

Staying Strong



2010 ANNUAL REPORT



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Board Chairman's Report

Dear LAFCU Members:

In 2010, Los Angeles Federal Credit Union (LAFCU) celebrated its 74th year serving members with financial stability and strong growth. With your help, and despite the uncertain economy, we have over \$695 million in assets and continue to operate profitably. We appreciated your confidence, exemplified by your participation in the various loan programs and promotions offered by LAFCU and its service organizations (COLA Insurance Services Corporation, and the Los Angeles Charitable Association, Inc.).

We strive to be your Primary Financial Institution by offering low-rate loans for vehicles, real estate, computers, and Visa® credit cards, plus free interest-earning checking accounts and competitive savings rates. We make accessing your accounts easy with e-Branch online, VoiceTel-24 telephone, 24/7 live telephone representatives, over 25,000 CO-OP® ATMs and 3,000 shared branches, Check (debit) Card, paycheck direct deposit, and much more.

In keeping with the credit union philosophy of "people helping people," we also made contributions to, or actively participated with, the following charitable organizations in 2010: AIDS Project Los Angeles, American Red Cross of Greater Los Angeles, Children's Miracle Network, City of Hope, Glendale Police Officers' Association, LAFCU College Scholarships, Los Angeles Regional Food Bank, Make-a-Wish Foundation, March of Dimes, Midnight Mission homeless shelter, and Toys for Tots.

At LAFCU, we are committed to helping you achieve a lifetime of financial goals through high-quality programs and services, delivered at the lowest possible cost. We welcome suggestions to help make your goals a reality.

On behalf of the Board of Directors, members of the Supervisory and Credit Committees, and LAFCU management and staff, thank you for your ongoing support. We look forward to serving you in 2011 (our 75th anniversary!) and beyond.

Sincerely,

A handwritten signature in black ink that reads "Chuck Rubin". The signature is written in a cursive, flowing style.

Chuck Rubin
Chairman of the Board



Board of Directors



Chuck Rubin
Chairman



Cliff Cannon
Vice Chairman



Denise McGee
Treasurer



Stan Horwitz
Secretary



Roslyn Carter-Philips
Director



Jack C. Mathews
Director



Neil Ricci
Director



Jerry Waggoner
Director



Gary Mattingly
Director

LAFCU continues to look for new ways to serve you better. In 2010, we introduced or enhanced programs and financial products where we:

- Lowered many consumer loan rates to help our members
- Launched our free “Back on Track” financial seminar series in our branches to help members understand basic financial principles like budgeting and decreasing debt
- Began converting selected LAFCU ATMs to allow check and cash scanning for faster account crediting
- Upgraded our online e-Statements (for checking, savings and consumer loan data) to allow the posting of important account information
- Upgraded the security of our free “Verified by Visa” online shopping protection program for our Visa® credit cards & Check Card
- Sponsored a “shred day” at our El Monte branch to help members more safely dispose of sensitive documents
- Introduced the “LAFCU College Scholarships” program and awarded \$3,000 to three deserving students
- Re-designed our member newsletter, Inside LAFCU, to improve readability, added an HTML version online with clickable links to important information, and began printing on recycled paper with greener soy-based inks
- Improved our Visa credit card paper statement to clarify the data and better explain payment options
- Created a ‘Green Services’ page on our website to list LAFCU services that help keep our world a little greener....and reduce mail, paper and production costs
- Offered a vehicle loan rate discount through the city of Los Angeles “ShopLA” program
- Were voted “The Best Credit Union/Bank in Glendale” in the 2010 Glendale Newspress Reader’s Choice Poll
- Added motorcycle dealers to the list of CUDL locations in Southern California, so you can get LAFCU’s low-rate loan financing at the dealer
- Continued to support local kids’ soccer teams near some of our branches.



President / CEO's Report

During 2010, economic conditions finally started to recover after a long and challenging recession. Not all members have felt this improvement, and we have continued to restructure loans and provide financial counseling to assist them. For individuals with stable income, the year has brought a great opportunity to purchase homes, vehicles and other items at relatively low prices and at very low loan rates.

Members that save and those who count on investment income to supplement their retirement have encountered a year of low rates. While this may be challenging, LAFCU is very proud to have very competitive savings and investment rates. A comparison of our rates against other institutions is on our website (www.LAFCU.org).

Even during these challenging times, LAFCU continues to grow and remain very well capitalized. Our net income was over \$2.7 million in 2010, representing a net worth ratio of over 10½ percent of our assets. Our regulator, the National Credit Union Administration, considers a credit union to be well-capitalized with a net worth ratio of over 7%.

In 2011, we will celebrate our 75th anniversary. It has been a pleasure to serve members since 1936 and we look forward to continuing our high level of financial services. We will be celebrating this diamond anniversary throughout the year with many specials and raffles for our members. Every member will be automatically entered to our drawings for great prizes. Members can also earn extra chances to win when they get a new LAFCU loan in 2011. For complete details, see our newsletter or website.

Thank you for your continued membership and support of LAFCU. We appreciate your business and welcome your suggestions on ways to serve you better.

Sincerely,

A handwritten signature in black ink that reads "John Dea". The signature is written in a cursive, flowing style.

John Dea
President/CEO



Treasurer's Report

Despite a slow and steady economic recovery, LAFUCU continues to maintain its competitive edge in the financial marketplace. While many credit unions and financial institutions are closing their doors, we are still standing with more than 10 percent capital and almost 50,000 members. Our strong financial position enables us to offer minimal service fees, lower loan rates, higher saving rates, and a variety of online delivery services, so we remain your primary choice for financial services.

As reflected in the attached financial summary of this report, deposits decreased to \$6 million, loans decreased \$18 million, and total assets decreased \$11 million.

Similar to previous years, LAFUCU again received an outstanding rating by Examiners of the National Credit Union Administration (NCUA), which strongly reflects the safety and soundness of our asset management. LAFUCU upholds its position as one of the strongest credit unions in its peer group.

Our goal is to serve our members, by always having plenty of money to lend at low consumer loan rates. Various options are available for real estate, vehicle, personal and computer loans with affordable, convenient terms.

I am pleased to have served as your Board Treasurer and invite your comments. I look forward to a financially prosperous 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Denise McGee".

Denise McGee
Treasurer, Board of Directors



Credit Committee Chairperson's Report



Terrance Manocchio
Chairperson



Mei Yee
Vice Chairperson



Raul Valdivia
Member

The Credit Committee is here to assist members in securing loans to meet their financial goals.

Despite another difficult year for the local economy, LAFUCU was able to process more real estate loans in 2010 than the previous year. Since LAFUCU was not involved in making risky sub-prime real estate loans, it is well positioned to meet its members' requests for real estate loans for a home purchase or refinancing at very affordable rates. There are several home loan packages available such as a 30-year fixed rate or a combination of fixed rates for either 5, 7 or 10 years then converting to an adjustable rate for the remaining period.

We also offer attractive rates on new and pre-owned vehicles as well as personal and loans. Our goal is to continue offering our members a variety of loans and financial services. We look forward to helping you meet your financial requirements in an efficient, friendly and caring manner in 2011 and beyond.

Sincerely,

A handwritten signature in cursive script that reads "Terrance Manocchio".

Terrance Manocchio
Chairperson, Credit Committee

Supervisory Committee Chairperson's Report



Abe Rasheed
Chairperson



Joe Quan
Secretary



Sheldon Miller
Member



Rosey Richardson
Member

As mandated by the Federal Credit Union Act and LAFCU's bylaws, the Supervisory Committee independently evaluates the soundness of LAFCU's operations, ensuring that management and Board of Directors implement sound internal controls and maintain practices and procedures that comply with the National Credit Union Administration (NCUA) rules and regulations, and Generally Accepted Accounting Principles (GAAP).

Some of the significant duties and responsibilities of the Committee are:

- Monitoring the actions of the Board of Directors and other officials and ensure they are acting properly and within their authority, and they are carrying out their responsibilities in a timely and competent manner.
- Making sure that financial statements are accurate, that management practices protect the credit union's assets sufficiently, and that assets are safeguarded from fraud, self-dealing, and related carelessness.
- Verifying the members' accounts periodically.
- Selecting an independent auditing firm to perform annual financial statements audits.
- Reviewing results of the NCUA examinations, and implement any recommendations for better performance.

The Committee meets regularly with the Internal Auditor to review and discuss internal controls and the results of various audits completed throughout the year. During the year under review, the Committee selected Khamsay Vongchantha as the VP of Internal Audit and Risk Management. He came to us with many years of experience in the credit union and banking industries.

The Committee was also proactive in implementing a fraud prevention, detection, and deterrent software application.

Submitted herein are the Consolidated Financial Statements and Independent Auditor's Report for the year 2010. Copies of the Annual report are available at www.LAFCU.org or by mail upon request.

Sincerely,

Abe Rasheed
Chairperson, Supervisory Committee

Independent Auditor's Report

Board of Directors
Los Angeles Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Los Angeles Federal Credit Union and its subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Federal Credit Union and its subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sincerely,



Turner, Warren, Hwang & Conrad
Accountancy Corporation

February 7, 2011

Consolidated Statements of Financial Condition

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 38,298,464	\$ 40,553,383
Investments		
Securities available for sale	69,704,064	30,787,586
Securities held to maturity	186,755,861	198,036,739
Other	423,706	20,409,092
Loans to members	379,796,454	397,428,162
Accrued interest receivable	2,561,108	2,766,906
Property and equipment	5,493,748	6,137,615
NCUSIF deposit	6,066,179	5,948,424
Other assets	6,389,474	4,574,850
Total Assets	<u>\$ 695,489,058</u>	<u>\$ 706,642,757</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share accounts	\$ 614,809,579	\$ 608,497,744
Borrowed funds	-	20,000,000
Cash overdraft	1,663,935	1,889,267
Accounts payable and other liabilities	5,080,953	4,505,777
Total Liabilities	<u>621,554,467</u>	<u>634,892,788</u>
Members' Equity		
Regular reserve	25,000,000	25,000,000
Undivided earnings	49,042,783	46,319,364
Accumulated other comprehensive income (loss)	(108,192)	430,605
Total Members' Equity	<u>73,934,591</u>	<u>71,749,969</u>
Total Liabilities and Members' Equity	<u>\$ 695,489,058</u>	<u>\$ 706,642,757</u>

Consolidated Statements of Income

December 31, 2010 and 2009

	2010	2009
INTEREST INCOME		
Loans to members	\$ 24,675,096	\$ 26,456,561
Interest-bearing accounts and investment securities	7,432,664	8,916,771
Total Interest Income	32,107,760	35,373,332
INTEREST EXPENSE		
Members' share accounts	6,109,678	9,589,488
Borrowed funds	2,477	54,488
Total Interest Expense	6,112,155	9,643,976
NET INTEREST INCOME	25,995,605	25,729,356
PROVISION FOR LOAN LOSSES	8,305,000	11,800,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,690,605	13,929,356
NON-INTEREST INCOME		
Service charges and other fees	6,078,302	5,786,032
Other income	342,735	461,618
Pass-back and recapitalization of NCUSIF deposit	-	3,323,784
Gain on sale of securities	335,893	-
Total Non-Interest Income	6,756,930	9,571,434
NON-INTEREST EXPENSE		
Compensation and benefits	10,413,914	9,584,379
Office operations	3,298,759	3,759,068
Professional and outside services	2,107,975	2,310,089
Occupancy	1,478,458	1,500,675
Other expenses	2,365,866	1,567,199
NCUSIF deposit impairment loss	-	3,323,784
NCUSIF premium and corporate stabilization assessment	1,560,408	892,264
Impairment of investment in WesCorp capital shares	-	1,931,551
Provision for foreclosed asset losses	498,736	201,048
Total Non-Interest Expense	21,724,116	25,070,057
NET INCOME (LOSS)	\$ 2,723,419	\$ (1,569,267)

Consolidated Statements of Members' Equity

December 31, 2010 and 2009

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2008	\$ 25,000,000	\$ 47,888,631	\$ (254,236)	\$ 72,634,395
Comprehensive loss				
Net loss	-	(1,569,267)	-	(1,569,267)
Other comprehensive income				
Net change in unrealized losses on securities available for sale	-	-	685,510	685,510
Net change in net loss, prior year cost and amortization of unrecognized prior service cost on postretirement benefit plan	-	-	(669)	(669)
Total comprehensive loss	-	-	-	(884,426)
Balances, December 31, 2009	25,000,000	46,319,364	430,605	71,749,969
Comprehensive income				
Net income	-	2,723,419	-	2,723,419
Other comprehensive income				
Net change in unrealized losses on securities available for sale	-	-	(462,414)	(462,414)
Net change in net loss, prior year cost and amortization of unrecognized prior service cost on postretirement benefit plan	-	-	(76,383)	(76,383)
Total comprehensive loss	-	-	-	2,184,622
Balances, December 31, 2010	<u>\$ 25,000,000</u>	<u>\$ 49,042,783</u>	<u>\$ (108,192)</u>	<u>\$ 73,934,591</u>

Consolidated Statements of Cash Flows

December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 2,723,419	\$ (1,569,267)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	823,707	1,056,482
Provision for loan losses	8,305,000	11,800,000
Net amortization (accretion) of investments	(934,893)	488,393
Net amortization of unearned loan fees	45,309	187,909
Gain on sale of investments	(335,893)	-
NCUSIF deposit impairment loss	-	3,323,784
Pass-back and recapitalization of NCUSIF deposit	-	(3,323,784)
Impairment of investment in WesCorp capital shares	-	1,931,551
Provision for foreclosed asset losses	498,736	201,048
Net change in:		
Accrued interest receivable	205,798	542,230
NCUSIF deposit	(117,755)	(619,840)
Other assets	(2,313,360)	(790,170)
Accounts payable and other liabilities	498,793	994,941
	9,398,861	14,223,277
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(78,350,649)	(16,831,176)
Principal payments received on securities available for sale	39,220,634	9,615,853
Purchases of securities held to maturity	(156,304,664)	(186,761,097)
Principal payments received on securities held to maturity	168,607,451	164,601,522
Net (increase) decrease in other investments	19,985,386	(16,780,400)
Net (increase) decrease in loans to members	9,281,399	7,787,901
Purchases of property and equipment	(179,840)	(414,205)
	2,259,717	(38,781,602)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	6,311,835	12,998,855
Net increase (decrease) in borrowed funds	(20,000,000)	20,000,000
Net decrease in cash overdraft	(225,332)	(211,181)
	(13,913,497)	32,787,674
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,254,919)	8,229,349
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,553,383	32,324,034
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 38,298,464	\$ 40,553,383
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Dividends paid on members' share accounts	\$ 6,109,678	\$ 9,589,488
Interest paid on borrowed funds	56,965	-

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note I - Summary of Significant Accounting Policies

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

COLA Insurance Services Corporation (COLA) is a wholly-owned subsidiary of Los Angeles Federal Credit Union. A substantial amount of COLA's business is derived from the credit union. COLA receives commissions from the referral of members of the credit union to various insurance agencies, under an arrangement with an insurance services firm.

Field of Membership and Sponsor: Although the field of membership of the credit union has been expanded to include a number of diverse employee and other groups, a concentrated portion of the share deposits and loans are held by current and former employees of the city of Los Angeles and their families in southern California. The demand for withdrawals from members' share deposits and the ability of the borrowers to honor their loan contracts are therefore substantially dependent on this group.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Los Angeles Federal Credit Union and COLA Insurance Services Corporation, after elimination of all significant intercompany balances and transactions.

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

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

Investments: Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

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

Other investments are recorded at cost.

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note I - Summary of Significant Accounting Policies (Continued)

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

Loans that the credit union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination costs. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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.

The credit union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating and the levels of nonperforming loans. Specific allowances for loan losses are established for large impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the credit union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events and lagging data.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note I - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements: The credit union uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. These include:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The credit union applies fair value measurements to its securities available for sale as discussed in Note 13.

Property and Equipment: Land is carried at cost. Building, leasehold improvements, and furniture and equipment are stated at cost, net of accumulated depreciation and amortization. The building 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: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

NCUSIF Deposit: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts insurance coverage to another source, or the operations of the fund are transferred from the NCUA Board. See Note 16 for the impairment loss recorded at March 31, 2009 and the recapitalization of deposit recorded at June 30, 2009.

NCUSIF Insurance Premium: A credit union is required to pay an annual premium equal to one-twelfth of one percent of its total insured shares unless the payments are waived or reduced by the NCUA Board. See Note 16 for NCUA's special insurance premium assessment in 2010 and 2009.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of the dividend period and are not guaranteed by the credit union. Dividend rates on members' share accounts are set by the board of directors based on an evaluation of current and future market conditions.

Members' Equity: The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note I - Summary of Significant Accounting Policies (Continued)

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

Income Taxes: The credit union is exempt from federal and California income taxes. However, COLA is a taxable entity and income taxes related to COLA for 2010 and 2009 were not material to the consolidated financial statements and are included in non-interest expense in the accompanying consolidated statements of income.

Recent Accounting Pronouncements: On July 1, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which is included in FASB Accounting Standards Codification (ASC) 105 *Generally Accepted Accounting Principles*. This new guidance approved the FASB ASC as the single source of authoritative nongovernmental GAAP. The FASB ASC is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB ASC will be considered nonauthoritative. The ASC is a restructuring of GAAP designed to simplify access to all authoritative literature by providing a topically organized structure. The adoption of FASB ASC did not impact the credit union's financial condition or results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which modifies existing requirements for determining when an other-than-temporary impairment exists and how such other-than-temporary impairments are measured and reported. This FSP changes the presentation and amount of the other-than-temporary impairment recognized in the statement of income by separating impairment into (a) the amount of impairment related to the credit loss and (b) the amount of the total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings, and the amount of the total impairment related to all other factors is recognized in other comprehensive income. The total other-than-temporary impairment is presented in the statement of income with an offset for the amount of total other-than-temporary impairment that is recognized in other comprehensive income. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. If an entity elects to early adopt this FSP, it is required to adopt FSP FAS 157-4. The adoption of FSP FAS 115-2 and FAS 124-2 had no material impact on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 115-2 and 124-2 are included in ASC 320.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009 and is required if an entity has early adopted FSP FAS 115-2 and FAS 124-2. The adoption of FSP FAS 157-4 had no material impact on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 157-4 are included in ASC 820.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note I - Summary of Significant Accounting Policies (Continued)

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It sets forth the period after the balance sheet date during which events or transactions must be evaluated for recognition or disclosure, the circumstances under which events or transactions occurring after balance date should be recognized in the financial statements, and the related disclosures that should be made. SFAS 165 is effective for interim and annual financial statements ending after June 15, 2009. The adoption of SFAS 165 had no material impact on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of SFAS 165 are included in ASC 855.

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

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The ASU expands existing disclosures to require entities to provide additional information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. Specifically, entities will be required to present a summary of activity in the allowance for credit losses, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables, all on a disaggregated basis. The ASU also requires an entity to provide additional disclosures on credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For nonpublic entities, the disclosures of period-end balances are effective for interim and annual reporting periods ending after December 15, 2011. For nonpublic entities, the disclosures of activity are effective for interim and annual reporting periods beginning on or after December 15, 2011. The credit union is currently evaluating the impact of the ASU on its financial statements.

Subsequent Events: Subsequent events have been evaluated through February 7, 2011, which is the date the financial statements were available to be issued.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 2 - Investments

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

2010	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Mutual funds	\$ 100,000	\$ -	\$ -	\$ 100,000
Federal agency securities	43,106,321	45,825	(280,904)	42,871,242
Mortgage-backed securities	26,362,967	491,204	(121,349)	26,732,822
	<u>\$ 69,569,288</u>	<u>\$ 537,029</u>	<u>\$ (402,253)</u>	<u>\$ 69,704,064</u>

2009	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Mutual funds	\$ 100,000	\$ -	\$ -	\$ 100,000
Federal agency securities	6,493,890	-	(1,405)	6,492,485
Mortgage-backed securities	23,596,507	615,596	(17,002)	24,195,101
	<u>\$ 30,190,397</u>	<u>\$ 615,596</u>	<u>\$ (18,407)</u>	<u>\$ 30,787,586</u>

The amortized cost and fair value of securities held to maturity are as follows:

2010	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Federal agency securities	\$ 57,097,827	\$ 257,569	\$ (719,594)	\$ 56,635,803
Mortgage-backed securities	129,658,034	2,670,454	(1,156,869)	131,171,618
	<u>\$ 186,755,861</u>	<u>\$ 2,928,023</u>	<u>\$ (1,876,463)</u>	<u>\$ 187,807,421</u>

2009	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Federal agency securities	\$ 87,799,994	\$ 399,739	\$ (562,192)	\$ 87,637,541
Mortgage-backed securities	110,236,745	2,424,840	(178,115)	112,483,470
	<u>\$ 198,036,739</u>	<u>\$ 2,824,579</u>	<u>\$ (740,307)</u>	<u>\$ 200,121,011</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 2 - Investments (Continued)

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, 2010 are as follows:

	Fair Value	Continuous Unrealized Losses Existing for:		Total Unrealized Losses
		Less Than 12 Months	12 Months and Longer	
Securities Available for Sale				
Federal agency securities	\$ 24,792,741	\$ (280,904)	\$ -	\$ (280,904)
Mortgage-backed securities	7,670,741	(121,349)	-	(121,349)
	<u>\$ 32,463,482</u>	<u>\$ (402,253)</u>	<u>\$ -</u>	<u>\$ (402,253)</u>
Securities Held to Maturity				
Federal agency securities	\$ 34,166,988	\$ (732,252)	\$ -	\$ (732,252)
Mortgage-backed securities	41,099,270	(1,141,337)	(2,874)	(1,144,211)
	<u>\$ 75,266,258</u>	<u>\$ (1,873,589)</u>	<u>\$ (2,874)</u>	<u>\$ (1,876,463)</u>

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.

There are a total of 128 investments that have been in a continuous unrealized loss position for less than 12 months and 1 investment that has been in a continuous unrealized loss position for 12 months or longer as of December 31, 2010. The unrealized losses associated with these investments are considered temporary as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments consisted of the following:

	2010	2009
Investment in CU SIP	\$ -	\$ 20,000,000
Credit union service organizations	423,706	409,092
	<u>\$ 423,706</u>	<u>\$ 20,409,092</u>

See Note 6 regarding the investment in CU SIP.

The amortized cost and fair value of investments by contractual maturity at December 31, 2010 is as follows:

Maturity	Securities Available For Sale		Securities Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
No maturity	\$ 100,000	\$ 100,000	\$ -	\$ -
Less than one year	-	-	2,523,058	2,605,014
One to five years	23,725,119	23,671,822	7,584,885	7,602,614
Five to ten years	19,381,202	19,199,420	26,013,593	25,642,032
Over ten years	-	-	20,976,291	20,786,143
	<u>43,206,321</u>	<u>42,971,242</u>	<u>57,097,827</u>	<u>56,635,803</u>
Mortgage-backed securities	26,362,967	26,732,822	129,658,034	131,171,618
	<u>\$ 69,569,288</u>	<u>\$ 69,704,064</u>	<u>\$ 186,755,861</u>	<u>\$ 187,807,421</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 2 - Investments (Continued)

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As discussed in Note 16, WesCorp was placed under conservatorship by the NCUA Board. The credit union recorded a full impairment of \$1,931,551 on its permanent and member capital shares at WesCorp based on the announcement during quarter ended March 31, 2009 that WesCorp's member capital accounts had been depleted to cover losses that exceeded retained earnings as of December 31, 2008.

Note 3 - Loans to Members

The composition of loans to members is as follows:

	2010	2009
Mortgage loans:		
First trust deeds:		
Fixed rate	\$ 77,692,455	\$ 71,772,318
Variable rate	618,998	773,940
Balloon/Hybrid	124,803,115	122,502,302
Home equity lines of credit	24,347,121	24,712,312
Second trust deeds	13,273,052	15,846,405
	<u>240,734,741</u>	<u>235,607,277</u>
Automobile	69,945,600	90,448,730
Other consumer loans, primarily unsecured	26,774,448	26,957,340
Credit cards	37,183,710	38,791,350
Participation loans secured by commercial property	10,708,881	9,545,750
Participation loans secured by vehicles	4,007,996	4,284,289
	<u>389,355,376</u>	<u>405,634,736</u>
Premiums	130,560	134,389
Net deferred loan origination costs	409,903	501,326
Allowance for loan losses	(10,099,385)	(8,842,289)
	<u>\$ 397,796,454</u>	<u>\$ 397,428,162</u>

The credit union has purchased commercial loan participations originated by other credit unions. These participations were purchased without recourse and are secured by real property. The originating credit unions perform all servicing functions on these loans.

The credit union also purchased vehicle loan participations from another credit union. All of these loan participations were purchased without recourse and are secured. The originating credit union performs all servicing functions on these loans.

A summary of the changes in the allowance for loan losses is as follows:

	2010	2009
Balance, beginning of year	\$ 8,842,289	\$ 4,537,988
Provision charged to operations	8,305,000	11,800,000
Loans charged off	(7,469,820)	(7,824,922)
Recoveries	421,916	329,223
Balance, end of year	<u>\$ 10,099,385</u>	<u>\$ 8,842,289</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 3 – Loans to Members (Continued)

The following is a summary of information pertaining to impaired loans at December 31, 2010:

Impaired real estate loans with a valuation allowance	\$ 25,046,685
Impaired consumer loans with a valuation allowance	286,825
Total impaired loans	<u>\$ 25,333,510</u>
Valuation allowance allocated to impaired loans	<u>\$ 2,411,461</u>

The credit union had non-accrual loans of \$4,521,000 and \$6,193,000 as of December 31, 2010 and 2009, respectively.

Included in loans to members are loans of \$4,935,000 and \$3,917,000 to directors and officers of the credit union and its subsidiary at December 31, 2010 and 2009, respectively.

Note 4 – Property and Equipment

The composition of property and equipment is summarized as follows:

	2010	2009
Land	\$ 1,120,600	\$ 1,120,600
Building	7,077,171	7,062,624
Furniture and equipment	5,520,784	5,541,091
Leasehold improvements	760,882	760,883
	14,479,437	14,485,198
Accumulated depreciation and amortization	(8,985,689)	(8,347,583)
	<u>\$ 5,493,748</u>	<u>\$ 6,137,615</u>

Note 5 – Members' Share Accounts

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

	2010	2009
Regular shares	\$ 190,101,020	\$ 182,393,191
Share drafts	92,802,525	88,207,687
Money Market	94,594,489	84,288,655
Share certificates	191,697,543	206,221,594
IRA certificates	45,614,002	47,386,617
	<u>\$ 614,809,579</u>	<u>\$ 608,497,744</u>

Dividend rates are set by the board of directors and dividends are charged to operations. The aggregate amounts of time deposit accounts over \$100,000 were \$87,065,000 and \$93,454,000 at December 31, 2010 and 2009, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 5 – Members' Share Accounts (Continued)

A summary of share and IRA certificate accounts by maturity at December 31, 2009 is as follows:

Within one year	\$	174,676,050
One to three years		49,847,326
Three to five years		12,788,169
	\$	<u>237,311,545</u>

Note 6 – Line of Credit and Borrowings

The credit union had a master loan agreement with Western Bridge Corporate Federal Credit Union (Western Bridge Corporate) as of December 31, 2010 that provided lines of credit totaling \$55,000,000. These credit lines consist of a \$40,000,000 variable rate secured settlement line of credit and \$15,000,000 variable or fixed rate secured term line of credit. The credit union had no outstanding borrowings against these lines of credit as of December 31, 2010. Collateral for the settlement line consists of securities held at Western Bridge Corporate and all other assets of the credit union. Collateral for the term line of credit can consist of securities held at Western Bridge Corporate and loans owned by the credit union not otherwise pledged.

Credit Union System Investment Program (CU SIP): In late November 2008, the National Credit Union Administration (NCUA) determined that extensions of credit by its Central Liquidity Facility (CLF) for other than liquidity needs (OTLN) were in the national economic interest, and requested concurrence of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury for non-liquidity needs lending authority through December 31, 2009. The NCUA received concurrence from the Board of Governors of the Federal Reserve System and the Secretary of the Treasury, and in compliance with NCUA Rules and Regulations Section 725.23, began making OTLN-based loans that are in the national economic interest and will serve to improve liquidity in the credit union system.

On January 8, 2009, CLF made a secured, one year advance to the credit union in the amount of \$20 million (CLF Advance), which was in turn, concurrently invested in a fixed-rate, matched term, guaranteed CU SIP Note (SIP Note) issued by WesCorp corporate credit union. The CLF Advance (loan) bears a rate of 0.565%. The SIP Note (invested in WesCorp) bears a rate of 0.815%. Interest was paid at maturity in January 2010. Collateral for the CLF Advance consisted of 100% of the SIP Note in which the proceeds were invested, and an equal amount of the credit union's other assets, for a total of 200% of initial value of the CLF Advance.

Note 7 – Lease Commitments

The credit union leases office space under an operating lease. At December 31, 2010, future minimum lease payments under an operating lease are as follows:

Years Ending December 31,	
2011	\$ 293,890
2012	303,568
2013	247,109
2014	138,435
2015	122,375
Thereafter	<u>86,000</u>
	<u>\$ 1,191,377</u>

Rent expense was \$462,000 and \$469,000 for the years ended December 31, 2010 and 2009, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 8 – Off-Balance-Sheet Activities

The credit union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

The credit union's exposure to credit loss is represented by the contractual notional amount of these instruments. The credit union uses the same credit policies in making commitments as it does for loans recorded in the financial statements.

The credit union had \$1,010,000 and \$2,286,000 in outstanding loan commitments at December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2010	2009
Home equity lines of credit	\$ 35,416,090	\$ 36,376,632
Lines of credit	15,475,713	16,042,205
Credit cards	118,804,993	120,253,818
	<u>\$ 169,696,796</u>	<u>\$ 172,672,655</u>

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the credit union upon extension of credit is based on management's credit evaluation of the member. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the credit union is committed.

Note 9 – Legal Contingencies

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

Note 10 – Concentration of Credit Risk

At December 31, 2010, the credit union had cash balances of \$559,000 at a financial institution which exceeded federally insured limits.

The NCUA has approved the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) on January 28, 2009 effective March 1, 2009, and updated on August 31, 2010. The program provides temporary guarantee by the NCUSIF of all shares (excluding paid-in-capital and membership capital accounts) at participating corporate credit unions through December 31, 2012 with the option for quarterly extensions of the expiration date and a maximum maturity of two years. At December 31, 2010, the credit union had no certificates of deposit with maturity dates after the guarantee expiration date.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note II – Related Party Transactions

Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances.

Note I2 – Employee Benefit Plans

Defined Contribution Plan: The credit union has a defined contribution plan that includes two components: 401(k) salary deferral and profit-sharing.

401(k) Salary Deferral: Employees are eligible upon hire to participate in the employee deferral portion of the plan and eligible to participate in the employer matching portion of the plan after completing six months of service. Employees may contribute 1% to 20% of their annual compensation to the plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The plan requires the credit union to match 100% of the first 4% and 80% of the next 2% of employee contributions. The credit union's matching contributions for the plan years ended December 31, 2009 and 2008 were \$321,054 and \$317,832, respectively.

Profit-Sharing: Employees are eligible to participate after completing one year of service. The annual contribution is discretionary as determined by the board of directors. Plan forfeitures are used to reduce the credit union's annual contribution. The credit union did not contribute to the plan for year ended December 31, 2010 and 2009.

Employer contribution vesting is based on the following five-year schedule:

<u>Years of Service</u>	<u>Non-forfeitable Percentage</u>
1	20
2	40
3	60
4	80
5	100

457(f) Plan: The credit union has a non-qualified deferred compensation plan with fixed benefits and a supplemental term life benefit for certain executives under Internal Revenue Code Section 457(f). The credit union purchased credit union-owned variable annuities with term life insurance as designated assets for the plan. The net costs (income) associated with the plan were \$15,100 and (\$107,500) for the years ended December 31, 2010 and 2009, respectively. The variable annuity policies are invested in equity and fixed income portfolios at CUNA Mutual Insurance. The value of policies is included in other assets and was \$1,965,000 and \$1,815,000 at December 31, 2010 and 2009, respectively. The liability for the deferred compensation is included in accrued liabilities and was \$897,500 and \$731,900 at December 31, 2010 and 2009, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 12 - Employee Benefit Plans (Continued)

Postretirement Benefit Plan: Effective February 1, 2006, the credit union provides full medical coverage to employees who retire after 20 years of service and who are age 55 or older. The coverage continues until they reach age 65. When the retired employees reach the age of 65, the credit union will contribute to a Medicare Supplemental Plan in an amount to be determined by the Board of Directors. Effective December 31, 2008, the plan was amended to reduce benefits for participants not yet retired, stop the payment of benefits for all participants upon the attainment of age 85, and eliminate the plan for those who had not attained age 45 as of January 1, 2009. The impact of this plan change was a decrease in accumulated postretirement benefit obligation of \$355,180. As part of the plan change, participants who have not attained age 45 as of January 1, 2009 are no longer eligible under the plan. As a result of this change, 96 active participants ceased to be entitled to any benefits. Since this change constituted an event that eliminated future benefits for a significant number of participants in the plan, a curtailment occurred. Under SFAS 106 accounting, a one-time expense of \$241,041 was recognized in 2008.

The following table sets forth information regarding the plan:

	December 31,	
	2010	2009
Benefit obligation	\$ 1,144,898	\$ 997,597
Fair value of plan assets	-	-
Unfunded status	\$ 1,144,898	\$ 997,597
Liability for postretirement benefits (included in accounts payable and other liabilities)	\$ 1,144,898	\$ 997,597
Total amount recognized	\$ 1,144,898	\$ 997,597
Net amount recognized in accumulated other comprehensive income		
Net loss	\$ 150,490	\$ 60,896
Prior service cost	92,477	105,688
Total amount recognized	\$ 242,967	\$ 166,584
Accumulated benefit obligation	\$ 1,144,898	\$ 997,597
	Years Ended December 31,	
	2010	2009
Net periodic benefit cost	\$ 105,124	\$ 98,587
Curtailment cost	-	-
Total recognized in other comprehensive income	76,383	669
Total recognized in net periodic benefit cost, curtailment cost, and other comprehensive income	\$ 181,507	\$ 99,256

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 12 - Employee Benefit Plans (Continued)

Assumptions for net periodic benefit cost

	Years Ended December 31,	
	2010	2009
Discount rate	5.3%	6.0%
Medical trend rate	6.5% in 2011 graded to 5.0% over 3 years	7.0% in 2010 graded to 5.0% over 4 years
Effect of a 1% increase in health care cost trend on:		
Service cost plus interest cost	2.0%	2.0%
Accumulated postretirement benefits obligation	1.6%	1.6%
Effect of a 1% decrease in health care cost trend on:		
Service cost plus interest cost	-1.8%	-1.8%
Accumulated postretirement benefits obligation	-1.4%	-1.4%

	Years Ended December 31,	
	2010	2009
Employer contributions	\$ 34,206	\$ 23,346
Benefits paid	34,206	23,346

The following benefit payments are expected to be paid:

Years Ending December 31,	
2011	\$ 35,529
2012	37,555
2013	42,974
2014	46,161
2015	52,678
2016-2019	431,982

Note 13 – Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the credit union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the credit union.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 13 – Fair Value of Financial Instruments (Continued)

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

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

Investments: Fair values of marketable securities are usually based on quoted market prices. If quoted market prices were not available, fair value was estimated using quoted market prices of similar securities. The value of the CU SIP investment is stated at cost based on its short maturity.

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

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

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

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

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 38,298,000	\$ 38,298,000	\$ 40,553,000	\$ 40,553,000
Investments	256,884,000	257,953,000	249,233,000	251,318,000
Loans to members	379,796,000	382,257,000	397,428,000	403,116,000
Financial liabilities:				
Members' share accounts	614,810,000	616,515,000	608,498,000	610,132,000
Borrowed funds	-	-	20,000,000	20,000,000

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 14 – Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2010 are summarized as follows:

Description	Fair Value	Fair value measurements at reporting data using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agency securities	\$ 42,971,242	\$ 6,341,112	\$ 36,630,130	\$ -
Mortgage-backed securities	26,732,822	-	26,732,822	-
	<u>\$ 69,704,064</u>	<u>\$ 6,341,112</u>	<u>\$ 63,362,952</u>	<u>\$ -</u>

Note 15 – Regulatory Capital

The credit union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the credit union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the credit union must meet specific capital regulations that involve quantitative measures of the credit union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The credit union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to assets (as defined). Credit unions are also required to calculate a risk-based net worth (RBNW) requirement that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2010 and 2009 was 6.24% and 6.02%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2010 and 2009, that the credit union meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent call reporting period, NCUA categorized the credit union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification that management believes have changed the credit union's category.

The credit union's actual capital amounts and ratios at December 31, 2010 and 2009 are also presented in the table:

2010	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	\$ 74,042,783	10.65%	\$ 41,729,343	6%	\$ 48,684,234	7%
RBNW Requirement	43,398,517	6.24%	N/A	N/A	N/A	N/A
2009						
Net worth	71,319,364	10.09%	42,398,565	6%	49,464,993	7%
RBNW Requirement	42,539,894	6.02%	N/A	N/A	N/A	N/A

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 16 – Fair Value of Financial Instruments

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

The NCUA Board has approved the following: guarantee of uninsured shares at all corporate credit unions through February 2009; establishment of a voluntary guarantee program for uninsured shares of all corporate credit unions through December 31, 2010; issuance of a \$1 billion capital note to U.S. Central Federal Credit Union (U.S. Central); at March 20, 2009, the placing into conservatorship of two corporate credit unions (U.S. Central and WesCorp); issuance of an Advance Notice of Public Rulemaking (ANPR) on restructuring the corporate credit union system; and declaration of a premium assessment to restore the NCUSIF equity ratio to 1.30%, which was to be collected in 2009.

In accordance with the NCUA's stabilization program, the credit union recognized an impairment loss of 69% of its NCUSIF deposit amounting to \$3,323,784 and recorded an NCUSIF premium assessment of \$1,445,123 at March 31, 2009.

On March 27, 2009, the NCUA introduced an amendment to the Federal Credit Union Act to Congress that became law on May 20, 2009. The legislation amends the Federal Credit Union Act to direct the NCUA Board to establish a National Credit Union Share Insurance Fund Restoration Plan whenever the Board projects that the equity ratio of the NCUSIF falls below a minimum designated equity ratio. The legislation includes provisions to extend \$250,000 deposit insurance protection to 2013; enable credit unions to spread the cost of corporate stabilization over seven years; extend replenishing the NCUSIF through premiums to eight years; increase NCUA borrowing authority to \$6 billion; and establish \$30 billion NCUA emergency borrowing authority.

On June 18, 2009, the NCUA Board approved the following actions to legally obligate the Stabilization Fund for the costs of stabilizing the corporate system. In the process, the NCUSIF will be legally released from its present obligations related to corporate stabilization actions.

- The Stabilization Fund will pay the NCUSIF \$1 billion for assignment of the full right, title and interest in the outstanding capital note extended to U.S. Central Federal Credit Union executed on January 28, 2009.
- Appropriate steps will be taken to legally obligate the Stabilization Fund for any liability arising from the TCCUSGP and the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). To the extent that any liability from the TCCUSGP or TCCULGP exceeds funds available from the Stabilization Fund, funds shall be made available from the NCUSIF.

The Board took additional actions that result in a fully restored and fully refundable NCUSIF capitalization deposit and revised the premium assessment estimate for 2009 to .15% of insured shares (\$250,000 per account) as of June 30, 2009. The credit union recognized the favorable impact of this change by restoring the above NCUSIF impairment loss on its deposit by \$3,323,784 and reducing its earlier accrued premium assessment by \$552,859.

On June 17, 2010, the NCUA Board approved an assessment of 0.134% of the credit union's insured shares as of March 31, 2010 and established September 30, 2010 as the deadline for the NCUA to repay \$1.5 billion borrowed from the U.S. Department of Treasury. The credit union paid a premium assessment expense of \$806,989 in August 2010.

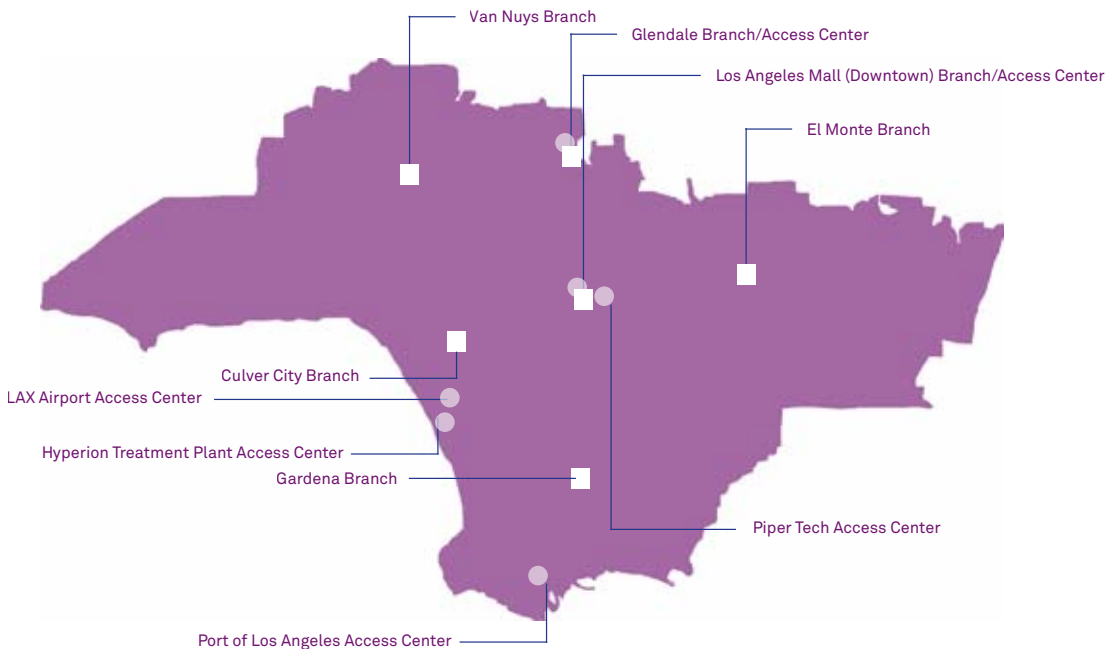
On September 16, 2010, the NCUA approved an assessment of 0.1242% of the credit union's insured shares as of June 30, 2010 to restore the NCUSIF equity ratio to 1.30%. The credit union accrued \$753,419 in November 2010 for this assessment. The NCUA advised that continued strains on the NCUSIF are expected.

Mission Statement

To provide the best financial services as defined by our members, to maintain our high level of financial stability, and to foster employee growth and achievement.

Vision Statement

To be our members' first choice for financial services.



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- Los Angeles Mall (Downtown)
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- Van Nuys
6411 Sepulveda Boulevard, Unit 1-R

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300 South Glendale Avenue
- Hyperion Treatment Plant
Pregerson Building, 12000 Vista del Mar
Playa Del Rey
- LA Mall Branch Lobby
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Downtown Los Angeles
- LAX Airport
1 World Way West, 1st Floor Lobby
Los Angeles
- Piper Tech
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