

**U of C Federal Credit Union
Audit of Financial Statements
For the Years Ended
December 31, 2005 and 2004**

McGladrey & Pullen

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
U of C Federal Credit Union
Boulder, Colorado

We have audited the accompanying statements of financial condition of U of C Federal Credit Union (a federally chartered credit union) as of December 31, 2005 and 2004 and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 statement presentation. We believe 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 U of C 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.

McGladrey & Pullen, LLP

Brisbane, California
February 17, 2006
uocfcu.br.fs.ann.05.tb

U OF C FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2005 AND 2004

ASSETS		
	2005	2004
Cash and cash equivalents	\$ 50,690,312	\$ 39,353,393
Investments		
Available-for-sale	4,943,260	4,958,295
Other	45,602,083	40,533,955
Loans held for sale	736,214	1,066,374
Loans to members, net	557,225,203	550,596,957
Accrued interest receivable	2,230,632	2,416,973
Other real estate owned	243,443	0
Property and equipment	18,404,513	18,686,063
National Credit Union Share Insurance Fund deposit	5,425,656	5,242,149
Other assets	5,545,290	5,576,101
	\$ 691,046,606	\$ 668,430,260
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	\$ 623,359,264	\$ 600,954,977
Accrued expenses and other liabilities	5,002,634	4,913,062
Total liabilities	628,361,898	605,868,039
Commitments and contingent liabilities		
Members' Equity		
Retained earnings, substantially restricted	62,741,448	62,603,926
Accumulated other comprehensive income (loss)	(56,740)	(41,705)
Total members' equity	62,684,708	62,562,221
	\$ 691,046,606	\$ 668,430,260

U OF C FEDERAL CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
INTEREST INCOME		
Interest on loans to members	\$ 32,424,226	\$ 30,137,250
Interest on investments and cash equivalents	2,065,978	1,820,090
	<u>34,490,204</u>	<u>31,957,340</u>
INTEREST EXPENSE		
Dividends on members' shares	<u>10,389,490</u>	<u>8,065,777</u>
NET INTEREST INCOME	24,100,714	23,891,563
PROVISION FOR LOAN LOSSES	<u>8,091,886</u>	<u>3,770,967</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>16,008,828</u>	<u>20,120,596</u>
NON-INTEREST INCOME		
Service charges and other fees	4,214,139	3,702,705
Loss on non-temporary impairment of assets	0	(420,000)
Loss on sale of investments	0	(21,050)
Other non-interest income	6,437,050	5,476,847
	<u>10,651,189</u>	<u>8,738,502</u>
	<u>26,660,017</u>	<u>28,859,098</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	13,072,141	13,064,238
Operations	11,788,651	10,704,519
Occupancy	1,661,703	1,604,549
	<u>26,522,495</u>	<u>25,373,306</u>
NET INCOME	<u>\$ 137,522</u>	<u>\$ 3,485,792</u>

The accompanying notes are an integral part of these statements.

U OF C FEDERAL CREDIT UNION
 STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
NET INCOME	\$ 137,522	\$ 3,485,792
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification adjustment for realized losses on investments included in net income	0	21,050
Unrealized holding losses on investments classified as available-for-sale	<u>(15,035)</u>	<u>(160,589)</u>
Other comprehensive income (loss)	<u>(15,035)</u>	<u>(139,539)</u>
COMPREHENSIVE INCOME	<u>\$ 122,487</u>	<u>\$ 3,346,253</u>

U OF C FEDERAL CREDIT UNION
 STATEMENTS OF MEMBERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, December 31, 2003	\$ 11,879,721	\$ 47,238,413	\$ 59,118,134	\$ 97,834
Net income		3,485,792	3,485,792	
Change in unrealized gains (losses) on available-for-sale investments, net of reclassification adjustment				(139,539)
Balance, December 31, 2004	11,879,721	50,724,205	62,603,926	(41,705)
Net income		137,522	137,522	
Change in unrealized gains (losses) on available-for-sale investments				(15,035)
Balance, December 31, 2005	<u>\$ 11,879,721</u>	<u>\$ 50,861,727</u>	<u>\$ 62,741,448</u>	<u>\$ (56,740)</u>

The accompanying notes are an integral part of these statements.

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

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Net income	\$ 137,522	\$ 3,485,792
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	199,502	100,177
Amortization of net premium on investments	0	75,685
Provision for loan losses	8,091,886	3,770,967
Depreciation and amortization	1,501,407	1,819,012
Loss on sale of investments	0	21,050
Decrease (increase) in loans held for sale	330,158	(1,066,374)
Decrease (increase) in accrued interest receivable	186,341	(118,228)
Decrease (increase) in other assets	30,811	(1,455,763)
(Increase) decrease in other real estate owned	(243,443)	250,000
Increase in accrued expenses and other liabilities	89,573	888,480
	<u>10,323,757</u>	<u>7,770,798</u>
INVESTING ACTIVITIES		
Proceeds from maturities of available-for-sale investments	0	2,417,608
Proceeds from sales of available-for-sale investments	0	12,236,344
Net (increase) decrease in other investments	(5,068,128)	13,259,077
Net increase in loans to members	(14,919,633)	(82,298,048)
Increase in the National Credit Union Share Insurance Fund deposit	(183,506)	(151,001)
Purchases of property and equipment	(1,219,857)	(2,323,257)
	<u>(21,391,124)</u>	<u>(56,859,277)</u>
FINANCING ACTIVITIES		
Net increase in members' shares	22,404,286	31,482,952
	<u>22,404,286</u>	<u>31,482,952</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,336,919	(17,605,527)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>39,353,393</u>	<u>56,958,920</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 50,690,312</u>	<u>\$ 39,353,393</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares	\$ 10,389,490	\$ 8,065,777

U OF C FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. **SIGNIFICANT ACCOUNTING POLICIES**

Organization: U of C Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Use of Estimates in the Preparation of Financial Statements: 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 income 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.

Cash, Cash Equivalents and Cash Flows: Cash and cash equivalents consist of cash on hand, demand deposits, and non-term share deposits in a corporate credit union. For purposes of reporting cash flows, loans to members, other investments, and members' shares are reported net.

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 carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

Federal Home Loan Bank Stock: The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made with recourse.

Loans to Members and Allowance for Loan Losses: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

U OF C FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by non-payment of a monthly installment by the due date.

Large groups of smaller-balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Transfers and Servicing of Financial Assets: The Credit Union accounts for transfers and servicing of financial assets in accordance with SFAS No. 140, Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities. SFAS No. 140 requires application of a financial component's approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The statement also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

The Credit Union generally retains the right to service mortgage loans sold to others. The cost allocated to the mortgage servicing rights retained has been recognized as a separate asset and is being amortized in proportion to and over the period of estimated net servicing income.

Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights must be stratified by one or more predominant risk characteristics of the underlying loans.

Accrued Interest on Loans: Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

U OF C FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are 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.

National Credit Union Share Insurance Fund 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 federally insured Credit Union in an amount equal to 1% of its insured members shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board.

NCUSIF Insurance Premium: The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2005 and 2004 insurance premiums.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes.

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 available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. For 2005, other comprehensive income includes no reclassification adjustments.

Reclassifications: Certain account reclassifications have been made to the 2004 financial statements in order to conform to classifications used in the current year.

U OF C FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2. **INVESTMENTS**

Investments classified as available-for-sale consist of the following:

<u>December 31, 2005</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. government obligations and federal agencies securities	\$ 5,000,000	\$ 0	\$ (56,740)	\$ 4,943,260

<u>December 31, 2004</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. government obligations and federal agencies securities	\$ 5,000,000	\$ 0	\$ (41,705)	\$ 4,958,295

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, 2005 and 2004 are as follows:

<u>December 31, 2005</u>	<u>Fair Value</u>	<u>Continuous Unrealized Losses Existing For:</u>		<u>Total Unrealized Losses</u>
		<u>Less Than 12 Months</u>	<u>More Than 12 Months</u>	
Available-for-sale				
U.S. government obligations and federal agencies securities	\$ 4,943,260	\$ (15,035)	\$ (41,705)	\$ (56,740)

<u>December 31, 2004</u>	<u>Fair Value</u>	<u>Continuous Unrealized Losses Existing For:</u>		<u>Total Unrealized Losses</u>
		<u>Less Than 12 Months</u>	<u>More Than 12 Months</u>	
Available-for-sale				
U.S. government obligations and federal agencies securities	\$ 4,958,295	\$ (41,705)	\$ 0	\$ (41,705)

There is one investment with an unrealized loss as of December 31, 2005 and 2004, respectively. The unrealized loss associated with this investment is considered temporary as the Credit Union has the ability to hold this investment for a period of time sufficient to allow for any anticipated recovery in fair value.

U OF C FEDERAL CREDIT UNION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005 AND 2004

Other investments consist of the following:

	December 31	
	2005	2004
Share certificates in a corporate credit union	\$ 39,000,000	\$ 34,000,000
Member capital account in a corporate credit union	821,382	790,754
FHLB stock	1,047,600	1,010,100
Permanent capital account in a corporate credit union	4,733,101	4,733,101
	\$ 45,602,083	\$ 40,533,955

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity.

Permanent capital accounts are uninsured equity capital accounts and are redeemable only if called by the corporate credit union. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value.

At December 31, 2005 and 2004, there were approximately \$84,376,000 and \$69,613,000, respectively, in credit union and bank deposits with individual balances in excess of the insured limit.

Investments by maturity as of December 31, 2005 are summarized as follows:

	Available-for-sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	\$ 0	\$ 0	\$ 6,602,083
Less than 1 year maturity	5,000,000	4,943,260	39,000,000
	\$ 5,000,000	\$ 4,943,260	\$ 45,602,083

FHLB stock and member and permanent capital accounts have been classified with no contractual maturity.

U OF C FEDERAL CREDIT UNION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005 AND 2004

3. LOANS TO MEMBERS

Loans to members consist of the following:

	December 31	
	2005	2004
Mortgage loans:		
Fixed rate	\$ 134,986,651	\$ 138,041,378
Variable rate	83,101,281	82,016,533
Home equity line of credit, variable rate	85,032,569	82,824,920
	303,120,501	302,882,831
Vehicle loans	196,109,865	185,126,677
Credit card loans, unsecured	46,404,670	43,704,644
Other consumer loans, primarily unsecured	16,772,965	20,589,657
	562,408,001	552,303,809
Deferred net loan origination costs	1,211,081	1,075,061
Allowance for loan losses	(6,393,879)	(2,781,913)
	\$ 557,225,203	\$ 550,596,957

The following is an analysis of the allowance for loan losses:

	Years Ended December 31	
	2005	2004
Balance, beginning of year	\$ 2,781,913	\$ 1,530,906
Provision for loan losses	8,091,886	3,770,967
Recoveries	370,799	172,057
Loans charged off	(4,850,719)	(2,692,017)
Balance, end of year	\$ 6,393,879	\$ 2,781,913

Loans on which accrual of interest has been discontinued or reduced amounted to \$3,785,815 and \$1,979,420, respectively, at December 31, 2005 and 2004. If interest on those loans had been accrued, such income would have approximated \$146,000 and \$76,000 for December 31, 2005 and 2004, respectively.

Outstanding mortgage loan commitments at December 31, 2005 and 2004 total approximately \$2,632,000 and \$4,441,000, respectively.

U OF C FEDERAL CREDIT UNION
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Available credit on home equity and unsecured lines of credit is summarized as follows:

	December 31	
	2005	2004
Home equity	\$ 69,714,000	\$ 73,216,000
Credit card	94,705,000	91,753,000
Other consumer	5,727,000	6,469,000
	\$ 170,146,000	\$ 171,438,000

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the financial statements.

4. **LOAN SERVICING**

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans at December 31, 2005 and 2004 are summarized as follows:

	December 31	
	2005	2004
Mortgage loan portfolios serviced for:		
FNMA	\$ 93,115,395	\$ 65,773,869

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately \$536,000 and \$355,000 at December 31, 2005 and 2004, respectively.

A summary of the changes in the balance of mortgage servicing rights in 2005 and 2004 were as follows:

	Years Ended December 31	
	2005	2004
Balance, beginning of year	\$ 560,222	\$ 404,142
Servicing assets recognized during the year	345,340	256,257
Amortization of servicing assets	(199,502)	(100,177)
Balance, end of year	\$ 706,060	\$ 560,222
Fair value of mortgage servicing rights	\$ 706,060	\$ 559,506

U OF C FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

The aggregate changes in the valuation allowances for mortgage servicing rights in 2005 and 2004 were as follows:

	Years Ended December 31	
	2005	2004
Balance, beginning of year	\$ 717	\$ 17,739
Additions	0	0
Reductions	(717)	(17,022)
	\$ 0	\$ 717

The key economic assumptions used in determining the fair value of mortgage servicing rights at December 31, 2005 and 2004 are as follows:

	December 31	
	2005	2004
Prepayment speed (PSA)	166.00%	210.00%
Weighted average life (years)	5.72	5.76
Yield to maturity discount rate	10.00%	10.00%

5. **PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follows:

	December 31	
	2005	2004
Land	\$ 3,307,797	\$ 3,307,797
Building	13,485,920	13,341,059
Leasehold improvements	1,524,008	1,524,008
Furniture and equipment	7,315,091	6,254,312
	25,632,816	24,427,176
Accumulated depreciation and amortization	(7,228,303)	(5,741,113)
	\$ 18,404,513	\$ 18,686,063

U OF C FEDERAL CREDIT UNION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005 AND 2004

The Credit Union leases several 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, 2005 are as follows:

Years Ending December 31	
2006	\$ 166,000
2007	122,000
2008	112,000
2009	112,000
2010	112,000
Subsequent years	217,000
	\$ 841,000

Rental expense for the years ended December 31, 2005 and 2004 for all facilities leased under operating leases totaled \$230,000 and \$250,000, respectively.

6. **MEMBERS' SHARES**

Members' shares are summarized as follows:

	December 31	
	2005	2004
Regular shares	\$ 101,229,576	\$ 103,654,118
Share draft accounts	120,048,499	112,157,015
Money market accounts	229,114,780	228,705,541
Individual retirement accounts	2,147,209	2,268,658
Individual retirement certificate accounts	32,993,916	30,591,198
Certificates	137,825,284	123,578,447
	\$ 623,359,264	\$ 600,954,977

Shares by maturity as of December 31, 2005 are summarized as follows:

No contractual maturity	\$ 452,540,064
0 – 1 year maturity	90,543,768
1 – 2 years maturity	31,066,150
2 – 3 years maturity	14,585,901
3 – 4 years maturity	13,340,457
4 – 5 years maturity	21,282,924
	\$ 623,359,264

U OF C FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Regular shares, share draft accounts, money market accounts, and individual retirement accounts have no contractual maturity. Certificate and individual retirement certificate accounts have maturities of five years or less.

Members' shares are insured up to \$100,000 through the National Credit Union Share Insurance Fund.

The aggregate amount of certificates in denominations of \$100,000 or more at December 31, 2005 and 2004 is approximately \$36,696,000 and \$31,309,000, respectively.

7. **CONCENTRATIONS OF CREDIT RISK**

Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws. A large percentage of the Credit Union's members are employed by the University of Colorado. Further, a significant concentration of members resides in the city of Boulder, Colorado. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which borrowers reside.

8. **COMMITMENTS AND CONTINGENT LIABILITIES**

The Credit Union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all assets as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of \$15,000,000 with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2005 and 2004, there were no borrowings under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union has no outstanding commitments to sell loans or investments at December 31, 2005.

9. **EMPLOYEE BENEFITS**

The Credit Union has a 401(k) plan that allows employees to contribute by deferring a portion of their compensation into the plan. The Credit Union matches a portion of the employees' deferred contributions. Additionally, the Credit Union makes a discretionary contribution to all employees, regardless of their own participation. 401(k) plan costs are accrued and funded on a current basis. The Credit Union contributed \$343,172 and \$658,220, respectively, to the plan for the years ended December 31, 2005 and 2004.

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The Credit Union entered into a deferred compensation agreement with a member of the executive management team that provides benefits payable to the employee if they remain employed by the Credit Union until age 65. Additional benefits are provided if the employee continues to be employed until age 65. If the employee becomes fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreement. The estimated liability under the agreement is being recognized as the investment recognizes gains or losses. The Credit Union has expensed \$94,903 and \$10,087, respectively, under the agreement for the years ended December 31, 2005 and 2004.

10. **MEMBERS' EQUITY**

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and 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 to total assets. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2005 and 2004 were 5.37% and 5.98%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2005 and 2004, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, the most recent call reporting period, and 2004, 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. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table:

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	<u>Ratio/Requirement</u>	<u>Amount</u>	<u>Ratio/Requirement</u>
➤ Amount needed to be classified as "adequately capitalized"	\$ 41,462,796	6.00%	\$ 40,105,816	6.00%
➤ Amount needed to be classified as "well capitalized"	\$ 48,373,262	7.00%	\$ 46,790,118	7.00%
➤ Actual net worth	\$ 62,741,448	9.08%	\$ 62,603,926	9.37%

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Because the RBNW requirement is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of the quarter-end balances of the four most recent quarter's option, as permitted by regulation.

11. **RELATED PARTY TRANSACTIONS**

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2005 and 2004 are \$2,099,528 and \$2,149,654, respectively. Shares from related parties at December 31, 2005 and 2004 amounted to \$196,861 and \$445,093, respectively.

12. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

Investments

Estimated fair values for investments are obtained from quoted market prices where available. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans to Members

The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount. Credit card loans are considered, for estimation of fair value purposes, variable rate loans since interest rates may be changed by the Credit Union.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

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Members' Shares

The estimated fair value of demand deposit accounts (regular shares, share draft accounts, money market accounts and individual retirement accounts) is the carrying amount. The fair value of fixed-maturity certificates is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

Other On-Balance-Sheet Financial Instruments

Other on-balance-sheet financial instruments include cash and cash equivalents and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

Off-Balance-Sheet Financial Instruments

The fair values for the Credit Union's off-balance sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

The estimated fair value of the Credit Union's financial instruments is summarized as follows:

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets:				
Cash and cash equivalents	\$ 50,690,312	\$ 50,690,000	\$ 39,353,393	\$ 39,353,000
Investments available-for-sale	4,943,260	4,943,000	4,958,295	4,958,000
Other investments	45,602,083	45,602,000	40,533,955	40,534,000
Loans to members, net	557,225,203	553,301,000	550,596,957	552,879,000
Accrued interest receivable	2,230,632	2,230,000	2,416,973	2,417,000
Financial Liabilities:				
Members' shares	623,359,264	622,087,000	600,954,977	602,140,000