

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
BISMARCK, NORTH DAKOTA

*FINANCIAL STATEMENTS*

AS OF

DECEMBER 31, 2005 AND 2004

AND

*INDEPENDENT AUDITOR'S REPORT*

# MIDWEST CORPORATE FEDERAL CREDIT UNION

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## 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, 2005 and 2004 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, 2005 and 2004, 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.

*Brady, Martz & Associates*

BRADY, MARTZ & ASSOCIATES, P.C.

January 13, 2006

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004

**ASSETS**

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 362,276	\$ 2,015,573
Interest bearing deposits with other financial institutions	124,999,790	136,511,238
Investment securities		
Available-for-sale	1,930,279	1,238,366
Held-to-maturity	500,000	500,000
Loans	18,443,462	14,503,804
Interest receivable	860,889	434,540
Other receivables	46,774	41,480
Future dated ACH	11,744,473	12,170,920
Prepaid expenses and other assets	57,204	59,078
Property and equipment (net of accumulated depreciation)	40,304	47,535
Other investments	289,980	299,980
<b>TOTAL ASSETS</b>	<b>\$159,275,431</b>	<b>\$ 167,822,514</b>

**LIABILITIES AND MEMBERS' EQUITY**

LIABILITIES		
Members deposits	\$131,867,772	\$ 141,917,400
Borrowed funds	8,300,000	6,800,000
Future dated ACH	11,744,473	12,170,920
Interest payable	384,374	133,455
Accrued expenses and other liabilities	46,733	52,382
Total liabilities	<b>\$152,343,352</b>	<b>\$ 161,074,157</b>
MEMBERS' EQUITY		
Regular reserve	\$ 3,087,718	\$ 3,087,718
Undivided earnings	3,845,162	3,660,054
Unrealized gain (loss) on securities available for sale	(801)	585
Total members' equity	<b>\$ 6,932,079</b>	<b>\$ 6,748,357</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$159,275,431</b>	<b>\$ 167,822,514</b>

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>INTEREST INCOME</b>		
Loans	\$ 606,035	\$ 309,329
Investment securities	67,708	34,329
Deposits with other financial institutions	<u>4,610,194</u>	<u>2,689,529</u>
Total interest income	<u>\$ 5,283,937</u>	<u>\$ 3,033,187</u>
<b>INTEREST EXPENSE</b>		
Deposits	\$ 4,413,868	\$ 2,172,880
Borrowed funds	<u>315,381</u>	<u>230,068</u>
Total interest expense	<u>\$ 4,729,249</u>	<u>\$ 2,402,948</u>
<b>NET INTEREST INCOME</b>	<u>\$ 554,688</u>	<u>\$ 630,239</u>
<b>NON-INTEREST INCOME</b>		
Other income	<u>\$ 270,309</u>	<u>\$ 283,410</u>
<b>NON-INTEREST EXPENSES</b>		
Salaries and employee benefits	\$ 290,245	\$ 286,732
Occupancy expenses	16,303	15,936
Other expenses	<u>333,341</u>	<u>324,353</u>
Total non-interest expenses	<u>\$ 639,889</u>	<u>\$ 627,021</u>
<b>NET INCOME</b>	<u>\$ 185,108</u>	<u>\$ 286,628</u>

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF MEMBERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<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, 2004	\$3,087,718	\$ 104,980	\$ 3,268,446	\$ 1,053	\$ 6,462,197
Transfer	0	(104,980)	104,980	0	0
Net income	0	0	286,628	0	286,628
Change in unrealized gain (loss) on securities available for sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>(468)</u>	<u>(468)</u>
Total comprehensive income					<u>\$ 286,160</u>
Balance - December 31, 2004	\$3,087,718	\$ 0	\$ 3,660,054	\$ 585	\$ 6,748,357
Net income	0	0	185,108	0	185,108
Change in unrealized gain (loss) on securities available for sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,386)</u>	<u>(1,386)</u>
Total comprehensive income					<u>\$ 183,722</u>
Balance - December 31, 2005	<u>\$3,087,718</u>	<u>\$ 0</u>	<u>\$ 3,845,162</u>	<u>\$ (801)</u>	<u>\$ 6,932,079</u>

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 185,108	\$ 286,628
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	16,739	15,601
Amortization of premium on securities available-for-sale	1,701	2,510
(Gain) loss on sale of investments available-for-sale	3,549	(523)
Gain on sale of equipment	(150)	(3,650)
Effects on operating cash flows due to changes in:		
Interest receivable	(426,349)	(90,041)
Other receivables and prepaid expenses	(3,420)	39,398
Interest payable	250,919	89,008
Accrued expenses and other liabilities	(5,649)	6,179
Future dated ACH	426,447	2,296,542
Future dated ACH	<u>(426,447)</u>	<u>(2,296,542)</u>
Net cash provided by operating activities	<u>\$ 22,448</u>	<u>\$ 345,110</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in interest bearing deposits with other financial institutions	\$ 11,511,448	\$ 24,640,263
Increase in loans	(3,939,658)	(11,257,652)
Proceeds from sale of investments available-for-sale	305,000	2,004,961
Proceeds from sale of equipment	150	3,649
Purchase of securities available-for-sale	(1,000,000)	0
Purchase of securities held-to-maturity	0	(500,000)
Sale of other investments	6,451	0
Purchase of property and equipment	<u>(9,508)</u>	<u>(4,710)</u>
Net cash provided by investing activities	<u>\$ 6,873,883</u>	<u>\$ 14,886,511</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in members' deposits	\$ (10,049,628)	\$ (20,083,342)
Increase in borrowed funds	<u>1,500,000</u>	<u>3,631,668</u>
Net cash used by financing activities	<u>\$ (8,549,628)</u>	<u>\$ (16,451,674)</u>

STATEMENTS OF CASH FLOWS (CONTINUED)

	2005	2004
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (1,653,297)	\$ (1,220,053)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,015,573	3,235,626
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 362,276	\$ 2,015,573
SCHEDULE OF OTHER CASH FLOW INFORMATION		
Cash paid during the year for interest and dividends	\$ 4,179,896	\$ 2,313,940

SEE NOTES TO FINANCIAL STATEMENTS

**MIDWEST CORPORATE FEDERAL CREDIT UNION**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of operations** – Midwest Corporate Federal Credit Union (MCFCU) is a federally chartered corporate credit union. 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 classified and accounted for as follows:

- **Held-to-Maturity:** Secondary capital equity deposits which the Credit Union has the positive intent and ability to hold to maturity are reported at cost.
- **Available-for-Sale:** Government agency notes and asset backed securities are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in other comprehensive income. 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 held-to-maturity and available-for-sale 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 investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the date of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio.

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.

NOTE 1 – (CONTINUED)

The Credit Union is a member of Primary Financial, LLC. Because Primary Financial, LLC is a closely-held company and its value is not readily determinable, the Credit Union has recorded the investment at cost.

**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.

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, 2005 and 2004, 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, 2005 and 2004.

NOTE 1 – (CONTINUED)

**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 clearinghouse 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.

**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:

	<u>2005</u>	<u>2004</u>
U.S. Central Federal Credit Union		
Certificates of deposit	\$ 97,515,000	\$ 87,700,000
Daily deposit	16,113,663	26,684,965
Membership capital shares	3,683,127	3,664,273
Paid in capital shares	3,300,000	3,300,000
Other financial institutions		
Certificates of deposit	<u>4,388,000</u>	<u>15,162,000</u>
	<u>\$ 124,999,790</u>	<u>\$ 136,511,238</u>

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

Accounts at U.S. Central Federal Credit Union are insured by NCUA up to \$100,000. The Credit Union currently has approximately \$121,000,000 in cash equivalents in excess of insurance coverage.

**NOTE 4 – INVESTMENT SECURITIES – HELD-TO-MATURITY**

<u>2005</u>	<u>Rate</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>
Securities held-to-maturity:					
Secondary capital deposits	5.50 %	\$ <u>500,000</u>	\$ <u>20,270</u>	\$ <u>0</u>	\$ <u>520,270</u>

<u>2004</u>	<u>Rate</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>
Securities held-to-maturity:					
Secondary capital deposits	5.50 %	\$ <u>500,000</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>500,000</u>

The amortized cost and estimated fair value of investment securities at December 31, 2005, by contractual maturity, are shown below:

	<u>Securities Held-to-maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due after eight years through nine years	\$ <u>500,000</u>	\$ <u>520,270</u>

There were no securities and certificates pledged as of December 31, 2005, to secure public deposits and for other purposes required by law.

Management evaluates securities for other-than-temporary impairment at least on 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.

**NOTE 5 – INVESTMENT SECURITIES – AVAILABLE-FOR-SALE**

<u>2005</u>	<u>Rate</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>
Securities available-for-sale:					
Asset backed securities	4.04% to 4.62%	\$ <u>1,931,080</u>	\$ <u>189</u>	\$ <u>(990)</u>	\$ <u>1,930,279</u>

NOTE 5 – (CONTINUED)

2004

Securities available-for-sale:

Asset backed securities	2.45% to 2.65%	\$ 1,237,781	\$ 585	\$ 0	\$ 1,238,366
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The amortized cost and estimated fair value of investment securities at December 31, 2005, by contractual maturity, are shown below:

	<u>Securities Available-for-sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due within three years	\$ 1,330,065	\$ 1,329,077
Due after three years	601,015	601,202
	<u>\$ 1,931,080</u>	<u>\$ 1,930,279</u>

There were no securities and certificates pledged as of December 31, 2005 or 2004, to secure public deposits and for other purposes required by law.

Management evaluates securities for other-than-temporary impairment at least on 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.

Information pertaining to securities with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
December 31, 2005						
Asset backed securities	\$ 999,010	\$ 990	\$ 0	\$ 0	\$ 999,010	\$ 990

Management evaluates securities for other-than-temporary impairment at least on 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.

NOTE 5 – (CONTINUED)

At December 31, 2005, the one security with unrealized losses has depreciated 0.1% from the Credit Union's amortized cost basis. This security is guaranteed by the U.S. government. 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 debt securities for the foreseeable future, no declines are deemed to be other-than-temporary.

NOTE 6 – OTHER INVESTMENTS

Midwest Corporate Federal Credit Union is a corporate member of the U.S. Central Federal Credit Union (USCCU) and, as such, owns capital shares of the USCFCU. On January 1, 1998, USCFCU 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, 2005 and 2004 is \$239,980.

Midwest Corporate Federal Credit Union owned a membership interest in Corporate Access, LLC at December 31, 2004. The cost of the membership interest was \$10,000. Corporate Access, LLC was a five-member corporate Credit Union Service Organization formed for services yet to be determined. Corporate Access, LLC was dissolved during 2005. The Credit Union received \$6,451 in the dissolution, resulting in a loss of \$3,549.

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 7 – LOANS

The components of loans at December 31, 2005 and 2004, are as follows:

	Interest rate	2005	2004
Member lines of credit	5.05%	\$ 11,968,462	\$ 6,928,804
Term loans	Various	6,475,000	7,575,000
		<u>\$ 18,443,462</u>	<u>\$ 14,503,804</u>

NOTE 7 – (CONTINUED)

A summary of loans by maturity as of December 31, 2005 and 2004 is as follows:

Maturity within	<u>2005</u>	<u>2004</u>
one year	\$ 15,443,462	\$ 10,203,804
two year	3,000,000	1,300,000
over two years	<u>0</u>	<u>3,000,000</u>
	<u>\$ 18,443,462</u>	<u>\$ 14,503,804</u>

There were no impaired loans as of December 31, 2005 and 2004.

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

NOTE 8 – **PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2005, and 2004.

	<u>2005</u>	<u>2004</u>
Vehicle	\$ 27,320	\$ 27,320
Computer equipment	28,665	27,700
Other equipment	17,557	14,689
Furniture and fixtures	29,111	29,111
Leasehold improvements	898	898
Computer software	<u>579</u>	<u>579</u>
	\$ 104,130	\$ 100,297
Accumulated depreciation	<u>(63,826)</u>	<u>(52,762)</u>
	<u>\$ 40,304</u>	<u>\$ 47,535</u>

Depreciation expense totaled \$16,739 and \$15,601 for the years ended December 31, 2005 and 2004, respectively.

NOTE 9 - **MEMBERS' DEPOSITS**

The composition of members' deposits at December 31, 2005 and 2004 is as follows:

	Rates at <u>December 31, 2005</u>	<u>2005</u>	<u>2004</u>
Daily high yield	4.29%	\$ 71,219,441	\$ 77,883,826
Uncollected deposits	--	0	1,664,656
Membership capital share deposits	4.33%	<u>5,985,331</u>	<u>5,821,918</u>
		<u>\$ 77,204,772</u>	<u>\$ 85,370,400</u>

NOTE 9 – (CONTINUED)

	Rates at <u>December 31, 2005</u>	<u>2005</u>	<u>2004</u>
Share certificates	Under 2.00%	\$ 1,700,000	\$ 20,997,000
	2.01 to 3.00%	5,600,000	30,300,000
	3.01 to 4.00%	13,339,000	4,050,000
	above 4.01%	<u>34,024,000</u>	<u>1,200,000</u>
		<u>\$ 54,663,000</u>	<u>\$ 56,547,000</u>
Total shares and certificates		<u>\$ 131,867,772</u>	<u>\$ 141,917,400</u>

At December 31, 2005, the scheduled maturities of share certificates are as follows:

2006	\$ 48,313,000
2007	4,150,000
2008	2,000,000
2009	<u>200,000</u>
	<u>\$ 54,663,000</u>

The aggregate amount of member shares and savings certificates in excess of NCUA insurance coverage of \$100,000 was approximately \$127,542,877 and \$136,498,000 at December 31, 2005 and 2004, respectively. The membership capital share deposits are not covered by NCUA insurance.

NOTE 10 - **BORROWED FUNDS**

Midwest Corporate Federal Credit Union maintains a line of credit with the U.S. Central Federal Credit Union (USCFU) providing MCFU with borrowings not to exceed \$75,000,000.

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

At December 31, 2005, all Midwest Corporate Federal Credit Union borrowings were fixed interest rate, term loans from U.S. Central Federal Credit Union.

At December 31, 2005 and 2004, a summary of borrowings is as follows:

<u>Loan Number</u>	<u>Interest Rate</u>	<u>2005</u>	<u>2004</u>
L-030-000	4.78%	\$ 300,000	\$ 300,000
L-030-001	3.00%	500,000	500,000
L-030-002	2.37%	500,000	500,000
L-030-003	3.59%	1,000,000	1,000,000
L-030-004	4.86%	2,000,000	0
L-030-005	3.83%	1,000,000	1,000,000
L-030-007	2.16%	0	2,000,000
L-030-008	2.41%	0	500,000
L-030-009	2.94%	500,000	500,000
L-030-010	3.39%	500,000	500,000
L-032-001	4.41%	<u>2,000,000</u>	<u>0</u>
		<u>\$ 8,300,000</u>	<u>\$ 6,800,000</u>

NOTE 10 – (CONTINUED)

At December 31, 2005, the scheduled maturities of borrowings are as follows:

2006	5,300,000
2007	<u>3,000,000</u>
	<u>\$ 8,300,000</u>

NOTE 11 - **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 \$336,162 and \$345,514 for the years ended December 31, 2005 and 2004, respectively. The Credit Union has recorded liabilities payable to the North Dakota Credit Union League of \$31,965 and \$31,426 as of December 31, 2005 and 2004, respectively.

NOTE 12 - **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, 2005, the Credit Union was exposed to credit risk on commitments to extend credit having a contract amount of \$125,325,000 of which \$11,968,461 had been funded, leaving an unfunded commitment of \$113,356,539. At December 31, 2004, the Credit Union was exposed to credit risk on commitments to extend credit having a contract amount of \$120,380,000, of which \$6,929,803 had been funded, leaving an unfunded commitment of \$113,451,197.

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 2005 or 2004.

## NOTE 13 - 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, 2005 and 2004 are as follows:

	2005		2004	
	Carrying Value (In Thousands)	Fair Value	Carrying Value (In Thousands)	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 362	\$ 362	\$ 2,016	\$ 2,016
Interest bearing deposits with other financial institutions	125,000	125,398	136,511	140,188
Investment securities	2,430	2,430	1,738	1,738
Loans	18,443	18,391	14,504	14,503
Interest receivable	861	861	4,345	4,345
Total financial assets	\$ 147,096	\$ 147,442	\$ 159,114	\$ 162,790

	2005		2004	
	Carrying Value (In Thousands)	Fair Value	Carrying Value (In Thousands)	Fair Value
Financial liabilities:				
Members' deposits	\$ 131,868	\$ 133,887	\$ 141,917	\$ 141,708
Borrowed funds	8,300	8,300	6,800	6,800
Interest payable	384	384	133	133
Total financial liabilities	\$ 140,552	\$ 142,571	\$ 148,850	\$ 148,641

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.

NOTE 13 – (CONTINUED)

**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 14 - **ADVERTISING COSTS**

Advertising costs, which were expensed as incurred, totaled \$15,669 and \$11,201 for the years ended December 31, 2005 and 2004, respectively.

NOTE 15 - **OTHER COMPREHENSIVE INCOME**

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

	Unrealized Gain (Loss) on Securities Available for Sale	
	2005	2004
Balance, beginning of year	\$ 585	\$ 1,053
Unrealized holding gains (losses) arising during the period	(1,386)	(468)
Balance, end of year	\$ (801)	\$ 585

NOTE 16 – **REGULATORY CAPITAL**

MCFCU is required under NCUA Regulations Section 704 to maintain a minimum capital ratio (capital divided by 12 month rolling daily average net assets (DANA)) of at least 4 percent. The NCUA defines capital as total retained earnings plus member capital shares. At December 31, 2005 and 2004, MCFCU's capital ratio was 8.11% and 7.69%, respectively.