122,703)	(926,278)
Future dated ACH	<u>4,122,703</u>	<u>926,278</u>
Net cash provided by operating activities	<u>\$ 297,267</u>	<u>\$ 242,210</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in interest bearing deposits with other financial institutions	\$ 29,684,416	\$ (10,158,776)
Increase in loans	(972,732)	(1,115,660)
Purchase of securities available for sale	(2,244,847)	0
Purchase of other investments	(175,910)	0
Purchase of property and equipment	<u>(35,655)</u>	<u>(5,334)</u>
Net cash provided (used) by investing activities	<u>\$ 26,255,272</u>	<u>\$ (11,279,770)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in members' deposits	\$ (14,043,424)	\$ 803,172
Increase (decrease) in borrowed funds	<u>(11,731,994)</u>	<u>12,545,231</u>
Net cash provided (used) by financing activities	<u>\$ (25,775,418)</u>	<u>\$ 13,348,403</u>
INCREASE IN CASH AND CASH EQUIVALENTS	\$ 777,121	\$ 2,310,843
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,458,505</u>	<u>147,662</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,235,626</u></u>	<u><u>\$ 2,458,505</u></u>
SCHEDULE OF OTHER CASH FLOW INFORMATION		
Cash paid during the year for interest and dividends	\$ 2,670,487	\$ 3,568,103

SEE NOTES TO FINANCIAL STATEMENTS

MIDWEST CORPORATE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Midwest Corporate Federal Credit Union (MCFCU) is a corporate credit union for North Dakota credit unions. MCFCU lends money to its members. Money available for lending is also received from its members for which the credit union issues shares, share drafts, and share certificates.

Cash and cash equivalents – For the purposes of reporting cash flows, cash and cash equivalents includes amounts due from financial institutions, all of which mature within 90 days.

Investment securities – The Credit Union's investments in securities are all classified and accounted for as securities available for sale. Securities classified as available for sale are those debt securities that the Credit Union intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are reported at fair value with unrealized gains or losses excluded from earnings and reported in other comprehensive income.

The Credit Union owns common stock in CNBS, Inc. Because CNBS, Inc. is a closely-held company and its stock value is not readily determinable, the Credit Union has recorded the investment at cost.

The Credit Union is a member of Corporate Access, LLC and Primary Financial, LLC. Because Corporate Access, LLC and Primary Financial, LLC are closely-held companies and their value is not readily determinable, the Credit Union has recorded the investments at cost.

Gains and losses on the sale of securities are recorded on the trade date and are 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.

Loans - Loans are reported at their outstanding principal balance.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 60 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual 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.

NOTE 1 – (CONTINUED)

The Credit Union has determined that the application of Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," does not have a material effect on their financial statements. As such these fees and costs have been recognized during the period they are collected and incurred.

Allowance for loan losses – The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility 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. At December 31, 2003 and 2002, management has determined that an allowance for loan losses was not required.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Impairment is measured on a loan-by-loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. There were no impaired loans as of December 31, 2003 and 2002.

Property and equipment – Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Vehicle	5 years
Computer equipment	2 years
Furniture and equipment	10 years

Members' deposit accounts – Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposit accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' deposit accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

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

Income taxes – Midwest Corporate Federal Credit Union is exempt by statute from federal and state income taxes.

Future dated ACH - The future dated ACH account is an automated clearing house account. The asset and liability accounts have equal balances on the balance sheet. NCUA began to require this account for corporate credit unions in 2001.

NOTE 1 – (CONTINUED)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates.

NOTE 2 - **INTEREST BEARING DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS**

Interest bearing deposits with other financial institutions consist of the following deposits at the U.S. Central Credit Union:

	<u>2003</u>	<u>2002</u>
U.S. Central Credit Union		
Certificates of deposit	\$ 93,850,000	\$ 112,650,000
Daily deposit	36,088,772	45,293,370
Membership capital shares	4,391,397	5,450,220
Paid in capital shares	3,300,000	3,300,000
Central liquidity shares	2,868,332	2,600,327
Other financial institutions		
Certificates of deposit	<u>20,653,000</u>	<u>21,542,000</u>
	<u>\$ 161,151,501</u>	<u>\$ 190,835,917</u>

NOTE 3 – **INVESTMENT SECURITIES**

Securities have been classified in the balance sheet as securities available for sale according to management's intent. Securities at December 31, 2003 consisted of asset-backed pass-through securities with an amortized cost of \$3,244,729 with gross unrealized gains in the amount of \$1,053 for a fair value of \$3,245,782. Securities at December 31, 2002 consisted of asset-backed pass-through securities with an amortized cost of \$1,001,255 with gross unrealized losses in the amount of \$65 for a fair value of \$1,001,190.

The following is a summary of maturities of securities available-for-sale as of December 31, 2003:

	<u>Securities Available-for-sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due within one year	\$ 1,000,421	\$ 1,000,609
Due within five years	2,244,308	2,245,173
	<u>\$ 3,244,729</u>	<u>\$ 3,245,782</u>

Securities with an amortized cost of \$2,005,246 and an estimated fair value of \$2,006,288 were pledged as of December 31, 2003 to the Federal Reserve Bank as collateral on their deposits. Securities with an amortized cost of \$1,001,255 and an estimated fair value of \$1,001,190 were pledged as of December 31, 2002.

NOTE 4 – OTHER INVESTMENTS

Midwest Corporate Federal Credit Union is a corporate member of the U.S. Central Credit Union (USCCU) and, as such, owns capital shares of the USCCU. On January 1, 1998, USCCU transferred ownership of CNBS, Inc. (CNBS), a wholly-owned registered broker/dealer, to the 36 corporate credit unions. Each corporate credit union received 1,000 shares of Class A common stock of CNBS.

The above transaction was treated as a non-cash dividend from USCCU. Midwest Corporate Federal Credit Union recorded the transaction as an investment and non-cash dividend income in an amount of \$104,980, which is the book value of the 1,000 shares received. On January 12, 1998, the CNBS board of directors made an offer to repurchase the Class A shares from the corporate credit unions for book value. Midwest Corporate Federal Credit Union's board of directors declined the offer.

Midwest Corporate Federal Credit Union also owned 101 shares of Class B common stock of CNBS at December 31, 2002. The price per share is \$90 for a value of \$9,090.

During 2003, CNBS converted both Class A and Class B stock to a single class of stock. Midwest Corporate bought 1,399 additional shares during 2003 at a cost of \$90 per share. Their total investment at December 31, 2003 is \$239,980.

Midwest Corporate Federal Credit Union owns a membership interest in Corporate Access, LLC. The cost of the membership interest is \$10,000. Corporate Access, LLC is a five-member corporate Credit Union Service Organization formed for services yet to be determined.

Midwest Corporate purchased a share of Primary Financial, LLC during 2003 at a cost of \$50,000. Primary Financial is a 29 member corporate Credit Union Service Organization formed to administrate the SimpliCD program.

NOTE 5 – LOANS

The components of loans at December 31, 2003 and 2002, are as follows:

	<u>Interest rate</u>	<u>Maturity date</u>	<u>2003</u>	<u>2002</u>
Member lines of credit	2.00%	06/30/04	\$ 946,152	\$ 973,420
Term loans	Various	Various	<u>2,300,000</u>	<u>1,300,000</u>
			<u>\$ 3,246,152</u>	<u>\$ 2,273,420</u>

There were no impaired loans as of December 31, 2003 and 2002.

Member lines of credit carry variable interest rates, while term loans are carried at fixed interest rates.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2003, and 2002.

	<u>2003</u>	<u>2002</u>
Vehicle	\$ 46,082	\$ 24,263
Computer equipment	35,000	29,203
Other equipment	10,877	10,877
Furniture and fixtures	29,111	29,111
Leasehold improvements	898	898
Computer software	579	579
	<u>\$ 122,547</u>	<u>\$ 94,931</u>
Accumulated depreciation	<u>64,123</u>	<u>62,134</u>
	<u>\$ 58,424</u>	<u>\$ 32,797</u>

Depreciation expense totaled \$10,026 and \$14,256 for the years ended December 31, 2003 and 2002.

NOTE 7 - MEMBERS' DEPOSITS

The composition of members' deposits at December 31, 2003 and 2002 is as follows:

	Rates at <u>December 31, 2003</u>	<u>2003</u>	<u>2002</u>
Daily high yield	0.93%	\$ 108,492,785	\$ 120,942,979
Uncollected deposits	0.00%	2,691,993	2,304,113
Membership capital share deposits	0.97%	<u>5,525,053</u>	<u>5,208,770</u>
		<u>\$ 116,709,831</u>	<u>\$ 128,455,862</u>
Share certificates	Under 2.00%	25,097,911	4,252,304
	2.01 to 3.00%	13,293,000	26,036,000
	3.01 to 4.00%	3,600,000	10,900,000
	above 4.01%	<u>3,300,000</u>	<u>6,400,000</u>
		<u>\$ 45,290,911</u>	<u>\$ 47,588,304</u>
Total shares and certificates		<u>\$ 162,000,742</u>	<u>\$ 176,044,166</u>

At December 31, 2003, the scheduled maturities of share certificates are as follows:

2004	\$ 23,393,911
2005	12,997,000
2006	5,000,000
2007	2,500,000
2008	<u>1,400,000</u>
	<u>\$ 45,290,911</u>

The aggregate amount of member shares and savings certificates in excess of NCUA insurance coverage of \$100,000 was approximately \$156,176,000 and \$170,200,000 at December 31, 2003 and 2002, respectively. The membership capital share deposits are not covered by NCUA insurance.

NOTE 8 - BORROWED FUNDS

Midwest Corporate Federal Credit Union maintains a line of credit with the U.S. Central Credit Union (USCCU) providing MCFCU with borrowings not to exceed \$35,000,000. The loan balance was \$300,000 and \$12,300,000 as of December 31, 2003 and 2002, respectively. The line of credit is collateralized by substantially all the deposits of MCFCU. This line of credit expires on the later of July 14, 2004 or upon notification from USCCU of renewal or amendment of the agreement.

Additionally, the Credit Union has a line of credit with the Bank of North Dakota providing MCFCU with borrowings not to exceed \$2,000,000.

Midwest Corporate Federal Credit Union has a Central Liquidity Facility (CLF) loan with the U.S. Central Credit Union, which allows MCFCU to act as an agent for a member credit union to assist the member credit union in obtaining a CLF loan. The loan balance was \$2,868,332 and \$2,600,326 as of December 31, 2003 and 2002, respectively. The loan is collateralized by central liquidity shares at U.S. Central Credit Union (see Note 2)

NOTE 9 - RELATED PARTY TRANSACTIONS

Midwest Corporate Federal Credit Union has entered into a contract with the North Dakota Credit Union League whereby the League provides administrative services, employees, use of equipment, and floor space for the Credit Union. Total expenses incurred by Midwest Corporate Federal Credit Union for overhead expenses were \$296,617 and \$260,827 for the years ended December 31, 2003 and 2002, respectively. The Credit Union has recorded liabilities payable to the North Dakota Credit Union League of \$25,146 and \$26,236 as of December 31, 2003 and 2002, respectively.

NOTE 10 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments are commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As of December 31, 2003, the Credit Union was exposed to credit risk on commitments to extend credit having a contract amount of \$105,535,000, of which \$946,152 had been funded, leaving an unfunded commitment of \$104,588,848. At December 31, 2002, the Credit Union was exposed to credit risk on commitments to extend credit having a contract amount of \$97,720,000, of which \$973,427 had been funded, leaving an unfunded commitment of \$96,746,573.

NOTE 10 – (CONTINUED)

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Also, in its sole discretion, the Credit Union may at anytime refuse any requests from the member for a loan advance. 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 credit worthiness on a case-by-case basis.

The amount of collateral obtained, if it is deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral includes substantially all the assets of the member credit union. The Credit Union has not incurred any losses on its commitments in 2003 or 2002.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires the disclosure of estimated fair values of all asset, liability, and off-balance-sheet financial instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. Because no market exists for a significant portion of the Credit Union's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Credit Union's financial instruments as of December 31, 2003 and 2002 are as follows:

	2003		2002	
	Carrying Value (In Thousands)	Fair Value	Carrying Value (In Thousands)	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 3,236	\$ 3,236	\$ 2,459	\$ 2,459
Interest bearing deposits with other financial institutions	161,152	164,746	190,836	191,701
Investment securities	3,246	3,246	1,002	1,002
Loans	3,246	3,263	2,273	2,273
Interest receivable	<u>344</u>	<u>344</u>	<u>408</u>	<u>408</u>
Total financial assets	<u>\$ 171,224</u>	<u>\$ 174,835</u>	<u>\$ 196,978</u>	<u>\$ 197,843</u>

NOTE 11 – (CONTINUED)

	2003		2002	
	Carrying Value (In Thousands)	Fair Value	Carrying Value (In Thousands)	Fair Value
Financial liabilities:				
Members' deposits	\$ 162,001	\$ 162,130	\$ 176,044	\$ 176,549
Borrowed funds	3,168	3,168	14,900	14,900
Interest payable	<u>44</u>	<u>44</u>	<u>113</u>	<u>113</u>
Total financial liabilities	<u>\$ 165,213</u>	<u>\$ 165,342</u>	<u>\$ 191,058</u>	<u>\$ 191,562</u>

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents – The carrying amounts approximate their fair value.

Interest bearing deposits with other financial institutions – Fair values for interest bearing deposits with other financial institutions are based on quoted market prices.

Investment securities – Fair values for investment securities are based on quoted market prices. The fair values of investments in government corporations approximate carrying values.

Loans – For all variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposits – The fair values disclosed for share accounts are, by definition, equal to the amount payable on demand at the reporting date (carrying amounts). Fair values for fixed-rate share certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected maturities on time deposits.

Borrowed funds – The fair values of the Credit Union's borrowed funds are estimated using discounted cash flow analysis based on the Credit Union's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest – The carrying amounts of accrued interest approximate their fair values.

NOTE 12 - **ADVERTISING COSTS**

Advertising costs, which were expensed as incurred, totaled \$11,365 and \$15,791 for the years ended December 31, 2003 and 2002, respectively.

NOTE 13 - OTHER COMPREHENSIVE INCOME

Changes in and determination of accumulated other comprehensive income are as follows:

	Unrealized Gain (Loss) on Securities Available for Sale	
	<u>2003</u>	<u>2002</u>
Balance, beginning of year	\$ (65)	\$ (149)
Unrealized holding gains (losses) arising during the period	<u>1,118</u>	<u>84</u>
Balance, end of year	<u>\$ 1,053</u>	<u>\$ (65)</u>

MIDWEST CORPORATE FEDERAL CREDIT UNION
SCHEDULES OF NON-INTEREST EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Salaries and benefits	\$ 241,947	\$ 201,659
Occupancy and equipment expenses	15,518	15,066
Administrative expenses	21,720	20,418
General expenses	18,469	19,595
Travel and conferences	33,194	26,143
Bank service charges	101,111	102,577
Examination fees	23,686	23,508
Bond premium	4,912	4,912
Dues	8,550	8,250
Annual meeting	12,081	11,554
Audit expense	16,365	13,475
Directors and officers liability insurance	2,015	2,015
Advertising and marketing	11,364	15,792
Depreciation	10,026	14,256
Telephone charges	12,124	12,629
Donations and contributions	1,064	620
Business resumption facility fee	2,400	2,400
Consulting fees	33,601	36,975
Miscellaneous	<u>2,998</u>	<u>1,986</u>
	<u>\$ 573,146</u>	<u>\$ 533,830</u>