

**Elevations Federal Credit Union
Audit of Financial Statements
For the Years Ended
December 31, 2006 and 2005**

McGladrey & Pullen

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
Elevations Federal Credit Union
Boulder, Colorado

We have audited the accompanying statements of financial condition of Elevations Federal Credit Union (formerly U of C Federal Credit Union) (a federally chartered credit union) as of December 31, 2006 and 2005 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 Elevations Federal Credit Union as of December 31, 2006 and 2005 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

Phoenix, Arizona

March 21, 2007

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**ELEVATIONS FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2006 AND 2005**

ASSETS

	2006	2005
Cash and cash equivalents	\$ 60,043,852	\$ 50,890,312
Investments		
Available-for-sale	0	4,943,260
Other	74,468,414	45,402,083
Loans held for sale	3,391,166	736,214
Loans to members, net	548,018,673	557,225,203
Accrued interest receivable	3,634,003	2,268,046
Other real estate owned	1,972,625	243,443
Property and equipment	19,164,660	18,404,513
National Credit Union Share Insurance Fund deposit	5,540,011	5,425,656
Other assets	6,629,689	5,507,876
	\$ 722,863,093	\$ 691,046,606

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Members' shares	\$ 651,662,478	\$ 623,359,264
Accrued expenses and other liabilities	6,106,364	5,002,634
	657,768,842	628,361,898

Commitments and contingent liabilities

Members' Equity

Retained earnings, substantially restricted	65,094,251	62,741,448
Accumulated other comprehensive loss	0	(56,740)
	65,094,251	62,684,708
	\$ 722,863,093	\$ 691,046,606

**ELEVATIONS FEDERAL CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
INTEREST INCOME		
Interest on loans to members	\$ 34,915,648	\$ 32,424,226
Interest on investments and cash equivalents	3,532,131	2,065,978
	<u>38,447,779</u>	<u>34,490,204</u>
INTEREST EXPENSE		
Dividends on members' shares	14,251,783	10,389,490
NET INTEREST INCOME	24,195,996	24,100,714
PROVISION FOR LOAN LOSSES	4,593,779	8,091,886
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>19,602,217</u>	<u>16,008,828</u>
NON-INTEREST INCOME		
Service charges and other fees	5,072,911	4,214,139
Other non-interest income	6,878,068	6,437,050
	<u>11,950,979</u>	<u>10,651,189</u>
	<u>31,553,196</u>	<u>26,660,017</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	13,302,475	13,072,141
Operations	14,023,011	11,788,651
Occupancy	1,874,907	1,661,703
	<u>29,200,393</u>	<u>26,522,495</u>
NET INCOME	<u>\$ 2,352,803</u>	<u>\$ 137,522</u>

**ELEVATIONS FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
NET INCOME	\$ 2,352,803	\$ 137,522
OTHER COMPREHENSIVE INCOME		
Unrealized holding losses on investments classified as available-for-sale	<u>56,740</u>	<u>(15,035)</u>
COMPREHENSIVE INCOME	<u>\$ 2,409,543</u>	<u>\$ 122,487</u>

**ELEVATIONS FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Retained Earnings			Accumulated Other Comprehensive Loss
	Regular Reserve	Unappropriated	Total	
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	11,879,721	50,861,727	62,741,448	(56,740)
Net income		2,352,803	2,352,803	
Change in unrealized gains (losses) on available-for-sale investments				56,740
Balance, December 31, 2006	\$ 11,879,721	\$ 53,214,530	\$ 65,094,251	\$ 0

The accompanying notes are an integral part of these statements.

**ELEVATIONS FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net income	\$ 2,352,803	\$ 137,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	283,755	199,502
Provision for loan losses	4,593,779	8,091,886
Depreciation and amortization	1,762,882	1,501,407
(Increase) decrease in loans held for sale	(2,654,952)	330,158
(Increase) decrease in accrued interest receivable	(1,365,957)	186,341
(Increase) decrease in other assets	(1,405,568)	30,811
Increase in other real estate owned	(1,729,182)	(243,443)
Increase in accrued expenses and other liabilities	1,103,730	89,573
	<u>2,941,290</u>	<u>10,323,757</u>
INVESTING ACTIVITIES		
Proceeds from maturities of available-for-sale investments	5,000,000	0
Net increase in other investments	(29,066,331)	(4,868,128)
Net decrease (increase) in loans to members	4,612,751	(14,919,633)
Increase in the National Credit Union Share Insurance Fund deposit	(114,355)	(183,506)
Purchases of property and equipment	(2,523,029)	(1,219,857)
	<u>(22,090,964)</u>	<u>(21,191,124)</u>
FINANCING ACTIVITIES		
Net increase in members' shares	<u>28,303,214</u>	<u>22,404,286</u>
	<u>28,203,214</u>	<u>22,404,286</u>
INCREASE IN CASH AND CASH EQUIVALENTS	9,153,540	11,536,919
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>50,890,312</u>	<u>39,353,393</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 60,043,852</u>	<u>\$ 50,890,312</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares	\$ 14,251,783	\$ 10,389,490
Other real estate acquired in settlement of loans	\$ 2,444,232	\$ 318,314

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. **SIGNIFICANT ACCOUNTING POLICIES**

Organization: Elevations Federal Credit Union (formerly 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, loans held-for-sale, 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.

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.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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.

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.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 2006 and 2005 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 2006 and 2005, other comprehensive income includes no reclassification adjustments.

Reclassifications: Certain account reclassifications have been made to the 2005 financial statements in order to conform to classifications used in the current year.

Recent Accounting Pronouncements: In March 2006, the Financial Accounting Standards Board issued SFAS No. 156, Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140. Among other matters, this Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. This Statement permits an entity to determine the method of measuring the servicing asset or liability by choosing either the amortization method or the fair value measurement method. The new standard is effective for fiscal years beginning after September 15, 2006. Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

2. INVESTMENTS

As of December 31, 2006, the Credit Union did not have any available-for-sale investments. As of December 31, 2005, available-for-sale investments were as follows:

<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, 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>	
<u>Available-for-sale</u>				
U.S. government obligations and federal agencies securities	\$ 4,943,260	\$ (15,035)	\$ (41,705)	\$ (56,740)

There was one available-for-sale investment with unrealized losses as of December 31, 2005. The unrealized loss associated with this investment was considered temporary as the Credit Union had the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments consist of the following:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Share certificates in a corporate credit union	\$ 68,000,000	\$ 39,000,000
Member capital account in a corporate credit union	841,713	821,382
Permanent capital account in a corporate credit union	4,533,101	4,533,101
FHLB stock	1,093,600	1,047,600
	<u>\$ 74,468,414</u>	<u>\$ 45,402,083</u>

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, 2006 and 2005, there were approximately \$124,502,000 and \$84,376,000, respectively, in credit union and bank deposits with individual balances in excess of the insured limit.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

Other investments by maturity as of December 31, 2006 are summarized as follows:

No contractual maturity	\$ 6,468,414
Less than 1 year maturity	36,000,000
1 – 5 years maturity	<u>32,000,000</u>
	<u>\$ 74,468,414</u>

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

3. LOANS TO MEMBERS

Loans to members consist of the following:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Mortgage loans:		
Fixed rate	\$ 131,242,773	\$ 130,340,737
Variable rate	40,612,246	29,146,283
Hybrid/Balloon	58,096,682	58,600,912
Home equity line of credit, variable rate	<u>73,814,096</u>	<u>85,032,569</u>
	303,765,797	303,120,501
Vehicle loans	186,482,409	196,109,865
Credit card loans, unsecured	49,515,912	46,404,670
Other consumer loans, primarily unsecured	<u>13,236,732</u>	<u>16,772,965</u>
	553,000,850	562,408,001
Deferred net loan origination costs	1,152,551	1,211,081
Allowance for loan losses	<u>(6,134,728)</u>	<u>(6,393,879)</u>
	<u>\$ 548,018,673</u>	<u>\$ 557,225,203</u>

The Credit Union offers non-traditional hybrid/balloon mortgage loans to its members. Hybrid/Balloon loans consist of loans that are fixed for an initial period of three, five or seven years. After this period, the mortgages are converted to variable rate using the fully indexed rate, which can result in significant payment shock to the borrower.

Non-traditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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

	Years Ended December 31	
	2006	2005
Balance, beginning of year	\$ 6,393,879	\$ 2,781,913
Provision for loan losses	4,593,779	8,091,886
Recoveries	434,575	370,799
Loans charged off	(5,287,505)	(4,850,719)
Balance, end of year	<u>\$ 6,134,728</u>	<u>\$ 6,393,879</u>

Loans on which accrual of interest has been discontinued or reduced amounted to \$3,231,249 and \$3,785,815, respectively, at December 31, 2006 and 2005. If interest on those loans had been accrued, such income would have approximated \$216,000 and \$146,000 for December 31, 2006 and 2005, respectively.

Outstanding mortgage loan commitments at December 31, 2006 and 2005 total approximately \$767,000 and \$2,632,000, respectively.

Available credit on home equity and unsecured lines of credit is summarized as follows:

	December 31	
	2006	2005
Home equity	\$ 69,737,000	\$ 69,714,000
Credit card	96,933,000	94,705,000
Other consumer	4,869,000	5,727,000
	<u>\$ 171,539,000</u>	<u>\$ 170,146,000</u>

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.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

4. OTHER REAL ESTATE OWNED

Transfers of loans to other real estate owned for the years ended December 31, 2006 and 2005 totaled \$2,444,232 and \$318,314, respectively.

Expenses related to other real estate owned are summarized as follows:

	Years Ended December 31	
	2006	2005
Write-downs of carrying value	\$ 224,602	\$ 16,700
Net gain on sales of foreclosed properties	(10,320)	0
Operating expenses	24,830	9,410
	\$ 239,112	\$ 26,110

5. 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, 2006 and 2005 are summarized as follows:

	December 31	
	2006	2005
Mortgage loan portfolios serviced for:		
FNMA	\$ 102,158,590	\$ 93,115,395
FHLMC	3,848,876	0
	\$ 106,007,466	\$ 93,115,395

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits, were approximately \$603,365 and \$536,000 at December 31, 2006 and 2005, respectively.

A summary of the changes in the balance of mortgage servicing rights in 2006 and 2005 were as follows:

	Years Ended December 31	
	2006	2005
Balance, beginning of year	\$ 706,060	\$ 560,222
Servicing assets recognized during the year	271,568	345,340
Amortization of servicing assets	(283,755)	(199,502)
Balance, end of year	\$ 693,873	\$ 706,060
Fair value of mortgage servicing rights (as of November 30)	\$ 987,216	\$ 967,055

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

The key economic assumptions used in determining the fair value of mortgage servicing rights are as follows:

	2006	2005
Prepayment speed (PSA)	211%	166%
Weighted average life (years)	5.74	5.72
Yield to maturity discount rate	10.00%	10.00%

6. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	December 31	
	2006	2005
Land	\$ 3,307,797	\$ 3,307,797
Building	13,633,530	13,485,920
Leasehold improvements	2,367,064	1,524,008
Furniture and equipment	8,847,516	7,315,091
	28,155,907	25,632,816
Accumulated depreciation and amortization	(8,991,247)	(7,228,303)
	\$ 19,164,660	\$ 18,404,513

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, 2006 are as follows:

Years Ending December 31	
2007	\$ 433,000
2008	427,000
2009	408,000
2010	365,000
2011	335,000
Subsequent years	1,681,000
	\$ 3,649,000

Rental expense for the years ended December 31, 2006 and 2005 for all facilities leased under operating leases totaled \$360,000 and \$230,000, respectively.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

7. MEMBERS' SHARES

Members' shares are summarized as follows:

	December 31	
	2006	2005
Regular shares	\$ 92,933,470	\$ 101,229,576
Share draft accounts	130,437,730	120,048,499
Money market accounts	205,614,809	229,114,780
Individual retirement accounts	1,889,598	2,147,209
Individual retirement certificate accounts	37,910,634	32,993,916
Certificates	182,876,237	137,825,284
	\$ 651,662,478	\$ 623,359,264

Shares by maturity as of December 31, 2006 are summarized as follows:

No contractual maturity	\$ 430,875,607
0 – 1 year maturity	141,942,481
1 – 2 years maturity	22,572,732
2 – 3 years maturity	15,757,468
3 – 4 years maturity	21,144,259
4 – 5 years maturity	19,366,941
Over 5 years maturity	2,990
	\$ 651,662,478

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 six years or less.

The National Credit Union Share Insurance Fund insures members' shares up to \$100,000, and certain individual retirement and Keogh accounts up to \$250,000.

The aggregate amount of certificates in denominations of \$100,000 or more at December 31, 2006 and 2005 is approximately \$59,460,000 and \$36,696,000, respectively.

8. 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.

**ELEVATIONS FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

9. 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 million with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2006 and 2005, 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 investments at December 31, 2006.

10. 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 \$358,019 and \$343,172, respectively, to the plan for the years ended December 31, 2006 and 2005.

The Credit Union has 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 July 1, 2009. 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 \$57,677 and \$94,903, respectively, under the agreement for the years ended December 31, 2006 and 2005.

11. 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.

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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, 2006 and 2005 were 5.56% and 5.37%, respectively. The minimum requirement to be considered “complex” under the regulatory framework is 6%. Management believes, as of December 31, 2006 and 2005, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent call reporting period, and 2005, 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, 2006</u>		<u>December 31, 2005</u>	
	<u>Amount</u>	<u>Ratio/Requirement</u>	<u>Amount</u>	<u>Ratio/Requirement</u>
➤ Amount needed to be classified as “adequately capitalized”	\$ 43,371,786	6.00%	\$ 41,462,796	6.00%
➤ Amount needed to be classified as “well capitalized”	\$ 50,600,417	7.00%	\$ 48,373,262	7.00%
➤ Actual net worth	\$ 65,094,251	9.01%	\$ 62,741,448	9.08%

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 quarter-end balance option, as permitted by regulation.

12. 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, 2006 and 2005 are \$2,023,546 and \$2,099,528, respectively. Shares from related parties at December 31, 2006 and 2005 amounted to \$253,782 and \$196,861, respectively.

13. SUBSEQUENT EVENT

Subsequent to audit fieldwork, effective March 12, 2007, the Credit Union converted to a state chartered credit union under the provisions of the Colorado Revised Statutes.

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14. 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 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 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.

Loans held-for-sale

The estimated fair value for loans held-for-sale is the carrying amount which approximates market value.

Mortgage servicing rights

The estimated fair value for mortgage servicing rights is obtained from an independent third party fair market valuation and represents the quoted market value.

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.

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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:

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 60,043,852	\$ 60,044,000	\$ 50,690,312	\$ 50,690,000
Investments available-for-sale	0	0	4,943,260	4,943,000
Other investments	74,468,414	74,468,000	45,602,083	45,602,000
Loans to members, net	548,018,673	550,648,000	557,225,203	553,301,000
Loans held-for-sale	3,391,166	3,391,000	736,214	736,000
Mortgage servicing rights	693,873	987,000	706,060	967,000
Accrued interest receivable	3,634,003	3,634,000	2,268,046	2,268,000
Financial Liabilities:				
Members' shares	651,662,478	651,252,000	623,359,264	622,087,000